

**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 July 30, 2006.

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes

No

As of August 27, 2006, 113,469,199 shares of the registrant's Common Stock were outstanding.

WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED JULY 30, 2006

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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>	July 30, 2006	January 29, 2006	July 31, 2005
ASSETS			
Current assets			
Cash and cash equivalents	\$ 187,377	\$ 360,982	\$ 153,854
Accounts receivable – net	74,527	51,020	46,791
Merchandise inventories – net	565,691	520,292	521,459
Prepaid catalog expenses	64,059	53,925	55,300
Prepaid expenses	35,440	31,847	39,016
Deferred income taxes	57,279	57,267	39,023
Other assets	6,710	7,831	5,281
Total current assets	991,083	1,083,164	860,724
Property and equipment – net	900,565	880,305	869,021
Other assets – net	18,563	18,151	21,893
Total assets	\$ 1,910,211	\$ 1,981,620	\$ 1,751,638
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	\$ 188,331	\$ 196,074	\$ 167,834
Accrued salaries, benefits and other	82,908	93,434	75,804
Customer deposits	174,710	172,775	164,594
Income taxes payable	10,183	83,589	-
Current portion of long-term debt	16,186	18,864	25,223
Other liabilities	23,915	25,656	19,132
Total current liabilities	496,233	590,392	452,587
Deferred rent and lease incentives	241,819	218,254	213,204
Long-term debt	14,037	14,490	16,023
Deferred income tax liabilities	12,371	18,455	21,052
Other long-term obligations	15,958	14,711	13,107
Total liabilities	780,418	856,302	715,973
Commitments and contingencies			
Shareholders' equity			
Preferred stock, \$.01 par value, 7,500 shares authorized, none issued	-	-	-
Common stock, \$.01 par value, 253,125 shares authorized, issued and outstanding: 113,451, 114,779 and 116,424 shares at July 30, 2006, January 29, 2006 and July 31, 2005, respectively	1,135	1,148	1,164
Additional paid-in capital	352,896	325,146	318,416
Retained earnings	766,641	791,329	710,041
Accumulated other comprehensive income	9,121	7,695	6,044
Total shareholders' equity	1,129,793	1,125,318	1,035,665
Total liabilities and shareholders' equity	\$ 1,910,211	\$ 1,981,620	\$ 1,751,638

See Notes to Condensed Consolidated Financial Statements.

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

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
<i>Dollars and shares in thousands, except per share amounts</i>				
Net revenues	\$ 825,536	\$ 776,239	\$ 1,619,822	\$ 1,496,927
Cost of goods sold	510,976	481,404	999,841	917,170
Gross margin	314,560	294,835	619,981	579,757
Selling, general and administrative expenses	260,312	245,628	531,043	486,847
Interest income	(4,056)	(881)	(7,378)	(1,984)
Interest expense	542	487	1,069	969
Earnings before income taxes	57,762	49,601	95,247	93,925
Income taxes	22,199	18,778	36,585	36,929
Net earnings	\$ 35,563	\$ 30,823	\$ 58,662	\$ 56,996
Basic earnings per share	\$ 0.31	\$ 0.27	\$ 0.51	\$ 0.49
Diluted earnings per share	\$ 0.30	\$ 0.26	\$ 0.50	\$ 0.48
Shares used in calculation of earnings per share:				
Basic	115,026	115,978	114,672	115,661
Diluted	117,724	118,886	117,515	118,419

See Notes to Condensed Consolidated Financial Statements.

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

	Twenty-Six Weeks Ended	
	July 30, 2006	July 31, 2005
<i>Dollars in thousands</i>		
Cash flows from operating activities:		
Net earnings	\$ 58,662	\$ 56,996
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	65,830	60,759
Net loss on disposal of assets	2,127	1,139
Amortization of deferred lease incentives	(14,286)	(12,095)
Deferred income taxes	(6,079)	-
Tax benefit from exercise of stock-based compensation	3,872	12,261
Stock-based compensation expense	16,886	-
Changes in:		
Accounts receivable	(23,491)	(3,772)
Merchandise inventories	(45,327)	(68,978)
Prepaid catalog expenses	(10,134)	(1,779)
Prepaid expenses and other assets	(3,003)	753
Accounts payable	(22,510)	(5,976)
Accrued salaries, benefits and other	(11,048)	(9,683)
Customer deposits	1,900	16,034
Deferred rent and lease incentives	37,763	11,706
Income taxes payable	(73,443)	(72,050)
Net cash used in operating activities	(22,281)	(14,685)
Cash flows from investing activities:		
Purchases of property and equipment	(84,481)	(77,142)
Net cash used in investing activities	(84,481)	(77,142)
Cash flows from financing activities:		
Repayments of long-term obligations	(3,130)	(1,343)
Proceeds from exercise of stock-based compensation	9,581	20,259
Excess tax benefit from exercise of stock-based compensation	2,541	-
Repurchase of common stock	(65,430)	(12,387)
Payment of dividends	(11,591)	-
Credit facility renewal costs	-	(654)
Net cash (used in) provided by financing activities	(68,029)	5,875
Effect of exchange rates on cash and cash equivalents	1,186	596
Net decrease in cash and cash equivalents	(173,605)	(85,356)
Cash and cash equivalents at beginning of period	360,982	239,210
Cash and cash equivalents at end of period	\$ 187,377	\$ 153,854

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Thirteen and Twenty-Six Weeks Ended July 30, 2006 and July 31, 2005
(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 July 30, 2006 and July 31, 2005, the condensed consolidated statements of earnings for the thirteen and twenty-six weeks ended July 30, 2006 and July 31, 2005, and the condensed consolidated statements of cash flows for the twenty-six weeks ended July 30, 2006 and July 31, 2005 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 weeks then ended. Significant intercompany transactions and accounts have been eliminated. The balance sheet as of January 29, 2006, presented herein, has been derived from our audited balance sheet included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2006.

In January 2006, we decided to transition the merchandising strategies of our Hold Everything brand into our other existing brands by the end of fiscal 2006. In connection with this transition, we incurred a pre-tax charge of approximately \$13,500,000, or \$0.07 per diluted share, in the fourth quarter of fiscal 2005. In the second quarter of fiscal 2006, we incurred an additional charge of approximately \$961,000, or less than \$0.01 per diluted share. Of this pre-tax charge, approximately \$732,000 is included in cost of goods sold and approximately \$229,000 is included in selling, general and administrative expenses. For the twenty-six weeks ended July 30, 2006, we incurred a total charge of \$4,134,000, or \$0.02 per diluted share. Of this pre-tax charge, approximately \$2,426,000 is included in cost of goods sold and approximately \$1,708,000 is included in selling, general and administrative expenses. All of our Hold Everything retail stores were closed during the first quarter of fiscal 2006. The final phase of our operational shutdown was completed in the second quarter of fiscal 2006, with our final Hold Everything catalog mailed on May 16, 2006 and our website ceasing operations on June 30, 2006. Our Outlet stores are being used for the final clearance of inventory and the merchandising categories the brand represented are being transitioned into our other brands.

The results of operations for the thirteen and twenty-six weeks ended July 30, 2006 are not necessarily indicative of the operating results of the full year.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended January 29, 2006.

NOTE B. ACCOUNTING POLICIES

Customer Deposits

During the second quarter of fiscal 2006, we completed an analysis of our historical gift certificate and gift card redemption patterns, which included an independent actuarial study based on our historical redemption data. As a result of this analysis, we concluded that the likelihood of our gift certificates and gift cards being redeemed beyond four years from the date of issuance is remote. As a result, we have changed our estimate of the elapsed time for recording income associated with unredeemed gift certificates and gift cards to four years from our prior estimate of seven years. This change in estimate resulted in the recording of income in selling, general and administrative expense of approximately \$12,400,000.

Recent Accounting Pronouncements

On January 30, 2006, we adopted Financial Accounting Standards Board (“FASB”) Staff Position (“FSP”) No. FAS 13-1, “Accounting for Rental Costs Incurred During a Construction Period,” which requires us to expense all rental costs associated with our operating leases that are incurred during a construction period. The adoption of this Staff Position resulted in after-tax occupancy expense being recorded as a component of cost of goods sold of approximately \$529,000 and \$863,000 in the thirteen and twenty-six weeks ended July 30, 2006, respectively, or less than \$0.01 per diluted share.

In June 2006, the FASB issued FASB Interpretation No. (“FIN”) 48, “Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109,” which prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on the derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements for uncertain tax positions. We will adopt the provisions of FIN 48 beginning in the first quarter of fiscal 2007. We are currently in the process of determining the effect, if any, the adoption of FIN 48 will have on our consolidated financial statements.

NOTE C. STOCK-BASED COMPENSATION

We maintain the 1993 Stock Option Plan (the “1993 Plan”), as amended, the 2000 Nonqualified Stock Option Plan (the “2000 Plan”), as amended, and the Amended and Restated 2001 Long-Term Incentive Plan (the “2001 Plan”) (collectively the “Plans”), to award stock options and stock-settled stock appreciation rights (collectively “stock awards”) and other forms of equity compensation, including restricted stock and restricted stock units, to our key employees and Board members and those of any parent or subsidiary. All stock award grants have a maximum term of ten years, except incentive stock options issued to shareholders with greater than 10% of the voting power of all of our stock, which have a maximum term of five years. The exercise price is not less than 100% of the fair market value of our stock on the date of the stock award grant or not less than 110% of such fair market value for an incentive stock option granted to a 10% shareholder. Shares issued as a result of stock award exercises will be funded with the issuance of new shares. Stock awards granted to employees generally vest over five years. Stock awards granted to non-employee Board members generally vest in one year. In May 2006, our shareholders approved the amendment and restatement of our 2001 Plan to increase the shares issuable under the Plan by 6,000,000 shares and to include in the 2001 Plan shares that remained available under the 1993 Plan and 2000 Plan as well as shares subject to outstanding options under these plans that subsequently expire unexercised. The 1993 Plan and the 2000 Plan will no longer be used to grant future awards. The Plans now provide for grants of stock awards, restricted stock or restricted stock units, dividend equivalents, deferred stock awards and other equity compensation awards up to an aggregate of 34,500,000 shares. As of July 30, 2006, there were 7,537,000 shares available for future grant.

Effective January 30, 2006, we adopted Statement of Financial Accounting Standards (“SFAS”) No. 123R, “Share-Based Payment,” which requires us to measure and record compensation expense in our consolidated financial statements for all employee stock-based awards using a fair value method. Accordingly, at the beginning of fiscal 2006, we began recording compensation expense for all stock-based awards under the modified prospective transition method.

Prior to January 30, 2006, we accounted for stock-based awards granted to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations. Accordingly, no compensation expense was recognized prior to fiscal 2006 for stock awards with an exercise price equal to the fair value on the date of grant.

The following table illustrates the effect on net earnings and earnings per share as if we had applied the fair value recognition provisions of SFAS No. 123, as amended by SFAS No. 148, to all of our stock-based compensation arrangements for the thirteen and twenty-six weeks ended July 31, 2005:

	Thirteen Weeks Ended	Twenty-Six Weeks Ended
	July 31, 2005	July 31, 2005
<i>Dollars in thousands, except per share amounts</i>		
Net earnings, as reported	\$ 30,823	\$ 56,996
Deduct: Total stock-based employee compensation expense Determined under fair value method for all awards, net of related tax effect	(4,217)	(7,901)
Pro forma net earnings	\$ 26,606	\$ 49,095
Basic earnings per share		
As reported	\$ 0.27	\$ 0.49
Pro forma	0.23	0.42
Diluted earnings per share		
As reported	\$ 0.26	\$ 0.48
Pro forma	0.23	0.42

As a result of adopting SFAS No. 123R, during the thirteen and twenty-six weeks ended July 30, 2006, our compensation expense recognized was based on the following:

- Stock Awards: Amortization related to the remaining unvested portion of all stock awards granted prior to January 30, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123, as amended by SFAS No. 148, and all new stock awards granted during the thirteen and twenty-six weeks ended July 30, 2006 based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R;
- Restricted Stock Units: Amortization related to the remaining unvested portion of all restricted stock units granted prior to January 30, 2006 based on the market value of our stock on the date of grant.

Stock Awards

During the thirteen and twenty-six weeks ended July 30, 2006, we granted 166,850 and 1,183,150 stock awards, respectively.

The following table summarizes our stock award activity during the twenty-six weeks ended July 30, 2006:

	Shares	Weighted Average Exercise Price	Weighted Average Contractual Term Remaining (In Years)	Intrinsic Value ¹
Balance at January 29, 2006	10,309,909	\$ 22.63		
Granted (weighted average fair value of \$13.98)	1,183,150	40.31		
Exercised	(691,480)	13.86		\$ 17,738,000
Canceled	(294,899)	33.43		
Balance at July 30, 2006	10,506,680	\$ 24.90	6.10	\$ 98,140,000
Exercisable at July 30, 2006	6,729,812	\$ 18.82	4.77	\$ 92,528,000

¹ Intrinsic value is defined as the difference between the current market value and the grant price.

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

- Expected term – For the thirteen and twenty-six weeks ended July 30, 2006, the expected term of the awards represents the period of time between the grant date of the award and the time the award is either exercised or canceled including an estimate for those awards still outstanding. For the thirteen and twenty-six weeks ended July 31, 2005, the expected term of the awards represents only the period of time between the grant date of the award and the time the award is either exercised or canceled.
- Expected volatility – For the thirteen and twenty-six weeks ended July 30, 2006, the expected volatility is based on an average of the historical volatility of our stock price, for a period approximating our expected term, and the implied volatility based on externally traded options of our stock that were entered into during the quarter. For the thirteen and twenty-six weeks ended July 31, 2005, the expected volatility was based only on the historical volatility of our stock price.
- Risk-free interest rate – The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant and with a maturity that approximates the expected term.
- Dividend yield – The dividend yield is based on the initiation of our quarterly cash dividend, authorized by our Board of Directors in March 2006, and its anticipated dividend payout over the expected term of the award.

The weighted average assumptions for the thirteen and twenty-six weeks ended July 30, 2006 and July 31, 2005 are as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
Expected term (years)	5.0	6.5	5.0	6.5
Expected volatility	33.2%	59.5%	34.5%	59.7%
Risk-free interest rate	4.9%	3.9%	4.7%	3.9%
Dividend yield	1%	-	1%	-

The total after-tax expense recognized during the thirteen and twenty-six weeks ended July 30, 2006 on all stock awards was \$4,523,000 and \$8,387,000, respectively, leaving a remaining unamortized balance as of July 30, 2006 of \$50,215,000 (net of estimated forfeitures), which we expect to be recognized on a straight-line basis over an average remaining life of approximately two years.

Restricted Stock Units

In January 2006, we issued 840,000 restricted stock units of our common stock. The fair market value of all restricted stock units awarded was based on a stock price of \$42.18 per unit for a total value of \$35,431,200. This balance is being amortized on a straight-line basis over the vesting period, with fifty percent of the restricted stock units vesting on January 31, 2010, and the remaining fifty percent vesting on January 31, 2011 based upon the employees' continued employment throughout the vesting period.

The following table summarizes restricted stock unit activity during the twenty-six weeks ended July 30, 2006:

	Shares	Intrinsic Value ¹
Unvested balance at January 29, 2006	840,000	
Granted	-	
Vested	-	
Canceled	(20,000)	
Unvested balance at July 30, 2006	820,000	\$ 26,429,000

¹ *Intrinsic value for restricted stock units is defined as the current market value.*

The total after-tax expense recognized during the thirteen and twenty-six weeks ended July 30, 2006 on all restricted stock units was \$981,000 and \$1,999,000, respectively, leaving a remaining unamortized balance as of July 30, 2006 of \$25,818,000 (net of estimated forfeitures), which we expect to be recognized on a straight-line basis over an average remaining life of approximately four years.

Total Stock-Based Compensation Expense

For the thirteen and twenty-six weeks ended July 30, 2006, we recognized total stock-based compensation expense (net of tax), including the impact of SFAS No. 123R and the expense associated with the issuance of restricted stock units, as a component of selling, general and administrative expense, of \$5,504,000 and \$10,386,000, respectively, or approximately \$0.05 and \$0.09 per diluted share, respectively.

Tax Effect

Prior to the adoption of SFAS No. 123R, we presented all tax benefits resulting from the exercise of stock-based awards as operating cash flows in the Condensed Consolidated Statements of Cash Flows. SFAS No. 123R now requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for stock-based compensation awards exercised be classified as financing cash flows. For the thirteen and twenty-six weeks ended July 30, 2006, cash received from stock-based awards exercised was \$3,376,000 and \$9,581,000, respectively, and the tax benefit associated with such exercises totaled \$3,297,000 and \$6,690,000, respectively.

NOTE D. BORROWING ARRANGEMENTS

Credit Facility

As of July 30, 2006, we have a credit facility that provides for a \$300,000,000 unsecured revolving line of credit that may be used for loans or letters of credit and contains certain financial covenants, including a maximum leverage ratio (funded debt adjusted for lease and rent expense to EBITDAR), and a minimum fixed charge coverage ratio. Prior to August 22, 2009, we may, upon notice to the lenders, request an increase in the credit facility of up to \$100,000,000, to provide for a total of \$400,000,000 of unsecured revolving credit. The credit facility contains events of default that include, among others, non-payment of principal, interest or fees, inaccuracy of representations and warranties, violation of covenants, bankruptcy and insolvency events, material judgments, cross defaults to certain other indebtedness and events constituting a change of control. The occurrence of an event of default will increase the applicable rate of interest by 2.0% and could result in the acceleration of our obligations under the credit facility, and an obligation of any or all of our U.S. subsidiaries to pay the full amount of our obligations under the credit facility. The credit facility matures on February 22, 2010, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must be cash collateralized.

We may elect interest rates calculated at Bank of America's prime rate (or, if greater, the average rate on overnight federal funds plus one-half of one percent) or LIBOR plus a margin based on our leverage ratio. During the twenty-six weeks ended July 30, 2006 and July 31, 2005, no amounts were borrowed under the credit facility. However, as of July 30, 2006, \$35,973,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers' compensation, other insurance programs and certain debt transactions. As of July 30, 2006, we were in compliance with our financial covenants under the credit facility.

Letter of Credit Facilities

We have three unsecured commercial letter of credit reimbursement facilities for an aggregate of \$145,000,000, each of which expires on September 9, 2006. As of July 30, 2006, an aggregate of \$124,731,000 was outstanding under the letter of credit facilities. Such letters of credit represent only a future commitment to fund inventory purchases to which we had not taken legal title as of July 30, 2006. On September 8, 2006, we amended the commercial letters of credit reimbursement facilities to include five unsecured facilities for an aggregate of \$165,000,000 expiring on September 8, 2007. The latest expiration possible for any future letters of credit issued under the amended facilities is now February 5, 2008.

NOTE E. COMPREHENSIVE INCOME

Comprehensive income for the thirteen and twenty-six weeks ended July 30, 2006 and July 31, 2005 was as follows:

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
<i>Dollars in thousands</i>				
Net earnings	\$ 35,563	\$ 30,823	\$ 58,662	\$ 56,996
Other comprehensive (loss) income - foreign currency translation adjustment	(443)	746	1,426	874
Comprehensive income	\$ 35,120	\$ 31,569	\$ 60,088	\$ 57,870

NOTE F. EARNINGS PER SHARE

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding for the period plus common stock equivalents consisting of shares subject to stock-based awards with exercise prices less than or equal to the average market price of common shares for the period.

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 July 30, 2006			
Basic	\$ 35,563	115,026	\$ 0.31
Effect of dilutive stock-based awards	-	2,698	
Diluted	\$ 35,563	117,724	\$ 0.30
Thirteen weeks ended July 31, 2005			
Basic	\$ 30,823	115,978	\$ 0.27
Effect of dilutive stock-based awards	-	2,908	
Diluted	\$ 30,823	118,886	\$ 0.26
Twenty-Six weeks ended July 30, 2006			
Basic	\$ 58,662	114,672	\$ 0.51
Effect of dilutive stock-based awards	-	2,843	
Diluted	\$ 58,662	117,515	\$ 0.50
Twenty-Six weeks ended July 31, 2005			
Basic	\$ 56,996	115,661	\$ 0.49
Effect of dilutive stock-based awards	-	2,758	
Diluted	\$ 56,996	118,419	\$ 0.48

Stock-based awards outstanding with an exercise price greater than the average market price of common shares were 2,588,000 and 121,000 for the thirteen weeks ended and 2,538,000 and 1,368,000 for the twenty-six weeks ended July 30, 2006 and July 31, 2005, respectively, and were not included in the computation of diluted earnings per share, as their inclusion would be anti-dilutive.

NOTE G. LEGAL PROCEEDINGS

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. These disputes, which are not currently material, are increasing in number as our business expands and our company grows larger. Litigation is inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our consolidated financial statements taken as a whole.

NOTE H. SEGMENT REPORTING

We have two reportable segments, retail and direct-to-customer. The retail segment has six merchandising concepts which sell products for the home (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, Hold Everything, West Elm and Williams-Sonoma Home). The six retail merchandising concepts are operating segments, which have been aggregated into one reportable segment, retail. The direct-to-customer segment has seven merchandising concepts (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, PBteen, Hold Everything, West Elm and Williams-Sonoma Home) and sells similar products through our eight direct-mail catalogs (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, Pottery Barn Bed + Bath, PBteen, Hold Everything, West Elm and Williams-Sonoma Home) and six e-commerce websites (williams-sonoma.com, potterybarn.com, potterybarnkids.com, pbteen.com, westelm.com and holdeverything.com). All of our Hold Everything retail stores were closed during the first quarter of fiscal 2006. The final phase of our operational shutdown was completed in the second quarter of fiscal 2006, with our final Hold Everything catalog mailed on May 16, 2006 and our website ceasing operations on June 30, 2006. Management's expectation is that the overall economics of each of our major concepts within each reportable segment will be similar over time.

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. It is not practicable for us to report revenue by product group.

We use earnings before unallocated corporate overhead, interest and taxes to evaluate segment profitability. Unallocated costs before income taxes include corporate employee-related costs, other occupancy expense, depreciation expense and administrative costs, primarily in our corporate systems, corporate facilities and other administrative departments. Unallocated assets include corporate cash and cash equivalents, the net book value of corporate facilities and related information systems, deferred income taxes and other corporate long-lived assets.

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

Segment Information

<i>Dollars in thousands</i>	Retail ¹	Direct-to-Customer	Unallocated	Total
Thirteen weeks ended July 30, 2006				
Net revenues	\$ 463,372	\$ 362,164	-	\$ 825,536
Depreciation and amortization expense	22,210	4,910	\$ 5,757	32,877
Earnings (loss) before income taxes ²	41,086	51,551	(34,875)	57,762
Capital expenditures	29,523	7,013	8,930	45,466
Thirteen weeks ended July 31, 2005				
Net revenues	\$ 434,147	\$ 342,092	-	\$ 776,239
Depreciation and amortization expense	20,399	4,431	\$ 5,779	30,609
Earnings (loss) before income taxes	39,247	49,937	(39,583)	49,601
Capital expenditures	26,174	7,787	8,816	42,777
Twenty-Six weeks ended July 30, 2006				
Net revenues	\$ 897,281	\$ 722,541	-	\$ 1,619,822
Depreciation and amortization expense	45,147	9,464	\$ 11,219	65,830
Earnings (loss) before income taxes ²	75,756	103,207	(83,716)	95,247
Assets ³	1,055,754	329,322	525,135	1,910,211
Capital expenditures	53,738	14,941	15,802	84,481
Twenty-Six weeks ended July 31, 2005				
Net revenues	\$ 831,335	\$ 665,592	-	\$ 1,496,927
Depreciation and amortization expense	40,755	8,870	\$ 11,134	60,759
Earnings (loss) before income taxes	77,728	97,270	(81,073)	93,925
Assets ³	949,886	323,777	477,975	1,751,638
Capital expenditures	46,378	14,147	16,617	77,142

¹ Includes revenues of \$17.0 million and \$12.2 million for the thirteen weeks ended July 30, 2006 and July 31, 2005, respectively, and \$32.1 million and \$22.8 million for the twenty-six weeks ended July 30, 2006 and July 31, 2005, respectively, related to our foreign operations.

² Includes \$0.5 million and \$0.4 million in the retail and direct-to-customer segments, respectively, for the thirteen weeks ended July 30, 2006, and \$2.2 million, \$1.6 million and \$0.3 million in the retail, direct-to-customer and corporate unallocated segments, respectively, for the twenty-six weeks ended July 30, 2006, related to the transitioning of the merchandising strategies of our Hold Everything brand into our other existing brands.

³ Includes \$25.3 million and \$24.7 million of long-term assets as of July 30, 2006 and July 31, 2005, respectively, related to our foreign operations.

NOTE I. SUBSEQUENT EVENT

In August 2006, our Board of Directors authorized a stock repurchase program to acquire up to 5,000,000 shares of our outstanding common stock. Stock repurchases under this program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or prove incorrect, could cause our business and results of operations to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include projections of earnings, revenues or financial items, including the impact of accounting changes, statements of the plans, strategies and objectives of management for future operations, statements related to the future performance of our brands, statements related to refining our merchandising strategies, statements related to our plans to increase retail leased square footage, statements related to expanding catalog circulation, statements related to increasing electronic direct marketing and paid search, statements relating to upgrading functionality on our e-commerce websites, statements relating to implementing the ability to issue and redeem gift cards in our direct-to-customer channel, statements related to implementing initiatives throughout the supply chain to reduce returns, replacements and damages, statements relating to enhancing our daily store replenishment program, statements relating to leveraging the in-sourced east coast furniture hub to enhance the furniture delivery experience for our customers and reduce our furniture delivery costs, statements related to implementing new marketing initiatives and expanding on-line and electronic direct marketing initiatives, statements related to our plans to open new retail stores, statements related to transitioning our Hold Everything brand, statements related to the use of our available cash, including the payment of a dividend, statements related to our projected capital expenditures, statements related to our stock repurchase program, and statements of belief and statements of assumptions underlying any of the foregoing. You can identify these and other forward-looking statements by the use of words such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "continue," or the negative of such terms, or other comparable terminology.

The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include those discussed under the heading "Risk Factors" in this document and the risks, uncertainties and assumptions discussed from time to time in our other public filings and public announcements. All forward-looking statements included in this document are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements.

OVERVIEW

We are a specialty retailer of products for the home. The retail segment of our business sells our products through our six retail store concepts (Williams-Sonoma, Pottery Barn, Pottery Barn Kids, Hold Everything, West Elm and Williams-Sonoma Home). 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, PBteen, Hold Everything, West Elm and Williams-Sonoma Home) and six e-commerce websites (williams-sonoma.com, potterybarn.com, potterybarnkids.com, pbteen.com, westelm.com and holdeverything.com). All of our Hold Everything retail stores were closed during the first quarter of fiscal 2006. The final phase of our operational shutdown was completed in the second quarter of fiscal 2006, with our final Hold Everything catalog mailed on May 16, 2006 and our website ceasing operations on June 30, 2006. Based on net revenues in fiscal 2005, retail net revenues accounted for 57.4% of our business and direct-to-customer net revenues accounted for 42.6% of our business. Based on their contribution to our net revenues in fiscal 2005 (representing approximately 90%), the core brands in both retail and direct-to-customer are: Pottery Barn, which sells casual home furnishings; Williams-Sonoma, which sells cookware essentials; and Pottery Barn Kids, which sells stylish children's furnishings. The following discussion and analysis of financial condition, results of operations, and liquidity and capital resources should be read in conjunction with our condensed consolidated financial statements and the notes thereto.

Second Quarter of Fiscal 2006 Financial Results

In the second quarter of fiscal 2006, our net revenues increased 6.4% to \$825,536,000 from \$776,239,000 in the second quarter of fiscal 2005 primarily driven by increases in the Pottery Barn Kids, Pottery Barn, West Elm and Williams-Sonoma brands. Despite this increase in revenues during the quarter, we are seeing an overall softening in our consumer demand, primarily in our Pottery Barn brand.

During the quarter, we experienced several unusual business events, including unredeemed gift certificate income due to a change in estimate, litigation settlement income, expense associated with the departure of our Chief Executive Officer and the expense associated with the Hold Everything transition. Including a \$0.01 per diluted share net benefit from these unusual business events and the implementation of two new accounting pronouncements (SFAS No. 123R, "Share-Based Payment" and Financial Accounting Standards ("FAS") FSP 13-1, "Accounting for Rental Costs Incurred During a Construction Period"), diluted earnings per share for the second quarter of fiscal 2006 increased 15.4% to \$0.30 per diluted share versus \$0.26 per diluted share in the second quarter of fiscal 2005.

In our retail channel, net revenues increased 6.7% during the second quarter of fiscal 2006 versus the second quarter of fiscal 2005. This increase was primarily driven by a year-over-year increase in retail leased square footage of 7.5%, including 14 net new stores, and a comparable store sales increase of 1.2%. Net revenues generated in the West Elm, Pottery Barn Kids, Williams-Sonoma, Williams-Sonoma Home and Pottery Barn brands were the primary contributors to this year-over-year net revenues increase.

In our direct-to-customer channel, net revenues increased 5.9% during the second quarter of fiscal 2006 versus the second quarter of fiscal 2005. This year-over-year increase was primarily driven by net revenues generated in the Pottery Barn Kids, Pottery Barn, PBteen, West Elm and Williams-Sonoma brands due to an overall increase in page circulation and continued strength in our Internet business, resulting from our expanded efforts associated with electronic direct marketing and our on-line advertising initiatives. All brands in the direct-to-customer channel delivered positive growth during the quarter with the exception of the Williams-Sonoma Home and Hold Everything brands.

In our core brands, net revenues increased 5.9% in the second quarter of fiscal 2006 versus the second quarter of fiscal 2005, primarily driven by a positive consumer response to our core and seasonal merchandise in the Pottery Barn Kids and Williams-Sonoma brands. Within the Pottery Barn brand, despite an increase in net revenues during the second quarter, we have recently seen a softening in consumer demand.

In our emerging brands (West Elm, PBteen and Williams-Sonoma Home), net revenues increased 33.5% in the second quarter of fiscal 2006 versus the second quarter of fiscal 2005, primarily driven by the performance in the West Elm, PBteen and Williams-Sonoma Home brands.

In the West Elm brand, year-over-year revenue growth was driven by incremental revenue from new stores, improved catalog response, and increased traffic in e-commerce. In merchandising, we saw continued strength in furniture and textiles, in addition to decorative accessories and lighting. Also during the quarter, we re-launched our e-commerce website on a new IBM platform, and introduced enhanced functionality - bringing an improved on-line shopping experience to our customers.

In the PBteen brand, new product offerings and presentation, both of which were key initiatives for the brand as we entered the year, drove year-over-year revenue growth. From a merchandising perspective, we again saw strong performance in all furniture categories.

In the Williams-Sonoma Home brand, growth in the second quarter of fiscal 2006 in the retail channel was driven by incremental revenues from new stores, with five new stores at an average of 15,000 square feet per store operating at the end of the quarter. In the direct-to-customer channel, we continued to see strong growth in the

furniture category. In addition, we launched our new Williams-Sonoma Home e-commerce website in August, which allows our customers to preview the entire furniture assortment in all fabrics and frames through a comprehensive furniture viewing tool.

In January 2006, we decided to transition the merchandising strategies of our Hold Everything brand into our other existing brands by the end of fiscal 2006. In connection with this transition, we incurred a pre-tax charge of approximately \$13,500,000, or \$0.07 per diluted share, in the fourth quarter of fiscal 2005. In the second quarter of fiscal 2006, we incurred an additional charge of approximately \$961,000, or less than \$0.01 per diluted share. Of this pre-tax charge, approximately \$732,000 is included in cost of goods sold and approximately \$229,000 is included in selling, general and administrative expenses. All of our retail stores were closed during the first quarter of fiscal 2006. The final phase of our operational shutdown was completed in the second quarter of fiscal 2006, with our final Hold Everything catalog mailed on May 16, 2006 and our website ceasing operations on June 30, 2006. Our Outlet stores are being used for the final clearance of inventory and the merchandising categories the brand represented are being transitioned into our other brands.

Second Quarter of Fiscal 2006 Operational Results

Operationally, from a supply chain perspective, we continued to make progress on the execution of our daily store replenishment program and completed the in-sourcing of our east coast furniture hub. We also implemented several new warehouse management initiatives that we believe may reduce our costs associated with customer returns and replacements.

Fiscal 2006

As we look forward to the back half of the year, we have begun to see a softening in consumer demand, especially in our Pottery Barn brand. Because of this, we are staying focused on the things that we can control (customer service, visual merchandising, inventory management, and operational execution) and we are capitalizing on the marketing opportunities that we believe exist with our multi-channel strategy.

We will continue to focus on our long-term strategic initiatives of driving profitable top-line revenue growth, increasing our pre-tax operating margin and enhancing shareholder value.

To drive profitable top-line revenue growth, we are continuing to invest in the growth opportunities that we believe will provide the greatest returns: increasing retail leased square footage; expanding catalog circulation; substantially increasing electronic direct marketing and paid search; upgrading functionality on our e-commerce websites; and implementing, for the first time, the ability to issue and redeem gift cards in our direct-to-customer channel.

In order to increase our pre-tax operating margin, we will remain focused on: continuing to implement initiatives throughout the supply chain to reduce returns, replacements and damages; enhancing our daily store replenishment program in the New York metro-area where both customer delivery and store replenishment can be efficiently combined; and leveraging the in-sourced east coast furniture hub to enhance the furniture delivery experience for our customers and reduce our furniture delivery costs.

Consistent with our strategic initiative to enhance shareholder value, we remain committed to returning capital to our shareholders through dividends and share repurchases, including the 5,000,000 share stock repurchase program authorized by our Board of Directors in August 2006.

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 our catalogs and the Internet. Shipping fees consist of revenue received from customers for delivery of merchandise. Revenues are net of sales returns and other discounts.

The following table summarizes our net revenues for the thirteen weeks ended July 30, 2006 (“second quarter of fiscal 2006”) and July 31, 2005 (“second quarter of fiscal 2005”), and the twenty-six weeks ended July 30, 2006 (“year-to-date 2006”) and July 31, 2005 (“year-to-date 2005”):

<i>Dollars in thousands</i>	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	July 30, 2006	% Total	July 31, 2005	% Total	July 30, 2006	% Total	July 31, 2005	% Total
Retail revenues	\$ 463,372	56.1%	\$ 434,147	55.9%	\$ 897,281	55.4%	\$ 831,335	55.5%
Direct-to-customer revenues	362,164	43.9%	342,092	44.1%	722,541	44.6%	665,592	44.5%
Net revenues	\$ 825,536	100.0%	\$ 776,239	100.0%	\$ 1,619,822	100.0%	\$ 1,496,927	100.0%

Net revenues for the second quarter of fiscal 2006 increased by \$49,297,000, or 6.4%, over the second quarter of fiscal 2005. The increase was primarily driven by a year-over-year increase in store leased square footage of 7.5% (including 29 new store openings and the remodeling and expansion of an additional 18 stores, partially offset by the temporary closure of 18 stores and the permanent closure of 15 stores, for a net of 14 new store openings) and a comparable store sales increase of 1.2%. This increase was further driven by increased page circulation of 4.2% and continued strength in our Internet business primarily due to our efforts associated with electronic direct marketing and on-line advertising initiatives.

Net revenues for year-to-date 2006 increased by \$122,895,000, or 8.2%, over net revenues for year-to-date 2005. This was primarily due to a year-over-year increase in store leased square footage of 7.5% (including 29 new store openings and the remodeling and expansion of an additional 18 stores, partially offset by the temporary closure of 18 stores and the permanent closure of 15 stores, for a net of 14 new store openings) and a comparable store sales increase of 1.3%. This increase was further driven by increased page circulation of 5.8% and continued strength in our Internet business primarily due to our efforts associated with electronic direct marketing and on-line advertising initiatives.

RETAIL REVENUES AND OTHER DATA

<i>Dollars in thousands</i>	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
Retail revenues	\$ 463,372	\$ 434,147	\$ 897,281	\$ 831,335
Percent growth in retail revenues	6.7%	13.4%	7.9%	13.3%
Percent increase in comparable store sales	1.2%	3.7%	1.3%	4.3%
Number of stores - beginning of period	569	552	570	552
Number of new stores	2	8	9	10
Number of new stores due to remodeling ^{1,2}	10	4	15	5
Number of closed stores due to remodeling ¹	(8)	(4)	(13)	(7)
Number of permanently closed stores ³	-	(1)	(8)	(1)
Number of stores - end of period	573	559	573	559
Store selling square footage at period-end	3,204,000	2,998,000	3,204,000	2,998,000
Store leased square footage (“LSF”) at period-end	5,159,000	4,798,000	5,159,000	4,798,000

¹ Remodeled stores are defined as those stores temporarily closed and subsequently reopened during the period due to square footage expansion, store modification or relocation.

² Fiscal year 2006 remodeled stores include one Williams-Sonoma, two Pottery Barn and one Pottery Barn Kids store reopenings after having been temporarily closed due to Hurricane Katrina.

³ Fiscal year 2006 permanently closed stores represent the closure of all eight of our remaining Hold Everything stores.

	Store Count			July 30, 2006	Store Count July 31, 2005	Avg. LSF Per Store July 30, 2006	Avg. LSF Per Store July 31, 2005
	April 30, 2006	Openings	Closings				
Williams-Sonoma	253	6	(3)	256	254	5,800	5,700
Pottery Barn	190	5	(4)	191	185	12,200	12,000
Pottery Barn Kids	91	-	-	91	88	7,800	7,800
Hold Everything	-	-	-	-	11	-	6,600
West Elm	14	-	-	14	6	16,100	14,700
Williams-Sonoma Home Outlets	5	-	-	5	-	14,700	-
	16	1	(1)	16	15	20,400	19,500
Total	569	12	(8)	573	559	9,000	8,600

Retail revenues in the second quarter of fiscal 2006 increased by \$29,225,000, or 6.7%, over the second quarter of fiscal 2005. The increase was primarily driven by a year-over-year increase in store leased square footage of 7.5% (including 29 new store openings and the remodeling and expansion of an additional 18 stores, partially offset by the temporary closure of 18 stores and the permanent closure of 15 stores, for a net of 14 new store openings) and a comparable store sales increase of 1.2%. Net revenues generated in the West Elm, Pottery Barn Kids, Williams-Sonoma, Williams-Sonoma Home and Pottery Barn brands were the primary contributors to the year-over-year revenue increase, partially offset by the late 2005 and first quarter 2006 closures of the Hold Everything stores. Pottery Barn and Pottery Barn Kids accounted for 40.6% of the growth in retail revenues during the second quarter of fiscal 2006 over the second quarter of fiscal 2005.

Retail revenues for year-to-date 2006 increased \$65,946,000, or 7.9%, over year-to-date 2005. The increase was primarily driven by a year-over-year increase in store leased square footage of 7.5% (including 29 new store openings and the remodeling and expansion of an additional 18 stores, partially offset by the temporary closure of 18 stores and the permanent closure of 15 stores, for a net of 14 new store openings) and a comparable store sales increase of 1.3%. Net revenues generated in the West Elm, Pottery Barn, Pottery Barn Kids, Williams-Sonoma and Williams-Sonoma Home brands were the primary contributors to the year-over-year revenue increase, partially offset by the late 2005 and first quarter 2006 closures of the Hold Everything stores. Pottery Barn and Pottery Barn Kids accounted for 42.3% of the growth in retail revenues during year-to-date 2006 over year-to-date 2005.

Comparable Store Sales

Comparable stores are defined as those stores in which gross square footage did not change by more than 20% in the previous 12 months and which have been open for at least 12 consecutive months without closure for seven or more consecutive days. Comparable stores exclude new retail concepts until such time as we believe that comparable store results in those concepts are meaningful to evaluating the performance of the retail strategy. For the second quarter of fiscal 2006 and 2005 and year-to-date 2006 and 2005, our total comparable store sales exclude the West Elm concept. In fiscal 2006, we expect to exclude West Elm and Williams-Sonoma Home. By measuring the year-over-year sales of merchandise in the stores that have a history of being open for a full comparable 12 months or more, we can better gauge how the core store base is performing since it excludes store remodelings, expansions and closings.

Percentages represent changes in comparable store sales versus the same period in the prior year.

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
<i>Percent increase (decrease) in comparable store sales</i>				
Williams-Sonoma	2.3%	(0.2%)	2.1%	(0.4%)
Pottery Barn	(0.2%)	5.6%	0.4%	5.8%
Pottery Barn Kids	8.1%	4.1%	5.7%	7.0%
Outlets	(8.6%)	12.8%	(6.4%)	16.0%
Hold Everything ¹	-	(17.6%)	-	(17.2%)
Total	1.2%	3.7%	1.3%	4.3%

¹ Hold Everything stores are excluded from the 2006 comparable store sales calculation as its remaining eight stores were closed during the first quarter of fiscal 2006.

Various factors affect comparable store sales, including the number, size and location of stores we open, close, remodel or expand in any period, the general retail sales environment, consumer preferences and buying trends, changes in sales mix between distribution channels, our ability to efficiently source and distribute products, changes in our merchandise mix, competition, current local and global economic conditions, the timing of our releases of new merchandise and promotional events, the success of marketing programs, the cannibalization of existing store sales by our new stores, increased catalog circulation, and continued strength in our Internet business. Among other things, weather conditions can affect comparable store sales because inclement weather can alter consumer behavior or 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 have caused our comparable store sales to fluctuate significantly in the past on an annual, quarterly and monthly basis and, as a result, we expect that comparable store sales will continue to fluctuate in the future.

DIRECT-TO-CUSTOMER REVENUES

	Thirteen Weeks Ended		Twenty-Six Weeks Ended	
	July 30, 2006	July 31, 2005	July 30, 2006	July 31, 2005
<i>Dollars in thousands</i>				
Catalog revenues ¹	\$ 148,409	\$ 169,306	\$ 307,761	\$ 339,295
Internet revenues ¹	213,755	172,786	414,780	326,297
Total direct-to-customer revenues ¹	\$ 362,164	\$ 342,092	\$ 722,541	\$ 665,592
Percent growth in direct-to-customer revenues	5.9%	11.5%	8.6%	11.6%
Percent (decrease) increase in number of catalogs circulated	(3.4%)	8.9%	(0.6%)	8.3%
Percent growth in number of pages circulated	4.2%	17.4%	5.8%	17.7%

¹ Approximately 55% of our company-wide non-gift registry Internet revenues are driven by customers who recently received a catalog and approximately 45% are incremental to the direct-to-customer channel.

Direct-to-customer revenues in the second quarter of fiscal 2006 increased by \$20,072,000, or 5.9%, over the second quarter of fiscal 2005. This increase was primarily driven by net revenues generated in the Pottery Barn Kids, Pottery Barn, PBteen, West Elm and Williams-Sonoma brands, primarily due to an overall increase in page circulation of 4.2% and continued strength in our Internet business, resulting from our expanded efforts associated with electronic direct marketing and our on-line advertising initiatives. All brands in the direct-to-customer channel delivered positive growth during the quarter with the exception of the Williams-Sonoma Home and Hold Everything brands.

Direct-to-customer revenues for year-to-date 2006 increased \$56,949,000, or 8.6%, over year-to-date 2005. This increase was primarily driven by net revenues generated in the Pottery Barn Kids, Pottery Barn, PBteen, West Elm and Williams-Sonoma brands, primarily due to an overall increase in page circulation of 5.8% and continued strength in our Internet business, resulting from our expanded efforts associated with electronic direct marketing and our on-line advertising initiatives. All brands in the direct-to-customer channel delivered positive growth for year-to-date 2006 with the exception of the Williams-Sonoma Home and Hold Everything brands.

COST OF GOODS SOLD

<i>Dollars in thousands</i>	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	July 30, 2006	% Net Revenues	July 31, 2005	% Net Revenues	July 30, 2006	% Net Revenues	July 31, 2005	% Net Revenues
Cost of goods sold	\$ 510,976	61.9%	\$ 481,404	62.0%	\$ 999,841	61.7%	\$ 917,170	61.3%

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

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

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

Second Quarter of Fiscal 2006 vs. Second Quarter of Fiscal 2005

Cost of goods sold increased by \$29,572,000, or 6.1%, in the second quarter of 2006 compared to the second quarter of 2005. Including expense of approximately \$1,600,000 associated with the implementation of FSP FAS 13-1 and the Hold Everything transition, cost of goods sold as a percentage of net revenues decreased 10 basis points in the second quarter of fiscal 2006 from the second quarter of fiscal 2005. This decrease was primarily driven by a year-over-year improvement in cost of merchandise across all core brands, partially offset by a rate increase in occupancy expenses primarily due to the implementation of FSP FAS 13-1 and the Hold Everything transition, as well as higher direct-to-customer shipping costs.

In the retail channel, cost of goods sold as a percentage of retail net revenues increased 40 basis points in the second quarter of fiscal 2006 compared to the second quarter of fiscal 2005 resulting from a rate increase in occupancy expenses primarily due to the implementation of FSP FAS 13-1 and the Hold Everything transition, partially offset by a year-over-year improvement in cost of merchandise across all core brands.

In the direct-to-customer channel, cost of goods sold as a percentage of direct-to-customer net revenues decreased 50 basis points in the second quarter of fiscal 2006 compared to the second quarter of fiscal 2005. This decrease was primarily driven by a year-over-year improvement in cost of merchandise across all core brands, partially offset by an increase in occupancy expenses and higher direct-to-customer shipping costs.

Year-to-Date 2006 vs. Year-to-Date 2005

Cost of goods sold for year-to-date 2006 increased by \$82,671,000, or 9.0%, over year-to-date 2005. Including expense of approximately \$3,800,000 associated with the Hold Everything transition and the implementation of FSP FAS 13-1, cost of goods sold as a percentage of net revenues increased 40 basis points for year-to-date 2006 compared to year-to-date 2005. This increase was primarily driven by fiscal 2005 infrastructure investments that

were not fully implemented until the back half of 2005, including: retail occupancy costs in our emerging brand stores, the incremental costs associated with daily store replenishment and increased distribution capacity. This increase was further driven by the expense associated with the Hold Everything transition and the implementation of FSP FAS 13-1, as well as higher customer shipping costs. This increase was partially offset by a year-over-year improvement in cost of merchandise across all core brands.

In the retail channel, cost of goods sold as a percentage of retail net revenues increased 70 basis points for year-to-date 2006 compared to year-to-date 2005 resulting from fiscal 2005 infrastructure investments that were not fully implemented until the back half of 2005, including: retail occupancy costs in our emerging brand stores and the incremental costs associated with daily store replenishment. This increase was further driven by the charge associated with the Hold Everything transition and the implementation of FSP FAS 13-1, partially offset by a year-over-year improvement in cost of merchandise across all core brands.

In the direct-to-customer channel, cost of goods sold as a percentage of direct-to-customer net revenues increased 50 basis points for year-to-date 2006 compared to year-to-date 2005. This increase was primarily due to an increase in occupancy expenses associated with increased distribution capacity and higher direct-to-customer shipping costs, partially offset by a year-over-year improvement in cost of merchandise across all core brands.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

<i>Dollars in thousands</i>	Thirteen Weeks Ended				Twenty-Six Weeks Ended			
	July 30, 2006	% Net Revenues	July 31, 2005	% Net Revenues	July 30, 2006	% Net Revenues	July 31, 2005	% Net Revenues
Selling, general and administrative expenses	\$ 260,312	31.5%	\$ 245,628	31.6%	\$ 531,043	32.8%	\$ 486,847	32.5%

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

Due to their distinct distribution and marketing strategies, we experience differing employment and advertising costs as a percentage of net revenues within the retail and direct-to-customer segments. Store employment costs represent a greater percentage of retail net revenues than employment costs as a percentage of net revenues within the direct-to-customer segment. However, catalog advertising expenses are greater within the direct-to-customer channel than the retail channel.

Second Quarter of Fiscal 2006 vs. Second Quarter of Fiscal 2005

Selling, general and administrative expenses increased by \$14,684,000, or 6.0%, in the second quarter of fiscal 2006 compared to the second quarter of fiscal 2005. Including an approximate \$3,200,000 net benefit associated with certain unusual business events (unredeemed gift certificate income due to a change in estimate, litigation settlement income, the expense associated with the departure of our Chief Executive Officer and the expense associated with the Hold Everything transition), partially offset by the implementation of FAS 123R, selling, general and administrative expenses as a percentage of net revenues decreased 10 basis points in the second quarter of fiscal 2006 from the second quarter of fiscal 2005. This decrease was primarily driven by the recording of income associated with unredeemed gift certificates resulting from a change in estimate, the recording of income from the settlement of certain litigation, and reductions in other general expenses. This decrease was partially offset by higher employment and advertising costs. Increased employment costs as a percentage of net revenues were primarily driven by an increase in stock-based compensation expense from the implementation of FAS 123R, expense incurred in connection with the departure of our Chief Executive Officer, and the ongoing investment in the growth of the West Elm and Williams-Sonoma Home brands. Higher advertising costs as a percentage of net revenues were primarily driven by reduced catalog productivity in the Pottery Barn brand.

In the retail channel, selling, general and administrative expenses as a percentage of retail net revenues decreased 20 basis points in the second quarter of fiscal 2006 compared to the second quarter of fiscal 2005. This decrease resulted primarily from a change in estimate for recording income associated with unredeemed gift certificates and a reduction in other general expenses, partially offset by an increase in employment costs due to the ongoing investment in the growth of the West Elm and Williams-Sonoma Home brands.

In the direct-to-customer channel, selling, general and administrative expenses as a percentage of direct-to-customer net revenues increased 80 basis points in the second quarter of fiscal 2006 compared to the second quarter of fiscal 2005. This increase was primarily due to higher advertising costs as a percentage of net revenues driven by reduced catalog productivity in the Pottery Barn brand and increased employment costs.

Year-to-Date 2006 vs. Year-to-Date 2005

Selling, general and administrative expenses for year-to-date 2006 increased by \$44,196,000, or 9.1%, over year-to-date 2005. Including expense of approximately \$6,200,000 associated with the implementation of FAS 123R, partially offset by unusual business events (unredeemed gift certificate income due to a change in estimate, litigation settlement income, the expense associated with the departure of our Chief Executive Officer and the expense associated with the Hold Everything transition), selling, general and administrative expenses as a percentage of net revenues increased 30 basis points for year-to-date 2006 from year-to-date 2005. This increase was primarily driven by increased employment costs. Increased employment costs as a percentage of net revenues were primarily driven by an increase in stock-based compensation expense from the implementation of FAS 123R, expense incurred in connection with the departure of our Chief Executive Officer, and the ongoing investment in the growth of the West Elm and Williams-Sonoma Home brands. This increase was partially offset by the recording of income associated with unredeemed gift certificates resulting from a change in estimate and the settlement of certain litigation.

In the retail channel, selling, general and administrative expenses as a percentage of retail net revenues increased 20 basis points for year-to-date 2006 compared to year-to-date 2005. This increase resulted from increased employment costs primarily driven by the ongoing investment in the growth of the West Elm and Williams-Sonoma Home brands, partially offset by a change in estimate for recording income associated with unredeemed gift certificates.

In the direct-to-customer channel, selling, general and administrative expenses as a percentage of direct-to-customer net revenues decreased 20 basis points for year-to-date 2006 compared to year-to-date 2005. This decrease was primarily driven by a rate decrease in advertising costs resulting from a year-over-year reduction in catalog advertising costs in the Hold Everything brand (due to the final catalog being mailed on May 16, 2006) and a greater percentage of total company net revenues being generated in the e-commerce channel, which incurs advertising expense at a lower rate than the company average. This rate decrease was partially offset by a rate increase in advertising costs resulting from reduced catalog productivity in the Pottery Barn brand.

INTEREST INCOME

Interest income was \$4,056,000 in the second quarter of fiscal 2006, compared to \$881,000 in the second quarter of fiscal 2005, comprised primarily of income from short-term investments classified as cash and cash equivalents. For year-to-date 2006, interest income was \$7,378,000 compared to \$1,984,000 for year-to-date 2005. The increase in interest income during the second quarter of fiscal 2006 and year-to-date 2006 compared to the second quarter of fiscal 2005 and year-to-date 2005 resulted from higher cash balances during 2006 compared to 2005, as well as an increase in the interest rates associated with these short-term investments.

INCOME TAXES

Our effective tax rate was 38.4% for the second quarter of fiscal 2006 and 37.9% for the second quarter of fiscal 2005. Our second quarter of fiscal 2006 income tax rate increased over the second quarter of fiscal 2005 due to the timing of favorable resolutions of certain tax matters in the second quarter of fiscal 2005, resulting in a lower second quarter of fiscal 2005 tax rate.

Our effective tax rate was 38.4% for year-to-date 2006 and 39.3% for year-to-date 2005. Our year-to-date 2006 tax rate decreased primarily due to an increase in reserves for potential state income tax exposure in 2005, resulting in a higher year-to-date 2005 tax rate. We expect our effective tax rate to be in the range of 38.1% to 38.3% in fiscal 2006. Throughout the year, we expect that there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are re-evaluated.

LIQUIDITY AND CAPITAL RESOURCES

As of July 30, 2006, we held \$187,377,000 in cash and cash equivalents. As is consistent with our industry, our cash balances are seasonal in nature, with the fourth quarter representing a significantly higher level of cash than in other periods. Throughout the fiscal year, we utilize our cash balances to build our inventory levels in preparation for our fourth quarter holiday sales. In the remainder of fiscal 2006, we plan to utilize our cash resources to fund our inventory and inventory-related purchases, catalog advertising and marketing initiatives, current store development and infrastructure strategies, share repurchases and issuance of dividends. In addition to the current cash balances on-hand, we have a \$300,000,000 credit facility that may be used for loans or letters of credit. No amounts were borrowed by us under the credit facility in year-to-date 2006 or year-to-date 2005. However, as of July 30, 2006, \$35,973,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. We believe our cash on-hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations and growth opportunities over the upcoming twelve-month period.

For year-to-date 2006, net cash used in operating activities was \$22,281,000 compared to net cash used in operating activities of \$14,685,000 for year-to-date 2005. Net cash used for year-to-date 2006 was primarily attributable to the payment of income taxes and the purchase of merchandise inventories to support the increase in sales in our core and emerging brands. This was partially offset by an increase in deferred lease incentives due to the construction of additional retail stores during the year.

For year-to-date 2006, net cash used in investing activities was \$84,481,000 compared to net cash used in investing activities of \$77,142,000 for year-to-date 2005. For year-to-date 2006, purchases of property and equipment were comprised of \$50,492,000 for stores, \$24,205,000 for systems development projects (including e-commerce websites) and \$9,784,000 for distribution and facility infrastructure projects.

In fiscal 2006, we anticipate investing \$185,000,000 to \$205,000,000 in the purchase of property and equipment, primarily for the construction of 28 new stores and 27 remodeled stores, systems development projects (including e-commerce websites), and distribution and facility infrastructure projects.

For year-to-date 2006, net cash used by financing activities was \$68,029,000 compared to net cash provided in financing activities of \$5,875,000 for year-to-date 2005. Net cash used by financing activities was primarily due to the repurchase of common stock and the payment of dividends.

Stock Repurchase Program

In March 2006, our Board of Directors authorized a stock repurchase program to acquire up to 2,000,000 shares of our outstanding common stock. During the second quarter of fiscal 2006, we repurchased and retired all 2,000,000 shares of our common stock under this program at a weighted average cost of \$32.33 per share and an aggregate cost of approximately \$64,653,000.

The following table summarizes our repurchases of shares of our common stock during the second quarter of fiscal 2006:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Repurchase Plan	Maximum Number of Shares that May Yet be Purchased Under Any Plan
May 1, 2006 – May 28, 2006	-	-	-	2,000,000
May 29, 2006 – June 25, 2006	-	-	-	2,000,000
June 26, 2006 – July 30, 2006	2,000,000	\$ 32.33	2,000,000	-
Total	2,000,000	\$32.33	2,000,000	-

In August 2006, our Board of Directors authorized a stock repurchase program to acquire up to 5,000,000 shares of our outstanding common stock. Stock repurchases under this program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

Dividend Policy

Prior to March 2006, no cash dividend had ever been declared or paid on our common stock. In March 2006, our Board of Directors authorized the initiation of a quarterly cash dividend. The quarterly dividend of approximately \$11,600,000, or \$0.10 per common share, was paid on May 24, 2006, to shareholders of record as of the close of business on April 26, 2006. On June 22, 2006, we declared a quarterly dividend of \$0.10 per common share, or approximately \$11,500,000, which was paid on August 24, 2006 to shareholders of record as of the close of business on July 27, 2006. The indicated annual cash dividend, subject to capital availability, is \$0.40 per common share, or approximately \$46,000,000 in fiscal 2006 based on the current number of common shares outstanding.

Critical Accounting Policies

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

During the second quarter of fiscal 2006, we completed an analysis of our historical gift certificate and gift card redemption patterns, which included an independent actuarial study based on our historical redemption data. As a result of this analysis, we concluded that the likelihood of our gift certificates and gift cards being redeemed beyond four years from the date of issuance is remote. As a result, we have changed our estimate of the elapsed time for recording income associated with unredeemed gift certificates and gift cards to four years from our prior estimate of seven years.

Impact of Inflation

The impact of inflation on results of operations was not significant for year-to-date 2006 or for year-to-date 2005.

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, and we expect this to continue going forward. 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.

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 credit facility, industrial development bond and the bond-related debt associated with our Memphis-based distribution facilities is based on variable interest rates and is, therefore, affected by changes in market interest rates. If interest rates on existing variable rate debt rose 53 basis points (an approximate 10% increase in the associated variable rates as of July 30, 2006), our results from operations and cash flows would not be materially affected.

In addition, we have fixed and variable income investments consisting of short-term investments classified as cash and cash equivalents, which are also affected by changes in market interest rates. 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 a significant amount of inventory from vendors outside of the U.S. in transactions that are denominated in U.S. dollars. Approximately 5% of our international purchase transactions are in currencies other than the U.S. dollar. As of July 30, 2006, any currency risks related to these transactions are not significant to us. A material decline in the relative value of the U.S. dollar to other foreign currencies could, however, lead to increased purchasing costs.

As of July 30, 2006, we have 14 retail stores in Canada, which expose us to market risk associated with foreign currency exchange rate fluctuations. Any gain or loss from these currency exchange rate fluctuations is recorded in selling, general and administrative expenses each reporting period and has not been material to us.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of July 30, 2006, an evaluation was performed by management, with the participation of our Chief Executive Officer (“CEO”) and our Executive Vice President, Chief Operating and Chief Financial Officer (“CFO”), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow timely discussions regarding required disclosures, and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

Changes in Internal Control Over Financial Reporting

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

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information required by this Item is contained in Note G to our Consolidated Financial Statements within Part I of this Form 10-Q.

ITEM 1A. RISK FACTORS

A description of the risks and uncertainties associated with our business is set forth below. This description includes any material changes to and supersedes the description of the risks and uncertainties associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 29, 2006. You should carefully consider such risks and uncertainties, together with the other information contained in this report, our Annual Report on Form 10-K for the fiscal year ended January 29, 2006 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 the section titled “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 risks and uncertainties, actually occurs, our business, financial condition or operating results could be harmed substantially, which 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, in large part, upon our ability to anticipate and respond in a timely manner to changing merchandise trends and customer demands. Consumer preferences cannot be predicted with certainty and may change between selling seasons. Changes in customer preferences and buying trends may also affect our brands differently. 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 to sell such inventory through our outlet stores or other liquidation channels at prices which are significantly lower than our retail prices, either of which would negatively impact our business and operating results.

In addition, we must manage our inventory effectively and commensurate with customer demand. Much of our inventory is sourced from vendors located outside the U.S. Thus, we usually must order merchandise, and enter into contracts for the purchase and manufacture of such merchandise, up to twelve months 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. Our vendors may also not have the capacity to handle our demands. 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.

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, fuel prices, recession and fears of recession, war and fears of war, inclement weather, consumer debt, conditions in the housing market, interest rates, sales tax rates and rate increases, inflation, consumer confidence in future economic conditions and political conditions, and consumer perceptions of personal well-being and security. These factors may also affect our various brands and channels differently. 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. For example, the August 2005 natural disaster caused by Hurricane Katrina will likely continue to affect consumer spending in the vicinity of the disaster.

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:

- 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;
- 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; and
- effectively managing our supply chain and distribution strategies in order to provide our products to our consumers on a timely basis.

In light of the many competitive challenges facing us, we may not be able to compete successfully. Increased competition could harm 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, in part, 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 change the terms upon which they sell to us or discontinue selling to us at any time. We may not be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. Better than expected sales demand may also lead to customer backorders and lower in-stock positions of our merchandise.

Any inability to acquire suitable merchandise on acceptable terms 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 activities, vendor financial liquidity, inclement weather, natural disasters, and general economic and political conditions, that could limit our vendors' ability to provide us with quality merchandise on a timely basis and at a price that is commercially acceptable. 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. In addition, our vendors may have difficulty adjusting to our changing demands and growing business. 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. Further, any merchandise that does not meet our quality standards could become subject to a recall, which would damage our reputation and brands, and harm our business.

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

In fiscal 2005, we sourced our products from manufacturers in 35 countries outside of the United States. Approximately 63% of our merchandise purchases were foreign-sourced, primarily from Asia and Europe. Our dependence on foreign vendors means that we may be affected by declines in the relative value of the U.S. dollar to other foreign currencies. For example, any upward valuation in the Chinese Yuan against the U.S. Dollar may result in higher costs to us for those goods that we source from mainland China. Although approximately 95% of our foreign purchases of merchandise are negotiated and paid for in U.S. dollars, declines in foreign currencies and 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, delay 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, concerns over anti-dumping, work stoppages, economic uncertainties (including inflation), foreign government regulations, wars and fears of war, political unrest, natural disasters and other 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, 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 continue to improve our global compliance program, there remains a risk that one or more of our foreign vendors will not adhere to our global compliance standards such as fair labor standards and the prohibition on child labor. Non-governmental organizations might attempt to create an unfavorable impression of our sourcing practices or the practices of some of our vendors that could harm our image. If either of these occurs, we could lose customer goodwill and favorable brand recognition, which could negatively affect 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, the majority of our net revenues have been generated by our retail stores. 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 based on weather or other events;
- 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 demographic 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, changes in demographics, in the types of merchandise that we sell and in the pricing of our products may reduce the number of suitable store locations. Further, 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. We may not be able to open new stores or, if opened, operate those stores profitably.

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 timely and effective merchandise delivery to our stores. We rely upon third party carriers for our merchandise shipments and reliable data regarding the timing of those shipments, including shipments to our customers and to and from all of our stores. In addition, we are heavily dependent upon two carriers for the delivery of our merchandise to our customers. Accordingly, we are subject to the risks, including labor disputes, 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, fuel costs have increased substantially and airline companies struggle to operate profitably, which could lead to increased fulfillment expenses. The increased fulfillment costs could negatively affect our business and operating results by increasing our transportation costs and, therefore, decreasing the efficiency of our shipments.

Our failure to successfully manage our order-taking and fulfillment operations could 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, system issues, computer viruses, security breaches, human error, changes in programming, union organizing activity, disruptions in our third party labor contracts, 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, or that there will be a disruption in the labor we hire from our third party providers, especially during our peak season, to support our direct-to-customer operations, due to circumstances that reduce the relevant workforce. The need to operate with fewer employees could negatively impact our customer service levels and our operations.

Our facilities and systems, as well as those of our vendors, are vulnerable to natural disasters and other unexpected events, and any of these events could result in an interruption in our business.

Our retail stores, corporate offices, distribution centers, infrastructure projects and direct-to-customer operations, as well as the operations of vendors from which we receive goods and services, are vulnerable to damage from earthquakes, hurricanes, fires, floods, power losses, telecommunications failures, computer viruses, and similar events. If any of these events result in damage to our facilities or systems, or those of our vendors, we may experience interruptions in our business until the damage is repaired, resulting in the potential loss of customers and revenues. In addition, we may incur costs in repairing any damage beyond our applicable insurance coverage.

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, size and location of stores we open, close, remodel or expand in any period, the general retail sales environment, consumer preferences and buying trends, changes in sales mix among distribution channels, our ability to efficiently source and distribute products, changes in our merchandise mix, competition, current local and global economic conditions, the timing of our releases of new merchandise and promotional events, the success of marketing programs, the cannibalization of existing store sales by our new stores, increased catalog circulation, and continued strength in our Internet business. Among other things, weather conditions can affect comparable store sales because inclement weather can alter consumer behavior or 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 have caused and may continue to cause our comparable store sales results to differ materially from prior periods and from earnings guidance we have provided. For example, the August 2005 natural disaster caused by Hurricane Katrina resulted in five temporary store closures. As of July 30, 2006, all five stores have been reopened.

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 2005, 2004 and 2003 were 4.9%, 3.5% and 4.0%, respectively. Past comparable store sales are no indication of future results, and comparable store sales may 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 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, paper costs, printing costs and other catalog distribution costs affect the cost of our catalog mailings. We rely on discounts from the basic postal rate structure, which could be changed or discontinued at any time. Our cost of paper has fluctuated significantly during the past three fiscal years, and our paper costs are expected to increase in the future. Future increases in postal rates, 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 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 selection of customers to whom the catalogs are mailed, changes in mailing strategies, and the sizing and timing of delivery of the catalogs. In addition, environmental organizations may attempt to create an unfavorable impression of our paper use in catalogs. The failure to effectively produce or distribute our catalogs could affect the timing of catalog delivery. The timing of catalog delivery has been and can be affected by postal service delays. For example, the August 2005 natural disaster caused by Hurricane Katrina created domestic ground and rail transportation capacity constraints that resulted in late catalog delivery. Any delays in the timing of catalog delivery 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, costs and technical issues as we upgrade our website software, computer viruses, 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 in our Internet business, as well as damage our reputation and brands.

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. If actual returns are greater than those projected by management, additional sales returns might be recorded in the future. Actual merchandise returns may exceed our reserves. In addition, to the extent that returned merchandise is damaged, we often do not receive full retail value from the resale or liquidation of the merchandise. Further, the introduction of new merchandise, changes in merchandise mix, changes in consumer confidence, or other competitive and general economic conditions may cause actual returns to exceed merchandise return reserves. Any significant increase in merchandise returns that exceeds our reserves could harm our business and operating results.

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 extensions, 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, and we face the risk of increased catalog circulation cannibalizing our retail sales. 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 e-commerce 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, as our Internet business grows and as we add e-commerce websites for more of our concepts, these increased Internet sales may cannibalize a portion of our retail and catalog businesses.

We may not be able to introduce new brands and brand extensions, or to reposition existing brands, to improve our business.

We have recently introduced three new brands – West Elm, PBteen and Williams-Sonoma Home, and may introduce new brands and brand extensions, or reposition existing brands, in the future. All of these brands, however, may not be successful growth vehicles. For example, in January 2006, we announced our decision to transition the merchandising strategies of our Hold Everything brand into our other existing brands by the end of fiscal 2006. Further, if we devote time and resources to new brands, brand extensions or brand repositioning, and those businesses are not as successful as we planned, then we risk damaging our overall business results. Alternatively, if our new brands, brand extensions or repositioned brands prove to be very successful, we risk hurting our other existing brands through the potential migration of existing brand customers to the new businesses. In addition, we may not be able to introduce new brands, brand extensions or to reposition brands in a manner that improves our overall business and operating results.

Our inability to obtain commercial insurance at acceptable prices or our failure to adequately reserve for self-insured exposures might have a negative impact on our business.

Insurance costs continue to increase, affected by natural catastrophes, fear of terrorism and financial irregularities and other fraud at publicly traded companies. We believe that commercial insurance coverage is prudent for risk management, and insurance costs may increase substantially in the future. In addition, for certain types or levels of risk, such as risks associated with earthquakes, hurricanes or terrorist attacks, we may determine that we cannot obtain commercial insurance at acceptable prices, if at all. Therefore, we may choose to forego or limit our purchase of relevant commercial insurance, choosing instead to self-insure one or more types or levels of risks. We are primarily self-insured for workers' compensation, employee health benefits and product and general liability claims. If we suffer a substantial loss that is not covered by commercial insurance or our self-insurance reserves, the loss and attendant expenses could harm our business and operating results. In addition, exposures exist for which no insurance may be available and for which we have not reserved.

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. We may not be able to adequately protect our intellectual property. In addition, the costs of defending our intellectual property may adversely affect our operating results.

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

There appears to be a growing number of business method patent infringement lawsuits instituted against companies such as ours. The plaintiff in each case claims to hold a patent that covers certain technology or methodologies which are allegedly infringed by the operation of the defendants' business. We are currently a defendant in such patent infringement cases and may be 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 can be high. Additional patent infringement claims may be brought against us, and the cost of defending such claims or the ultimate resolution of such claims may harm our business and operating results.

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

To be successful, we need to manage our operating costs and 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. From time to time we may also experience union organizing activity in currently non-union distribution facilities, stores and direct-to-customer operations. Union organizing activity may result in work slowdowns or stoppages and higher labor costs. In addition, there appears to be a growing number of wage-and-hour lawsuits against retail companies, especially in California. We are currently a defendant in one such case and may be named in others in the future.

Although we strive to secure long-term contracts with our service providers and other vendors and to otherwise limit our financial commitment to them, we may not be able to avoid unexpected operating cost increases in the future. Further, we incur substantial costs to warehouse and distribute our inventory. Significant increases in our inventory levels may result in increased warehousing and distribution costs. Higher than expected costs, particularly if coupled with lower than expected sales, would negatively impact our business and operating results.

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

Our success depends on our ability to source and distribute 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 purchase order, 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 supply chain and merchandising systems disruptions that affect our ability to get the correct products into the appropriate stores and delivered to customers. We may not successfully launch these new systems, or the launch may result in supply chain and merchandising systems disruptions. Any such disruptions could negatively impact our business and operating results.

We are implementing changes to our data center information technology infrastructure that might disrupt our business and cost more than expected.

We have engaged IBM to host and manage certain aspects of our data center information technology infrastructure. Accordingly, we are subject to the risks associated with IBM's ability to provide information technology services to meet our needs. Our operations will depend significantly upon IBM's and our ability to make our servers, software applications and websites available and to protect our data from damage or interruption from human error, computer viruses, intentional acts of vandalism, labor disputes, natural disasters and similar events. If the cost of IBM hosting and managing certain aspects of our data center information technology infrastructure is more than expected, or if IBM or we are unable to adequately protect our data and information is lost or our ability to deliver our services is interrupted, then our business and results of operations may be negatively impacted.

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. Although we believe that this guidance provides investors and analysts with a better understanding of management's expectations for the future, and is useful to our shareholders and potential shareholders, such guidance is comprised of forward-looking statements subject to the risks and uncertainties described in this report and in our other public filings and public statements. Our guidance may not always be accurate. If in the future

our operating or financial results for a particular period do not meet our guidance or the expectations of investment analysts or if we reduce our guidance for future periods, the market price of our common stock could significantly decline.

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 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.

We may require 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 flow 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, such funds may not 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.

We will require a significant amount of cash to pay quarterly dividends at intended levels and for our stock repurchase programs.

In March 2006, we initiated a quarterly cash dividend of \$0.10 per common share. In addition, in August 2006, our Board of Directors authorized the repurchase of up to 5,000,000 shares of our common stock. The dividend and the share repurchase program may require a significant portion of our cash earnings. As a result, we may not retain a sufficient amount of cash to finance growth opportunities, new product development initiatives, unanticipated capital expenditures or to fund our operations. Our Board of Directors may, at its discretion, decrease the intended level of dividends or entirely discontinue the payment of dividends at any time. The stock repurchase program does not have an expiration date and may be limited or terminated at any time. Our ability to pay dividends and repurchase shares will depend on our ability to generate cash flows from operations in the future. This ability may be subject to certain economic, financial, competitive and other factors that are beyond our control. Any failure to pay dividends or repurchase shares after we have announced our intention to do so may negatively impact our reputation and investor confidence in us and negatively impact our stock price. In addition, we may be subject to lawsuits regarding the use of our cash for dividends or share repurchases.

We are exposed to potential risks from legislation requiring companies to evaluate controls under Section 404 of the Sarbanes-Oxley Act of 2002.

We have evaluated and tested our internal controls in order to allow management to report on, and our registered independent public accounting firm to attest to, our internal controls, as required by Section 404 of the Sarbanes-Oxley Act of 2002. We have incurred, and expect to continue to incur, significant expenses and a diversion of management's time to meet the requirements of Section 404. If we are not able to continue to meet the requirements of Section 404 in a timely manner or with adequate compliance, we would be required to disclose material weaknesses if they develop or are uncovered and we may be subject to sanctions or investigation by regulatory authorities, such as the Securities and Exchange Commission or the New York Stock Exchange. Any

such action could negatively impact the perception of us in the financial market and our business. In addition, our internal controls may not prevent or detect all errors and fraud. A control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable assurance that the objectives of the control system will be met.

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

Changes to existing accounting rules or regulations may impact our future results of operations. For example, on December 16, 2004, the FASB issued SFAS No. 123R, "Share Based Payment," which requires us, starting in the first quarter of fiscal 2006, to measure compensation costs for all stock-based compensation at fair value and record compensation expense equal to that value over the requisite service period. This accounting rule is estimated to have a negative impact of approximately 10% on our fiscal 2006 diluted earnings per share. A change in accounting rules or regulations may even affect our reporting of transactions completed before the change is effective. Other new accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future. Future changes to accounting rules or regulations or the questioning of current accounting practices, may adversely affect our results of operations.

Changes to estimates related to our property and equipment, or operating results that are lower than our current estimates at certain store locations, may cause us to incur impairment charges.

We make certain estimates and projections in connection with impairment analyses for certain of our store locations in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." We review for impairment all stores for which current cash flows from operations are negative or the construction costs are significantly in excess of the amount originally expected. An impairment charge is required when the carrying value of the asset exceeds the undiscounted future cash flows over the life of the lease. These calculations require us to make a number of estimates and projections of future results, often up to 20 years into the future. If these estimates or projections change or prove incorrect, we may be, and have been, required to record impairment charges on certain of these store locations. If these impairment charges are significant, our results of operations would be adversely affected.

We must properly account for our unredeemed gift certificates and merchandise credits.

We maintain a liability for unredeemed gift certificates and merchandise credits until the earlier of redemption, escheatment or four years. After four years, the remaining unredeemed gift certificate or merchandise credit liability is relieved and recorded within selling, general and administrative expenses. In the event that a state or states were to require that these unredeemed certificates and credits be escheated to that state or states, then our business and operating results would be harmed.

We may experience fluctuations in our tax obligations and effective tax rate.

We are subject to income taxes in many U.S. and Canadian jurisdictions. We record tax expense based on our estimates of future payments which include reserves for estimates of probable settlements of foreign and domestic tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. As a result, we expect that throughout the year there could be on-going variability in our quarterly tax rates as taxable events occur and exposures are re-evaluated. Further, our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of earnings.

We rely on the services of key personnel, whose knowledge of our business and expertise would be difficult to replace.

Our future success depends to a significant degree on the skills, experience and efforts of key personnel in our senior management, whose vision for our company, knowledge of our business and expertise would be difficult to replace. If any of our key employees leave, is seriously injured or unable to work, and we were unable to find a qualified replacement, we may be unable to execute our business strategy.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Information required by this Item is contained in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under the heading “Stock Repurchase Program” within Part I of this Form 10-Q.

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

Our Annual Meeting of Shareholders was held on May 23, 2006. At this meeting, the shareholders took the following actions:

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

Name	For	Withheld
Sanjiv Ahuja	104,594,678	187,100
Adrian D.P. Bellamy	104,208,755	573,023
Patrick J. Connolly	104,626,229	155,549
Adrian T. Dillon	104,631,511	150,267
Jeanne P. Jackson	104,184,028	597,750
W. Howard Lester	102,513,584	2,268,194
Michael R. Lynch	104,521,411	260,367
Edward A. Mueller	104,513,036	268,742
Richard T. Robertson	104,361,126	420,652
David B. Zenoff	104,598,918	182,860

(II) The shareholders approved, by the vote indicated, an amendment and restatement of the Williams-Sonoma, Inc. 2001 Long-Term Incentive Plan to (i) increase the shares issuable under the plan by 6,000,000 shares, plus 705,743 shares that remained available for issuance in our 1993 Stock Option Plan and our 2000 Nonqualified Stock Option Plan as of March 15, 2006, plus any shares subject to outstanding options under these plans that subsequently expire unexercised, up to a maximum of 754,160 shares and (ii) to make certain other amendments:

For	Against	Abstain	Broker Non-Vote
79,948,894	17,791,744	49,936	6,991,204

(III) The shareholders ratified, by the vote indicated, the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending January 28, 2007:

For	Against	Abstain	Broker Non-Vote
102,770,534	1,976,395	34,849	0

ITEM 6. EXHIBITS

(a) Exhibits

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1	Amended and Restated Bylaws of Williams-Sonoma, Inc.
10.1	Separation Agreement entered into July 9, 2006 between Williams-Sonoma, Inc. and Edward Mueller (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on July 11, 2006, File No. 001-14077)
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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 Operating and Chief Financial Officer

Date: September 8, 2006

AMENDED AND RESTATED BYLAWS

for the regulation, except as otherwise provided
by statute or the Articles of Incorporation, of

WILLIAMS-SONOMA, INC.

a California corporation

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AMENDED AND RESTATED BYLAWS

for the regulation, except as otherwise provided
by statute or the Articles of Incorporation, of

WILLIAMS-SONOMA, INC.

ARTICLE I. GENERAL PROVISIONS

Section 1.1 Principal Executive Office. The Board of Directors shall designate the location of the principal executive office of the corporation at any place within or without the State of California. The Board of Directors shall have the power to change the principal executive office to another location and may designate and locate one or more subsidiary offices within or without the State of California.

Section 1.2 Number of Directors. The affairs of the corporation shall be managed by a Board of Directors consisting of not less than seven (7) nor more than thirteen (13) directors. The exact number of directors within the limits specified shall be set, and may be changed from time to time, by a resolution duly adopted by the Board of Directors or the shareholders. The limits may be changed, or a single number fixed without provision for variation, by an amendment to these bylaws duly adopted by the vote or written consent of a majority of the outstanding shares entitled to vote; provided, however, that a bylaw reducing the minimum number of directors to a number less than five (5) cannot be adopted if the votes cast against its adoption at a meeting or the shares not consenting in the case of action by written consent are equal to more than 16-2/3 percent of the outstanding shares entitled to vote. No amendment may change the stated maximum number of authorized directors to a number greater than two (2) times the stated minimum number of directors minus one (1).

ARTICLE II. SHARES AND SHAREHOLDERS

Section 2.1 Meetings of Shareholders.

(a) Place of Meetings. Meetings of shareholders shall be held at any place within or without the State of California designated by the Board of Directors. In the absence of any such designation, shareholders' meetings shall be held at the principal executive office of the corporation.

(b) Annual Meetings.

(1) An annual meeting of the shareholders of the corporation for the election of directors and for the transaction of any other business as may properly come before the meeting shall be held on such date and at such time as may be designated by the Board of Directors. At each annual meeting directors shall be elected, and any other proper business may be transacted.

(2) Nominations of persons for election to the Board of Directors of the corporation and the proposal of business to be transacted by the shareholders may be made at an annual meeting of shareholders (a) pursuant to the corporation's notice with respect to such meeting, (b) by or at the direction of the Board of Directors or (c) by any shareholder

of record of the corporation who was a shareholder of record at the time of the giving of the notice provided for in this Section 2.1(b), who is entitled to vote at the meeting and who has complied with the notice procedures set forth in this Section 2.1(b).

(3) For nominations or other business to be properly brought before an annual meeting by a shareholder pursuant to clause (c) of paragraph (2) of this Section 2.1(b), (i) the shareholder must have given timely notice thereof in writing to the Secretary of the corporation, (ii) such business must be a proper matter for shareholder action under the General Corporation Law of the State of California, (iii) if the shareholder, or the beneficial owner on whose behalf any such proposal or nomination is made, has provided the corporation with a Solicitation Notice, as that term is defined in subclause (c)(iii) of this paragraph, such shareholder or beneficial owner must, in the case of a proposal, have delivered a proxy statement and form of proxy to holders of at least the percentage of the corporation's voting shares required under applicable law to carry any such proposal, or, in the case of a nomination or nominations, have delivered a proxy statement and form of proxy to holders of a percentage of the corporation's voting shares reasonably believed by such shareholder or beneficial holder to be sufficient to elect the nominee or nominees proposed to be nominated by such shareholder, and must, in either case, have included in such materials the Solicitation Notice and (iv) if no Solicitation Notice relating thereto has been timely provided pursuant to this section, the shareholder or beneficial owner proposing such business or nomination must not have solicited a number of proxies sufficient to have required the delivery of such a Solicitation Notice under this paragraph. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the corporation not less than 45 days nor more than 75 days prior to the first anniversary (the "Anniversary") of the date on which the corporation first mailed its proxy materials for the preceding year's annual meeting of shareholders; provided, however, that if the date of the annual meeting is advanced by more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, notice by the shareholder to be timely must be so delivered not later than the close of business on the later of the 90th day prior to such annual meeting and the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a director all information relating to such person as would be required to be disclosed in solicitations of proxies for election of such nominees as directors pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and such person's written consent to being named in the proxy statement as a nominee and to serve as a director if elected; (b) as to any other business that the shareholder proposes to bring before the meeting, a brief description of such business, the reasons for conducting such business at the meeting and any material interest in such business of such shareholder and the beneficial owner, if any, on whose behalf the proposal is made; and (c) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address of such shareholder, as they appear on the corporation's books, and of such beneficial owner, (ii) the class and number of shares of the capital stock of the corporation that are owned beneficially and of record by such shareholder and such beneficial owner, and (iii) whether either such shareholder or beneficial owner intends to deliver a proxy statement and form of proxy to holders of, in the case of a proposal, at least the percentage of the corporation's voting shares required under applicable law to carry the proposal or, in the case of a

nomination or nominations, a sufficient number of holders of the corporation's voting shares to elect such nominee or nominees (an affirmative statement of such intent, a "Solicitation Notice").

(4) Notwithstanding anything in the second sentence of paragraph (3) of this Section 2.1(b) to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the corporation at least 55 days prior to the Anniversary, a shareholder's notice required by this Section 2.1(b) shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the corporation not later than the close of business on the 10th day following the day on which such public announcement is first made by the corporation.

(5) Only persons nominated in accordance with the procedures set forth in these bylaws shall be eligible to serve as directors and only such business shall be conducted at an annual meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in these bylaws. The chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting has been made in accordance with the procedures set forth in these bylaws and, if any proposed nomination or business is not in compliance with these bylaws, to declare that such defective proposed nomination or business shall not be presented for shareholder action at the meeting and shall be disregarded.

(6) For purposes of these bylaws, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

(7) Notwithstanding the foregoing provisions of this bylaw, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this bylaw. Nothing in this bylaw shall be deemed to affect any rights of shareholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

(c) Special Meetings. Special meetings of the shareholders may be called by the Board of Directors, the chairman of the board, the president, or by the holders of shares entitled to cast not less than 10 percent of the votes at the meeting. Upon request in writing to the chairman of the board, the president, any vice president or the secretary by any person (other than the Board) entitled to call a special meeting of shareholders, the officer forthwith shall cause notice to be given to the shareholders entitled to vote that a meeting will be held at a time requested by the person or persons calling the meeting, not less than 35 nor more than 60 days after the receipt of the request. If the notice is not given within 20 days after receipt of the request, the persons entitled to call the meeting may give the notice.

Nominations of persons for election to the Board may be made at a special meeting of shareholders at which directors are to be elected pursuant to the corporation's notice of meeting (a) by or at the direction of the Board or (b) by any shareholder of record of the corporation who is a shareholder of record at the time of giving of notice provided for in this paragraph, who shall be entitled to vote at the meeting and who complies with the notice procedures set forth in this bylaw. Nominations by shareholders of persons for election to the Board may be made at such a special meeting of shareholders if the shareholder's notice required by Section 2.1(b)(3) of these bylaws shall be delivered to the Secretary at the principal executive office of the corporation not later than the close of business on the later of the 90th day prior to such special meeting or the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting.

(d) Notice of Meetings. Notice of any shareholders' meeting shall be given not less than 10 nor more than 60 days before the date of the meeting to each shareholder entitled to vote thereat. Such notice shall state the place, date and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted, and no other business may be transacted, or (ii) in the case of the annual meeting, those matters which the Board of Directors, at the time of the giving of the notice, intends to present for action by the shareholders. The notice of any meeting at which directors are to be elected shall include the names of nominees intended at the time of the notice to be presented by the Board of Directors for election.

If action is proposed to be taken at any meeting, which action is within Sections 310, 902, 1201, 1900 or 2007 of the General Corporation Law of the State of California ("California Law"), the notice shall also state the general nature of that proposal.

Notice of a shareholders' meeting shall be given either personally or by first-class mail (unless the outstanding shares of the corporation on the record date are held by five hundred (500) or more persons (determined as provided in Section 605 of California Law), in which event such notice may be given by third-class mail, which shall be mailed not less than thirty (30) days before the date of the meeting), or other means of written communication, charges prepaid, addressed to the shareholder at the address of such shareholder appearing on the books of the corporation or given by the shareholder to the corporation for the purpose of notice; or if no such address appears or is given, at the place where the principal executive office of the corporation is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located. The notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication. An affidavit of mailing of any notice executed by the secretary, assistant secretary or any transfer agent, shall be prima facie evidence of the giving of the notice.

If any notice addressed to the shareholder at the address of such shareholder appearing on the books of the corporation is returned to the corporation by the United States postal service marked to indicate that the United States postal service is unable to deliver the notice or report to the shareholder at such address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available for the shareholder upon written demand of the shareholder at the principal executive office of

the corporation for a period of one year from the date of the giving of the notice or report to all other shareholders.

(e) Adjourned Meeting and Notice Thereof. Any meeting of shareholders may be adjourned from time to time by the vote of a majority of the shares represented either in person or by proxy whether or not a quorum is present. When a shareholders' meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken. At the adjourned meeting the corporation may transact any business which might have been transacted at the original meeting. However, if the adjournment is for more than 45 days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

(f) Waiver of Notice. The transactions of any meeting of shareholders, however called and noticed, and wherever held, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the persons entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in the second paragraph of subparagraph (d) of Section 2.1 of this Article II, the waiver of notice or consent shall state the general nature of the proposal. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

(g) Quorum. The presence in person or by proxy of the persons entitled to vote a majority of the shares entitled to vote at any meeting shall constitute a quorum for the transaction of business. If a quorum is present, the affirmative vote of the majority of the shares represented and voting at the meeting (which shares voting affirmatively also constitute at least a majority of the required quorum) shall be the act of the shareholders, unless the vote of a greater number or voting by classes is required by law or the Articles of Incorporation of the corporation.

The shareholders present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum, provided that any action taken (other than adjournment) must be approved by at least a majority of the shares required to constitute a quorum.

Section 2.2 Action Without a Meeting. Any action which may be taken at any annual or special meeting of shareholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Notwithstanding the foregoing, directors may not be

elected by written consent except by unanimous written consent of all shares entitled to vote for the election of directors, except as provided by Section 3.4 hereof.

Where the approval of shareholders is given without a meeting by less than unanimous written consent, unless the consents of all shareholders entitled to vote have been solicited in writing, the secretary shall give prompt notice of the corporate action approved by the shareholders without a meeting. In the case of approval of transactions pursuant to Section 310, 317, 1201 or 2007 of California Law, the notice shall be given at least 10 days before the consummation of any action authorized by that approval. Such notice shall be given in the same manner as notice of shareholders' meeting.

Section 2.3 Voting of Shares.

(a) In General. Except as otherwise provided in the Articles of Incorporation and subject to subparagraph (b) hereof, each outstanding share, regardless of class, shall be entitled to one (1) vote on each matter submitted to a vote of shareholders.

(b) Cumulative Voting. At any election of directors, every shareholder complying with this paragraph (b) and entitled to vote may cumulate his or her votes and give one (1) candidate a number of votes equal to the number of directors to be elected multiplied by the number of votes to which the shareholder's shares are entitled, or distribute the shareholder's votes on the same principle among as many candidates as the shareholder thinks fit. No shareholder shall be entitled to cumulate votes (i.e., cast for any one (1) or more candidates a number of votes greater than the number of votes which such shareholder normally is entitled to cast) unless such candidate or candidates' names have been placed in nomination prior to the voting and the shareholder has given notice at the meeting prior to the voting of the shareholder's intention to cumulate the shareholder's votes. If any one (1) shareholder has given such notice, all shareholders may cumulate their votes for candidates in nomination. In any election of directors, the candidates receiving the highest number of affirmative votes up to the number of directors to be elected by such shares are elected; votes against a director and votes withheld shall have no legal effect.

(c) Election by Ballot. Elections for directors need not be by ballot unless a shareholder demands election by ballot at the meeting and before the voting begins.

Section 2.4 Proxies. Every person entitled to vote shares may authorize another person or persons to act by proxy with respect to such shares. No proxy shall be valid after the expiration of 11 months from the date thereof unless otherwise provided in the proxy. Every proxy continues in full force and effect until revoked by the person executing it prior to the vote pursuant thereto, except as otherwise herein provided. Such revocation may be effected by a writing delivered to the corporation stating that the proxy is revoked or by a subsequent proxy executed by the person executing the prior proxy and presented to the meeting, or as to any meeting by attendance at such meeting and voting in person by the person executing the proxy. The dates contained on the forms of proxy presumptively determine the order of execution, regardless of the postmark dates on the envelopes in which they are mailed. A proxy is not revoked by the death or incapacity of the maker unless, before the vote is counted, written notice of such death or incapacity is received by the corporation. The

revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Sections 705(e) and 705(f) of California Law.

Section 2.5 Inspectors of Election.

(a) Appointment. In advance of any meeting of shareholders the Board may appoint inspectors of election to act at the meeting and any adjournment thereof. If inspectors of election are not so appointed, or if any persons so appointed fail to appear or refuse to act, the chairman of any meeting of shareholders may, and on the request of any shareholder or a shareholder's proxy shall, appoint inspectors of election (or persons to replace those who so fail or refuse) at the meeting. The number of inspectors shall be either one (1) or three (3). If appointed at a meeting on the request of one (1) or more shareholders or proxies, the majority of shares represented in person or by proxy shall determine whether one (1) or three (3) inspectors are to be appointed.

(b) Duties. The inspectors of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum and the authenticity, validity and effect of proxies, receive votes, ballots or consents, hear and determine all challenges and questions in any way arising in connection with the right to vote, count and tabulate all votes or consents, determine when the polls shall close, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

Section 2.6 Record Date. In order that the corporation may determine the shareholders entitled to notice of any meeting or to vote or entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days prior to the date of such meeting nor more than 60 days prior to any other action. If no record date is fixed:

(1) The record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

(2) The record date for determining shareholders entitled to give consent to corporate action in writing without a meeting, when no prior action by the Board has been taken, shall be the day on which the first written consent is given.

(3) The record date for determining shareholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto, or the 60th day prior to the date of such other action, whichever is later.

A determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting, but the Board shall fix a new record date if the meeting is adjourned for more than 45 days from the date set for the original meeting.

Shareholders at the close of business on the record date are entitled to notice and to vote or to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the corporation after the record date, except as otherwise provided in the Articles of Incorporation or by agreement or in California Law.

Section 2.7 Share Certificates.

(a) In General. The corporation shall issue a certificate or certificates representing shares of its capital stock. Each certificate so issued shall be signed in the name of the corporation by the chairman or vice chairman of the board or the president or a vice president and by the chief financial officer or an assistant treasurer or the secretary or any assistant secretary, shall state the name of the record owner thereof and shall certify the number of shares and the class or series of shares represented thereby. Any or all of the signatures on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were an officer, transfer agent or registrar at the date of issue.

(b) Two or More Classes or Series. If the shares of the corporation are classified or if any class of shares has two or more series, there shall appear on the certificate one (1) of the following:

(1) A statement of the rights, preferences, privileges, and restrictions granted to or imposed upon the respective classes or series of shares authorized to be issued and upon the holders thereof; or

(2) A summary of such rights, preferences, privileges and restrictions with reference to the provisions of the Articles of Incorporation and any certificates of determination establishing the same; or

(3) A statement setting forth the office or agency of the corporation from which shareholders may obtain upon request and without charge, a copy of the statement referred to in subparagraph (1).

(c) Special Restrictions. There shall also appear on the certificate (unless stated or summarized under subparagraph (1) or (2) of subparagraph (b) above) the statements required by all of the following clauses to the extent applicable:

- (1) The fact that the shares are subject to restrictions upon transfer.
- (2) If the shares are assessable, a statement that they are assessable.

- (3) If the shares are not fully paid, a statement of the total consideration to be paid therefor and the amount paid thereon.
- (4) The fact that the shares are subject to a voting agreement or an irrevocable proxy or restrictions upon voting rights contractually imposed by the corporation.
- (5) The fact that the shares are redeemable.
- (6) The fact that the shares are convertible and the period for conversion.

Section 2.8 Transfer of Certificates. Where a certificate for shares is presented to the corporation or its transfer clerk or transfer agent with a request to register a transfer of shares, the corporation shall register the transfer, cancel the certificate presented, and issue a new certificate if: (a) the security is endorsed by the appropriate person or persons; (b) reasonable assurance is given that those endorsements are genuine and effective; (c) the corporation has no notice of adverse claims or has discharged any duty to inquire into such adverse claims; (d) any applicable law relating to the collection of taxes has been complied with; (e) the transfer is not in violation of any federal or state securities law; and (f) the transfer is in compliance with any applicable agreement governing the transfer of the shares.

Section 2.9 Lost Certificates. Where a certificate has been lost, destroyed or wrongfully taken, the corporation shall issue a new certificate in place of the original if the owner: (a) so requests before the corporation has notice that the certificate has been acquired by a bona fide purchaser; (b) files with the corporation a sufficient indemnity bond, if so requested by the Board of Directors; and (c) satisfies any other reasonable requirements as may be imposed by the Board. Except as above provided, no new certificate for shares shall be issued in lieu of an old certificate unless the corporation is ordered to do so by a court in the judgment in an action brought under Section 419(b) of California Law.

ARTICLE III. DIRECTORS

Section 3.1 Powers. Subject to the provisions of California Law and the Articles of Incorporation, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board of Directors. The Board may delegate the management of the day-to-day operations of the business of the corporation to a management company or other person provided that the business and affairs of the corporation shall be managed and all corporate powers shall be exercised under the ultimate direction of the Board.

Section 3.2 Committees of the Board. The Board may, by resolution adopted by a majority of the authorized number of directors, designate one (1) or more committees, each consisting of two or more directors, to serve at the pleasure of the Board. The Board may designate one (1) or more directors as alternate members of any committee, who may replace any absent member at any meeting of the committee. The appointment of members or alternate members of a committee requires the vote of a majority of the authorized number of directors. Any such committee, to the extent provided in the resolution of the Board, shall have all the authority of the Board, except with respect to:

- (1) The approval of any action which also requires, under California Law, shareholders' approval or approval of the outstanding shares;
- (2) The filling of vacancies on the Board or in any committee.
- (3) The fixing of compensation of the directors for serving on the Board or on any committee.
- (4) The amendment or repeal of bylaws or the adoption of new bylaws.
- (5) The amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable.
- (6) A distribution (within the meaning of California Law) to the shareholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the Board.
- (7) The appointment of other committees of the Board or the members thereof.

Section 3.3 Election and Term of Office. The directors shall be elected at each annual meeting of shareholders but, if any such annual meeting is not held or the directors are not elected thereat, the directors may be elected at any special meeting of shareholders held for that purpose. Each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified.

Section 3.4 Vacancies. Except for a vacancy created by the removal of a director, vacancies on the Board may be filled by approval of the Board or, if the number of directors then in office is less than a quorum, by (a) the unanimous written consent of the directors then in office, (b) the affirmative vote of a majority of the directors then in office at a meeting held pursuant to notice or waivers of notice under California Law, or (c) a sole remaining director. The shareholders may elect a director or directors at any time to fill any vacancy or vacancies not filled by the directors, but any such election by written consent requires the consent of a majority of the outstanding shares entitled to vote.

The Board of Directors shall have the power to declare vacant the office of a director who has been declared of unsound mind by an order of court, or convicted of a felony.

Section 3.5 Removal. Any or all of the directors may be removed without cause if such removal is approved by the vote of a majority of the outstanding shares entitled to vote, except that no director may be removed (unless the entire Board is removed) when the votes cast against removal, or not consenting in writing to such removal, would be sufficient to elect such director if voted cumulatively at an election at which the same total number of votes were cast (or, if such action is taken by written consent, all shares entitled to vote were voted) and the entire number of directors authorized at the time of the director's most recent election were then being elected.

Section 3.6 Resignation. Any director may resign effective upon giving written notice to the chairman of the board, the president, the secretary or the Board of Directors of the corporation, unless the notice specifies a later time for the effectiveness of such resignation. If the resignation is effective at a future time, a successor may be elected to take office when the resignation becomes effective.

Section 3.7 Meetings of the Board of Directors and Committees.

(a) Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place within or without the State as may be designated from time to time by resolution of the Board or by written consent of all members of the Board or in these bylaws.

(b) Organization Meeting. Immediately following each annual meeting of shareholders the Board of Directors shall hold a regular meeting for the purpose of organization, election of officers, and the transaction of other business. Notice of such meetings is hereby dispensed with.

(c) Special Meetings. Special meetings of the Board of Directors for any purpose or purposes may be called at any time by the chairman of the board or the president or, by any vice president or the secretary or any two directors.

(d) Notices; Waivers. Special meetings shall be held upon four (4) days' notice by mail or forty-eight (48) hours' notice delivered personally or by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, telegraph, facsimile, electronic mail, or other electronic means. Notice of a meeting need not be given to any director who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes thereof, whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such director. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

(e) Adjournment. A majority of the directors present, whether or not a quorum is present, may adjourn any meeting to another time and place. If the meeting is adjourned for more than 24 hours, notice of such adjournment to another time and place shall be given prior to the time of the adjourned meeting to the directors who were not present at the time of adjournment.

(f) Place of Meeting. Meetings of the Board may be held at any place within or without the state which has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, then such meeting shall be held at the principal executive office of the corporation, or such other place designated by resolution of the Board.

(g) Presence by Conference Telephone Call. Members of the Board may participate in a meeting through use of conference telephone or similar communications equipment, so long as all members participating in such meeting can hear one another. Such participation constitutes presence in person at such meeting.

(h) Quorum. The presence of not less than one-third (1/3) of the authorized number of directors at a meeting shall constitute a quorum for the transaction of business. Every act or decision done or made by a majority of the directors present at a meeting duly held at which a quorum is present is the act of the Board of Directors, unless a greater number be required by law or by the Articles of Incorporation. A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 3.8 Action Without Meeting. Any action required or permitted to be taken by the Board of Directors, may be taken without a meeting if all members of the Board shall individually or collectively consent in writing to such action. Such written consent or consents shall be filed with the minutes of the proceedings of the Board. Such action by written consent shall have the same force and effect as a unanimous vote of such directors.

Section 3.9 Committee Meetings. The provisions of Sections 3.7 and 3.8 of these bylaws apply also to committees of the Board and action by such committees, mutatis mutandis.

Section 3.10 Loans to Officers. Any loan of money or property to, or guaranty of an obligation of, any officer of the corporation, or any employee benefit plan authorizing any such loan or guarantee, may be approved by the Board alone without counting the vote of any interested director or directors, provided that the Board determines that such loan or guaranty or plan may reasonably be expected to benefit the corporation.

ARTICLE IV. OFFICERS

Section 4.1 Officers. The officers of the corporation shall consist of a chairman of the board or a president, or both, a secretary, a chief financial officer, and such additional officers as may be elected or appointed in accordance with Section 4.3 of these bylaws and as may be necessary to enable the corporation to sign instruments and share certificates. Any number of offices may be held by the same person.

Section 4.2 Elections. All officers of the corporation, except such officers as may be otherwise appointed in accordance with Section 4.3, shall be chosen by the Board of Directors, and shall serve at the pleasure of the Board of Directors, subject to the rights, if any, of an officer under any contract of employment.

Section 4.3 Other Officers. The Board of Directors, the chairman of the board, or the president at their or his discretion, may appoint one (1) or more vice presidents, one (1) or more assistant secretaries, a treasurer, one (1) or more assistant treasurers, or such other officers as the business of the corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as the Board of Directors, the chairman of the board, or the president, as the case may be, may from time to time determine.

Section 4.4 Removal. Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by the Board of Directors, or, except in case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors, without

prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

Section 4.5 Resignation. Any officer may resign at any time by giving written notice to the Board of Directors or to the president, or to the secretary of the corporation without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4.6 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to such office.

Section 4.7 Chairman of the Board. The chairman of the board, if there shall be such an officer, shall, if present, preside at all meetings of the Board of Directors and exercise and perform such other powers and duties as may be from time to time assigned to him by the Board of Directors. If there is no president, the chairman of the board shall in addition be the chief executive officer of the corporation and shall have the powers and duties prescribed in Section 4.8 below.

Section 4.8 President. Subject to the discretion of the Board of Directors to elect or not elect a president and to the supervisory powers of the chief executive officer in the event of such election, the president, if any, will act in a general executive capacity and will assist the chief executive officer in the administration, operation and general supervision of policies and affairs of the corporation. The president will have such other powers and be subject to such other duties as the Board of Directors or the chairman of the Board of Directors or the chief executive officer may from time to time prescribe.

Section 4.9 Vice President. In the absence of the president or in the event of the president's inability or refusal to act, the vice president, or in the event there be more than one (1) vice president, the vice president designated by the Board of Directors, or if no such designation is made, in order of their election, shall perform the duties of president and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. Any vice president shall perform such other duties as from time to time may be assigned to such vice president by the president or the Board of Directors.

Section 4.10 Secretary. The secretary shall keep or cause to be kept the minutes of proceedings and record of shareholders, as provided for and in accordance with Section 5.1(a) of these bylaws.

The secretary shall give, or cause to be given, notice of all meetings of the shareholders and of the Board of Directors required by these bylaws or by law to be given, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors.

Section 4.11 Chief Financial Officer. The chief financial officer shall have general supervision, direction and control of the financial affairs of the corporation and shall have such other powers and duties as may be prescribed by the Board of Directors or these

bylaws. In the absence of a named treasurer, the chief financial officer shall also have the powers and duties of the treasurer as hereinafter set forth and shall be authorized and empowered to sign as treasurer in any case where such officer's signature is required.

Section 4.12 Treasurer. The treasurer shall keep or cause to be kept the books and records of account as provided for and in accordance with Section 5.1(a) of these bylaws. The books of account shall at all reasonable times be open to inspection by any director.

The treasurer shall deposit all moneys and other valuables in the name and to the credit of the corporation with such depositories as may be designated by the Board of Directors. He shall disburse the funds of the corporation as may be ordered by the Board of Directors, shall render to the president and directors, whenever they request it, an account of all of his transactions as treasurer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or these bylaws. In the absence of a named chief financial officer, the treasurer shall be deemed to be the chief financial officer and shall have the powers and duties of such office as hereinabove set forth.

Section 4.13 Chief Executive Officer. Subject to such supervisory powers, if any, as may be given by the Board of Directors to the chairman of the board, if there be such an officer, the chief executive officer shall be the general manager of the corporation and shall, subject to the control of the Board of Directors, have general supervision, direction and control of the business and affairs of the corporation. The chief executive officer shall preside at all meetings of the shareholders and, in the absence of the chairman of the board, or if there be none, at all meetings of the Board of Directors. The chief executive officer shall be ex-officio a member of all the standing committees, including the executive committee, if any, and shall have the general powers and duties of management usually vested in the office of chief executive officer of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or these bylaws.

ARTICLE V. MISCELLANEOUS

Section 5.1 Records and Reports.

(a) Books of Account and Proceedings. The corporation shall keep adequate and correct books and records of account and shall keep minutes of the proceedings of its shareholders, Board and committees of the Board and shall keep at its principal executive office, or at the office of its transfer agent or registrar, a record of its shareholders, giving the names and addresses of all shareholders and the number and class of shares held by each. Such minutes shall be kept in written form. Such other books and records shall be kept either in written form or in any other form capable of being converted into written form.

(b) Annual Report. An annual report to shareholders referred to in Section 1501 of California Law is expressly dispensed with, but nothing herein shall be interpreted as prohibiting the Board of Directors from issuing annual or other periodic reports to the shareholders of the corporation as they consider appropriate.

(c) Shareholders' Requests for Financial Reports. If no annual report for the last fiscal year has been sent to shareholders, the corporation shall, upon the written request of

any shareholder made more than 120 days after the close of that fiscal year, deliver or mail to the person making the request within 30 days thereafter the financial statements for that year required by Section 1501(a) of California Law. Any shareholder or shareholders holding at least five (5) percent of the outstanding shares of any class of the corporation may make a written request to the corporation for an income statement of the corporation for the three-month, six-month or nine-month period of the current fiscal year ended more than 30 days prior to the date of the request and a balance sheet of the corporation as of the end of such period, and the corporation shall deliver or mail the statements to the person making the request within 30 days thereafter. A copy of the statements shall be kept on file in the principal office of the corporation for 12 months and they shall be exhibited at all reasonable times to any shareholder demanding an examination of them or a copy shall be mailed to such shareholder upon demand.

Section 5.2 Rights of Inspection.

(a) By Shareholders.

(1) Record of Shareholders. Any shareholder or shareholders holding at least five (5) percent in the aggregate of the outstanding voting shares of the corporation or who hold at least one (1) percent of such voting shares and have filed a Schedule 14A with the United States Securities and Exchange Commission shall have an absolute right to do either or both of the following: (i) inspect and copy the record of shareholders' names and addresses and shareholdings during usual business hours upon five (5) business days' prior written demand upon the corporation, or (ii) obtain from the transfer agent for the corporation, upon written demand and upon the tender of its usual charges for such a list (the amount of which charges shall be stated to the shareholder by the transfer agent upon request), a list of the shareholders' names and addresses, who are entitled to vote for the election of directors, and their shareholdings, as of the most recent record date for which it has been compiled or as of a date specified by the shareholder subsequent to the date of demand. The list shall be made available on or before the later of five (5) business days after demand is received or the date specified therein as the date as of which the list is to be compiled.

The record of shareholders shall also be open to inspection and copying by any shareholder or holder of a voting trust certificate at any time during usual business hours upon written demand on the corporation, for a purpose reasonably related to such holder's interests as a shareholder or holder of a voting trust certificate.

(2) Corporate Records. The accounting books and records and minutes of proceedings of the shareholders and the Board and committees of the Board shall be open to inspection upon the written demand on the corporation of any shareholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a shareholder or as the holder of such voting trust certificate. This right of inspection shall also extend to the records of any subsidiary of the corporation.

(3) Bylaws. The corporation shall keep at its principal executive office in this state, the original or a copy of its bylaws as amended to date, which shall be open to inspection by the shareholders at all reasonable times during office hours.

(b) By Directors. Every director shall have the absolute right at any reasonable time to inspect and copy all books, records and documents of every kind and to inspect the physical properties of the corporation of which such person is a director and also of its subsidiary corporations, domestic or foreign. Such inspection by a director may be made in person or by agent or attorney and the right of inspection includes the right to copy and make extracts.

Section 5.3 Checks, Drafts, Etc. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board of Directors.

Section 5.4 Representation of Shares of Other Corporations. The chairman of the board, if any, president or any vice president of the corporation, or any other person authorized to do so by the chairman of the board, president or any vice president, is authorized to vote, represent and exercise on behalf of the corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of the corporation. The authority herein granted to said officers to vote or represent on behalf of the corporation any and all shares held by the corporation in any other corporation or corporations may be exercised either by such officers in person or by any other person authorized so to do by proxy or power of attorney duly executed by said officers.

Section 5.5 Indemnification and Insurance.

(a) Right to Indemnification. Each person who was or is made a party to or is threatened to be made a party to or is involuntarily involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "Proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the corporation or is or was serving (during such person's tenure as director or officer) at the request of the corporation, any other corporation, partnership, joint venture, trust or other enterprise in any capacity, whether the basis of a Proceeding is an alleged action in an official capacity as a director or officer or in any other capacity while serving as a director or officer, shall be indemnified and held harmless by the corporation to the fullest extent authorized by California Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the corporation to provide broader indemnification rights than said law permitted the corporation to provide prior to such amendment), against all expenses, liability and loss (including attorneys' fees, judgments, fines, or penalties and amounts to be paid in settlement) reasonably incurred or suffered by such person in connection therewith. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending a Proceeding in advance of its final disposition; provided, however, that, if California Law requires, the payment of such expenses in advance of the final disposition of a Proceeding shall be made only upon receipt by the corporation of an undertaking by or on

behalf of such director or officer to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise. No amendment to or repeal of this Section 5.5 shall apply to or have any effect on any right to indemnification provided hereunder with respect to any acts or omissions occurring prior to such amendment or repeal.

(b) Right of Claimant to Bring Suit. If a claim for indemnity under paragraph (a) of this Section is not paid in full by the corporation within 90 days after a written claim has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall also be entitled to be paid the expense of prosecuting such claim including reasonable attorneys' fees incurred in connection therewith. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending a Proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the corporation) that the claimant has not met the standards of conduct which make it permissible under California Law for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its Board of Directors, independent legal counsel, or its shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in California Law, nor an actual determination by the corporation (including its Board of Directors, independent legal counsel, or its shareholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(c) Non-Exclusivity of Rights. The rights conferred in this Section shall not be exclusive of any other rights which any director, officer, employee or agent may have or hereafter acquire under any statute, provision of the Articles of Incorporation, bylaw, agreement, vote of shareholders or disinterested directors or otherwise, to the extent the additional rights to indemnification are authorized in the Articles of Incorporation of the corporation.

(d) Insurance. In furtherance and not in limitation of the powers conferred by statute:

- (1) the corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the corporation would have the power to indemnify the person against that expense, liability or loss under California Law.
- (2) the corporation may create a trust fund, grant a security interest and/or use other means (including, without limitation, letters of credit, surety bonds and/or other similar arrangements), as well as enter into contracts providing indemnification to the full extent authorized or permitted by law and including as part thereof provisions with respect

to any or all of the foregoing to ensure the payment of such amounts as may become necessary to effect indemnification as provided therein, or elsewhere.

(e) Indemnification of Employees and Agents of the Corporation. The corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, including the right to be paid by the corporation the expenses incurred in defending a Proceeding in advance of its final disposition, to any employee or agent of the corporation to the fullest extent of the provisions of this Section or otherwise with respect to the indemnification and advancement of expenses of directors and officers of the corporation.

Section 5.6 Employee Stock Purchase Plans. The corporation may adopt and carry out a stock purchase plan or agreement or stock option plan or agreement providing for the issue and sale for such consideration as may be fixed of its unissued shares, or of issued shares Acquired or to be acquired, to one (1) or more of the employees or directors of the corporation or of a subsidiary or to a trustee on their behalf and for the payment for such shares in installments or at one (1) time, and may provide for aiding any such persons in paying for such shares by compensation for services rendered, promissory notes or otherwise.

A stock purchase plan or agreement or stock option plan or agreement may include, among other features, the fixing of eligibility for participation therein, the class and price of shares to be issued or sold under the plan or agreement, the number of shares which may be subscribed for, the method of payment therefor, the reservation of title until full payment therefor, the effect of the termination of employment, an option or obligation on the part of the corporation to repurchase the shares upon termination of employment, subject to the provisions of California Law, restrictions upon transfer of the shares and the time limits of and termination of the plan.

Section 5.7 Time Notice Given or Sent. Any reference in these bylaws to the time a notice is given or sent means, unless otherwise expressly provided herein or by law, (a) the time a written notice by mail is deposited in the United States mails, postage prepaid; or (b) the time any other written notice, including facsimile, telegram, or electronic mail message, is personally delivered to the recipient or is delivered to a common carrier for transmission, or actually transmitted by the person giving the notice by electronic means, to the recipient; or (c) the time any oral notice is communicated, in person or by telephone, including a voice messaging system or other system or technology designed to record and communicate messages, or wireless, to the recipient, including the recipient's designated voice mailbox or address on such system, or to a person at the office of the recipient who the person giving the notice has reason to believe will promptly communicate it to the recipient.

Section 5.8 Construction and Definitions. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in California Law shall govern the construction of these bylaws. Without limiting the generality of the foregoing, the masculine gender includes the feminine and neuter, the singular number includes the plural and the plural number includes the singular, and the term "person" includes a corporation as well as a natural person.

ARTICLE VI. AMENDMENTS

Section 6.1 Power of Shareholders. New bylaws may be adopted or these bylaws may be amended or repealed by the vote of shareholders entitled to exercise a majority of the voting power of the corporation or by the written assent of such shareholders, except as otherwise provided by law or by the Articles of Incorporation.

Section 6.2 Power of Directors. Subject to the right of shareholders as provided in Section 6.1 to adopt, amend or repeal bylaws, any bylaw may be adopted, amended or repealed by the Board of Directors other than a bylaw or amendment thereof changing the authorized number of directors, if such number is fixed, or the maximum-minimum limits thereof, if an indefinite number.

THIS IS TO CERTIFY:

That I am the duly elected, qualified and acting Secretary of Williams-Sonoma, Inc. and that the foregoing Amended and Restated Bylaws were adopted as the bylaws of said corporation as of July 7, 2006, by the Board of Directors of said corporation.

Dated as of July 7, 2006.

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

CERTIFICATION

I, W. Howard Lester, certify that:

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

Date: September 8, 2006

By: /s/ W. Howard Lester
W. Howard Lester
Chief Executive Officer

CERTIFICATION

I, Sharon L. McCollam, certify that:

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

Date: September 8, 2006

By: /s/ Sharon L. McCollam

Sharon L. McCollam
Executive Vice President,
Chief Operating and 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 July 30, 2006 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, W. Howard Lester, 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/ W. Howard Lester

W. Howard Lester
Chief Executive Officer

Date: September 8, 2006

**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 July 30, 2006 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, Chief Operating 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 Operating and Chief Financial Officer

Date: September 8, 2006