

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): August 29, 2007

Williams-Sonoma, Inc.

(Exact name of registrant as specified in its charter)

California
(State or other
jurisdiction of
incorporation)

001-14077
(Commission File
Number)

94-2203880
(IRS Employer
Identification No.)

3250 Van Ness Avenue, San Francisco, California 94109
(Address of principal executive offices)

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

N/A
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

On August 29, 2007, the Company issued a press release announcing the Company's financial results for its second quarter ended July 29, 2007. A copy of the Company's press release is attached as Exhibit 99.1. The attached exhibit is provided under Item 2.02 of Form 8-K and is furnished to, but not filed with, the Securities and Exchange Commission.

Item 9.01. Financial Statements and Exhibits

(d) List of Exhibits:

99.1 Press Release dated August 29, 2007 titled Williams-Sonoma, Inc. Reports Second Quarter 2007 Results

SIGNATURES

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.

Date: August 29, 2007

By: /s/ Sharon L. McCollam

Sharon L. McCollam

Executive Vice President,

Chief Operating and Chief Financial Officer

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
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99.1	Press Release dated August 29, 2007 titled Williams-Sonoma, Inc. Reports Second Quarter 2007 Results
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WILLIAMS-SONOMA, INC.

PRESS RELEASE
WILLIAMS-SONOMA, INC.
3250 Van Ness Avenue
San Francisco, CA 94109

CONTACT:
Sharon L. McCollam
Executive Vice President, COO and CFO
(415) 616-8775

Stephen C. Nelson
Director, Investor Relations
(415) 616-8754

Erica Gutierrez
Investor Relations Administration
(415) 616-8332

FOR IMMEDIATE RELEASE

Williams-Sonoma, Inc. Reports Second Quarter 2007 Results

Net Revenues Increase 4.1% to \$859.4 Million
GAAP Diluted Earnings Per Share of \$0.23 Exceeds Company Guidance and First Call Consensus Estimate
2.6 Million Shares Repurchased During the Second Quarter

San Francisco, CA, August 29, 2007 — Williams-Sonoma, Inc. (NYSE: WSM) today announced operating results for the second quarter ended July 29, 2007.

□ SECOND QUARTER 2007 — RESULTS FOR THE 13 WEEKS ENDED JULY 29, 2007

Net revenues for the second quarter of fiscal year 2007 increased 4.1% to \$859.4 million versus \$825.5 million in the second quarter of fiscal year 2006. Excluding Hold Everything (see Note 1 in Exhibit 1), net revenues for the second quarter of fiscal year 2007 increased 4.6%.

Diluted earnings per share for the second quarter of fiscal year 2007, including the \$0.006 per diluted share impact from the implementation of FIN 48 (see Note 5 in Exhibit 1), decreased 23.3% to \$0.23 per diluted share versus \$0.30 per diluted share in the second quarter of fiscal year 2006, which included a \$0.048 per diluted share net benefit from unusual business events (see reconciliation below). Excluding the \$0.006 per diluted share impact from the implementation of FIN 48 in the second quarter of fiscal year 2007 and the \$0.048 per diluted share net benefit from unusual business events in the second quarter of 2006, diluted earnings per share on a non-GAAP basis for the second quarter of fiscal year 2007 decreased 4.0% to \$0.24 per diluted share versus \$0.25 per diluted share in the second quarter of fiscal year 2006 (see reconciliation below).

Reconciliation of Second Quarter GAAP to Non-GAAP Diluted Earnings Per Share

(See Exhibit 1 for Notes 1 through 6)

	Q2 2007 Actual	Q2 2006 Actual	% YOY Increase/ <Decrease>
GAAP Diluted EPS *	\$0.23	\$0.30	<23.3%>
Impact of Hold Everything Transition Charge (Note 1)	-	\$0.005	-
Impact of CEO Departure Charge (Note 2)	-	\$0.023	-
Benefit of Unredeemed Gift Certificate Income (Note 3)	-	<\$0.065>	-
Benefit of Visa/MasterCard Litigation Settlement (Note 4)	-	<\$0.011>	-
<i>Subtotal of Unusual Business Events</i>	-	<\$0.048>	-
Non-GAAP Diluted EPS Excluding Unusual Business Events (Note 6)*	\$0.23	\$0.25	<8.0%>
Impact of FIN 48 (Note 5)	\$0.006	-	-
Non-GAAP Diluted EPS Excluding New Accounting Pronouncements and Unusual Business Events (Note 6)*	\$0.24	\$0.25	<4.0%>

* Due to rounding to the nearest cent per diluted share, totals may not equal the sum of the line items in the table above.

Also during the second quarter of fiscal year 2007, the company repurchased and retired 2,604,760 shares of its common stock at a weighted average cost of \$32.90 per share and a total cost of approximately \$85.7 million.

Howard Lester, Chairman and Chief Executive Officer, commented, “While the home furnishings macro-environment continued to be challenging in the second quarter, the strength of our brands and strong execution once again allowed us to deliver better than expected earnings. What was particularly encouraging about these results was the strong performance of our emerging brands and the improving trend we saw in Pottery Barn, which we believe was driven by early successes in the rollout of our Pottery Barn revitalization initiatives.”

Mr. Lester continued, “As we look forward to the third and fourth quarters, our perspective on the macro-environment remains unchanged. As such, we are reiterating our third and fourth quarter 2007 non-GAAP diluted earnings guidance in the range of \$0.22 to \$0.27 and \$1.20 to \$1.26, respectively. We are, however, increasing our full-year non-GAAP diluted earnings per share guidance to the range of \$1.82 to \$1.90 to reflect our better than expected results in the second quarter.”

Retail net revenues in the second quarter of fiscal year 2007 increased 5.1% to \$487.0 million versus \$463.4 million in the second quarter of fiscal year 2006. This increase was driven by a 4.1% year-over-year increase in retail leased square footage, including 7 net new stores. Net revenues generated in the West Elm, Williams-Sonoma Home and Pottery Barn brands were the primary contributors to the year-over-year revenue increase, partially offset by reduced revenues in the Pottery Barn Kids brand. Second quarter year-over-year comparable store sales by retail concept are shown in the table below.

Second Quarter Comparable Store* Sales Growth by Retail Concept

Retail Concept	13 Weeks Ended	
	7/29/07	7/30/06
Williams-Sonoma	1.1%	2.3%
Pottery Barn	1.8%	<0.2%>
Pottery Barn Kids	<3.8%>	8.1%
Outlets	9.0%	<8.6%>
Total	1.2%	1.2%

* 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. In the second quarter of fiscal year 2007, the company excluded West Elm and Williams-Sonoma Home. In the second quarter of fiscal year 2006, the company excluded only West Elm as there were no Williams-Sonoma Home stores that were open for at least 12 months.

Direct-to-customer net revenues (comprised of both catalog and Internet revenues) in the second quarter of fiscal year 2007 increased 2.8% to \$372.4 million versus \$362.2 million in the second quarter of fiscal year 2006. This increase was primarily driven by increases in net revenues generated in the West Elm, PBteen, Williams-Sonoma and Williams-Sonoma Home brands. This increase was partially offset by lost revenues in the Hold Everything brand and reduced revenues in the Pottery Barn Kids and Pottery Barn brands. Excluding Hold Everything, direct-to-customer net revenues for the second quarter of fiscal year 2007 increased 4.0% versus the second quarter of fiscal year 2006. Internet revenues in the second quarter of fiscal year 2007 increased 11.1% to \$237.4 million versus \$213.8 million in the second quarter of fiscal year 2006. Excluding Hold Everything, Internet revenues for the second quarter of fiscal year 2007 increased 12.6% versus the second quarter of fiscal year 2006. Although the amount of Internet revenues that are incremental to our direct-to-customer channel cannot be

identified precisely, we estimate that approximately 45% of our company-wide non-gift registry Internet revenues are incremental to the direct-to-customer channel and approximately 55% are driven by customers who recently received a catalog.

Gross margin expressed as a percentage of net revenues in the second quarter of fiscal year 2007 was 37.2% versus 38.1% of net revenues in the second quarter of fiscal year 2006. Excluding the \$0.8 million or approximately 10 basis point impact of unusual business events in the second quarter of 2006 (see Notes in Exhibit 1), non-GAAP gross margin as a percentage of net revenues in the second quarter of fiscal year 2006 was 38.2%. This non-GAAP 100 basis point decrease as a percentage of net revenues was primarily driven by increased markdowns and higher cost of merchandise sold in our Pottery Barn and Pottery Barn Kids brands and increased occupancy costs. The increase in occupancy costs as a percentage of net revenues was primarily driven by the retail rollout of the emerging brands. These costs were partially offset, however, by the elimination of costs of goods sold associated with the Hold Everything brand.

Selling, general and administrative expenses in the second quarter of fiscal year 2007 were \$277.2 million or 32.3% of net revenues versus \$260.3 million or 31.5% of net revenues in the second quarter of fiscal year 2006. Excluding the \$10.0 million or approximately 120 basis point benefit of unusual business events in the second quarter of 2006 (see Notes in Exhibit 1), non-GAAP selling, general and administrative expenses in the second quarter of fiscal year 2006 were \$270.3 million or 32.7% of net revenues. This non-GAAP 40 basis point decrease as a percentage of net revenues was primarily driven by reduced advertising expense, primarily in the Pottery Barn and PBteen brands, reductions in other general expenses, and the elimination of all selling, general and administrative expenses associated with the Hold Everything brand. This decrease was partially offset by increased costs associated with the growth of the emerging brands.

The effective income tax rate in the second quarter of fiscal year 2007 was 40.2% versus 38.4% in the second quarter of fiscal year 2006. This increase was primarily driven by the application of FIN 48, which we implemented on January 29, 2007. The application of this accounting pronouncement resulted in an approximate 160 basis point increase in the effective income tax rate or \$0.006 per diluted share in the second quarter of fiscal year 2007 (see Note 5 in Exhibit 1).

□ FISCAL 2007 YEAR-TO-DATE — RESULTS FOR THE 26 WEEKS ENDED JULY 29, 2007

Diluted earnings per share for the 26 weeks ended July 29, 2007, including the \$0.011 per diluted share impact from the implementation of FIN 48 (see Note 5 in Exhibit 1), decreased 22.0% to \$0.39 per diluted share versus \$0.50 per diluted share in the second quarter of fiscal year 2006, which included the \$0.031 per diluted share net benefit from unusual business events (see reconciliation below). Excluding the \$0.011 per diluted share impact from the implementation of FIN 48 for the 26 weeks ended July 29, 2007 and the \$0.031 per diluted share net benefit from unusual business events for the 26 weeks ended July 30, 2006, diluted earnings per share on a non-GAAP basis for the 26 weeks ended July 29, 2007 decreased 14.9% to \$0.40 per diluted share versus \$0.47 per diluted share for the 26 weeks ended July 30, 2006 (see reconciliation below).

Reconciliation of 2006 Year-to-Date GAAP to Non-GAAP Diluted Earnings Per Share
(See Exhibit 1 for Notes 1 through 6)

	26 Weeks Ended July 29, 2007	26 Weeks Ended July 30, 2006	% YOY Increase/ <Decrease>
GAAP Diluted EPS *	\$0.39	\$0.50	<22.0%>
Impact of Hold Everything Transition Charge (Note 1)	-	\$0.022	-
Impact of CEO Departure Charge (Note 2)	-	\$0.023	-
Benefit of Unredeemed Gift Certificate Income (Note 3)	-	<\$0.065>	-
Benefit of Visa/MasterCard Litigation Settlement (Note 4)	-	<\$0.011>	-
<i>Subtotal of Unusual Business Events</i>	-	<\$0.031>	-
Non-GAAP Diluted EPS Excluding Unusual Business Events (Note 6)*	\$0.39	\$0.47	<17.0%>
Impact of FIN 48 (Note 5)	\$0.011	-	-
Non-GAAP Diluted EPS Excluding New Accounting Pronouncements and Unusual Business Events (Note 6)*	\$0.40	\$0.47	<14.9%>

* Due to rounding to the nearest cent per diluted share, totals may not equal the sum of the line items in the table above. Additionally, due to quarterly rounding to the nearest cent per diluted share, the sum of the quarters may not equal the year-to-date total.

Net revenues for the 26 weeks ended July 29, 2007 increased 3.4% to \$1.675 billion versus \$1.620 billion for the 26 weeks ended July 30, 2006. Excluding Hold Everything (see Note 1 of Exhibit 1), net revenues for the 26 weeks ended July 29, 2007 increased 4.9% versus the 26 weeks ended July 30, 2006. Year-to-date comparable store sales by retail concept are shown in the table below.

Year-to-Date Comparable Store* Sales Growth by Retail Concept

Retail Concept	26 Weeks Ended	
	7/29/07	7/30/06**
Williams-Sonoma	0.3%	2.1%
Pottery Barn	0.3%	0.4%
Pottery Barn Kids	<3.8%>	5.7%
Outlets	9.2%	<6.4%>
Total	0.2%	1.3%

* 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. In the second quarter of fiscal year 2007, the company excluded West Elm and Williams-Sonoma Home. In the second quarter of fiscal year 2006, the company excluded only West Elm as there were no Williams-Sonoma Home stores that were open for at least 12 months.

**Hold Everything stores are excluded from the 2006 comparable store sales calculation due to all stores being closed during the first quarter of 2006 (see Note 1 of Exhibit 1).

□ STOCK REPURCHASE PROGRAM

During the second quarter of fiscal 2007, we repurchased and retired 2,604,760 shares of our common stock at a weighted average cost of \$32.90 per share and a total cost of approximately \$85.7 million. An aggregate of 3,309,395 shares remain available for repurchase under previously authorized stock repurchase programs.

Stock repurchases under this program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice.

THIRD QUARTER 2007 FINANCIAL GUIDANCE

• Net Revenues

- Net revenues are projected to be in the range of \$887.0 million to \$907.0 million, unchanged from previous guidance. This represents a projected increase in net revenues in the range of 4.0% to 6.4% versus \$852.8 million in the third quarter of fiscal year 2006.
- Retail net revenues are projected to be in the range of \$488.0 million to \$500.0 million, unchanged from previous guidance. This represents a projected increase in retail net revenues in the range of 3.6% to 6.2% versus \$470.9 million in the third quarter of fiscal year 2006.
- Change in comparable store sales is projected to be in the range of <1.0%> to 1.5%, unchanged from previous guidance. This compares to comparable store sales growth in the third quarter of fiscal year 2006 of 0.0%. 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 fiscal year 2007, we expect to continue to exclude West Elm and Williams-Sonoma Home.
- Retail leased square footage and retail selling square footage are projected to increase in the range of 4.5% to 5.0%. This compares to retail leased and selling square footage growth in the third quarter of fiscal year 2006 of 7.7% and 7.2%, respectively.
- Direct-to-customer net revenues (comprised of both catalog and Internet revenues) are projected to be in the range of \$399.0 million to \$407.0 million, unchanged from previous guidance. This represents a projected increase in direct-to-customer net revenues in the range of 4.5% to 6.6% versus \$381.9 million in the third quarter of fiscal year 2006.

• Gross Margin

- Gross margin as a percentage of net revenues in the third quarter of fiscal year 2007 is expected to be in the range of 37.9% to 38.2%.
- Gross margin as a percentage of net revenues in the third quarter of fiscal year 2006, including the \$0.3 million or approximately 3 basis point impact of unusual business events, was 38.2%. The 2007 guidance represents a projected decrease in the gross margin rate of 30 basis points at the low end of the range and no change at the high end of the range.

• Selling, General and Administrative Expenses (SG&A)

- Selling, general and administrative expenses as a percentage of net revenues in the third quarter of fiscal year 2007 are expected to be in the range of 33.0% to 33.3%.
- Selling, general and administrative expenses as a percentage of net revenues in the third quarter of fiscal year 2006 were 33.1%. The 2007 guidance represents a projected decrease in the SG&A expense rate of 10 basis points at the low end of the range and an increase of 20 basis points at the high end of the range.

- **Interest <Income> Expense - Net**

- Interest <Income> Expense - Net in the third quarter of fiscal year 2007 is projected to be interest expense in the range of \$0.0 million to \$0.5 million. This compares to net interest income in the third quarter of fiscal year 2006 of \$1.3 million.

- **Income Taxes**

- The income tax rate in the third quarter of fiscal year 2007 is projected to be in the range of 40.1% to 40.4%. This compares to an income tax rate in the third quarter of fiscal year 2006 of 34.7%. The projected income tax rate for the third quarter of fiscal year 2007 includes an approximate 170 basis point increase in the effective income tax rate or \$0.007 per diluted share impact from applying FIN 48, which we implemented in the first quarter of fiscal year 2007. Throughout the year, we expect that there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are evaluated.

- **Diluted Earnings Per Share**

- Diluted earnings per share on a GAAP basis in the third quarter of fiscal year 2007, including an approximate 170 basis point increase in the effective income tax rate or \$0.007 per diluted share related to FIN 48, are expected to be in the range of \$0.21 to \$0.26, unchanged from previous guidance. Diluted earnings per share in the third quarter of fiscal year 2007 on a non-GAAP basis, excluding an approximate 170 basis point increase in the effective income tax rate or \$0.007 per diluted share related to FIN 48, are expected to be in the range of \$0.22 to \$0.27 (see reconciliation below).

Reconciliation of Third Quarter GAAP to Non-GAAP Diluted Earnings Per Share

(See Exhibit 1 for Notes 1 through 6)

	Q3 2007 Guidance	Q3 2006 Actual	% YOY Increase/ <Decrease>
GAAP Diluted EPS *	\$0.21 - \$0.26	\$0.25	<16.0%> - 4.0%
Impact of Hold Everything Transition Charge (Note 1)	-	\$0.002	-
Non-GAAP Diluted EPS Excluding Unusual Business Events (Note 6)*	\$0.21 - \$0.26	\$0.25	<16.0%> - 4.0%
Impact of FIN 48 (Note 5)	\$0.007	-	-
Non-GAAP Diluted EPS Excluding New Accounting Pronouncements and Unusual Business Events (Note 6)*	\$0.22 - \$0.27	\$0.25	<12.0%> - 8.0%

* Due to rounding to the nearest cent per diluted share, totals may not equal the sum of the line items in the table above.

- This reconciliation is being provided to facilitate a meaningful evaluation of the company's third quarter of fiscal year 2007 diluted earnings per share guidance on a comparable basis with our 2006 quarterly results.

- **Merchandise Inventories**

- Merchandise inventories at the end of the third quarter of fiscal year 2007 are projected to be in the range of \$750.0 million to \$775.0 million. Merchandise inventories were \$661.2 million at the end of the third quarter of fiscal year 2006. This represents a projected increase in merchandise inventories in the range of 13.4% to 17.2%.

- **Depreciation and Amortization**

- Depreciation and amortization expense in the third quarter of fiscal year 2007 is projected to be approximately \$35.0 million. Depreciation and amortization was \$33.6 million in the third quarter of fiscal year 2006.

- **Amortization of Deferred Lease Incentives**

- Amortization of deferred lease incentives in the third quarter of fiscal year 2007 is projected to be approximately \$7.0 million. Amortization of deferred lease incentives was \$7.1 million in the third quarter of fiscal year 2006.

- **FISCAL YEAR 2007 FINANCIAL GUIDANCE (53 WEEKS in 2007 versus 52 WEEKS in 2006)**

- **Net Revenues**

- Net revenues during fiscal year 2007, a 53-week year, are projected to be in the range of \$3.949 billion to \$3.999 billion, versus previous guidance in the range of \$3.945 billion to \$4.013 billion. This represents a projected increase in net revenues in the range of 5.9% to 7.3%, versus \$3.728 billion during the 52 weeks of fiscal year 2006. On a 53-week to 53-week basis, this represents a projected increase in the range of 3.9% to 5.2%.
- Retail net revenues during fiscal year 2007, a 53-week year, are projected to be in the range of \$2.289 billion to \$2.319 billion, versus previous guidance in the range of \$2.278 billion to \$2.318 billion. This represents a projected increase in retail net revenue in the range of 6.3% to 7.7% versus \$2.154 billion during the 52 weeks of fiscal year 2006. On a 53-week to 53-week basis, this represents a projected increase in the range of 4.7% to 6.0%.
- Change in comparable store sales is projected to be in the range of 0.0% to 1.5%, versus previous guidance in the range of <1.0%> to 1.0%. This compares to comparable store sales growth in fiscal year 2006 of 0.3%. 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 fiscal year 2007, we expect to continue to exclude West Elm and Williams-Sonoma Home.
- Retail leased square footage is projected to increase in the range of 5.0% to 5.5%, unchanged from previous guidance. Selling square footage is projected to increase in the range of 4.5% to 5.0%, unchanged from previous guidance. This compares to retail leased and selling square footage growth in fiscal year 2006 of 8.3% and 7.9%, respectively.

Store Opening and Closing Guidance by Retail Concept

Concept	Q4 2006 Actual	Q1 and Q2 2007 Actual			Q3 2007 Guidance			Q4 2007 Guidance			FY 2007 Guidance	
	Total	Open	Close	End	Open	Close	End	Open	Close	End	Open	Close
Williams-Sonoma	254	7	<9>	252	6	<5>	253	7	<6>	254	20	<20> *
Pottery Barn	197	1	<8>	190	10	<3>	197	4	<1>	200	15	<12> *
Pottery Barn Kids **	92	2	<3>	91	2	0	93	0	0	93	4	<3> *
West Elm	22	1	0	23	3	0	26	1	0	27	5	0
Williams-Sonoma Home	7	1	0	8	1	0	9	0	0	9	2	0
Outlets	16	1	<1>	16	0	0	16	0	0	16	1	<1>
Total	588	13	<21>	580	22	<8>	594	12	<7>	599	47	<36>

* Fiscal year 2007 total store opening and closing numbers for Williams-Sonoma, Pottery Barn and Pottery Barn Kids include 14 stores, 8 stores and 1 store, respectively, for temporary closures due to remodeling. Remodeled stores are defined as those stores temporarily closed and subsequently reopened due to square footage expansion, store modification, or relocation. Consistent with our definition of comparable stores, remodeled stores are removed from the comparable store base upon closure if the gross square footage changes by more than 20% or if the store is closed for seven or more consecutive days.

** Not reflected in the table above are two “test” stores for Pottery Barn Kids Baby Clothing. These stores are approximately 1,500 selling square feet and are expected to open in the fourth quarter.

- Direct-to-customer net revenues (comprised of both catalog and Internet revenues) are projected to be in the range of \$1.660 billion to \$1.680 billion during fiscal year 2007, a 53-week year, versus previous guidance in the range of \$1.667 billion to \$1.695 billion. This represents a projected increase in direct-to-customer net revenue in the range of 5.5% to 6.7% versus \$1.574 billion during the 52 weeks of fiscal year 2006. On a 53-week to 53-week basis, this represents a projected increase in the range of 2.8% to 4.0%.
- Catalog circulation is projected to increase in the range of 3.0% to 4.0%, versus previous guidance in the range of 4.0% to 5.0%. Pages circulated are projected to increase in the range of 8.0% to 9.0%, unchanged from previous guidance. This compares to an approximate 1.6% decrease in catalog circulation and a 3.2% increase in pages circulated in fiscal year 2006. Excluding the circulation for the Hold Everything catalog in fiscal year 2006, catalog and page circulation in fiscal year 2007 is expected to increase in the range of 5.0% to 6.0% and 9.0% to 10.0%, respectively, versus previous guidance in the ranges of 6.0% to 7.0% and 9.0% to 10.0%.

Quarterly Net Revenue Guidance by Operating Segment
(All Amounts in Millions, Except Percentages)

	Q1 2007 Actual (13 Weeks)	Q2 2007 Actual (13 Weeks)	Q3 2007 Guidance (13 Weeks)	Q4 2007 Guidance (14 Weeks)	FY 2007 Guidance (53 Weeks)
Total Net Revenue	\$816	\$859	\$887 - \$907	\$1,387 - \$1,417	\$3,949 - \$3,999
% Growth	2.7%	4.1%	4.0% - 6.4%	10.5% - 12.9%	5.9% - 7.3%
% Growth (53-week to 53-week basis)	-	-	-	4.4% - 6.6%	3.9% - 5.2%
Retail Net Revenue	\$453	\$487	\$488 - \$500	\$861 - \$879	\$2,289 - \$2,319
% Growth	4.5%	5.1%	3.6% - 6.2%	9.6% - 11.9%	6.3% - 7.7%
% Growth (53-week to 53-week basis)	-	-	-	5.2% - 7.4%	4.7% - 6.0%
Comparable Store Sales	<0.8%>	1.2%	<1.0%> - 1.5%	0.5% - 2.5%	0.0% - 1.5%
Direct-to-Customer Net Revenue	\$363	\$372	\$399 - \$407	\$526 - \$538	\$1,660 - \$1,680
% Growth	0.6%	2.8%	4.5% - 6.6%	12.1% - 14.7%	5.5% - 6.7%
% Growth (53-week to 53-week basis)	-	-	-	3.1% - 5.4%	2.8% - 4.0%

- **Gross Margin**

- Gross margin as a percentage of net revenues in fiscal year 2007 is expected to be in the range of 39.5% to 39.7%, versus previous guidance in the range of 39.2% to 39.4%.
- Gross margin as a percentage of net revenues in fiscal year 2006 was 39.9%, including the \$2.7 million or approximately 10 basis point impact of unusual business events. The revised 2007 guidance represents a projected decrease in the gross margin rate in the range of 20 to 40 basis points.
- Gross margin as a percentage of net revenues in fiscal year 2006, excluding the \$2.7 million or approximately 10 basis point impact of unusual business events, was 40.0%. The revised 2007 guidance represents a projected decrease in the gross margin rate on a comparable year-over-year basis in the range of 30 to 50 basis points. This is a non-GAAP comparison.

- **Selling, General and Administrative (SG&A) Expenses**

- Selling, general and administrative expenses as a percentage of net revenues in fiscal year 2007 are expected to be in the range of 31.1% to 31.3%, unchanged from previous guidance.
- Selling, general and administrative expenses as a percentage of net revenues in fiscal year 2006, including the \$8.6 million or approximately 20 basis point net benefit from unusual business events, were 31.1%. The revised 2007 guidance represents no change in the SG&A expense rate at the low end of the guidance range and a projected increase of 20 basis points at the high end of the range.
- Selling, general and administrative expenses as a percentage of net revenues in fiscal year 2006, excluding the \$8.6 million or approximately 20 basis point net benefit from unusual business events, were 31.3%. The revised 2007 guidance represents a projected decrease in the SG&A expense rate on a comparable year-over-year basis in the range of 20 basis points at the low end of the guidance range and no change at the high end of the range. This is a non-GAAP comparison.

- **Interest <Income> Expense - Net**

- Interest <Income> Expense - Net for fiscal year 2007 is projected to be interest income in the range of \$3.0 million to \$4.0 million versus previous guidance in the range of \$4.5 million to \$6.0 million. This compares to net interest income in fiscal year 2006 of \$9.7 million.

- **Income Taxes**

- The income tax rate for fiscal year 2007 is projected to be in the range of 39.3% to 39.6%, versus previous guidance in the range of 39.5% to 39.8%. This compares to an income tax rate in fiscal year 2006 of 38.1%. The projected income tax rate for fiscal year 2007 includes an approximate 100 basis point increase in the effective income tax rate or \$0.03 per diluted share impact from applying FIN 48, which we implemented on January 29, 2007. Throughout the year, we expect that there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are evaluated.

- **Diluted Earnings Per Share**

- Diluted earnings per share on a GAAP basis, including an approximate 100 basis point or \$0.03 per diluted share increase in the effective income tax rate related to FIN 48, are expected to be in the range of \$1.79 to \$1.87, versus previous guidance in the range of \$1.73 to \$1.81. Diluted earnings per share in fiscal year 2007 on a non-GAAP basis are expected to be in the range of \$1.82 to \$1.90, excluding an approximate 100 basis point or \$0.03 per diluted share increase in the effective income tax rate related to FIN 48, versus previous guidance in the range of \$1.76 to \$1.84 (see reconciliation below).

Reconciliation of Fiscal Year GAAP to Non-GAAP Diluted Earnings Per Share

(See Exhibit 1 for Notes 1 through 6)

	FY 2007 Guidance	FY 2006 Actual	% YOY Increase/ <Decrease>
GAAP Diluted EPS *	\$1.79 - \$1.87	\$1.79	0.0% - 4.5%
Impact of Hold Everything Transition Charge (Note 1)	-	\$0.023	-
Impact of CEO Departure Charge (Note 2)	-	\$0.023	-
Benefit of Unredeemed Gift Certificate Income (Note 3)	-	<\$0.065>	-
Benefit of Visa/MasterCard Litigation Settlement (Note 4)	-	<\$0.011>	-
<i>Subtotal of Unusual Business Events</i>	-	<\$0.030>	-
Non-GAAP Diluted EPS Excluding Unusual Business Events (Note 6)*	\$1.79 - \$1.87	\$1.76	1.7% - 6.3%
Impact of FIN 48 (Note 5)	\$0.03	-	-
Non-GAAP Diluted EPS Excluding New Accounting Pronouncements and Unusual Business Events (Note 6)*	\$1.82 - \$1.90	\$1.76	3.4% - 8.0%

* Due to rounding to the nearest cent per diluted share, totals may not equal the sum of the line items in the table above.

- This reconciliation is being provided to facilitate a meaningful evaluation of the company's fiscal year 2007 diluted earnings per share guidance on a comparable basis with our 2006 fiscal year results.

- **Merchandise Inventories**

- Merchandise inventories at the end of fiscal year 2007 are projected to be in the range of \$665.0 million to \$690.0 million, unchanged from previous guidance. This represents a projected increase in the range of 8.9% to 13.0%, versus \$610.6 million at the end of fiscal year 2006.

- **Capital Spending**

- Fiscal year 2007 capital spending is projected to be in the range of \$220.0 million to \$240.0 million, unchanged from previous guidance. This compares to capital spending of \$191.0 million in fiscal year 2006.

- **Depreciation and Amortization**

- Depreciation and amortization expense in fiscal year 2007 is projected to be in the range of \$140.0 million to \$143.0 million, unchanged from previous guidance. Depreciation and amortization was \$135.0 million in fiscal year 2006.

- **Amortization of Deferred Lease Incentives**

- Amortization of deferred lease incentives in fiscal year 2007 is projected to be in the range of \$28.0 million to \$30.0 million, unchanged from previous guidance. Amortization of deferred lease incentives was \$28.7 million in fiscal year 2006.

- **CONFERENCE CALL AND WEBCAST INFORMATION**

Williams-Sonoma, Inc. will host a live conference call today, August 29, 2007, at 7:00 A.M. (PT). The call, hosted by Howard Lester, Chairman and Chief Executive Officer, will be open to the general public via a live webcast and can be accessed through the Internet at www.williams-sonomainc.com/webcast. A replay of the webcast will be available at www.williams-sonomainc.com/webcast.

- **SEC REGULATION G — NON-GAAP INFORMATION**

This press release includes non-GAAP net revenue and revenue growth percentages, non-GAAP gross margin percentages, non-GAAP selling, general and administrative expenses, and non-GAAP diluted earnings per share. These non-GAAP financial measures exclude the impact of the Hold Everything consolidation charge, the impact of the CEO departure charge, the benefit of unredeemed gift certificate income, and the benefit of the VISA/MasterCard litigation settlement in fiscal year 2006. They also include the accounting impact of the implementation of FIN 48 in fiscal year 2007. We have reconciled these non-GAAP financial measures with the most directly comparable GAAP financial measures in the text of this release and in Exhibit 1. We believe that these non-GAAP financial measures provide meaningful supplemental information for investors regarding the performance of our business and facilitate a meaningful evaluation of our quarterly results and fiscal year 2007 guidance on a comparable basis with our 2006 quarterly and fiscal year results. Our management uses these non-GAAP financial measures in order to have comparable financial results to analyze changes in our underlying business from quarter to quarter. These non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP.

- **FORWARD-LOOKING STATEMENTS**

This press release 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 results to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include statements relating to our future financial guidance and results, and our stock repurchase programs.

The risks and uncertainties that could cause our results to differ materially from those expressed or implied by such forward-looking statements include accounting adjustments as we close our books for the second quarter of 2007; new interpretations of current accounting rules; our ability to successfully transition the Hold Everything merchandise strategies; changes to current accounting rules; changes in tax laws applicable to cash dividends or share repurchases; our ability to anticipate consumer preferences and buying trends; dependence on timely introduction and customer acceptance of our merchandise; construction and other delays in store openings; competition from companies with concepts or products similar to our concepts and products; timely and effective sourcing of merchandise from our foreign and domestic vendors and delivery of merchandise through our supply chain to our stores and customers; effective inventory management commensurate with customer demand; our ability to anticipate and manage customer returns; successful catalog management, including timing, sizing and merchandising; uncertainties in Internet marketing, infrastructure and regulation; changes in consumer spending based on weather, economic, political, competitive and other conditions beyond our control; construction delays on infrastructure projects based on weather or other events; multi-channel and multi-brand complexities; our ability to introduce new brands and brand extensions; dependence on external funding sources for operating capital; our ability to control employment, occupancy and other operating costs; our ability to improve and control our systems and processes; changes to our information technology infrastructure; general political, economic and market conditions and events, including war, conflict or acts of terrorism; and other risks and uncertainties described more fully in our public announcements, reports to shareholders and other documents filed with or furnished to the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended January 28, 2007, all quarterly reports on Form 10-Q for the following fiscal quarters, and all subsequent current reports on Form 8-K. All forward-looking statements in this press release are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements.

□ ABOUT WILLIAMS-SONOMA

Williams-Sonoma, Inc. is a nationwide specialty retailer of high quality products for the home. These products, representing six distinct merchandise strategies – Williams-Sonoma, Pottery Barn, Pottery Barn Kids, PBteen, West Elm and Williams-Sonoma Home – are marketed through 580 stores, seven mail order catalogs and six e-commerce websites.

WILLIAMS-SONOMA, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(DOLLARS IN THOUSANDS)

	July 29, 2007	January 28, 2007	July 30, 2006
Assets			
Current assets			
Cash and cash equivalents	\$ 58,039	\$ 275,429	\$ 187,377
Accounts receivable - net	63,847	48,821	74,527
Merchandise inventories - net	651,262	610,599	565,691
Prepaid catalog expenses	69,488	59,610	64,059
Prepaid expenses	46,361	28,570	35,440
Deferred income taxes	70,986	70,837	57,279
Other assets	6,708	7,097	6,710
Total current assets	966,691	1,100,963	991,083
Property and equipment - net	948,415	912,582	900,565
Non-current deferred income taxes	35,087	18,670	-
Other assets - net	17,195	16,116	18,563
Total assets	<u>\$ 1,967,388</u>	<u>\$ 2,048,331</u>	<u>\$ 1,910,211</u>
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable	\$ 205,546	\$ 214,771	\$ 188,331
Accrued salaries, benefits, and other	87,568	85,148	82,908
Customer deposits	200,560	187,625	174,710
Income taxes payable	2,786	101,638	10,183
Current portion of long-term debt	15,690	15,853	16,186
Other liabilities	20,541	22,699	23,915
Total current liabilities	532,691	627,734	496,233
Deferred rent and lease incentives	250,946	236,604	241,819
Long-term debt	12,548	12,822	14,037
Deferred income tax liabilities	-	-	12,371
Other long-term obligations	55,402	19,740	15,958
Total liabilities	851,587	896,900	780,418
Shareholders' equity	1,115,801	1,151,431	1,129,793
Total liabilities and shareholders' equity	<u>\$ 1,967,388</u>	<u>\$ 2,048,331</u>	<u>\$ 1,910,211</u>

Retail Concept	Store Count				Average Leased Square Footage Per Store			
	April 29, 2007	Openings	Closings	July 29, 2007	July 30, 2006	July 29, 2007	July 30, 2006	
Williams-Sonoma	250	6	(4)	252	256	6,000	5,800	
Pottery Barn	195	1	(6)	190	191	12,100	12,200	
Pottery Barn Kids	93	1	(3)	91	91	7,900	7,800	
West Elm	22	1	-	23	14	17,500	16,100	
Williams-Sonoma Home	8	-	-	8	5	14,200	14,700	
Outlets	16	1	(1)	16	16	20,500	20,400	
Total	584	10	(14)	580	573	9,300	9,000	

	Total Store Square Footage		
	April 29, 2007	July 29, 2007	July 30, 2006
Total store selling square footage	3,376,000	3,343,000	3,204,000
Total store leased square footage	5,433,000	5,370,000	5,159,000

WILLIAMS-SONOMA, INC.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)
 THIRTEEN WEEKS ENDED JULY 29, 2007 AND JULY 30, 2006
 (DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	SECOND QUARTER			
	2007		2006	
	(13 Weeks)		(13 Weeks)	
	\$	% of Revenues	\$	% of Revenues
Retail revenues	\$486,976	56.7%	\$463,372	56.1%
Direct-to-customer revenues	372,420	43.3	362,164	43.9
Net revenues	859,396	100.0	825,536	100.0
Total cost of goods sold	539,301	62.8	510,976	61.9
Gross margin	320,095	37.2	314,560	38.1
Selling, general and administrative expenses	277,227	32.3	260,312	31.5
Earnings from operations	42,868	5.0	54,248	6.6
Interest (income) expense - net	(526)	0.0	(3,514)	0.4
Earnings before income taxes	43,394	5.0	57,762	7.0
Income taxes	17,428	2.0	22,199	2.7
Net earnings	\$ 25,966	3.0%	\$ 35,563	4.3%
Earnings per share:				
Basic	\$ 0.24		\$ 0.31	
Diluted	\$ 0.23		\$ 0.30	
Shares used in calculation of earnings per share:				
Basic	109,884		115,026	
Diluted	112,022		117,724	

WILLIAMS-SONOMA, INC.

CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)
 TWENTY-SIX WEEKS ENDED JULY 29, 2007 AND JULY 30, 2006
 (DOLLARS AND SHARES IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEAR-TO-DATE			
	2007		2006	
	(26 Weeks)		(26 Weeks)	
	\$	% of Revenues	\$	% of Revenues
Retail revenues	\$ 940,352	56.1%	\$ 897,281	55.4%
Direct-to-customer revenues	735,095	43.9	722,541	44.6
Net revenues	1,675,447	100.0	1,619,822	100.0
Total cost of goods sold	1,053,382	62.9	999,841	61.7
Gross margin	622,065	37.1	619,981	38.3
Selling, general and administrative expenses	550,755	32.9	531,043	32.8
Earnings from operations	71,310	4.3	88,938	5.5
Interest (income) expense - net	(2,465)	0.1	(6,309)	0.4
Earnings before income taxes	73,775	4.4	95,247	5.9
Income taxes	29,659	1.8	36,585	2.3
Net earnings	\$ 44,116	2.6%	\$ 58,662	3.6%
Earnings per share:				
Basic	\$ 0.40		\$ 0.51	
Diluted	\$ 0.39		\$ 0.50	
Shares used in calculation of earnings per share:				
Basic	110,081		114,672	
Diluted	112,339		117,515	

WILLIAMS-SONOMA, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
 TWENTY-SIX WEEKS ENDED JULY 29, 2007 AND JULY 30, 2006
 (DOLLARS IN THOUSANDS)

	YEAR-TO-DATE	
	2007	2006
	(26 Weeks)	(26 Weeks)
Cash flows from operating activities		
Net earnings	\$ 44,116	\$ 58,662
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	68,758	65,830
Loss on disposal/impairment of assets	2,748	2,127
Amortization of deferred lease incentives	(13,904)	(14,286)
Deferred income taxes	(2,741)	(6,079)
Tax benefit from exercise of stock options	3,114	3,872
Stock-based compensation expense	12,741	16,886
Changes in:		
Accounts receivable	(14,488)	(23,491)
Merchandise inventories	(39,622)	(45,327)
Prepaid catalog expenses	(9,878)	(10,134)
Prepaid expenses and other assets	(17,145)	(3,003)
Accounts payable	(25,680)	(22,510)
Accrued salaries, benefits and other current and long-term liabilities	998	(11,048)
Customer deposits	12,515	1,900
Deferred rent and lease incentives	27,453	37,763
Income taxes payable	(90,213)	(73,443)
Net cash used in operating activities	<u>(41,228)</u>	<u>(22,281)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(90,368)	(84,481)
Proceeds from the disposal of assets	285	-
Other	(605)	-
Net cash used in investing activities	<u>(90,688)</u>	<u>(84,481)</u>
Cash flows from financing activities:		
Repayments of long-term obligations	(437)	(3,130)
Net proceeds from exercise of stock options	26,358	9,581
Excess tax benefit from exercise of stock options	4,949	2,541
Repurchase of common stock	(95,468)	(65,430)
Payment of dividends	(23,881)	(11,591)
Net cash used in financing activities	<u>(88,479)</u>	<u>(68,029)</u>
Effect of exchange rates on cash and cash equivalents	3,005	1,186
Net decrease in cash and cash equivalents	(217,390)	(173,605)
Cash and cash equivalents at beginning of period	275,429	360,982
Cash and cash equivalents at end of period	<u>\$ 58,039</u>	<u>\$ 187,377</u>

Exhibit 1

Reconciliation of 2007 and 2006 GAAP to Non-GAAP Diluted Earnings Per Share

(Totals Rounded to the Nearest Cent Per Diluted Share)

	Q1 2007 Actual (13 Weeks)	Q2 2007 Actual (13 Weeks)	Q3 2007 Guidance* (13 Weeks)	Q4 2007 Guidance* (14 Weeks)	FY 2007 Guidance* (53 Weeks)
2007 GAAP Diluted EPS	\$0.16	\$0.23	\$0.21 - \$0.26	\$1.19 - \$1.25	\$1.79 - \$1.87
Impact of FIN 48 (Note 5)	\$0.005	\$0.006	\$0.007	\$0.012	\$0.030
Non-GAAP Diluted EPS Excluding New Accounting Pronouncements (Note 6)	\$0.17	\$0.24	\$0.22 - \$0.27	\$1.20 - \$1.26	\$1.82 - \$1.90

	Q1 2006 Actual (13 Weeks)	Q2 2006 Actual (13 Weeks)	Q3 2006 Actual (13 Weeks)	Q4 2006 Actual (13 Weeks)	FY 2006 Actual** (52 Weeks)
2006 GAAP Diluted EPS	\$0.20	\$0.30	\$0.25	\$1.06	\$1.79
Impact of Hold Everything Transition Charge (Note 1)	\$0.017	\$0.005	\$0.002	-	\$0.023
Impact of CEO Departure Charge (Note 2)	-	\$0.023	-	-	\$0.023
Benefit of Unredeemed Gift Certificate Income (Note 3)	-	<\$0.065>	-	-	<\$0.065>
Benefit of Visa/MasterCard Litigation Settlement (Note 4)	-	<\$0.011>	-	-	<\$0.011>
<i>Subtotal of Unusual Business Events</i>	<i>\$0.017</i>	<i><\$0.048></i>	<i>\$0.002</i>	<i>-</i>	<i><\$0.030></i>
2006 Non-GAAP Diluted EPS Excluding Unusual Business Events (Note 6)	\$0.21	\$0.25	\$0.25	\$1.06	\$1.76

	Q1 2007 Actual	Q2 2007 Actual	Q3 2007 Guidance	Q4 2007 Guidance	FY 2007 Guidance
2007 % Increase / <Decrease> in GAAP Diluted EPS	<20.0%>	<23.3%>	<16.0%> - 4.0%	12.3% - 17.9%	0.0% - 4.5%
2007 % Increase / <Decrease> in Non-GAAP Diluted EPS Excluding Unusual Business Events (Note 6)**	<23.8%>	<8.0%>	<16.0%> - 4.0%	12.3% - 17.9%	1.7% - 6.3%
2007 % Increase / <Decrease> in Non-GAAP Diluted EPS Excluding New Accounting Pronouncements and Unusual Business Events (Note 6)**	<19.0%>	<4.0%>	<12.0%> - 8.0%	13.2% - 18.9%	3.4% - 8.0%

* Quarterly diluted earnings per share guidance amounts will vary within the ranges above. Therefore, the respective high and low guidance estimates for the quarters should not be added together to derive an estimate for the fiscal year. Additionally, due to the effect that the timing of share repurchases can have on the quarterly and year-to-date weighted average share count calculations, the company expects the third and fourth quarter year-to-date calculations of GAAP and non-GAAP diluted earnings per share in fiscal year 2007 may be less than the sum of the diluted earnings per share by quarter. Also, due to quarterly rounding to the nearest cent per diluted share, the sum of the quarters at the end of any quarter during the year may not equal the year-to-date total.

** Due to the effect that the timing of share repurchases had on the quarterly and year-to-date weighted average share count calculations, the year-to-date calculation of GAAP and non-GAAP diluted earnings per share in fiscal year 2006 is less than the sum of the diluted earnings per share by quarter.

- Note 1: Hold Everything Transition Charge – On January 12, 2006, we announced our decision to transition the merchandising strategies of our Hold Everything brand into our other existing brands by the end of 2006. We also announced that we expected to incur an accounting charge of \$0.09 to \$0.10 per diluted share related to this decision, of which \$0.07 was incurred in the fourth quarter of fiscal year 2005. In fiscal year 2006, we incurred charges of \$0.023 per diluted share, of which \$0.014 per diluted share was included in cost of goods sold – negatively impacting gross margin – and \$0.009 per diluted share in selling, general and administrative expenses. We closed our last eight Hold Everything stores at the end of the first quarter of 2006 and ceased our direct-to-customer operations at the end of the second quarter of 2006. See table above for quarterly expenses.
- Note 2: CEO Departure Charge – On July 11, 2006, we announced the departure of the company’s CEO and a severance charge of approximately \$0.029 per diluted share, which we incurred in the second quarter of 2006. Partially offsetting this charge was a \$0.006 per diluted share benefit associated with the forfeiture of the CEO’s stock options in accordance with FAS 123R. Therefore, the net charge for the CEO departure was \$0.023 per diluted share, which consisted of \$0.018 per diluted share of share-based payment expense and \$0.005 per diluted share of cash severance and other costs. Both amounts were included in SG&A expenses.
- Note 3: Unredeemed Gift Certificate Income – During the second quarter of 2006, we completed an analysis of our historical gift certificate and gift card redemption patterns, which included an independent actuarial study based on our historical redemption data. Based on this analysis, we concluded that the likelihood of our gift certificates and gift cards being redeemed beyond four years from the date of issuance is remote. As a result, we changed our estimate of the elapsed time for recording income associated with unredeemed gift certificates and gift cards to four years from our prior estimate of seven years. This change in estimate resulted in income recognition of \$0.065 per diluted share in the second quarter of fiscal year 2006 and was included as an offset in SG&A expenses.
- Note 4: VISA/MasterCard Litigation Settlement – During the second quarter of 2006, we received our share of the VISA/MasterCard antitrust litigation settlement. This settlement (a benefit) totaled approximately \$0.011 per diluted share and was included as an offset in SG&A expenses.
- Note 5: FASB Interpretation No. 48 – Accounting for Uncertainty in Income Taxes (“FIN 48”) – On January 29, 2007, we implemented FIN 48 which resulted in a negative cumulative effect adjustment to retained earnings of \$11.7 million and an approximate 200 basis point increase in the effective income tax rate or \$0.005 per diluted share in the first quarter of fiscal year 2007 and an approximate 160 basis point increase in the effective income tax rate or \$0.006 per diluted share in the second quarter of fiscal year 2007. Due to the seasonality of taxable income and the timing associated with taxable events, we expect the application of FIN 48 to negatively impact our 2007 quarterly effective income tax rates in the range of 60 to 200 basis points, with an expected full year rate impact of approximately 100 basis points or \$0.03 per diluted share.
- Note 6: SEC Regulation G – Non-GAAP Information - This table includes two non-GAAP financial measures. The first non-GAAP measure is the 2007 Diluted Earnings Per Share Excluding New Accounting Pronouncements. The second non-GAAP measure is the 2006 Diluted Earnings Per Share Excluding Unusual Business Events. We believe that these non-GAAP financial measures provide meaningful supplemental information for investors regarding the performance of our business and facilitates a meaningful evaluation of our quarterly and fiscal year 2007 diluted earnings per share guidance on a comparable basis with our 2006 quarterly and fiscal year results. Our management uses these non-GAAP financial measures in order to have comparable financial results to analyze changes in our underlying business from quarter to quarter. These non-GAAP financial measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP.