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 October 30, 2005.

or

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

For the transition period from ________________ to ________________

Commission File Number: 001-14077

WILLIAMS-SONOMA, INC.

(Exact name of registrant as specified in its charter)

California	94-2203880
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3250 Van Ness Avenue, San Francisco, CA	94109
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (415) 421-7900

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark (" ✓ ") whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ✓ No __

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 November 27, 2005, 115,420,587 shares of the registrant's Common Stock were outstanding.

WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED OCTOBER 30, 2005

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

		PAGE
Item 1.	Financial Statements	2
	Condensed Consolidated Balance Sheets as of October 30, 2005, January 30, 2005 and October 31, 2004	
	Condensed Consolidated Statements of Earnings for the Thirteen Weeks and Thirty-Nine Weeks Ended October 30, 2005 and October 31, 2004	
	Condensed Consolidated Statements of Cash Flows for the Thirty-Nine Weeks Ended October 30, 2005 and October 31, 2004	
	Notes to Condensed Consolidated Financial Statements	
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	29
Item 4.	Controls and Procedures	29

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings	30
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 6.	Exhibits	30

ITEM 1. FINANCIAL STATEMENTS

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

Dollars and shares in thousands, except per share amounts	October 30, 2005	January 30, 2005	October 31, 2004
ASSETS			
Current assets			
Cash and cash equivalents	$ 91,811	$ 239,210	$ 88,783
Accounts receivable – net	60,238	42,520	54,794
Merchandise inventories – net	587,415	452,421	497,044
Prepaid catalog expenses	67,492	53,520	65,484
Prepaid expenses	36,510	38,018	28,788
Deferred income taxes	39,051	39,015	17,387
Other assets	6,450	9,061	14,715
Total current assets	888,967	873,765	766,995
Property and equipment – net	879,722	852,412	829,193
Other assets – net	21,186	19,368	21,807
Total assets	$ 1,789,875	$ 1,745,545	$ 1,617,995
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 196,606	$ 173,781	$ 225,238
Accrued salaries, benefits, and other	78,039	86,767	73,293
Customer deposits	168,171	148,535	136,347
Income taxes payable	9,300	72,052	767
Current portion of long-term debt	19,385	23,435	24,148
Other liabilities	18,816	17,587	18,247
Total current liabilities	490,317	522,157	478,040
Deferred rent and lease incentives	221,681	212,193	193,930
Long-term debt	14,750	19,154	19,935
Deferred income tax liabilities	21,152	21,057	8,836
Other long-term obligations	14,685	13,322	11,822
Total liabilities	762,585	787,883	712,563
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: 115,239, 115,372 and 117,037 shares at October 30, 2005, January 30, 2005 and October 31, 2004, respectively	1,152	1,154	1,170
Additional paid-in capital	317,689	286,720	287,304
Retained earnings	701,184	664,619	611,506
Accumulated other comprehensive income	7,265	5,169	5,452
Total shareholders' equity	1,027,290	957,662	905,432
Total liabilities and shareholders' equity	$ 1,789,875	$ 1,745,545	$ 1,617,995

See Notes to Condensed Consolidated Financial Statements.

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

Dollars and shares in thousands, except per share amounts	Thirteen Weeks Ended October 30, 2005	Thirteen Weeks Ended October 31, 2004	Thirty-Nine Weeks Ended October 30, 2005	Thirty-Nine Weeks Ended October 31, 2004
Net revenues	$ 827,623	$ 722,761	$ 2,324,550	$ 2,053,291
Cost of goods sold	501,546	441,547	1,418,716	1,267,173
Gross margin	326,077	281,214	905,834	786,118
Selling, general and administrative expenses	266,727	235,018	753,574	660,189
Interest income	(1,101)	(390)	(3,084)	(908)
Interest expense	493	443	1,462	1,247
Earnings before income taxes	59,958	46,143	153,882	125,590
Income taxes	22,871	17,676	59,800	48,104
Net earnings	$ 37,087	$ 28,467	$ 94,082	$ 77,486
Basic earnings per share	$ 0.32	$ 0.24	$ 0.81	$ 0.67
Diluted earnings per share	$ 0.31	$ 0.24	$ 0.79	$ 0.65
Shares used in calculation of earnings per share:				
Basic	116,070	116,656	115,671	116,157
Diluted	118,900	119,862	118,454	119,345

See Notes to Condensed Consolidated Financial Statements.

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

Dollars in thousands	Thirty-Nine Weeks Ended October 30, 2005	Thirty-Nine Weeks Ended October 31, 2004
Cash flows from operating activities:		
Net earnings	$ 94,082	$ 77,486
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	91,159	81,755
Net loss on disposal of assets	3,494	918
Amortization of deferred lease incentives	(18,131)	(16,552)
Deferred income taxes	117	3,171
Tax benefit from exercise of stock options	12,961	11,993
Other	-	335
Changes in:		
Accounts receivable	(16,025)	(23,152)
Merchandise inventories	(134,651)	(92,507)
Prepaid catalog expenses	(13,972)	(27,019)
Prepaid expenses and other assets	2,763	(18,510)
Accounts payable	22,511	69,193
Accrued salaries, benefits, and other	(6,229)	(3,901)
Customer deposits	19,522	20,064
Deferred rent and lease incentives	24,987	34,156
Income taxes payable	(62,706)	(63,693)
Net cash provided by operating activities	19,882	53,737
Cash flows from investing activities:		
Purchases of property and equipment	(119,357)	(144,828)
Net cash used in investing activities	(119,357)	(144,828)
Cash flows from financing activities:		
Proceeds from bond issuance	-	15,000
Repayments of long-term obligations	(8,454)	(8,295)
Proceeds from exercise of stock options	21,856	23,952
Repurchase of common stock	(61,366)	(14,755)
Credit facility renewal costs	(654)	(208)
Net cash (used in) provided by financing activities	(48,618)	15,694
Effect of exchange rates on cash and cash equivalents	694	270
Net decrease in cash and cash equivalents	(147,399)	(75,127)
Cash and cash equivalents at beginning of period	239,210	163,910
Cash and cash equivalents at end of period	$ 91,811	$ 88,783

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Thirteen and Thirty-Nine Weeks Ended October 30, 2005 and October 31, 2004
(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 October 30, 2005 and October 31, 2004, the condensed consolidated statements of earnings for the thirteen and thirty-nine week periods (“third quarter” and “year-to-date”) ended October 30, 2005 and October 31, 2004, and the condensed consolidated statements of cash flows for the thirty-nine week periods ended October 30, 2005 and October 31, 2004 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 thirty-nine week periods then ended. Significant intercompany transactions and accounts have been eliminated. The balance sheet at January 30, 2005, 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 30, 2005.

The results of operations for the thirteen and thirty-nine weeks ended October 30, 2005 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 30, 2005.

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

NOTE B. ACCOUNTING POLICIES

Stock-Based Compensation

We account for stock options granted to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees.” Accordingly, no compensation expense has been recognized in the consolidated financial statements for stock options with an exercise price equal to the fair value on the date of grant. Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation,” as amended by SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure,” however, requires the disclosure of pro forma net earnings and earnings per share as if we had adopted the fair value method. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models. These models require subjective assumptions, including future stock price volatility and expected time to exercise, which affect the calculated values. Our calculations are based on a single option valuation approach and forfeitures are recognized as they occur.

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.

Dollars in thousands, except per share amounts	Thirteen Weeks Ended October 30, 2005	Thirteen Weeks Ended October 31, 2004	Thirty-Nine Weeks Ended October 30, 2005	Thirty-Nine Weeks Ended October 31, 2004
Net earnings, as reported	$ 37,087	$ 28,467	$ 94,082	$ 77,486
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(4,336)	(4,380)	(12,237)	(12,744)
Pro forma net earnings	$ 32,751	$ 24,087	$ 81,845	$ 64,742
Basic earnings per share				
As reported	$ 0.32	$ 0.24	$ 0.81	$ 0.67
Pro forma	0.28	0.21	0.71	0.56
Diluted earnings per share				
As reported	$ 0.31	$ 0.24	$ 0.79	$ 0.65
Pro forma	0.28	0.20	0.70	0.53

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

	Thirteen Weeks Ended October 30, 2005	Thirteen Weeks Ended October 31, 2004	Thirty-Nine Weeks Ended October 30, 2005	Thirty-Nine Weeks Ended October 31, 2004
Dividend yield	-	-	-	-
Volatility	58.0%	60.6%	59.4%	61.4%
Risk-free interest	4.2%	3.8%	4.2%	3.8%
Expected term (years)	6.5	6.9	6.5	6.9

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 123R, “Share Based Payment.” SFAS No. 123R will require us to measure and record compensation expense in our consolidated financial statements for all employee share-based compensation awards using a fair value method. In addition, the adoption of SFAS No. 123R requires additional accounting and disclosure related to the income tax and cash flow effects resulting from share-based payment arrangements. We expect to adopt this Statement using the modified prospective application transition method beginning in the first quarter of 2006. We are currently in the process of determining the impact of the adoption of this Statement on our consolidated financial statements.

NOTE C. BORROWING ARRANGEMENTS

Credit Facility

As of October 30, 2005, 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 thirty-nine weeks ended October 30, 2005 and October 31, 2004, no amounts were borrowed under the credit facility. However, as of October 30, 2005, $36,073,000 in issued but undrawn standby letters of credit were 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 October 30, 2005, 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 October 30, 2005, an aggregate of $106,132,000 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 October 30, 2005. The latest expiration for the letters of credit issued under the agreements is February 6, 2007.

Senior Notes

On August 8, 2005, we repaid the remaining outstanding balance on our senior notes of $5,716,000.

NOTE D. COMPREHENSIVE INCOME

Comprehensive income for the thirteen and thirty-nine weeks ended October 30, 2005 and October 31, 2004 was as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
Dollars in thousands	October 30, 2005	October 31, 2004	October 30, 2005	October 31, 2004
Net earnings	$ 37,087	$ 28,467	$ 94,082	$ 77,486
Other comprehensive income -				
Foreign currency translation adjustment	1,221	1,917	2,096	2,165
Comprehensive income	$ 38,308	$ 30,384	$ 96,178	$ 79,651

NOTE E. EARNINGS PER SHARE

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

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

Dollars and amounts in thousands, except per share amounts	Net Earnings	Weighted Average Shares	Per-Share Amount
Thirteen weeks ended October 30, 2005			
Basic	$ 37,087	116,070	$ 0.32
Effect of dilutive stock options	-	2,830	
Diluted	$ 37,087	118,900	$ 0.31
Thirteen weeks ended October 31, 2004			
Basic	$ 28,467	116,656	$ 0.24
Effect of dilutive stock options	-	3,206	
Diluted	$ 28,467	119,862	$ 0.24
Thirty-Nine weeks ended October 30, 2005			
Basic	$ 94,082	115,671	$ 0.81
Effect of dilutive stock options	-	2,783	
Diluted	$ 94,082	118,454	$ 0.79
Thirty-Nine weeks ended October 31, 2004			
Basic	$ 77,486	116,157	$ 0.67
Effect of dilutive stock options	-	3,188	
Diluted	$ 77,486	119,345	$ 0.65

Options with an exercise price greater than the average market price of common shares were 264,000 and 113,000 for the thirteen weeks and 1,491,000 and 137,000 for the thirty-nine weeks ended October 30, 2005 and October 31, 2004, respectively, and were not included in the computation of diluted earnings per share, as their inclusion would be anti-dilutive.

NOTE F. LEGAL PROCEEDINGS

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. These disputes, none of which are 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 G. 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). 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, depreciation expense, other occupancy 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

Dollars in thousands	Retail	Direct-to-Customer	Unallocated	Total
Thirteen weeks ended October 30, 2005				
Net revenues[1]	$ 444,674	$ 382,949	-	$ 827,623
Depreciation and amortization expense	20,742	4,341	$ 5,317	30,400
Earnings before income taxes	37,368	61,605	(39,015)	59,958
Capital expenditures	31,515	2,523	8,177	42,215
Thirteen weeks ended October 31, 2004				
Net revenues[1]	$ 394,180	$ 328,581	-	$ 722,761
Depreciation and amortization expense	19,018	3,855	$ 4,658	27,531
Earnings before income taxes	31,610	49,416	(34,883)	46,143
Capital expenditures	38,760	15,213	9,124	63,097
Thirty-Nine weeks ended October 30, 2005				
Net revenues[1]	$1,276,009	$1,048,541	-	$2,324,550
Depreciation and amortization expense	61,497	13,211	$ 16,451	91,159
Earnings before income taxes	115,095	158,875	(120,088)	153,882
Assets[2]	1,046,186	329,082	414,607	1,789,875
Capital expenditures	77,893	16,670	24,794	119,357
Thirty-Nine weeks ended October 31, 2004				
Net revenues[1]	$1,128,131	$ 925,160	-	$2,053,291
Depreciation and amortization expense	56,712	11,456	$ 13,587	81,755
Earnings before income taxes	96,499	140,484	(111,393)	125,590
Assets[2]	951,432	299,286	367,277	1,617,995
Capital expenditures	80,040	35,512	29,276	144,828

[1] Net revenues in the retail channel include $14.9 million and $11.5 million in the third quarter of 2005 and the third quarter of 2004, respectively, and $37.7 million and $31.4 million for year-to-date 2005 and year-to-date 2004, respectively, related to our foreign operations.

[2] Assets in the retail channel include $27.1 million and $22.6 million of long-term assets for year-to-date 2005 and year-to-date 2004, respectively, related to our foreign operations.

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, 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 increasing, refining and expanding catalog circulation, statements related to building our customer databases and expanding the reach of our brands, statements related to introducing new core and seasonal merchandise assortments, 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 repositioning and re-assessing our Hold Everything brand, statements related to the use of our available cash, statements related to our projected capital expenditures, statements related to the replenishment of our inventory levels and the benefits to be derived from our daily store replenishment program, statements related to expanding our holiday assortment, statements related to developing operational disciplines throughout the supply chain, statements related to expanding our warehouse capacity, statements related to developing a "gold standard" for customer service, 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). Based on net revenues in fiscal 2004, retail net revenues accounted for 57.7% of our business and direct-to-customer net revenues accounted for 42.3% of our business. Based on their contribution to our net revenues in fiscal 2004 (representing over 90%), the core brands in both retail and direct-to-customer are: Pottery Barn, which sells contemporary tableware and 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.

During the third quarter of 2005, our net revenues increased 14.5% to $827.6 million from $722.8 million and diluted earnings per share increased by 29.2% to $0.31 per share from the third quarter of 2004.

In our retail channel, net revenues increased 12.8% to $444.7 million, primarily driven by a 10.6% increase in store leased square footage and a comparable store sales increase of 4.4%. Net revenues generated in the Pottery Barn, West Elm, Pottery Barn Kids, and Williams-Sonoma brands were the primary contributors to the year-over-year revenue increase.

In our direct-to-customer channel, net revenues increased 16.5% to $382.9 million, primarily driven by net revenues generated in the Pottery Barn, Pottery Barn Kids, PBteen and Williams-Sonoma Home brands. These increases resulted from increases in both electronic direct marketing and catalog page circulation. During the third quarter, catalog page circulation increased 0.7% despite a 5.3% decrease in actual catalogs circulated. All brands in the direct-to-customer channel delivered positive growth during the quarter, with the exception of the Hold Everything brand.

In our core brands, net revenues increased 11.5% in the third quarter, driven by low double-digit growth in the Pottery Barn and Pottery Barn Kids brands and mid-single digit growth in the Williams-Sonoma brand. Third quarter net revenues in the core brands, however, were negatively impacted by Hurricane Katrina. Prior to Hurricane Katrina, we had five stores operating in the New Orleans area. All five stores resulted in lost revenues. Two of these five stores were severely damaged, which resulted in both property and inventory write-offs during the quarter. As these losses were fully insured, the impact of these write-offs was immaterial to our third quarter 2005 financial results.

In our emerging brands, which include West Elm, PBteen, Williams-Sonoma Home and Hold Everything, third quarter net revenues increased 46.0%, primarily driven by strong performance in West Elm, Williams-Sonoma Home and PBteen. In West Elm, the year-over-year net revenue increase was driven by higher catalog circulation and increased e-commerce initiatives, in addition to incremental revenues from new stores. In Williams-Sonoma Home, the net revenue increase was driven by improved catalog productivity, despite reduced catalog and page circulation, and incremental revenue from the opening of our first three retail stores. In PBteen, the year-over-year net revenue increase was primarily driven by increased electronic direct marketing and improved catalog productivity. New product offerings and an enhanced lifestyle presentation, despite lower catalog and page circulation, drove these increased revenues.

Operationally in the third quarter, we initiated the first phase of in-sourcing in our east coast furniture hub operations and continued to refine our processes to capitalize on the benefits of our daily store replenishment program.

As we look forward to the fourth quarter, we are continuing the following several strategic initiatives in both our core and emerging brands.

In our core brands, we are increasing catalog circulation, increasing our outlet leased square footage to continue to maximize our return on excess inventories, refining our visual merchandising in our Williams-Sonoma retail stores, and implementing new electronic direct marketing and gift card initiatives that we believe will drive increased sales and new customers to the brands.

In our emerging brands, we are focused on building our customer databases and expanding our multi-channel capabilities.

In West Elm, we are opening two additional stores in the fourth quarter and increasing our catalog circulation, electronic direct marketing, and on-line customer acquisition efforts through the remainder of the year.

In Williams-Sonoma Home, we are increasing catalog circulation, promoting the order-placement functionality on the current e-catalog website, and significantly expanding our holiday assortment.

In Hold Everything, which currently represents approximately two percent of our total net revenues, we are approaching the remainder of the year cautiously based on our year-to-date results and are finalizing our assessment of the overall positioning of the Hold Everything brand within our portfolio long-term and alternative strategies for the brand. While we finalize this assessment, we have suspended all new store-opening activities, reduced catalog circulation, reduced existing 2005 and 2006 inventory commitments, and suspended any new inventory commitments.

Operationally in the fourth quarter, we plan to continue to expand warehouse capacity to support higher inventory levels and emerging brands growth, continue to in-source a portion of our east coast furniture hub operations to develop a new "gold standard" for furniture customer service, and continue to identify operational disciplines to reduce returns, replacements and damages, particularly in furniture.

NET REVENUES

Net revenues consist of retail revenues and direct-to-customer revenues. Retail revenues include sales of merchandise to customers at our retail stores and shipping fees. Direct-to-customer revenues include sales of merchandise to customers through catalogs and the Internet, as well as shipping fees. 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 third quarter of 2005 and 2004 and for year-to-date 2005 and 2004.

	Thirteen Weeks Ended				Thirty-Nine Weeks Ended			
Dollars in thousands	October 30, 2005	% Total	October 31, 2004	% Total	October 30, 2005	% Total	October 31, 2004	% Total
Retail revenues	$ 444,674	53.7%	$ 394,180	54.5%	$ 1,276,009	54.9%	$ 1,128,131	54.9%
Direct-to-customer revenues	382,949	46.3%	328,581	45.5%	1,048,541	45.1%	925,160	45.1%
Net revenues	$ 827,623	100.0%	$ 722,761	100.0%	$ 2,324,550	100.0%	$ 2,053,291	100.0%

Net revenues for the third quarter of 2005 increased by $104,862,000, or 14.5%, over the third quarter of 2004. The increase was primarily driven by a year-over-year increase in store leased square footage of 10.6% (including 37 new store openings and the remodeling and expansion of an additional 8 stores) and a comparable store sales increase of 4.4%. The increase was further driven by increased page circulation and the continued strength in our Internet business, primarily due to our expanded efforts associated with our electronic direct marketing initiatives. This increase was partially offset by the temporary closure of 12 stores and the permanent closure of 4 stores, for a net of 29 new store openings.

Net revenues for year-to-date 2005 increased by $271,259,000, or 13.2%, over net revenues for year-to-date 2004. This was primarily due to a year-over-year increase in store leased square footage of 10.6% (including 37 new store openings and the remodeling and expansion of an additional 8 stores) and a comparable store sales increase of 4.3%. The increase was further driven by increased catalog and page circulation (3.7% and 11.7%, respectively) and the strong momentum from our Internet growth initiatives. This increase was partially offset by the temporary closure of 12 stores and the permanent closure of 4 stores, for a net of 29 new store openings.

RETAIL REVENUES AND OTHER DATA

Dollars in thousands	Thirteen Weeks Ended October 30, 2005	Thirteen Weeks Ended October 31, 2004	Thirty-Nine Weeks Ended October 30, 2005	Thirty-Nine Weeks Ended October 31, 2004
Retail revenues	$ 444,674	$ 394,180	$ 1,276,009	$ 1,128,131
Percent growth in retail revenues	12.8%	11.6%	13.1%	13.4%
Percent increase in comparable store sales	4.4%	3.1%	4.3%	4.9%
Number of stores - beginning of period	559	522	552	512
Number of new stores	14	18	24	30
Number of new stores due to remodeling[1]	3	8	8	17
Number of closed stores due to remodeling[1, 2]	(5)	(6)	(12)	(15)
Number of permanently closed stores	-	-	(1)	(2)
Number of stores - end of period	571	542	571	542
Store selling square footage at quarter-end	3,096,000	2,820,000	3,096,000	2,820,000
Store leased square footage ("LSF") at quarter-end	4,967,000	4,489,000	4,967,000	4,489,000

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

[2] Third quarter of 2005 store closing numbers include 2 Williams-Sonoma, 2 Pottery Barn and 1 Pottery Barn Kids temporary store closures in the New Orleans area due to Hurricane Katrina. One Williams-Sonoma store subsequently reopened before the end of the third quarter; the remaining four stores are closed indefinitely.

	Store Count				Store Count	Avg. LSF Per Store	Avg. LSF Per Store
	July 31, 2005	Openings	Closings[1]	October 30, 2005	October 31, 2004	October 30, 2005	October 31, 2004
Williams-Sonoma	254	4	(2)	256	252	5,700	5,600
Pottery Barn	185	5	(2)	188	181	12,000	11,800
Pottery Barn Kids	88	1	(1)	88	85	7,800	7,700
Hold Everything	11	-	-	11	7	6,600	4,400
West Elm	6	4	-	10	3	15,900	14,200
Williams-Sonoma Home	-	3	-	3	-	13,900	-
Outlets	15	-	-	15	14	19,500	14,400
Total	559	17	(5)	571	542	8,700	8,300

[1] Third quarter of 2005 store closing numbers include 2 Williams-Sonoma, 2 Pottery Barn and 1 Pottery Barn Kids temporary store closures in the New Orleans area due to Hurricane Katrina. One Williams-Sonoma store subsequently reopened before the end of the third quarter; the remaining four stores are closed indefinitely.

Retail revenues in the third quarter of 2005 increased by $50,494,000, or 12.8%, over the third quarter of 2004. The increase was primarily driven by a year-over-year increase in store leased square footage of 10.6% (including 37 new store openings and the remodeling and expansion of an additional 8 stores) and a comparable store sales increase of 4.4%. This increase was partially offset by the temporary closure of 12 stores and the permanent closure of 4 stores, for a net of 29 new store openings. Net revenues generated in the Pottery Barn, West Elm, Pottery Barn Kids, and Williams-Sonoma brands were the primary contributors to the year-over-year revenue increase. Pottery Barn and Pottery Barn Kids accounted for 50.5% of the growth in retail revenues during the third quarter of 2005 over the third quarter of 2004.

Retail revenues for year-to-date 2005 increased $147,878,000, or 13.1%, over year-to-date 2004. The increase was primarily driven by a year-over-year increase in store leased square footage of 10.6% (including 37 new store openings and the remodeling and expansion of an additional 8 stores) and a comparable store sales increase of 4.3%. This increase was partially offset by the temporary closure of 12 stores and the permanent closure of 4 stores, for a net of 29 new store openings. Net revenues generated in the Pottery Barn, West Elm, Pottery Barn Kids, and Williams-Sonoma brands were the primary contributors to the year-over-year revenue increase.

Pottery Barn and Pottery Barn Kids accounted for 55.6% of the growth in retail revenues during year-to-date 2005 over year-to-date 2004.

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 third quarter of 2005 and year-to-date 2005, our total comparable store sales excluded the West Elm concept, which had only one store operating for more than one year. No stores were excluded for the third quarter of 2004 and year-to-date 2004. 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 expansions and closings. Percentages represent changes in comparable store sales versus the same period in the prior year.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
Percent increase (decrease) in comparable store sales	October 30, 2005	October 31, 2004	October 30, 2005	October 31, 2004
Williams-Sonoma	1.3%	(4.2%)	0.2%	(0.8%)
Pottery Barn	5.5%	5.7%	5.7%	8.6%
Pottery Barn Kids	3.8%	5.6%	5.8%	2.2%
Hold Everything	(7.4%)	4.0%	(13.7%)	5.8%
Outlets	16.0%	19.6%	16.0%	17.2%
Total	4.4%	3.1%	4.3%	4.9%

Various factors affect comparable store sales, including the number, size and location of stores we open, close and 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, and the cannibalization of existing store sales by new stores. 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		Thirty-Nine Weeks Ended	
Dollars in thousands	October 30, 2005	October 31, 2004	October 30, 2005	October 31, 2004
Catalog revenues[1]	$ 185,447	$ 189,643	$ 524,743	$ 542,598
Internet revenues[1]	197,502	138,938	523,798	382,562
Total direct-to-customer revenues[1]	$ 382,949	$ 328,581	$ 1,048,541	$ 925,160
Percent growth in direct-to-customer revenues	16.5%	17.5%	13.3%	22.5%
Percent growth in number of catalogs circulated	(5.3%)	10.3%	3.7%	19.4%
Percent growth in number of pages circulated	0.7%	15.0%	11.7%	25.3%

[1] *Approximately 60% of our company-wide non-gift registry Internet revenues are catalog driven and approximately 40% are incremental to the direct-to-customer channel.*

Direct-to-customer net revenues in the third quarter of 2005 increased by $54,368,000 or 16.5%, over the third quarter of 2004. This increase was primarily driven by net revenues generated in the Pottery Barn, Pottery Barn Kids, PBteen and Williams-Sonoma Home brands, resulting from increased page circulation and our expanded efforts associated with our electronic direct marketing initiatives. All brands in the direct-to-customer channel delivered positive growth during the quarter, with the exception of the Hold Everything brand.

Direct-to-customer net revenues for year-to-date 2005 increased $123,381,000, or 13.3%, over year-to-date 2004. This increase was primarily driven by net revenues generated in the Pottery Barn, West Elm, Pottery Barn Kids and Williams-Sonoma Home brands, resulting from increased catalog and page circulation and the positive response to our on-line marketing initiatives. All of the brands in the direct-to-customer channel delivered positive growth during year-to-date 2005, with the exception of the Hold Everything brand.

COST OF GOODS SOLD

	Thirteen Weeks Ended				Thirty-Nine Weeks Ended			
Dollars in thousands	October 30, 2005	% Net Revenues	October 31, 2004	% Net Revenues	October 30, 2005	% Net Revenues	October 31, 2004	% Net Revenues
Cost of goods sold	$ 501,546	60.6%	$ 441,547	61.1%	$ 1,418,716	61.0%	$ 1,267,173	61.7%

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.

Third Quarter of 2005 vs. Third Quarter of 2004

Cost of goods sold increased by $59,999,000, or 13.6%, in the third quarter of 2005 compared to the third quarter of 2004. As a percentage of net revenues, however, cost of goods sold decreased 50 basis points in the third quarter of 2005 from the third quarter of 2004, primarily driven by expense reductions in customer shipping costs and sales leverage in fixed occupancy expenses, partially offset by rate increases in merchandise cost of goods sold. The improvement in customer shipping costs in the third quarter of 2005 was primarily driven by cost benefits derived from the third quarter of 2004 opening of the east coast distribution center and the fourth quarter of 2004 in-sourcing of our furniture line-haul management operations, partially offset by increased fuel surcharges. The rate increase in merchandise cost of goods sold was primarily due to a furniture-driven rate increase in merchandise cost of goods sold and increased transportation costs associated with the 2005 daily store replenishment program.

In the retail channel, cost of goods sold as a percentage of retail net revenues decreased 40 basis points in the third quarter of 2005 compared to the third quarter of 2004 resulting from sales leverage in fixed occupancy expenses. Although merchandise cost of goods sold as a percentage of retail net revenues remained relatively flat

compared to the third quarter of 2004, merchandise cost of goods sold increased due to higher transportation costs associated with the 2005 daily store replenishment program, partially offset by a rate decrease in cost of merchandise.

In the direct-to-customer channel, cost of goods sold as a percentage of direct-to-customer net revenues decreased 70 basis points in the third quarter of 2005 compared to the third quarter of 2004. This decrease was primarily driven by expense reductions in customer shipping costs, partially offset by rate increases in merchandise cost of goods sold and occupancy expenses. The improvement in customer shipping costs was primarily driven by cost benefits derived from the third quarter of 2004 opening of the east coast distribution center and the fourth quarter of 2004 in-sourcing of our furniture line-haul management operations, partially offset by increased fuel surcharges. The rate increase in merchandise cost of goods sold was primarily due to a furniture-driven rate increase in merchandise cost of goods sold. The rate increase in occupancy expenses was primarily a function of higher distribution occupancy expenses resulting from increased distribution leased square footage versus the third quarter of 2004.

Year-to-Date 2005 vs. Year-to-Date 2004

Cost of goods sold for year-to-date 2005 increased by $151,543,000, or 12.0%, over year-to-date 2004. As a percentage of net revenues, however, cost of goods sold decreased 70 basis points for year-to-date 2005 from year-to-date 2004. This percentage decrease was primarily driven by expense reductions in customer shipping costs and sales leverage in fixed occupancy expenses, partially offset by rate increases in merchandise cost of goods sold. The improvement in customer shipping costs was primarily driven by cost benefits derived from the third quarter of 2004 opening of the east coast distribution center and the fourth quarter of 2004 in-sourcing of our furniture line-haul management operations, partially offset by increased fuel surcharges. The rate increase in merchandise cost of goods sold was primarily due to a furniture-driven rate increase in merchandise cost of goods sold, as well as increased markdowns and other inventory-related costs associated with the merchandising transition in the Hold Everything brand, in addition to increased transportation costs associated with the 2005 daily store replenishment program.

In the retail channel, cost of goods sold as a percentage of retail net revenues decreased 70 basis points for year-to-date 2005 compared to year-to-date 2004 resulting from sales leverage in fixed occupancy expenses. Although merchandise cost of goods sold as a percentage of retail net revenues remained relatively flat compared to the third quarter of 2004, in merchandise cost of goods sold, we saw a rate decrease in cost of merchandise primarily due to better margins in the Williams-Sonoma brand, partially offset by increased markdowns and other inventory-related costs associated with the merchandising transition in the Hold Everything brand. This increase in merchandise cost of goods sold was offset by increased transportation costs associated with the 2005 daily store replenishment program.

In the direct-to-customer channel, cost of goods sold as a percentage of direct-to-customer net revenues decreased 100 basis points for year-to-date 2005 compared to year-to-date 2004. This percentage decrease was primarily driven by expense reductions in customer shipping costs, partially offset by rate increases in merchandise cost of goods sold and occupancy expenses. The improvement in customer shipping costs was primarily driven by cost benefits derived from the third quarter of 2004 opening of the east coast distribution center and the fourth quarter of 2004 in-sourcing of our furniture line-haul management operations, partially offset by increased fuel surcharges. The rate increase in merchandise cost of goods sold was primarily due to a furniture-driven rate increase in merchandise cost of goods sold, as well as increased markdowns and other inventory-related costs associated with the merchandising transition in the Hold Everything brand. The rate increase in occupancy expenses was primarily a function of higher distribution occupancy expenses resulting from increased distribution leased square footage versus year-to-date 2004.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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.

Third Quarter of 2005 vs. Third Quarter of 2004

Selling, general and administrative expenses increased by $31,709,000, or 13.5%, in the third quarter of 2005 compared to the third quarter of 2004. As a percentage of net revenues, selling, general and administrative expenses decreased 30 basis points in the third quarter of 2005 from the third quarter of 2004, primarily driven by sales leverage in employment costs, partially offset by higher catalog advertising expenses. Increased paper costs across all brands drove the majority of the catalog advertising expense increase.

In the retail channel, selling, general and administrative expenses as a percentage of retail net revenues remained flat in the third quarter of 2005 compared to the third quarter of 2004.

In the direct-to-customer channel, selling, general and administrative expenses as a percentage of direct-to-customer net revenues decreased 30 basis points in the third quarter of 2005 compared to the third quarter of 2004. This decrease was primarily driven by sales leverage in employment costs, partially offset by increases in other general expenses.

Year-to-Date 2005 vs. Year-to-Date 2004

Selling, general and administrative expenses for year-to-date 2005 increased by $93,385,000, or 14.1%, over year-to-date 2004. As a percentage of net revenues, selling, general and administrative expenses increased 20 basis points for year-to-date 2005 from year-to-date 2004. This percentage increase was primarily driven by higher catalog advertising expenses and other general expenses, partially offset by sales leverage in employment costs. Increased paper costs, in addition to higher costs associated with increased catalog and page circulation, drove the majority of the catalog advertising expense increase.

In the retail channel, selling, general and administrative expenses as a percentage of retail net revenues increased 20 basis points for year-to-date 2005 compared to year-to-date 2004. This percentage increase was primarily driven by higher catalog advertising and other general expenses. Increased paper costs, in addition to higher costs associated with increased catalog and page circulation, drove the majority of the catalog advertising expense increase.

In the direct-to-customer channel, selling, general and administrative expenses as a percentage of direct-to-customer net revenues increased 100 basis points for year-to-date 2005 compared to year-to-date 2004. This increase was primarily driven by higher catalog advertising expenses. Increased paper costs, in addition to higher costs associated with increased catalog and page circulation, drove the majority of the catalog advertising expense increase.

INTEREST INCOME

Interest income was $1,101,000 in the third quarter of 2005, compared to $390,000 in the third quarter of 2004 and is comprised primarily of income from short-term investments classified as cash and cash equivalents. The increase in interest income during the third quarter of 2005 resulted from an increase in the interest rates associated with these short-term investments as well as higher cash balances during the third quarter of 2005 compared to the third quarter of 2004.

For year-to-date 2005, interest income was $3,084,000 compared to $908,000 for year-to-date 2004. The increase in interest income during year-to-date 2005 resulted from higher cash balances, as well as an increase in the interest rates associated with these short-term investments.

INCOME TAXES

Our effective tax rate was 38.2% for the third quarter of 2005 and 38.3% for the third quarter of 2004.

Our effective tax rate was 38.9% for year-to-date 2005 and 38.3% for year-to-date 2004. Our year-to-date 2005 tax rate increased primarily due to an increase in reserves for potential state income tax exposure. We expect our effective tax rate to be in the range of 38.8% to 38.9% for fiscal 2005.

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 October 30, 2005, we held $91,811,000 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 2005, we plan to utilize our cash resources to fund our inventory and inventory related purchases, catalog advertising and marketing initiatives, and to support current store development and infrastructure strategies. 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 2005 or year-to-date 2004. However, as of October 30, 2005, $36,073,000 in issued but undrawn standby letters of credit were 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 following twelve-month period.

For year-to-date 2005, net cash provided by operating activities was $19,882,000 compared to net cash provided by operating activities of $53,737,000 for year-to-date 2004. Net cash provided by operating activities for year-to-date 2005 was less than year-to-date 2004 primarily as a result of an increase in merchandise inventories due to the reinstatement of our core inventory levels, particularly in furniture, and to build inventory levels both for the opening of 29 net new stores (since year-to-date 2004) and in preparation for our fourth quarter holiday sales. This increase in merchandise inventories was partially offset by an increase in deferred rent and lease incentives, accounts payable and customer deposits.

For year-to-date 2005, net cash used in investing activities for the purchase of property and equipment was $119,357,000 compared to net cash used in investing activities of $144,828,000 for year-to-date 2004. For year-to-date 2005, purchases of property and equipment was comprised of $72,818,000 for stores, $29,567,000 for systems development projects (including e-commerce websites) and $16,972,000 for distribution and facility infrastructure projects.

In fiscal 2005, we anticipate investing $150,000,000 to $170,000,000 in the purchase of property and equipment, primarily for the construction of 30 new stores and 8 remodeled stores, systems development projects (including e-commerce websites), and distribution and facility infrastructure projects.

For year-to-date 2005, net cash used in financing activities was $48,618,000 compared to net cash provided by financing activities of $15,694,000 for year-to-date 2004. Net cash used in financing activities was primarily due to the repurchase of our common stock, offset by the proceeds from the exercise of stock options.

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. There have been no significant changes to the policies as discussed in our Annual Report on Form 10-K for the year ended January 30, 2005.

Stock Repurchase Program

In May 2004, our Board of Directors authorized the repurchase of up to 2,500,000 shares of our outstanding common stock. During fiscal 2004, we repurchased and retired 2,057,700 shares of our common stock under this program at a weighted average cost of $35.22 per share. During the first quarter of 2005, we repurchased and retired an additional 365,700 shares at a weighted average cost of $33.87 per share and a total cost of approximately $12,387,000. In May 2005, our Board of Directors authorized the repurchase of up to an additional 2,000,000 shares of our outstanding common stock. No shares were repurchased during the second quarter of 2005. During the third quarter of 2005, we repurchased and retired 1,275,800 shares at a weighted average cost of $38.39 per share and a total cost of approximately $48,978,000. As of October 30, 2005, the aggregate remaining authorized number of shares eligible for repurchase was 800,800 shares. The following table summarizes our repurchases of shares of our common stock during the third quarter of 2005:

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 the Plan
August 1, 2005 – August 28, 2005	50,000	$40.15	50,000	2,026,600
August 29, 2005 – September 25, 2005	1,158,400	$38.40	1,158,400	868,200
September 26, 2005 – October 30, 2005	67,400	$36.92	67,400	800,800
Total	1,275,800	$38.39	1,275,800	800,800

Stock repurchases 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.

Impact of Inflation

The impact of inflation on results of operations was not significant for year-to-date 2005 or year-to-date 2004.

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.

RISK FACTORS

The following information describes certain significant risks and uncertainties inherent in our business. 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 30, 2005 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 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, each 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, well in advance of the applicable selling season and frequently before trends are known. The extended lead times for many of our purchases may make it difficult for us to respond rapidly to new or changing trends. 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 generally. 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 recent natural disaster caused by Hurricane Katrina will likely continue to affect consumer spending in the vicinity of the disaster and could continue to affect consumer spending in the U.S. as a whole.

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; and
- developing innovative, high-quality products in colors and styles that appeal to consumers of varying age groups and tastes, and in ways that favorably distinguish us from our competitors.

In light of the many competitive challenges facing us, 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 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 products.

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 2004, we sourced our products from manufacturers in 38 countries outside of the United States. Approximately 62% 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 results in higher costs to us for those goods that we source from mainland China. Although substantially all 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, against home-centered items could increase the cost or reduce the supply of merchandise available to us and adversely affect our business, financial condition and operating results. Furthermore, some or all of our foreign vendors' operations may be adversely affected by political and financial instability resulting in the disruption of trade from exporting countries, restrictions on the transfer of funds and/or other trade disruptions.

In addition, although we 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, approximately 60% of our net revenues have been generated by our retail stores. During 2004, we opened 43 new and 17 remodeled retail stores as part of our growth strategy. The growth of our sales and profits depend, in large part, on our ability to successfully open new 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. 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, natural disasters or adverse weather conditions. These problems could result in a reduction in sales as well as increased selling, general and administrative expenses.

In addition, we face the risk that we cannot hire enough qualified employees, especially during our peak season, to support our direct-to-customer operations, due to 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 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, fire, floods, power loss, telecommunications failures, computer viruses, and similar events. If any of these events results 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 and expand in any period, the general retail sales environment, 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, and the cannibalization of existing store sales by new stores. 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 may cause our comparable store sales results to differ materially from prior periods and from earnings guidance we have provided. For example, the recent natural disaster caused by Hurricane Katrina resulted in five store closures, with four stores remaining closed indefinitely, and will likely lead to reduced customer traffic in certain other stores.

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 2004, 2003 and 2002 were 3.5%, 4.0% and 2.7%, 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 more effective pricing strategies. Any failure to meet the comparable store sales expectations of investors and security analysts in one or more future periods could significantly reduce the market price of our common stock.

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

Postal rate increases, 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, such as discounts for bulk mailings and sorting by zip code and carrier routes. Our cost of paper has fluctuated significantly during the past three fiscal years, and our paper costs are expected to increase in the future. Although we have entered into a long-term contract for catalog printing, this contract offers no assurance that our catalog production costs will not substantially increase following its expiration. Future increases in postal rates or paper or printing costs would have a negative impact on our operating results to the extent that we are unable to pass such increases on directly to customers or offset such increases by raising prices or by implementing more efficient printing, mailing, delivery and order fulfillment systems.

We have historically experienced fluctuations in customer response to our catalogs. Customer response to our catalogs is substantially dependent on merchandise assortment, merchandise availability and creative presentation, as well as the sizing and timing of delivery of the catalogs. 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 could also be affected by postal service delays. For example, the recent natural disaster caused by Hurricane Katrina created domestic ground and rail transportation capacity constraints that have 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, 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 may 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. 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 repositioned our Hold Everything brand, and may introduce new brands and brand extensions, or reposition existing brands, in the future. 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. 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 might have a negative impact on our business.

Insurance costs continue to be volatile, 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 or terrorist attacks, we might determine that we cannot obtain commercial insurance at acceptable prices. Therefore, we might choose to forego or limit our purchase of relevant commercial insurance, choosing instead to self-insure one or more types or levels of risks. If we suffer a substantial loss that is not covered by commercial insurance, the loss and attendant expenses could harm our business and operating results.

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

Our trademarks, service marks, copyrights, patents, trade dress rights, trade secrets, domain names and other intellectual property are valuable assets that are critical to our success. The unauthorized reproduction or other misappropriation of our intellectual property could diminish the value of our brands or goodwill and cause a decline in our sales. 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, which would harm our business and operating results. 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 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 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 error 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. On December 16, 2004, the FASB adopted Statement 123R, "Share Based Payment," which will require us, starting in the first quarter of 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. 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 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 twenty years into the future. If these estimates or projections change or prove incorrect, we may be 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 may experience fluctuations in our tax obligations and effective tax rate.

We are subject to income taxes in many domestic and foreign 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 ongoing 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.

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 40 basis points (an approximate 10% increase in the associated variable rates as of October 30, 2005), 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 7% of our international purchase transactions are in currencies other than the U.S. dollar. As of October 30, 2005, any currency risks related to these transactions were not significant to us. A decline in the relative value of the U.S. dollar to other foreign currencies could, however, lead to increased purchasing costs.

As of October 30, 2005, we have 14 retail stores in Canada, which expose us to market risk associated with foreign currency exchange rate fluctuations. In prior years, we have utilized 30-day foreign currency contracts to minimize any currency remeasurement risk associated with intercompany assets and liabilities of our Canadian subsidiary. These contracts are accounted for by adjusting the carrying amount of the contract to market and recognizing any gain or loss in selling, general and administrative expenses in each reporting period. We did not enter into any new foreign currency contracts during year-to-date 2005 and year-to-date 2004. Any gain or loss associated with these contracts in prior years was not material to us.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer (“CEO”) and our Executive Vice President, Chief Financial Officer (“CFO”), the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end

of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our CEO and our CFO have 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 principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

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

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. These disputes, none of which are 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.

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 6. EXHIBITS

(a) Exhibits

Exhibit Number	Exhibit Description
10.1	Amendment No. 1 dated September 9, 2005 to Reimbursement Agreement between Williams-Sonoma, Inc. and Bank of America, N.A. dated July 1, 2005
10.2	Amendment No. 1 dated September 9, 2005 to Reimbursement Agreement between Williams-Sonoma, Inc. and The Bank of New York dated July 1, 2005
10.3	Amendment No. 1 dated September 9, 2005 to Reimbursement Agreement between Williams-Sonoma, Inc. and Wells Fargo Bank, N.A. dated July 1, 2005
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 hereunto duly authorized.

WILLIAMS-SONOMA, INC.

By: /s/ Sharon L. McCollam

Sharon L. McCollam
Executive Vice President,
Chief Financial Officer

Date: December 6, 2005

EXHIBIT 10.1

FIRST AMENDMENT

THIS FIRST AMENDMENT dated as of September 9, 2005 (this "Amendment") amends the Reimbursement Agreement dated as of July 1, 2005 (the "Reimbursement Agreement") between Williams-Sonoma, Inc. (the "Parent") and Bank of America, N.A. (the "Bank"). Capitalized terms used but not defined herein have the respective meanings given to them in the Reimbursement Agreement.

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

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

NOW, THEREFORE, the parties hereto agree as follows:

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

(a) The definition of "Maturity Date" is amended in its entirety to read as follows:

"Maturity Date" means September 9, 2006.

(b) The references to "$90,000,000" in Recital A and Section 2.1 of the Reimbursement Agreement are replaced with "$70,000,000".

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

(a) each warranty set forth in Article 6 of the Reimbursement Agreement, as amended hereby, is true and correct in all material respects as of the date of the execution and delivery of this Amendment by the Parent, with the same effect as if made on such date, except to the extent any such warranty relates specifically to another date (in which case it was true and correct in all material respects as of such other date);

(b) no Default exists; and

(c) there has not occurred a material adverse change since January 30, 2005 in the business, assets, liabilities (actual or contingent), operations, condition (financial or otherwise), or prospects of the Parent (individually) or the Parent and its Subsidiaries (taken as a whole).

SECTION 3 Effectiveness. The amendments set forth herein shall become effective when the Bank has received the following:

(a) a counterpart of this Amendment executed by the Parent;

(b) a Confirmation, substantially in the form of Exhibit A, executed by each Subsidiary Guarantor;

(c) evidence that the Parent has paid all accrued and invoiced Attorney Costs of the Bank in connection with this Amendment; and

(d) such other documents as the Bank may reasonably request.

SECTION 4 Miscellaneous.

4.1 Continuing Effectiveness, etc. As amended hereby, the Reimbursement Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the effectiveness of this Amendment, all references in the Reimbursement Agreement and the other Transaction Documents to "Reimbursement Agreement" or similar terms shall refer to the Reimbursement Agreement as amended hereby.

4.2 Counterparts. This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.

4.3 Governing Law. This Amendment shall be a contract made under and governed by the laws of the State of New York applicable to contracts made and to be performed entirely within such state.

4.4 Successors and Assigns. This Amendment shall be binding upon the Parent and the Bank and their respective successors and assigns, and shall inure to the benefit of the Parent and the Bank and the successors and assigns of the Bank.

Delivered as of the day and year first above written.

WILLIAMS-SONOMA, INC.

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

BANK OF AMERICA, N.A.

By: /s/ Ronald J. Drobny
Name: Ronald J. Drobny
Title: Senior Vice President

EXHIBIT A
FORM OF CONFIRMATION

Dated as of September 9, 2005

To: Bank of America, N.A.

Please refer to (a) the Reimbursement Agreement (the "Reimbursement Agreement") dated as of July 1, 2005 between Williams-Sonoma, Inc. (the "Parent") and Bank of America, N.A. (the "Bank"), (b) the Guaranty Agreement dated as of July 1, 2005 executed by the undersigned (the "Subsidiary Guaranty") and (c) the First Amendment dated as of the date hereof to the Reimbursement Agreement (the "First Amendment").

Each of the undersigned hereby confirms to the Bank that, after giving effect to the First Amendment and the transactions contemplated thereby, the Subsidiary Guaranty continues in full force and effect and is the legal, valid and binding obligation of such undersigned, enforceable against such undersigned in accordance with its terms, except as limited by bankruptcy, insolvency, or other laws of general application relating to the enforcement of creditors' rights and general principles of equity.

WILLIAMS-SONOMA STORES, INC.
WILLIAMS-SONOMA DIRECT, INC.
WILLIAMS-SONOMA RETAIL SERVICES, INC.
POTTERY BARN, INC.
POTTERY BARN KIDS, INC.
POTTERY BARN TEEN, INC.
WILLIAMS-SONOMA HOME, INC.
HOLD EVERYTHING, INC.
WILLIAMS-SONOMA PUBLISHING, INC.
WEST ELM, INC.
WILLIAMS-SONOMA GIFT MANAGEMENT, INC.

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

WILLIAMS-SONOMA STORES, LLC

By: WILLIAMS-SONOMA STORES, INC.
Its: Sole Member

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

EXHIBIT 10.2

FIRST AMENDMENT

THIS FIRST AMENDMENT dated as of September 9, 2005 (this "Amendment") amends the Reimbursement Agreement dated as of July 1, 2005 (the "Reimbursement Agreement") between Williams-Sonoma, Inc. (the "Parent") and The Bank of New York (the "Bank"). Capitalized terms used but not defined herein have the respective meanings given to them in the Reimbursement Agreement.

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

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

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1 Amendment. Subject to the satisfaction of the conditions precedent set forth in Section 3, the definition of "Maturity Date" is amended in its entirety to read as follows:

"Maturity Date" means September 9, 2006.

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

(a) each warranty set forth in Article 6 of the Reimbursement Agreement, as amended hereby, is true and correct in all material respects as of the date of the execution and delivery of this Amendment by the Parent, with the same effect as if made on such date, except to the extent any such warranty relates specifically to another date (in which case it was true and correct in all material respects as of such other date);

(b) no Default exists; and

(c) there has not occurred a material adverse change since January 30, 2005 in the business, assets, liabilities (actual or contingent), operations, condition (financial or otherwise), or prospects of the Parent (individually) or the Parent and its Subsidiaries (taken as a whole).

SECTION 3 Effectiveness. The amendment set forth herein shall become effective when the Bank has received the following:

(a) a counterpart of this Amendment executed by the Parent;

(b) a Confirmation, substantially in the form of Exhibit A, executed by each Subsidiary Guarantor;

(c) evidence that the Parent has paid all accrued and invoiced Attorney Costs of the Bank in connection with this Amendment; and

(d) such other documents as the Bank may reasonably request.

SECTION 4 Miscellaneous.

4.1 Continuing Effectiveness, etc. As amended hereby, the Reimbursement Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the effectiveness of this Amendment, all references in the Reimbursement Agreement and the other Transaction Documents to "Reimbursement Agreement" or similar terms shall refer to the Reimbursement Agreement as amended hereby.

4.2 Counterparts. This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.

4.3 Governing Law. This Amendment shall be a contract made under and governed by the laws of the State of New York applicable to contracts made and to be performed entirely within such state.

4.4 Successors and Assigns. This Amendment shall be binding upon the Parent and the Bank and their respective successors and assigns, and shall inure to the benefit of the Parent and the Bank and the successors and assigns of the Bank.

Delivered as of the day and year first above written.

WILLIAMS-SONOMA, INC.

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

THE BANK OF NEW YORK

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

EXHIBIT A
FORM OF CONFIRMATION

Dated as of September 9, 2005

To: The Bank of New York

Please refer to (a) the Reimbursement Agreement (the "Reimbursement Agreement") dated as of July 1, 2005 between Williams-Sonoma, Inc. (the "Parent") and The Bank of New York (the "Bank"), (b) the Guaranty Agreement dated as of July 1, 2005 executed by the undersigned (the "Subsidiary Guaranty") and (c) the First Amendment dated as of the date hereof to the Reimbursement Agreement (the "First Amendment").

Each of the undersigned hereby confirms to the Bank that, after giving effect to the First Amendment and the transactions contemplated thereby, the Subsidiary Guaranty continues in full force and effect and is the legal, valid and binding obligation of such undersigned, enforceable against such undersigned in accordance with its terms, except as limited by bankruptcy, insolvency, or other laws of general application relating to the enforcement of creditors' rights and general principles of equity.

WILLIAMS-SONOMA STORES, INC.
WILLIAMS-SONOMA DIRECT, INC.
WILLIAMS-SONOMA RETAIL SERVICES, INC.
POTTERY BARN, INC.
POTTERY BARN KIDS, INC.
POTTERY BARN TEEN, INC.
WILLIAMS-SONOMA HOME, INC.
HOLD EVERYTHING, INC.
WILLIAMS-SONOMA PUBLISHING, INC.
WEST ELM, INC.
WILLIAMS-SONOMA GIFT MANAGEMENT, INC.

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

WILLIAMS-SONOMA STORES, LLC

By: WILLIAMS-SONOMA STORES, INC.
Its: Sole Member

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

EXHIBIT 10.3

FIRST AMENDMENT

THIS FIRST AMENDMENT dated as of September 9, 2005 (this "Amendment") amends the Reimbursement Agreement dated as of July 1, 2005 (the "Reimbursement Agreement") between Williams-Sonoma, Inc. (the "Parent") and Wells Fargo Bank, N.A. (the "Bank"). Capitalized terms used but not defined herein have the respective meanings given to them in the Reimbursement Agreement.

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

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

NOW, THEREFORE, the parties hereto agree as follows:

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

(a) The definition of "Maturity Date" is amended in its entirety to read as follows:

"Maturity Date" means September 9, 2006.

(b) The references to "$20,000,000" in Recital A and Section 2.1 of the Reimbursement Agreement are replaced with "$40,000,000".

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

(a) each warranty set forth in Article 6 of the Reimbursement Agreement, as amended hereby, is true and correct in all material respects as of the date of the execution and delivery of this Amendment by the Parent, with the same effect as if made on such date, except to the extent any such warranty relates specifically to another date (in which case it was true and correct in all material respects as of such other date);

(b) no Default exists; and

(c) there has not occurred a material adverse change since January 30, 2005 in the business, assets, liabilities (actual or contingent), operations, condition (financial or otherwise), or prospects of the Parent (individually) or the Parent and its Subsidiaries (taken as a whole).

SECTION 3 Effectiveness. The amendments set forth herein shall become effective when the Bank has received the following:

(a) a counterpart of this Amendment executed by the Parent;

(b) a Confirmation, substantially in the form of Exhibit A, executed by each Subsidiary Guarantor;

(c) evidence that the Parent has paid all accrued and invoiced Attorney Costs of the Bank in connection with this Amendment; and

(d) such other documents as the Bank may reasonably request.

SECTION 4 Miscellaneous.

4.1 Continuing Effectiveness, etc. As amended hereby, the Reimbursement Agreement shall remain in full force and effect and is hereby ratified and confirmed in all respects. After the effectiveness of this Amendment, all references in the Reimbursement Agreement and the other Transaction Documents to "Reimbursement Agreement" or similar terms shall refer to the Reimbursement Agreement as amended hereby.

4.2 Counterparts. This Amendment may be executed in any number of counterparts and by the different parties on separate counterparts, and each such counterpart shall be deemed to be an original but all such counterparts shall together constitute one and the same Amendment.

4.3 Governing Law. This Amendment shall be a contract made under and governed by the laws of the State of California applicable to contracts made and to be performed entirely within such state.

4.4 Successors and Assigns. This Amendment shall be binding upon the Parent and the Bank and their respective successors and assigns, and shall inure to the benefit of the Parent and the Bank and the successors and assigns of the Bank.

Delivered as of the day and year first above written.

WILLIAMS-SONOMA, INC.

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

WELLS FARGO BANK, N.A.

By: /s/ Jeff A. Bailard
Name: Jeff A. Bailard
Title: Vice President

EXHIBIT A
FORM OF CONFIRMATION

Dated as of September 9, 2005

To: Wells Fargo Bank, N.A.

Please refer to (a) the Reimbursement Agreement (the "Reimbursement Agreement") dated as of July 1, 2005 between Williams-Sonoma, Inc. (the "Parent") and Wells Fargo Bank, N.A. (the "Bank"), (b) the Guaranty Agreement dated as of July 1, 2005 executed by the undersigned (the "Subsidiary Guaranty") and (c) the First Amendment dated as of the date hereof to the Reimbursement Agreement (the "First Amendment").

Each of the undersigned hereby confirms to the Bank that, after giving effect to the First Amendment and the transactions contemplated thereby, the Subsidiary Guaranty continues in full force and effect and is the legal, valid and binding obligation of such undersigned, enforceable against such undersigned in accordance with its terms, except as limited by bankruptcy, insolvency, or other laws of general application relating to the enforcement of creditors' rights and general principles of equity.

WILLIAMS-SONOMA STORES, INC.
WILLIAMS-SONOMA DIRECT, INC.
WILLIAMS-SONOMA RETAIL SERVICES, INC.
POTTERY BARN, INC.
POTTERY BARN KIDS, INC.
POTTERY BARN TEEN, INC.
WILLIAMS-SONOMA HOME, INC.
HOLD EVERYTHING, INC.
WILLIAMS-SONOMA PUBLISHING, INC.
WEST ELM, INC.
WILLIAMS-SONOMA GIFT MANAGEMENT, INC.

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

WILLIAMS-SONOMA STORES, LLC

By: WILLIAMS-SONOMA STORES, INC.
Its: Sole Member

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

Exhibit 31.1

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Williams-Sonoma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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: December 6, 2005

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

Exhibit 31.2

CERTIFICATION

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

1. I have reviewed this quarterly report on Form 10-Q of Williams-Sonoma, Inc.;
2. Based on my knowledge, this 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:December 6, 2005

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

Exhibit 32.1

**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 October 30, 2005 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Edward A. Mueller, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

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

Date: December 6, 2005

Exhibit 32.2

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 October 30, 2005 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 Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Date: December 6, 2005