MAGNACHIP SEMICONDUCTOR Corp
Form CT ORDER
August 05, 2015

D WIDTH="72%"> Year Ended December 31 **2014** 2013

Additions to Net Assets Attributed to:

Contributions:

Employer

$106,634,032 $56,513,401

Employee

173,162,202 125,024,605

Rollover

24,374,401 15,842,669

304,170,635 197,380,675

Plan interest in Eaton Employee Savings Trust investment gain

139,580,803 719,956,171

Interest income

3,998,704 2,892,526

Total Additions before Transfers

447,750,142 920,229,372

Net Transfers from other plans

156,784 1,424,284,511

Total Additions

447,906,926 2,344,513,883

Deductions from Net Assets Attributed to:

Benefits paid to participants

488,425,618 275,147,822

Administrative expenses

722,426 189,109

Total Deductions

489,148,044 275,336,931

Net Increase (Decrease)	**(41,241,118)**	2,069,176,952
Net Assets Available for Benefits:		
Beginning of Year	**5,131,767,507**	3,062,590,555
End of Year	**$ 5,090,526,389**	$ 5,131,767,507

See accompanying notes.

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NOTES TO FINANCIAL STATEMENTS

Eaton Savings Plan

1 Description of Plan

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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RESTORATION HARDWARE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)

(Unaudited)

	Three Months Ended	
	May 3, 2014	**May 4, 2013**
Net revenues	$ 366,254	$ 301,337
Cost of goods sold	241,905	199,460
Gross profit	124,349	101,877
Selling, general and administrative expenses	119,571	101,366
Income from operations	4,778	511
Interest expense	(2,056)	(840)
Income (loss) before income taxes	2,722	(329)
Income tax expense (benefit)	927	(168)
Net income (loss)	$ 1,795	$ (161)
Weighted-average shares used in computing basic net income (loss) per share	39,152,923	38,076,026
Basic net income (loss) per share	$ 0.05	$
Weighted-average shares used in computing diluted income (loss) per share	40,787,726	38,076,026
Diluted net income (loss) per share	$ 0.04	$

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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RESTORATION HARDWARE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended	
	May 3, 2014	May 4, 2013
Net income (loss)	$ 1,795	$ (161)
Foreign currency translation adjustment net of tax	64	(31)
Total comprehensive income (loss)	$ 1,859	$ (192)

The accompanying notes are an integral part of these unaudited Condensed Consolidated Financial Statements.

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RESTORATION HARDWARE HOLDINGS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended	
	May 3, 2014	**May 4, 2013**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 1,795	$ (161)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	7,640	6,630
Excess tax benefit from exercise of stock options	(5,364)	
Stock-based compensation expense	2,231	3,631
Non-cash interest expense	168	168
Change in assets and liabilities:		
Accounts receivable	3,106	(672)
Merchandise inventories	(29,631)	(12,437)
Prepaid expense and other assets	(19,665)	(44,707)
Accounts payable and accrued expenses	4,346	25,978
Deferred revenue and customer deposits	338	1,257
Other current liabilities	(22,822)	534
Deferred rent and lease incentives	593	115
Other long-term obligations	46	41
Net cash used in operating activities	(57,219)	(19,623)
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(16,515)	(9,737)
100,823,523		275,219,694
Separate accounts	**(145,685,594)**	322,813,716
Common collective trusts	**40,529,693**	46,022,592
	$ 145,971,774	$ 736,920,579

At December 31, 2014 and 2013, respectively, the Eaton Fixed Income Fund was comprised of U.S. government securities (72% and 75%), corporate debt instruments (19% and 19%), interest bearing and non interest bearing cash (9% and 5%), and other investments (0% and 1%).

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4 Investments, Continued

The Master Trust funds are invested in various investments through the Fidelity Management Trust Company. Investments which constitute more than 5% of the Master Trust s net assets are:

	2014	2013
EB Money Market Fund	**N/A**	$ 186,962,482
Eaton Stable Value Fund	**$ 406,019,464**	$ 185,808,857
Eaton Fixed Income Fund	**N/A**	$ 204,931,330
Vanguard Institutional Index	**N/A**	$ 222,480,203
Vanguard Institutional Index Plus	**$ 537,897,212**	N/A
Fidelity Contrafund	**N/A**	$ 229,955,761
Eaton Shares Fund (A unitized fund consisting of Eaton ordinary shares and cash)	**$ 1,309,931,237**	$ 1,078,637,358

5 Party-in-Interest Transactions

Party-in-interest transactions included the investments in the ordinary shares of Eaton and the investment funds of the Trustee and the payments of administrative expenses by the Company. Such transactions are exempt from being prohibited transactions.

During 2014 and 2013, the Eaton Shares Fund received $38,267,212 and $24,468,628, respectively, in ordinary share dividends from Eaton, portions of which were a return of capital.

6 Benefit-Responsive Investment Fund

The Plan holds the Eaton Stable Value Fund, a fund co-managed by Standish Mellon Asset Management Company, LLC and Pacific Investment Management Company, LLC, that invests in benefit-responsive investment contracts. The fund is credited with earnings on the underlying investments and charged for participant withdrawals and administrative expenses. The traditional guaranteed investment contract issuers are contractually obligated to repay the principal and a specified interest rate that is guaranteed to the Plan and the synthetic contract issuers are contractually obligated to guarantee the payment of a specific interest rate to the Plan.

As described in Footnote 2, because the guaranteed investment contracts are fully benefit-responsive, contract value is the relevant measurement attribute for that portion of the net assets available for benefits attributable to the guaranteed investment contract. Contract value, as reported to the Plan by Standish Mellon and PIMCO, represents contributions made under the contracts, plus earnings, less participant withdrawals and administrative expenses. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value.

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6 Benefit-Responsive Investment Fund, Continued

The average market yield of the Fund was 2.59% (2014) and 1.87% (2013). This yield is calculated based on actual investment income from the underlying investments for the last month of the year, annualized and divided by the fair value of the investment portfolio on the report date. The average yield of the Fund with an adjustment to reflect the actual interest rate credited to participants in the Fund was 2.63% (2014) and 1.55% (2013).

There are no reserves against contract value for credit risk of the contract issuer or otherwise. The crediting interest rate is based on a formula agreed upon with the issuer, but it may not be less than zero percent. Such interest rates are reviewed quarterly for resetting.

The fair value is based on various valuation approaches dependent on the underlying investments of the contract.

Certain events limit the ability of the Plan to transact at contract value with the issuers. The Plan Administrator does not believe that the occurrence of any such value event, which would limit the Plan s ability to transact at contract value with participants, is probable.

The issuer may terminate the contract for cause at any time.

7 Transfers In

At the close of business on December 31, 2013, Cooper Industries Cooper Retirement Savings and Stock Ownership Plan was merged into the Plan. As a result, account balances totaling $1,397,824,695 and $22,865,634 in notes receivables from participants were transferred into the Plan.

8 Fair Value Measurements

In accordance with ASC 820, the Plan has categorized the financial instruments, based on the degree of subjectivity inherent in the valuation technique, into a fair value hierarchy of three levels, as follows:

Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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8 Fair Value Measurements, Continued

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2014 and 2013.

Registered investment companies (mutual funds), and separate accounts: Valued at the net asset value (NAV) of shares held by the Plan at year-end. Separate accounts may include U.S. government securities and corporate debt securities.

Common collective trusts: Valued at the net unit value of units held by the trust at year-end. The unit value is determined by dividing the total value of fund assets by the total number of units of the Fund owned.

Guaranteed investment contract: Valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the credit-worthiness of the issuer.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level on a recurring basis, within the fair value hierarchy, the Plan s investments at fair value as of December 31, 2014. There are no investments which fall under Level 3 of the hierarchy.

	Level 1 Fair Value	Level 2 Fair Value	Totals
Registered investment companies:			
Large-cap equity funds	$ 1,200,603,608	$ -	$ 1,200,603,608
Balanced funds	344,195,425	-	344,195,425
International equity funds	153,047,772	-	153,047,772
Mid-cap equity funds	156,765,034	-	156,765,034
Bond funds	134,250,506	-	134,250,506
Small-cap equity funds	118,862,071	-	118,862,071
REIT funds	58,180,817	-	58,180,817
Total	2,165,905,233	-	2,165,905,233
Guaranteed investment contracts:			
Stable value funds	-	364,768,451	364,768,451

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8 Fair Value Measurements, Continued

	Level 1 Fair Value	Level 2 Fair Value	Totals
Common collective trusts:			
Money market funds	**-**	**185,906,787**	**185,906,787**
Bond funds	**-**	**135,389,536**	**135,389,536**
Asset allocation funds	**-**	**411,133,925**	**411,133,925**
International equity funds	**-**	**86,369,093**	**86,369,093**
Mid-cap equity funds	**-**	**209,487,343**	**209,487,343**
Total	**-**	**1,028,286,684**	**1,028,286,684**
Separate accounts:			
Company stock funds	**-**	**1,292,946,604**	**1,292,946,604**
Bond funds	**-**	**160,960,995**	**160,960,995**
Total	**-**	**1,453,907,599**	**1,453,907,599**
Total investments at fair value	**$ 2,165,905,233**	**$ 2,846,962,734**	**$ 5,012,867,967**

The following table sets forth by level on a recurring basis, within the fair value hierarchy, the Plan s investments at fair value as of December 31, 2013. There are no investments which fall under Level 3 of the hierarchy.

	Level 1 Fair Value	Level 2 Fair Value	Totals
Registered investment companies:			
Large-cap equity funds	$ 794,563,811	$ -	$ 794,563,811
Balanced funds	239,630,723	-	239,630,723
International equity funds	159,194,674	-	159,194,674
Mid-cap equity funds	144,089,815	-	144,089,815
Bond funds	118,307,582	-	118,307,582
Small-cap equity funds	112,234,298	-	112,234,298
REIT funds	33,583,372	-	33,583,372
Total	1,601,604,275	-	1,601,604,275
Guaranteed investment contracts:			
Stable value funds	-	178,757,122	178,757,122

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8 Fair Value Measurements, Continued

	Level 1 Fair Value	Level 2 Fair Value	Total
Common collective trusts:			
Money market funds	-	180,152,381	180,152,381
Bond funds	-	76,249,310	76,249,310
Asset allocation funds	-	216,957,603	216,957,603
International equity funds	-	41,102,218	41,102,218
Mid-cap equity funds	-	84,987,003	84,987,003
Total	-	599,448,515	599,448,515
Separate accounts:			
Company stock funds	-	1,059,513,706	1,059,513,706
Bond funds	-	196,571,700	196,571,700
Total	-	1,256,085,406	1,256,085,406
Total investments at fair value	$ 1,601,604,275	$ 2,034,291,043	$ 3,635,895,318

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SCHEDULE OF ASSETS HELD FOR INVESTMENT PURPOSES AT END OF YEAR

Form 5500, Schedule H, Part IV, Line 4i

Eaton Savings Plan

EIN 34-0196300

Plan Number 055

December 31, 2014

(a)	(b) Identity of Issue, Borrower, Lessor, or Similar Party	(c) Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	(d) Cost		(e) Current Value
*	Interest in Eaton Employee Savings Trust Master Trust	Master Trust	N/A	$	4,648,099,516
*	Interest in Eaton Stable Value Fund - see Footnote 1	Guaranteed Investment Contract	N/A		347,398,409
*	Participant Loans	4.0 11.04%; various maturity dates	N/A		94,140,182
				$	5,089,638,107

Footnote 1 - denotes contract value

* Party-in-interest to the Plan.

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1,634,803

Weighted-average shares diluted	40,787,726	38,076,026

For the three months ended May 3, 2014, options and restricted stock units of 1,362,462 and 22,750, respectively, were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. For the three months ended May 4, 2013, options and restricted stock units of 8,246,577 and 41,713, respectively, were excluded from the calculation of diluted net loss per share because their inclusion would have been anti-dilutive due to the Company s net loss in the period.

NOTE 10 SHARE REPURCHASES

Certain options and awards granted under the Company s equity plans contain a repurchase right, which may be exercised at the Company s discretion in the event of the termination of an employee s employment with the Company. During the three months ended May 3, 2014, the Company repurchased 241,322 shares of common stock from former employees pursuant to such repurchase right. The shares were repurchased for fair value at a weighted-average price of $64.98 per share and were settled with the issuance of promissory notes bearing interest at 5%, paid annually, with principal due at the end of an 8-year term. During the three months ended May 4, 2013, the Company did not repurchase any common stock.

As of May 3, 2014, the aggregate unpaid principal amount of the promissory notes was $18.4 million, which is included in other long-term obligations on the condensed consolidated balance sheets.

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NOTE 11 STOCK-BASED COMPENSATION

The Company estimates the value of equity grants based upon an option-pricing model and recognizes this estimated value as compensation expense over the vesting periods. The Company recognizes expense associated with performance-based awards when it becomes probable that the performance condition will be met. Once it becomes probable that an award will vest, the Company recognizes compensation expense equal to the number of shares which have vested multiplied by the fair value of the related shares measured at the grant date.

Stock-based compensation expense is included in selling, general and administrative expenses on the condensed consolidated statements of operations. The Company recorded stock-based compensation expense of $2.2 million and $3.6 million in the three months ended May 3, 2014 and May 4, 2013, respectively. No stock-based compensation cost has been capitalized in the accompanying condensed consolidated financial statements.

2012 Stock Option Plan and 2012 Stock Incentive Plan

As of May 3, 2014, 6,134,091 options were outstanding with a weighted-average exercise price of $47.15 per share and 5,599,966 options were vested with a weighted-average exercise price of $46.18 per share. The aggregate intrinsic value of options outstanding, options vested or expected to vest, and options exercisable as of May 3, 2014 was $112.5 million, $112.1 million, and $108.2 million, respectively. Stock options exercisable as of May 3, 2014 had a weighted-average remaining contractual life of 8.57 years. As of May 3, 2014, the total unrecognized compensation expense related to unvested options was $9.4 million, which is expected to be recognized on a straight-line basis over a weighted-average period of 3.90 years.

As of May 3, 2014, the Company had 377,819 restricted stock awards outstanding with a weighted-average grant date fair value of $64.01 per share. During the three months ended May 3, 2014, 6,249 restricted stock awards with a weighted-average grant date fair value of $38.36 per share vested. As of May 3, 2014, there was $17.1 million of total unrecognized compensation expense related to unvested restricted stock awards which is expected to be recognized over a weighted-average period of 3.54 years.

2012 Equity Replacement Plan

In November 2012, in connection with the Company s initial public offering, Mr. Friedman and Mr. Alberini received unvested restricted shares under the Restoration Hardware 2012 Equity Replacement Plan in replacement of certain of their performance-based units granted under the Team Resto Ownership Plan. With respect to the 1,331,548 shares received by Mr. Friedman and Mr. Alberini in replacement of certain of their performance-based units, such shares began to vest during the period following the initial public offering when the price of the Company s common stock reached a 10-day average closing price per share of $31.00 for at least 10 consecutive trading days, and such shares fully vested when the price of the Company s common stock reached a 10-day average closing price per share of $46.50 for at least 10 consecutive trading days.

For Mr. Friedman, these units were marked to market every period through the satisfaction of the vesting criteria in accordance with ASC Topic 718 *Stock Compensation*, due to his advisory role of Creator and Curator from October 2012 to June 2013.

Prior to the three months ended May 4, 2013, 1,191,091 shares of the 1,331,548 shares received by Mr. Friedman and Mr. Alberini in replacement of certain of their performance-based units had vested in accordance with the performance objectives as described above. During three months ended May 4, 2013, the remaining unvested 140,457 shares of the 1,331,548 shares received by Mr. Alberini and Mr. Friedman had vested in accordance with the

performance objectives as described above. The Company recorded a non-cash compensation charge of $3.4 million related to these awards in the three months ended May 4, 2013, which is included in the total stock-based compensation amount above. In May 2013, all shares received by Mr. Friedman and Mr. Alberini in replacement of certain of their performance-based units had vested in accordance with the performance objectives. No additional compensation expense will be recorded in future periods related to these awards.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Commitments

The Company has no off balance sheet commitments as of May 3, 2014.

Contingencies

The Company is involved in lawsuits, claims and proceedings incident to the ordinary course of its business. These disputes are increasing in number as the business expands and the Company grows larger. Litigation is inherently unpredictable. As a result, the outcome of matters in which the Company is involved could result in unexpected expenses and liability that could adversely affect the Company s operations. In addition, any claims against the Company, 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.

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The Company reviews the need for any loss contingency reserves and establishes reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount of loss, if any, can be reasonably estimated. Generally, in view of the inherent difficulty of predicting the outcome of those matters, particularly in cases in which claimants seek substantial or indeterminate damages, it is not possible to determine whether a liability has been incurred or to reasonably estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no reserve is established until that time. As of May 3, 2014, the Company has recorded a liability for the estimated loss related to these disputes. There is a possibility that additional losses may be incurred in excess of the amounts that the Company has accrued. However, the Company believes that the ultimate resolution of these current matters will not have a material adverse effect on its condensed consolidated financial statements.

In the three month period ended May 3, 2014, material developments occurred in an ongoing legal proceeding involving the Company. On October 21, 2008, Mike Hernandez, individually and on behalf of others similarly situated, filed a class action in the Superior Court of the State of California for the County of San Diego against Restoration Hardware, Inc. alleging principally that the Company violated California s Song-Beverly Credit Card Act of 1971 by requesting and recording ZIP codes from customers paying with credit cards. On May 23, 2014, in response to a directive from the Court, the parties filed a joint statement as to the parties agreed-upon claims process for the class members as well as to other matters related to this proceeding, all of which remain subject to Court approval. As a result of these developments, the Company recorded a $9.2 million charge related to this matter during the three months ended May 3, 2014.

NOTE 13 SEGMENT REPORTING

The Company defines an operating segment on the same basis that it uses to evaluate performance internally by the Chief Operating Decision Maker (CODM). The Company has determined that the Chief Executive Officer is its CODM and there is one operating segment. Therefore, the Company reports as a single segment. This includes all sales channels accessed by the Company s customers, including sales through catalogs, sales through the Company s website and sales through the Company s stores.

The Company classifies its sales into furniture and non-furniture product lines. Furniture includes both indoor and outdoor furniture. Non-furniture includes lighting, textiles, accessories and home décor. Net revenues in each category were as follows (*in thousands*):

	Three Months Ended	
	May 3, 2014	**May 4, 2013**
Furniture	$ 209,741	$ 171,373
Non-furniture	156,513	129,964
Total net revenues	$ 366,254	$ 301,337

The Company is domiciled in the United States and operates stores in the United States and Canada. Revenues from Canadian operations, and the long-lived assets in Canada, are not material to the Company. Geographic revenues are determined based upon where service is rendered.

No single customer accounted for more than 10% of the Company s revenues in the three months ended May 3, 2014 or May 4, 2013.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of the financial condition and results of our operations should be read together with our condensed consolidated financial statements and the related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and the related notes included in our 2013 Form 10-K.

FORWARD-LOOKING STATEMENTS AND MARKET DATA

This quarterly report contains forward-looking statements that are subject to risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as anticipate, estimate, expect, project, plan, intend, believe, may, will, should, likely and other words and terms of similar connection with any discussion of the timing or nature of future operating or financial performance or other events.

Forward-looking statements are subject to risk and uncertainties that may cause actual results to differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under the sections entitled *Risk Factors* in Part II of this quarterly report and in our Annual Report on Form 10-K for the fiscal year ended February 1, 2014 (2013 Form 10-K), *Management s Discussion and Analysis of Financial Condition and Results of Operations*, and elsewhere in this quarterly report. All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements, as well as other cautionary statements. You should evaluate all forward-looking statements made in this quarterly report in the context of these risks and uncertainties.

We cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements included in this quarterly report are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

Overview

We are a leading luxury retailer in the home furnishings marketplace. Our collections of timeless, updated classics and reproductions are presented consistently across our sales channels in sophisticated and unique lifestyle settings that we believe are on par with world-class interior designers. We offer dominant merchandise assortments across a growing number of categories, including furniture, lighting, textiles, bathware, décor, outdoor and garden, tableware and children s furnishings. Our business is fully integrated across our multiple channels of distribution, consisting of our stores, catalogs and websites. We position our stores as showrooms for our brand, while our Source Books and websites act as virtual extensions of our stores. As of May 3, 2014, we operated 61 Galleries, 5 Full Line Design Galleries and 3 Baby & Child Galleries, as well as 17 outlet stores throughout the United States and Canada.

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Basis of Presentation and Results of Operations

The following table sets forth our statements of operations and other financial and operating data:

	Three Months Ended May 3, 2014	May 4, 2013
	(dollars in thousands, excluding per square foot store data)	
Statements of Operations:		
Net revenues	$ 366,254	$ 301,337
Cost of goods sold	241,905	199,460
Gross profit	124,349	101,877
Selling, general and administrative expenses	119,571	101,366
Income from operations	4,778	511
Interest expense	(2,056)	(840)
Income (loss) before income taxes	2,722	(329)
Income tax expense (benefit)	927	(168)
Net income (loss)	$ 1,795	$ (161)
Other Financial and Operating Data:		
Growth in net revenues:		
Stores [1]	19%	39%
Direct	24%	38%
Total	22%	38%
Comparable brand revenue growth [2]	18%	39%
Retail [3]:		
Retail stores open at beginning of period	70	71
Stores opened		2
Stores closed	1	3
Retail stores open at end of period	69	70
Retail sales per leased selling square foot [4]	$ 298	$ 284
Total leased square footage at end of period (in thousands)	792	796
Total leased selling square footage at end of period (in thousands) [5]	548	521
Average leased square footage [6]	795	783
Average leased selling square footage [6]	551	510
Direct:		
Direct as a percentage of net revenues [7]	48%	47%
Capital expenditures	$ 16,515	$ 9,737
Adjusted net income [8]	$ 7,153	$ 2,257

(1) Store data represents retail stores plus outlet stores.

(2) Comparable brand revenue growth includes retail comparable store sales, including Baby & Child Galleries, and direct net revenues. Comparable brand revenue growth excludes retail non-comparable store sales and outlet store net revenues. Comparable store sales have been calculated based upon retail stores, excluding outlet stores that were open at least fourteen full months as of the end of the reporting period and did not change square footage by more than 20% between periods. If a store is closed for seven days during a month, that month will be excluded from comparable store sales.

(3) Retail data has been calculated based upon retail stores, which includes our Baby & Child Galleries and excludes outlet stores.

(4) Retail sales per leased selling square foot is calculated by dividing total net revenues for all retail stores, comparable and non-comparable, by the average leased selling square footage for the period.

(5) Leased selling square footage is retail space at our stores used to sell our products. Leased selling square footage excludes backrooms at retail stores used for storage, office space or similar matters. Leased selling square footage excludes exterior sales space located outside a store, such as courtyards, gardens and rooftops. Leased selling square footage includes approximately 4,500 square feet related to one owned store location.

(6) Average square footage (leased or leased selling, as applicable) is calculated by taking the total applicable square footage at the beginning of the quarter plus the total applicable square footage at the end of the quarter and dividing by two.

(7) Direct revenues include sales through our catalogs and websites.

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(8) Adjusted net income is a supplemental measure of financial performance that is not required by, or presented in accordance with, generally accepted accounting principles (GAAP). We define adjusted net income as consolidated net income (loss), adjusted for the impact of certain non-recurring and other items that we do not consider representative of our ongoing operating performance. Adjusted net income is included in this filing because management believes that adjusted net income provides meaningful supplemental information for investors regarding the performance of our business and facilitates a meaningful evaluation of actual results on a comparable basis with historical results. Our management uses this non-GAAP financial measure in order to have comparable financial results to analyze changes in our underlying business from quarter to quarter. The following table presents a reconciliation of net income (loss), the most directly comparable GAAP financial measure, to adjusted net income for the periods indicated below.

	Three Months Ended	
	May 3, 2014	May 4, 2013
	(in thousands)	
Net income (loss)	$ 1,795	$ (161)
Adjustments pre-tax:		
Legal claim [a]	9,200	
Non-cash compensation [b]		3,323
Follow-on offering fees [c]		767
Subtotal adjusted items	9,200	4,090
Impact of income tax items [d]	(3,842)	(1,672)
Adjusted net income	$ 7,153	$ 2,257

(a) Represents charges incurred in connection with a legal claim alleging that the Company violated California s Song-Beverly Credit Card Act of 1971 by requesting and recording ZIP codes from customers paying with credit cards. For additional information, please see Note 12 *Commitments and Contingencies* to our condensed consolidated financial statements within Part I of this Quarterly Report on Form 10-Q.
(b) Represents a non-cash compensation charge related to the performance-based vesting of certain shares granted to Gary Friedman, our Chief Executive Officer.
(c) Represents legal and other professional fees incurred in connection with our May 2013 follow-on offering.
(d) Assumes a normalized tax rate of 40% for both periods presented.

The following table sets forth our consolidated statements of operations as a percentage of total net revenues:

	Three Months Ended	
	May 3, 2014	May 4, 2013
Statements of Operations:		
Net revenues	100.0%	100.0%
Cost of goods sold	66.0	66.2

Gross profit	34.0	33.8
Selling, general and administrative expenses	32.7	33.6
Income from operations	1.3	0.2
Interest expense	(0.6)	(0.3)
Income (loss) before income taxes	0.7	(0.1)
Income tax expense (benefit)	0.2	(0.1)
Net income (loss)	0.5%	%

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We operate a fully integrated distribution model through our stores, catalogs and websites. The following table shows a summary of our Stores net revenues, which include all sales for orders placed in retail stores as well as sales through outlet stores, and our Direct net revenues, which include sales through our catalogs and websites.

	Three Months Ended	
	May 3, 2014	May 4, 2013
	(in thousands)	
Stores	$ 189,849	$ 159,313
Direct	176,405	142,024
Net revenues	$ 366,254	$ 301,337

Three Months Ended May 3, 2014 Compared to Three Months Ended May 4, 2013

Net revenues

Net revenues increased $65.0 million, or 21.5%, to $366.3 million in the three months ended May 3, 2014 compared to $301.3 million in the three months ended May 4, 2013. We had 69 and 70 retail stores open at May 3, 2014 and May 4, 2013, respectively. Stores sales increased $30.5 million, or 19.2%, to $189.8 million in the three months ended May 3, 2014 compared to $159.3 million in the three months ended May 4, 2013. Direct sales increased $34.4 million, or 24.2%, to $176.4 million in the three months ended May 3, 2014 compared to $142.0 million in the three months ended May 4, 2013. Comparable brand revenue growth was 18% and 39% for the three months ended May 3, 2014 and May 4, 2013, respectively. We believe that the increase in comparable brand revenue was due primarily to a favorable reaction to our merchandise assortment, including the expansion of existing product categories, and the introduction of new product categories.

Gross profit

Gross profit increased $22.4 million, or 22.1%, to $124.3 million in the three months ended May 3, 2014 from $101.9 million in the three months ended May 4, 2013. As a percentage of net revenues, gross margin increased 0.2% to 34.0% of net revenues in the three months ended May 3, 2014 from 33.8% of net revenues in the three months ended May 4, 2013.

The increase in gross margin as a percentage of net revenues was primarily driven by higher merchandise margins in our core business, as well as improvements in our shipping costs and leverage of our retail fixed occupancy costs. These increases were partially offset by higher outlet sales due to increased outlet square footage, an increase in inventory related charges, as well as deleverage in our supply chain occupancy costs.

Selling, general and administrative expenses

Selling, general and administrative expenses increased $18.2 million, or 18.0%, to $119.6 million in the three months ended May 3, 2014 compared to $101.4 million in the three months ended May 4, 2013.

Selling, general and administrative expenses for the three months ended May 3, 2014 included a $9.2 million charge incurred in connection with a legal claim alleging that the Company violated California s Song-Beverly Credit Card

Act of 1971 by requesting and recording ZIP codes from customers paying with credit cards. This charge is based on a joint filing made with Plaintiffs that is currently pending before the Court.

Selling, general and administrative expenses for the three months ended May 4, 2013 included (i) a $3.3 million non-cash compensation charge related to the performance-based vesting of certain shares granted to Mr. Friedman in connection with the Reorganization and initial public offering and (ii) $0.8 million of costs incurred in connection with our May 2013 follow-on offering.

The increase in selling, general and administrative expenses, excluding the charge incurred in connection with a legal claim and the one-time and non-cash compensation items mentioned above, was primarily related to an increase in employment costs due to company growth and an increase in corporate occupancy costs associated with our corporate office expansion.

Selling, general and administrative expenses were 30.1% and 32.3% of net revenues for the three months ended May 3, 2014 and May 4, 2013, respectively, excluding the charge incurred in connection with a legal claim and the one-time and non-cash compensations items mentioned above. The improvement in selling, general and administrative expenses as a percentage of net revenues was primarily driven by advertising savings resulting from the change in our source book strategy, as well as a reduction in Gallery preopening costs and leverage on other corporate expenses.

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Interest expense

Interest expense was $2.1 million in the three months ended May 3, 2014 compared to $0.8 million in the three months ended May 4, 2013. This increase was primarily due to interest expense of $0.8 million related to accounting for build-to-suit transactions under ASC 840 for certain of our Full Line Design Galleries, as well as due to an increase in the amount of borrowings under the revolving line of credit during the three months ended May 3, 2014.

Income tax expense (benefit)

Income tax expense was $0.9 million in the three months ended May 3, 2014 compared to a benefit of $0.2 million in the three months ended May 4, 2013. Our effective tax rate was 34.04% in the three months ended May 3, 2014 compared to 51.06% in the three months ended May 4, 2013. During the three months ended May 3, 2014, we received a Canadian tax refund of $0.2 million which reduced our effective tax rate. The effective tax rate for the three months ended May 4, 2013 was significantly impacted by (i) our reporting a loss before income taxes, (ii) non-deductible stock-based compensation and (iii) other non-deductible expenses.

Liquidity and Capital Resources

General

Our business relies on cash flows from operations and the revolving line of credit as our primary sources of liquidity. Our primary cash needs are for merchandise inventories, payroll, Source Books and other catalogs, store rent, capital expenditures associated with opening new stores and updating existing stores, as well as infrastructure and information technology. The most significant components of our working capital are cash and cash equivalents, merchandise inventories, accounts receivable, accounts payable and other current liabilities. Our working capital varies as a result of increases in our inventory levels and costs related to our catalogs. Our borrowings have generally increased as a result of the growth of our business and ongoing transformation of our retail stores. We believe that cash expected to be generated from operations, and borrowing availability under the revolving line of credit or other financing arrangements, will be sufficient to meet working capital requirements, anticipated capital expenditures and payments due under our revolving line of credit for at least the next 12 24 months. Our investments in capital expenditures for fiscal 2014 are planned at approximately $115 million to $125 million, of which $16.5 million was spent during the three months ended May 3, 2014. Our fiscal 2014 capital expenditures will primarily relate to our efforts to continue our growth and expansion, including construction of Full Line Design Galleries and infrastructure investments.

Cash Flow Analysis

A summary of operating, investing, and financing activities is shown in the following table:

	Three Months Ended	
	May 3, 2014	May 4, 2013
	(in thousands)	
Used in operating activities	$ (57,219)	$ (19,623)
Used in investing activities	(16,515)	(9,737)
Provided by financing activities	71,283	30,653

Increase (decrease) in cash and cash equivalents	(2,447)	1,315
Cash and cash equivalents at end of period	10,942	9,669

Net Cash Used In Operating Activities

Cash from operating activities consists primarily of net income (loss) adjusted for non-cash items including depreciation and amortization, stock-based compensation and the effect of changes in working capital and other activities.

For the three months ended May 3, 2014, net cash used in operating activities was $57.2 million and consisted of an increase in working capital and other activities of $63.7 million, offset by non-cash items of $4.7 million and net income of $1.8 million. Working capital and other activities consisted primarily of increases in inventory of $29.6 million in anticipation of the 2014 spring collection and outdoor selling season, decreases in other current liabilities of $22.8 million related to decreases in federal and state tax payables due to payments made during the period, and increases in prepaid expense of $18.3 million primarily due to an increase in catalog costs associated with the Spring 2014 Source Books. These uses of cash from working capital components were partially offset by increases in accrued liabilities and accounts payable of $4.3 million and increases in accounts receivable of $3.1 million.

For the three months ended May 4, 2013, net cash used in operating activities was $19.6 million and consisted of an increase in working capital and other activities of $29.9 million and a net loss of $0.2 million, offset by non-cash items of $10.4 million. Working

capital and other activities consisted primarily of increases in prepaid expense of $44.3 million primarily due to an increase in catalog costs associated with the Spring 2013 Source Book and the introduction of our Tableware and Objects of Curiosity Source Books, and an increase in inventory of $12.4 million in anticipation of the 2013 spring collection and outdoor selling season. These uses of cash from working capital components were partially offset by increases in accrued liabilities and accounts payable of $26.0 million primarily due to timing of payments.

Net Cash Used In Investing Activities

Investing activities consist primarily of investments in capital expenditures related to new store openings and improvements in supply chain and systems infrastructure.

For the three months ended May 3, 2014, net cash used in investing activities was $16.5 million primarily as a result of investments in new and existing stores, investment in information technology, investment in supply chain and systems infrastructure, and renovations to our corporate headquarters.

For the three months ended May 4, 2013, net cash used in investing activities was $9.7 million primarily as a result of investments in new stores and investment in supply chain and systems infrastructure.

Net Cash Provided By Financing Activities

Financing activities consist primarily of borrowings and repayments related to the revolving line of credit, capital leases and equity activity.

For the three months ended May 3, 2014, net cash provided by financing activities was $71.3 million primarily due to net borrowings under the revolving line of credit of $63.7 million resulting from an increase in inventory purchases during the period, spend associated with our Spring 2014 Source Books and capital expenditures related to investments in new stores and our supply chain. In addition, excess tax benefits from the exercise of stock options of provided $5.4 million and net proceeds from the exercise of stock options provided $3.5 million.

For the three months ended May 4, 2013, net cash provided by financing activities was $30.7 million primarily due to an increase in net borrowings under the revolving line of credit of $31.5 million resulting from an increase in inventory purchases during the period and capital expenditures related to investments in new stores and our supply chain.

Revolving Line of Credit

In August 2011, Restoration Hardware, Inc., along with its Canadian subsidiary, Restoration Hardware Canada, Inc., entered into a credit agreement with Bank of America, N.A., as administrative agent, and certain other lenders. This credit agreement modified a previous facility under which Restoration Hardware, Inc. had a revolving line of credit for up to $190.0 million. Under the credit agreement, which has a maturity date of August 3, 2016, Restoration Hardware, Inc. has a revolving line of credit available of up to $417.5 million (following Restoration Hardware, Inc. s exercise of the commitment increase option on November 1, 2012, as described below), of which $10.0 million is available to Restoration Hardware Canada, Inc.

Under the credit agreement s commitment increase provision, Restoration Hardware, Inc. had the option to increase the amount of the revolving line of credit by up to an additional $100.0 million, provided that, among other things, the existing lenders or additional lenders agreed to participate in the increased loan commitments under the revolving line of credit, no default under the credit agreement then existed or would result from such increase and sufficient

borrowing base collateral was available to support increased loan amounts. On November 1, 2012, Restoration Hardware, Inc. increased the amount of the revolving line of credit by $100.0 million pursuant to this commitment increase provision.

The availability of credit at any given time under the revolving line of credit is limited by reference to a borrowing base formula based upon numerous factors, including the value of eligible inventory, eligible accounts receivable, eligible real estate, and, in the case of the term loan, registered trade names and reserves established by the administrative agent. As a result of the borrowing base formula, the actual borrowing availability under the revolving line of credit could be less than the stated amount of the revolving line of credit (as reduced by the actual borrowings and outstanding letters of credit under the revolving line of credit). All obligations under the credit agreement are secured by substantially all of Restoration Hardware, Inc. s assets, including accounts receivable, inventory, intangible assets, property, equipment, goods and fixtures.

Borrowings under the revolving line of credit are subject to interest, at the borrowers option, at either the bank s reference rate or LIBOR (or the BA Rate or the Canadian Prime Rate, as such terms are defined in the credit agreement, for Canadian borrowings denominated in Canadian dollars or the United States Index Rate or LIBOR for Canadian borrowings denominated in United States dollars) plus an applicable margin rate, in each case. The weighted-average interest rate for the revolving line of credit was 2.32% as of May 3, 2014.

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As of May 3, 2014, Restoration Hardware, Inc. had $149.1 million outstanding and $229.4 million undrawn borrowing availability under the revolving line of credit. As of May 3, 2014, there were $18.5 million in outstanding letters of credit.

The credit agreement contains various restrictive covenants, including, among others, limitations on the ability to incur liens, make loans or other investments, incur additional debt, issue additional equity, merge or consolidate with or into another person, sell assets, pay dividends or make other distributions or enter into transactions with affiliates, along with other restrictions and limitations typical to credit agreements of this type and size. The credit agreement does not contain any significant financial or coverage ratio covenants unless the availability under the revolving line of credit is less than the greater of (i) $17.5 million and (ii) 10% of the lesser of (A) the aggregate maximum commitments under the revolving line of credit and (B) the domestic borrowing base. If the availability under the revolving line of credit is less than the foregoing amount, then Restoration Hardware, Inc. is required to maintain a consolidated fixed charge coverage ratio of at least one to one. Such ratio is approximately the ratio on the last day of each month on a trailing twelve-month basis of (a) (i) consolidated EBITDA (as defined in the agreement) minus (ii) capital expenditures, minus (iii) the income taxes paid in cash to (b) the sum of (i) debt service charges plus (ii) certain dividends and distributions paid. As of May 3, 2014, Restoration Hardware, Inc. was in compliance with all covenants, and if the availability under the revolving line of credit were less than the amount described above, Restoration Hardware, Inc. would have been in compliance with the consolidated fixed charge coverage ratio described in the previous sentence. The credit agreement requires a daily sweep of cash to prepay the loans under the credit agreement while (i) an event of default exists or (ii) the availability under the revolving line of credit for extensions of credit to Restoration Hardware, Inc. is less than the greater of (A) $20.0 million and (B) 15% of the lesser of the aggregate maximum commitments and the domestic borrowing base.

Contractual Obligations

We enter into long-term contractual obligations and commitments, primarily debt obligations and non-cancelable operating leases, in the normal course of business. As of May 3, 2014, our contractual cash obligations over the next several periods were as follows:

	Payments Due by Period				
	Total	Remainder of 2014	2015 2016	2017 2018	Thereafter
	(in thousands)				
Revolving line of credit [1]	$ 149,146	$	$ 149,146	$	$
Operating leases [2]	607,479	53,368	126,907	102,347	324,857
Other long-term obligations [3]	441,345	38,905	82,573	43,735	276,132
Capital lease obligations	1,359	863	395	101	
Letters of credit	18,540	18,540			
Total	$ 1,217,869	$ 111,676	$ 359,021	$ 146,183	$ 600,989

(1) Excludes estimated interest under the revolving line of credit. The revolving line of credit has a maturity date of August 3, 2016.

(2)

We enter into operating leases in the normal course of business. Most lease arrangements provide us with the option to renew the leases at defined terms. The future operating lease obligations would change if we were to exercise these options, or if we were to enter into additional new operating leases. Amounts above do not include estimated contingent rent due under operating leases of $1.9 million at May 3, 2014.

(3) Other long-term obligations include estimated timing and amounts of payments for rent and tenant improvements associated with build-to-suit lease arrangements.

As of May 3, 2014, the liability of $1.4 million for unrecognized tax benefits associated with uncertain tax positions (see Note 8 *Income Taxes* to our condensed consolidated financial statements) has not been included in the contractual obligations table above because we are not able to reasonably estimate when cash payments for these liabilities will occur or the amount by which these liabilities will increase or decrease over time.

Off Balance Sheet Arrangements

We have no material off balance sheet arrangements as of May 3, 2014.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in our consolidated financial statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates its accounting policies, estimates, and

judgments on an on-going basis. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions and such differences could be material to the consolidated financial statements.

Management evaluated the development and selection of its critical accounting policies and estimates and believes that the following involve a higher degree of judgment or complexity and are most significant to reporting our consolidated results of operations and financial position, and are therefore discussed as critical:

- Revenue Recognition
- Merchandise Inventories
- Advertising Expenses
- Impairment of Goodwill and Long-Lived Assets
- Lease Accounting
- Stock-Based Compensation
- Income Taxes

For further discussion regarding these policies, refer to *Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates* in the 2013 Form 10-K. There have been no material changes to the critical accounting policies and estimates listed in the 2013 Form 10-K.

Recent Accounting Pronouncements

See Note 2 *Recent Accounting Pronouncements* to the accompanying condensed consolidated financial statements for a description of recently proposed accounting standards which may impact our financial statements in future reporting periods.

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Item 3. Quantitative and Qualitative Disclosure of Market Risks

Interest Rate Risk

We are subject to interest rate risk in connection with borrowings under our revolving line of credit which bears interest at variable rates. At May 3, 2014, $149.1 million was outstanding under the revolving line of credit. As of May 3, 2014, the undrawn borrowing availability under the revolving line of credit was $229.4 million and there were $18.5 million in outstanding letters of credit. We currently do not engage in any interest rate hedging activity and we have no intention to do so in the foreseeable future. Based on the average interest rate on the revolving line of credit during the three months ended May 3, 2014, and to the extent that borrowings were outstanding, we do not believe that a 10% change in the interest rate would have a material effect on our consolidated results of operations or financial condition.

Impact of Inflation

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our consolidated results of operations and financial condition have been immaterial.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated 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. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of May 3, 2014 our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and include controls and procedures designed to ensure that the information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

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.

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PART II

Item 1. Legal Proceedings.

From time to time we and/or our management are involved in litigation, claims and other proceedings relating to the conduct of our business, including purported class action litigation. Such legal proceedings may include claims related to our employment practices, claims of intellectual property infringement, including with respect to trademarks and trade dress, claims asserting unfair competition and unfair business practices, claims with respect to our collection and sale of reproduction products, and consumer class action claims relating to our consumer practices including the collection of zip code or other information from customers. In addition, from time to time, we are subject to product liability and personal injury claims for the products that we sell and the stores we operate. Subject to certain exceptions, our purchase orders generally require the vendor to indemnify us against any product liability claims; however, if the vendor does not have insurance or becomes insolvent, we may not be indemnified. In addition, we could face a wide variety of employee claims against us, including general discrimination, privacy, labor and employment, ERISA and disability claims. Any claims could result in litigation against us and could also result in regulatory proceedings being brought against us by various federal and state agencies that regulate our business, including the U.S. Equal Employment Opportunity Commission. Often these cases raise complex factual and legal issues, which are subject to risks and uncertainties and which could require significant management time. Litigation and other claims and regulatory proceedings against us could result in unexpected expenses and liability and could also materially adversely affect our operations and our reputation.

For additional information, please see Note 12 *Commitments and Contingencies* to our condensed consolidated financial statements within Part I of this Quarterly Report on Form 10-Q.

Item 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks that could materially and adversely affect our business, financial condition, prospects, operating results or cash flows. For a detailed discussion of the risks that affect our business, please refer to the section entitled Risk Factors in our Annual Report on Form 10-K for the fiscal year ended February 1, 2014 (2013 Form 10-K). We have updated the risk factor identified below which was previously disclosed in our 2013 Form 10-K.

Our growth strategy and performance depend on our ability to purchase our merchandise in sufficient quantities at competitive prices, including our products that are produced by artisans and specialty vendors, and any disruptions we experience in our ability to obtain our products in a timely fashion or in the quantities required could have a material adverse effect on our business.

We do not own or operate any manufacturing facilities. We instead purchase all of our merchandise from a large number of vendors, many of which are the sole sources for particular products. Our growth strategy includes expanding the amount of products we sell, and our performance depends on our ability to purchase our merchandise in sufficient quantities at competitive prices. However, many of our key products are produced by artisans, specialty vendors and other vendors that may have limited production capacity. In addition, some of our vendors are small and undercapitalized firms. A number of our vendors, particularly our artisan vendors, may have limited resources, production capacities and operating histories. As a result, the capacity of some of our vendors to meet our supply requirements has been, and may in the future be, constrained at various times and our vendors may be susceptible to production difficulties or other factors that negatively affect the quantity or quality of their production during future periods. A disruption in the ability of our significant vendors to access liquidity could also cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their ability to manufacture

or ship products to us.

Any difficulties that we experience in our ability to obtain products in sufficient quality and quantity from our vendors could have a material adverse effect on our business. In fiscal 2013, we purchased approximately 74% of our merchandise from vendors that are located abroad. Our ability to obtain desired merchandise in sufficient quantities could be impaired by events that adversely affect our vendors or the locations in which they operate, such as difficulties or problems associated with our vendors operations, business, finances, labor, economic and political environment (including impact of war, rebellion or any other conflicts), importation of products, costs, production, insurance and reputation. Failure of vendors to produce adequate quantities of merchandise in a timely manner has resulted in back orders, order cancelations, increased freight costs and lower revenue in certain periods of our business operation. While we believe our vendors have the capacity to meet our demand, we cannot assure you that our vendors will be able to produce adequate quantities of merchandise in a timely manner in the future.

We also do not have long-term contracts or other contractual assurances of continued supply, pricing or access to new products with our vendors, and generally we transact business with our vendors on an order-by-order basis. Therefore, any vendor could discontinue selling to us at any time. Any disruptions we experience in our ability to obtain our products in a timely fashion or in the quantities required could have a material adverse effect on our business.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Repurchases of Common Stock during the Three Months Ended May 3, 2014

During the three months ended May 3, 2014, we repurchased the following shares of our common stock:

	Number of Shares	Average Purchase Price Per Share
February 2, 2014 to March 1, 2014		
Stock repurchases [1]	956	$ 55.96
March 2, 2014 to April 5, 2014		
Stock repurchases [1]	238,554	65.06
Shares withheld from delivery [2]	632,824	73.02
April 6, 2014 to May 3, 2014		
Stock repurchases [1]	1,812	59.95
Shares withheld from delivery [2]	7,674	67.57
Total	881,820	$ 70.78

(1) Reflects shares of common stock repurchased from former employees of the Company in connection with certain options and awards granted under the Company s stock plans that contain repurchase rights. For additional information, please see Note 10 *Share Repurchases* to our condensed consolidated financial statements within Part I of this Quarterly Report on Form 10-Q.

(2) Reflects shares withheld from delivery to satisfy exercise price and tax withholding obligations of employee recipients that occur upon the exercise of stock options and vesting of restricted stock units granted under the Company s 2012 Stock Option Plan or the Company s 2012 Stock Incentive Plan.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

Not applicable.

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Item 6. Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File Number	Date of First Filing	Exhibit Number	Filed Herewith
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.					X
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.					X
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.					X
101.INS	XBRL Instance Document					X
101.SCH	XBRL Taxonomy Extension Schema Document					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document					X

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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, thereunto duly authorized.

Restoration Hardware Holdings, Inc.

Date: June 12, 2014 By: **/s/ Gary Friedman**
Gary Friedman
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: June 12, 2014 By: **/s/ Karen Boone**
Karen Boone
Chief Financial and Administrative Officer
(Principal Financial Officer and Principal Accounting Officer)

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