

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 4
to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

RESTORATION HARDWARE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

5712
(Primary Standard Industrial
Classification Code Number)

45-3052669
(I.R.S. Employer
Identification Number)

15 Koch Road, Suite J
Corte Madera, CA 94925
(415) 924-1005

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Chairman and Co-Chief Executive Officer
Carlos E. Alberini
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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. []

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer [] Accelerated filer []
Non-accelerated filer [X] (Do not check if a smaller reporting company) Smaller reporting company []

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary prospectus is not complete and may be changed. We and the selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state or other jurisdiction where the offer or sale is not permitted.

Subject to Completion
Preliminary Prospectus dated June 26, 2012

PROSPECTUS

Shares
RESTORATION HARDWARE
Class A Common Stock

This is Restoration Hardware Holdings, Inc.'s initial public offering.

We are selling _____ shares of our Class A common stock and the selling stockholders identified in this prospectus are selling shares of our Class A common stock. We will not receive any of the proceeds from the sale of shares to be offered by the selling stockholders.

Following this offering, we will have two classes of authorized common stock, Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock will be identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to 3.5 votes per share and is convertible into one share of Class A common stock upon the occurrence of certain events. Upon completion of this offering, holders of our Class B common stock will control common stock representing _____ % of the total voting power of our common stock.

We expect the public offering price to be between \$ _____ and \$ _____ per share of Class A common stock. Prior to this offering, there has been no public market for the Class A common stock. After pricing this offering, we expect that the Class A common stock will trade on the NYSE under the symbol "RH."

Investing in our Class A common stock involves risks that are described in the "Risk Factors" section beginning on page 19 of this prospectus.

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$ _____	\$ _____
Underwriting discount	\$ _____	\$ _____
Proceeds, before expenses, to us	\$ _____	\$ _____
Proceeds, before expenses, to the selling stockholders	\$ _____	\$ _____

The underwriters may also exercise their option to purchase up to an additional _____ shares of Class A common stock from the selling stockholders, at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus. In connection with this offering, fees will be paid to the qualified independent underwriter. See "Underwriting."

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The shares of Class A common stock will be ready for delivery on or about _____, 2012.

BofA Merrill Lynch

Baird

William Blair

Piper Jaffray

Goldman, Sachs & Co.

Stifel Nicolaus Weisel

The date of this prospectus is _____, 2012.

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You should rely only on the information contained in this prospectus or in any free writing prospectus that we authorize to be delivered to you. Neither we nor the selling stockholders or underwriters have authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

BASIS OF PRESENTATION

We use a 52 – 53 week fiscal year ending on the Saturday closest to January 31. Fiscal years are identified in this prospectus according to the calendar year prior to the calendar year in which they end. For example, references to “2011,” “fiscal 2011” or similar references refer to the fiscal year ended January 28, 2012.

All of the outstanding capital stock of Restoration Hardware, Inc. was acquired on June 16, 2008, by Home Holdings, LLC, which we refer to in this prospectus as the “Acquisition.” Home Holdings’ equity interests are held primarily by (i) CP Home Holdings, LLC, an investment entity managed by funds affiliated with Catterton Management Company, LLC, (ii) Tower Three Home LLC, an investment fund managed by Tower Three Partners, LLC, and (iii) funds affiliated with Glenhill Capital Management LLC. In this prospectus, we refer to CP Home Holdings, LLC and its affiliated funds as “Catterton,” we refer to Tower Three Home LLC and its affiliated funds as “Tower Three” and we refer to Glenhill Capital Management LLC and its affiliated funds as “Glenhill.” As a result of the Acquisition, a new basis of accounting was created beginning June 17, 2008. In this prospectus, the periods prior to the Acquisition are referred to as the “Predecessor” periods and the periods after the Acquisition are referred to as the “Successor” periods. The Predecessor periods presented in this prospectus for 2008 include the period from February 3, 2008 through June 16, 2008, reflecting approximately 19 weeks of operations, and the Successor periods presented in this prospectus for 2008 include the period from June 17, 2008 through January 31, 2009, reflecting approximately 33 weeks of operations. Due to the Acquisition, the financial statements presented in this prospectus for the Successor periods are not comparable to those of the Predecessor periods.

In this prospectus, when we refer to “store level cash contribution margin,” we mean store net revenues less product costs and cash operating costs related to store operations, divided by store net revenues.

In this prospectus, when we refer to “store demand” in a market, we mean the dollar value of orders booked by customers associated with that particular location for the specified period.

In this prospectus, when we refer to “direct demand” in a market, we mean the dollar value of orders booked by customers through catalogs and e-commerce in that market for the specified period.

PROSPECTUS SUMMARY

This summary highlights some of the key information contained elsewhere in this prospectus. This summary does not contain all of the information that you should consider in making your investment decision. You should read the following summary together with the entire prospectus carefully, including "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," the more detailed information regarding our Company and the common stock being sold in this offering, as well as our consolidated financial statements and the related notes appearing elsewhere in this prospectus, before deciding to invest in our common stock. Some of the statements in this prospectus constitute forward-looking statements. See "Forward-Looking Statements and Market Data."

Except where the context otherwise requires or where otherwise indicated, the terms "Restoration Hardware," "we," "us," "our," "our Company" and "our business" refer, prior to the Reorganization discussed below, to Restoration Hardware, Inc. and, after the Reorganization, to Restoration Hardware Holdings, Inc., in each case together with its consolidated subsidiaries, including Restoration Hardware, Inc., as a combined entity. The term "Restoration Hardware Holdings" refers to Restoration Hardware Holdings, Inc. and the term "Home Holdings" refers to Home Holdings, LLC, and, in each case, not to any of their subsidiaries.

Our Company

We believe Restoration Hardware is one of the most innovative and fastest growing luxury brands in the home furnishings marketplace. We believe our brand stands alone and is redefining this highly fragmented and growing market, contributing to our superior sales growth and market share gains over the past several years as compared to industry growth rates. Our ability to innovate, curate and integrate products, categories, services and businesses with a completely authentic and distinctive point of view, then rapidly scale them across our fully integrated multi-channel infrastructure is a powerful platform for continued long-term growth. Additionally, our unique product development, go-to-market and supply chain capabilities, together with our significant scale, enable us to offer a compelling combination of design, quality and value that we believe is unparalleled in the marketplace.

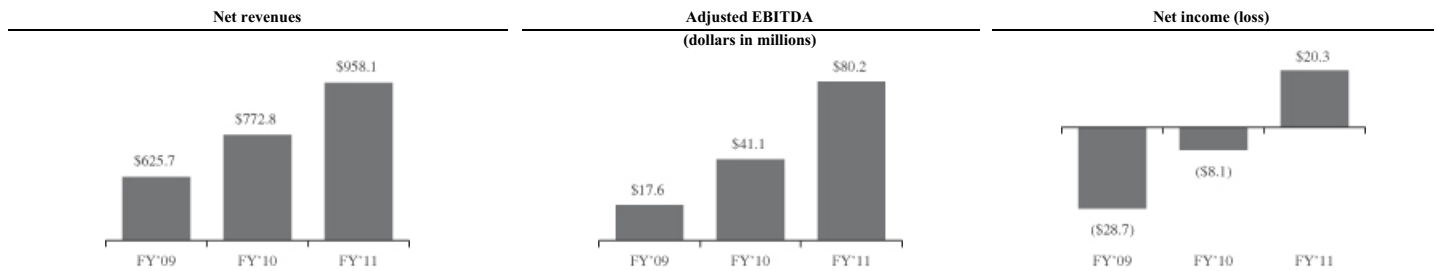
Our business is fully integrated across our multiple channels of distribution, consisting of our stores, catalogs and websites. As of April 28, 2012, we operated a total of 74 retail stores, consisting of 72 Galleries and 2 full line Design Galleries, and 10 outlet stores throughout the United States and Canada. In fiscal 2011, we distributed approximately 26.1 million catalogs, and our websites logged over 14.3 million unique visits.

Over the last several years, we achieved strong growth in sales and profitability, as illustrated by the following:

- From fiscal 2009 to fiscal 2011, we increased our net revenues 53% to \$958.1 million, our Adjusted EBITDA 356% to \$80.2 million and our Adjusted EBITDA margin by 555 basis points to 8.4%. Over the same time period we increased our net income by \$49.0 million from a net loss of \$28.7 million to net income of \$20.3 million; and

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- We achieved nine consecutive quarters of double-digit net revenue growth through our fiscal quarter ended April 28, 2012. We achieved this growth as we reduced our store base from 95 retail locations as of January 30, 2010, to 74 locations as of April 28, 2012.



See “Prospectus Summary—Summary Historical Consolidated Financial and Operating Data” for a discussion of Adjusted EBITDA and a reconciliation of the differences between Adjusted EBITDA and net income (loss).

Our Competitive Strengths

We attribute our success to the following competitive strengths:

Our Market-Redefining Luxury Brand. We believe Restoration Hardware stands alone as a leading luxury brand of inspired design, and is redefining the highly fragmented home furnishings market by offering a compelling combination of design, quality and value. We believe we are changing the home furnishings landscape by attracting affluent consumers from designer showrooms and high-end boutiques, as well as aspirational consumers trading up from department stores and other home furnishings retailers. In a market characterized by smaller, independent competitors, we believe our luxury positioning, superior quality and significant scale enable us to grow our market share.

Our Unique Development Model. We believe our unique approach to the development of new products, categories and services enables us to gain market share, adapt our business to emerging trends, stay relevant with our customers and enter into new businesses that leverage our strengths. The foundation of our unique development model is:

- Innovation.* We are dedicated to offering products and services that push established boundaries. The scope of our innovation is demonstrated in every aspect of our organization, including in our products and services, our stores and presentation, our channel-agnostic go-to-market strategy and our fully integrated supply chain and systems infrastructure.
- Curation.* At our core we are not designers, rather we are curators and composers of inspired design and experiences. We travel the world in search of people, ideas, items, experiences and inspiration, and then create a composition that is unique and entirely our own.
- Integration.* Everything we curate and compose must be beautifully and intelligently integrated, enhancing the appeal of our offering and experience. This process involves both “art and science” as we integrate new products, categories, services and businesses that enhance our existing offering, and as our supporting functions and infrastructure are integrated to achieve our goals.

Our ability to innovate, curate and integrate products, categories, services and businesses, then rapidly scale them across our fully integrated multi-channel infrastructure is a powerful platform for continued long-term growth.

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Our Superior Capabilities. Our product development and multi-channel go-to-market capabilities, together with our fully integrated infrastructure and significant scale, enable us to offer a compelling combination of design, quality and value that we believe is unparalleled in the marketplace.

- *Highly Differentiated Product Development Capabilities.* We have established a cross-functional organization centered on product leadership, with teams that collaborate across functions and work closely with our network of artisan partners. Our product development platform and significant scale have enabled us to introduce an increasing number of new products with each collection and dramatically shorten our product lead times, while allowing us to offer greater value to our customers.
- *Multi-Channel Go-To-Market Ability.* We pursue a market-based rather than a channel-based sales strategy where we size our stores to the potential of the area that each location serves and leverage our direct channels to provide access to our complete product offering. This approach is designed to enhance the customer experience, generate greater sales, increase our market share and deliver higher returns on invested capital.
- *Fully Integrated Infrastructure.* Our infrastructure is integrated across our channels, providing strong direct sourcing capabilities, a centrally managed inventory and a reconfigured distribution network and new order management, warehouse management and point-of-sale systems. We believe our sophisticated operating platform provides us with significant capabilities to support our future growth.

Our High-Performance Culture and Team. We have built a high-performance organization driven by a company-wide commitment to our core values of People, Quality, Service and Innovation. We believe our leadership team, led by our Co-Chief Executive Officers, Gary Friedman and Carlos Alberini, is a key driver of our success and positions us to execute our long-term growth strategy.

Our Growth Strategy

Key elements of our growth strategy are to:

Transform Our Real Estate Platform. We believe we have an opportunity to significantly increase our sales by transforming our real estate platform from a mall-based retail footprint to a portfolio focused on full line Design Galleries. With a target size of approximately 21,500 square feet of selling space, our full line Design Galleries have approximately three times the selling square footage of our current average Gallery. We have identified approximately 50 key metropolitan markets where we can open new full line Design Galleries. We believe, based on our analysis of the market, that we have the opportunity to double our current selling square footage in the U.S. and Canada over the next 7 to 10 years by opening full line Design Galleries in these 50 identified markets.

In 2011, we opened our first two full line Design Galleries in Los Angeles and Houston where we consolidated demand by closing existing retail stores in each market. In the Los Angeles market, we have increased store demand by 85% and direct demand by 30% and in the Houston market, we have increased store demand by over 60% and direct demand by over 50%, in each case from the date of opening our new full line Design Gallery in that market to May 19, 2012. Over the next 24 months, we plan to open full line Design Galleries in iconic or high profile locations in Scottsdale, Boston, Greenwich (Connecticut) and Atlanta. We are also actively exploring opening Design Galleries in other key markets such as New York City, Miami, Dallas and Chicago.

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Expand Our Offering and Increase Our Market Share. We participate in the domestic housewares and home furnishings market, that based on our research we believe represented \$143 billion in sales in 2010. Our annual net revenues currently represent less than 1% of this market, and we believe we have a significant opportunity to increase our market share by:

- Growing our merchandise assortment and introducing new products and categories, including current initiatives in furniture, rugs, lighting, tabletop and baby and child;
- Expanding our service offerings including interior design, product customization and gift registry services; and
- Exploring and testing new business opportunities complementary to our core business that leverage our defining strengths of taste, style and innovation.

Increase Brand Awareness. We will continue to increase our brand awareness and customer loyalty through our real estate transformation, our circulation strategy, our digital and social media marketing initiative, and our increased advertising and public relations efforts. Our stores are a critical branding vehicle and we believe the transformation of our real estate platform to a portfolio focused on full line Design Galleries will contribute to increased brand awareness as our customers experience an enhanced expression of our luxury brand positioning. Our catalogs are also an important branding and advertising vehicle. Our Source Book strategy has contributed to a 41% increase in the number of catalog pages circulated and a 27% increase in net revenues for our direct business in fiscal 2011. We are planning to increase the number of catalog pages circulated in fiscal 2012 by more than 30%.

Pursue International Expansion. We plan to strategically expand our business into select countries outside of the United States and Canada over the next several years. We believe that our luxury brand positioning and unique aesthetic will have strong international appeal.

Increase Operating Margins. We have the opportunity to continue to improve our operating margins by leveraging our fixed occupancy costs and scalable infrastructure, and by expanding our merchandise margins. We believe that our real estate transformation, specifically consolidating multiple Galleries into single full line Design Galleries, will allow us to better leverage our fixed occupancy costs.

For a discussion of risks that could adversely affect our growth strategies, see “Risk Factors—Risks Related to Our Business.”

Our High-Performance Culture

Our culture is driven by our management team, which instills a company-wide commitment to our core values of People, Quality, Service and Innovation. We believe our distinct corporate culture allows us to attract highly talented team members who are passionate and driven and who share our vision.

Evolution of Our Business

When Gary Friedman joined us as Chief Executive Officer in 2001, we began to reposition Restoration Hardware from a nostalgic, discovery-items business to a leading home furnishings brand. In 2008, we were taken private by investment funds affiliated with Catterton, Tower Three and Glenhill. As a private company, we were able to accelerate the pace of the transformation of our business and brand and the development of our multi-channel business model and infrastructure. Over the last eleven years, we built a new company as we:

- Elevated our brand positioning;
- Enhanced our product development process;

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- Refined our go-to-market strategy;
- Reconceptualized our stores and developed our full line Design Gallery format;
- Built a new supply chain and systems infrastructure; and
- Strengthened our management team.

We believe these initiatives have contributed to our recent strong performance and increased profitability, and position us for sustained growth and profitability.

Our Market

We participate in the large and growing domestic housewares and home furnishings market. Based on our research, we believe this market generated \$143 billion in retail sales in 2010 and is projected to grow at a compound annual growth rate of 3% – 4% between 2011 and 2015. Our net revenues currently represent less than 1% of this market, providing us with a substantial opportunity to gain market share.

According to Euromonitor International, a market research and analysis firm, the housewares and home furnishings market is highly fragmented. The top 20 companies comprised only 20% of the total market in 2008, with the largest player representing less than 3% of the total market. As a result of the weakening housing market and economic downturn in 2007, many home furnishings retailers were forced to close stores, dramatically scale back operations or lower prices. While our sales results were also adversely affected during this period, this disruption also created an opportunity for us to differentiate our brand in the marketplace. We believe we are well positioned to gain market share in the current competitive environment as a result of our compelling combination of design, quality and value.

We target households with incomes of \$200,000 and higher, which we believe drive a disproportionate share of spending in the home furnishings market. We believe that these consumers are highly attractive as they tend to be less impacted by an economic downturn and return to spending more quickly in an economic recovery.

Summary Risk Factors

We are subject to a number of risks, including risks that may prevent us from achieving our business objectives or that may adversely affect our business, financial condition, results of operations, cash flows and prospects. You should carefully consider the following risks, including the risks discussed in the section entitled “Risk Factors,” before investing in our common stock:

- We are undertaking a large number of business initiatives at the same time and if these new initiatives are not successful, they may have a negative impact on our operating results.
- Growth in our business may not be sustained and may not generate a corresponding improvement in our results of operations.
- If we fail to successfully anticipate consumer preferences and demand, or to manage our inventory commensurate with demand, our results of operations may be adversely affected.
- 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.
- If any of our vendors is not able to meet our product requirements, we may not be able to develop relationships with new alternative vendors to replace those product requirements in a timely and satisfactory manner, which could lead to product shortages and customer backorders, which could harm our business.

- We do not have exclusive relationships with many of our vendors, and there is a risk that our vendors may sell similar or identical products to our competitors, which could harm our business.
- We may not have adequate remedies with our vendors for defective merchandise, which could damage our reputation and brand image and harm our business.
- Changes in consumer spending or the housing market may significantly harm our revenue and results of operations.
- If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.
- Our operations have significant liquidity and capital requirements and depend on the availability of adequate financing on reasonable terms, and if we are unable to borrow sufficient capital, it could have a significant negative effect on our business.
- A number of factors that affect our ability to successfully open new stores or to optimize our store footprint are beyond our control, and these factors may harm our ability to execute our strategy of sizing stores to the potential of the market, which may negatively affect our results of operations.
- Our operating results are subject to quarterly and seasonal fluctuations, and results for any quarter may not necessarily be indicative of the results that may be achieved for the full fiscal year.
- Our business depends in part on a strong brand image. We continue to invest in the development of our brand and the marketing of our business, and if we are not able to maintain and enhance our brand or market our product offerings, we may be unable to attract a sufficient number of customers or sell sufficient quantities of our products.
- We are exploring opportunities to expand into new categories or complementary businesses. If we are not successful in these new categories or business areas, it may have an adverse effect on our results of operations and our reputation.
- Voting control of our common stock is concentrated in certain stockholders who held our stock prior to this offering, including Home Holdings and our Co-Chief Executive Officers. The dual-class structure of our common stock has the effect of increasing the amount of voting control held by our Co-Chief Executive Officers. This concentration of voting control will limit your ability to influence corporate matters.

Reorganization

Restoration Hardware Holdings was incorporated as a Delaware corporation on August 18, 2011, by our sole stockholder, Home Holdings, for the purpose of acquiring all of the stock of Home Holdings' wholly owned subsidiary, Restoration Hardware, Inc. Restoration Hardware Holdings will acquire all of the outstanding shares of Restoration Hardware, Inc. prior to the effectiveness of this offering. Outstanding units under the 2008 Home Holdings equity compensation plan, which we refer to as the Team Resto Ownership Plan, will be converted in connection with this offering into restricted and unrestricted Class A common stock, or, in the case of units owned by Mr. Friedman or Mr. Alberini, Class B common stock, and the vesting status of the Home Holdings units will carry over to our Class A common stock, or, in the case of Mr. Friedman or Mr. Alberini, Class B common stock, with unvested shares constituting restricted stock of the applicable class. In this prospectus, we refer to these transactions as the "Reorganization."

Principal Equity Holders

Home Holdings' equity interests are held primarily by funds affiliated with Catterton, Tower Three and Glenhill. In this prospectus, we refer to Catterton, Tower Three and Glenhill as our "Principal Equity Holders."

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Home Holdings will remain in place after the completion of this offering and will continue to be the single largest holder of our common stock. Interests of Catterton, Tower Three and Glenhill in our Company will continue to be held indirectly through their ownership interests in Home Holdings.

Catterton. Catterton is a leading private equity firm with an exclusive focus on providing equity capital in support of small to middle-market consumer companies that are positioned for attractive growth. Since its founding in 1989, Catterton has invested in approximately 80 companies and led equity investments totaling over \$3.3 billion. Presently, Catterton is actively managing more than \$2.5 billion of equity capital focused on all sectors of the consumer industry: food, beverage, retail, restaurants, consumer products, consumer services and media and marketing services. Catterton's combination of investment capital, strategic operating skills and industry network has enabled it to become a highly sought after firm within this industry.

Tower Three. Tower Three is an operationally-focused private equity fund formed to create a concentrated portfolio of investments in U.S.-based middle-market businesses. Tower Three's professionals are experienced with operational management, financial restructuring, private equity and credit markets. With long-term committed capital from major institutional investors, Tower Three has the flexibility to participate in a variety of transactions.

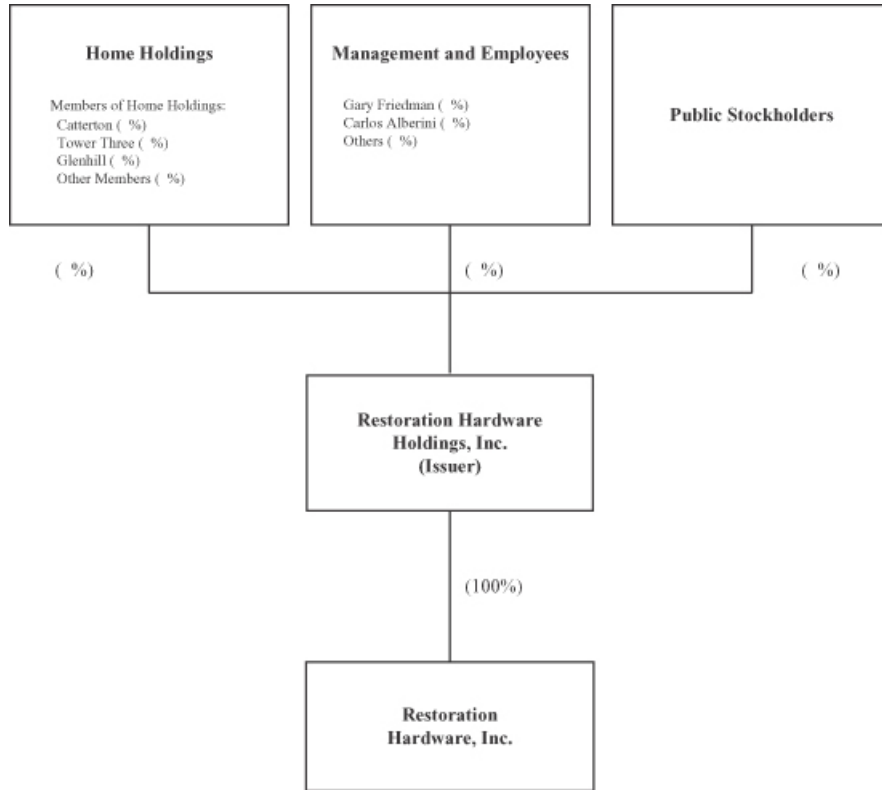
Glenhill. Glenhill is a privately owned investment partnership that invests primarily in public equity markets internationally. Founded in 2001, Glenhill is led by Glenn J. Krevlin, who has served as the managing member of Krevlin Advisors, LLC, an investment management firm, which is the general partner of Glenhill.

Funds affiliated with Catterton and Tower Three invested in Home Holdings in order to fund Home Holdings' acquisition of Restoration Hardware, Inc. Funds associated with Glenhill acquired their interests in Home Holdings pursuant to a rollover agreement, pursuant to which such funds agreed to contribute a portion of their shares of Restoration Hardware, Inc.'s common stock in exchange for a pro rata equity interest in Home Holdings. See "Certain Relationships and Related Party Transactions."

Our Principal Equity Holders are also in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. Our Principal Equity Holders may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us. See "Risk Factors—Our largest stockholders, including Home Holdings, Catterton, Tower Three, Glenhill, Gary Friedman and Carlos Alberini, will continue to have significant influence over us after this offering, including control over decisions that require the approval of stockholders, and their interests in our business may be different from yours."

Following this offering, we will have two classes of authorized common stock, Class A common stock and Class B common stock. Each share of Class A common stock will be entitled to one vote per share and each share of Class B common stock will be entitled to 3.5 votes per share. Outstanding shares of Class B common stock will represent approximately % of the voting power of our outstanding capital stock following this offering. Gary Friedman and Carlos Alberini, our Co-Chief Executive Officers, will hold all of the outstanding shares of Class B common stock.

The following chart sets forth the anticipated distribution of voting power among our stockholders as of the completion of this offering, assuming no exercise by the underwriters of their option to purchase additional shares of Class A common stock:



Payments to Principal Equity Holders and Officers and Directors in Connection with the Offering

In connection with this offering, pursuant to our management services agreement with affiliates of our Principal Equity Holders, we plan to pay Catterton Management Company, LLC, Tower Three Partners LLC and GJK Capital Advisors, LLC, fees in the amount of \$, \$ and \$, respectively. In addition, a portion of the units in Home Holdings held by certain of our officers will vest in connection with this offering, including units held by Gary Friedman, our Chairman and Co-Chief Executive Officer; units held by Carlos Alberini, our Co-Chief Executive Officer; and units held by Ken Dunaj, our Chief Operating Officer. See “Executive Compensation—Employee Benefit and Stock Plans—Team Resto Ownership Plan.”

Corporate and Other Information

Restoration Hardware Holdings, Inc. is a Delaware corporation. Our corporate headquarters is located at 15 Koch Road, Suite J, Corte Madera, CA 94925. Our telephone number is (415) 924-1005. Our principal website address is www.restorationhardware.com. We also operate a website for our Baby & Child brand at www.rhbabyandchild.com. The information on any of our websites is not deemed to be incorporated in this prospectus or to be part of this prospectus.

This prospectus includes our trademarks, such as “Restoration Hardware” and “Restoration Hardware Baby & Child,” which are protected under applicable intellectual property laws and are the property of Restoration Hardware. This prospectus also contains trademarks, service marks, trade names and copyrights of other companies, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this prospectus may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names.

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	The Offering
Total Class A common stock offered	shares
Class A common stock offered by us	shares
Class A common stock offered by the selling stockholders	shares
Class A common stock to be outstanding immediately after this offering	shares
Class B common stock to be outstanding immediately after this offering	shares
Total Class A and Class B common stock to be outstanding immediately after this offering	shares
Use of proceeds	<p>We estimate that the net proceeds to us from this offering, after deducting the underwriting discount and estimated offering expenses, will be approximately \$ million, assuming the shares of Class A common stock are offered at \$ per share (the midpoint of the estimated price range set forth on the cover of this prospectus).</p> <p>We will not receive any proceeds from the sale of shares of Class A common stock by the selling stockholders.</p> <p>We intend to use the net proceeds from the sale of Class A common stock by us in this offering to repay a portion of the outstanding amounts under the Restoration Hardware, Inc. revolving line of credit and term loan, for general corporate purposes, including working capital and capital expenditures, and to pay other fees and expenses incurred in connection with this offering, including payments to Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement we have entered into with them. See "Use of Proceeds."</p>
Voting rights	<p>After the completion of this offering, our common stock will consist of two classes: Class A common stock and Class B common stock. Purchasers in this offering will acquire Class A common stock. Class A and Class B common stock are identical in all respects, except with respect to voting and conversion rights. Holders of Class A common stock are entitled to one vote per share, and holders of Class B common stock are entitled to 3.5 votes per share, on all matters to be voted on by our common stockholders. Shares of Class A and Class B common stock vote together as a single class on all matters submitted to a vote of stockholders, unless required by law.</p> <p>All of the Class B common stock will be beneficially owned by Gary Friedman and Carlos Alberini, our Co-Chief Executive Officers. Immediately following the completion of this offering, Mr. Friedman</p>

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will control % of our Class B common stock, representing % of the total voting power of our outstanding common stock, and Mr. Alberini will control % of our Class B common stock, representing % of the total voting power of our outstanding common stock. Mr. Friedman and Mr. Alberini will also have options to purchase Class A common stock.

Class B common stock conversion

Shares of Class B common stock may only be held by Mr. Friedman, Mr. Alberini, or certain of their related parties. Each share of Class B common stock is convertible at any time at the option of the holder other than Mr. Friedman, Mr. Alberini or any of their permitted related parties will automatically convert into a like number of shares of Class A common stock. All of the Class B common stock owned by Mr. Friedman and any of his permitted related parties will convert into Class A common stock on a one-for-one basis on the date upon which Mr. Friedman, and such related parties, beneficially own, in the aggregate, fewer than shares of Class B common stock. All of the Class B common stock owned by Mr. Alberini and any of his permitted related parties will convert into Class A common stock on a one-for-one basis on the date upon which Mr. Alberini, and such related parties, beneficially own, in the aggregate, fewer than shares of Class B common stock. All of the Class B common stock owned by Mr. Friedman or Mr. Alberini or their related parties will also convert into Class A common stock on a one-for-one basis in connection with certain events involving the death, permanent mental disability or termination of employment of Mr. Friedman or Mr. Alberini, as the case may be. See “Description of Capital Stock—Class A Common Stock and Class B Common Stock.”

Principal stockholders

Upon completion of this offering, Home Holdings will own shares, or %, of our outstanding Class A common stock, representing % of the total voting power of our outstanding common stock. Of that amount, Catterton will beneficially own shares, or %, of our outstanding Class A common stock, representing % of the total voting power of our outstanding common stock, Tower Three will beneficially own shares, or %, of our outstanding Class A common stock, representing % of the total voting power of our outstanding common stock and Glenhill will beneficially own shares, or %, of our outstanding Class A common stock, representing % of the total voting power of our outstanding common stock. In addition, Mr. Friedman will beneficially own shares, or %, of our Class A common stock and shares, or %, of our Class B common stock, and Mr. Alberini will beneficially own shares, or %, of our Class A common stock and shares, or %, of our Class B common stock.

We are a “controlled company” within the meaning of the NYSE listing rules, and therefore will be exempt from certain of the

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Dividend policy	<p>corporate governance listing requirements of the NYSE. See “Management—Corporate Governance.”</p> <p>We currently intend to retain all available funds and any future earnings for use in the operation of our business, and therefore we do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and other factors that our board of directors deems relevant. We are a holding company, and substantially all of our operations are carried out by our subsidiary, Restoration Hardware, Inc., and its subsidiaries. Restoration Hardware, Inc.’s ability to pay dividends to us is limited by the terms of its credit agreement, which may in turn limit our ability to pay dividends on our common stock. Our ability to pay dividends may also be restricted by the terms of any future credit agreement or any future debt or preferred securities of ours or of our subsidiaries. See “Dividend Policy.”</p>
Conflicts of interest	<p>As described under “Use of Proceeds,” Bank of America, N.A., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, an underwriter in this offering, is a lender under the Restoration Hardware, Inc. revolving line of credit and term loan and may receive more than five percent of the net proceeds of this offering. Thus, Merrill Lynch, Pierce, Fenner & Smith Incorporated may be deemed to have a “conflict of interest” under the applicable provisions of Rule 5121 of the Conduct Rules of the Financial Industry Regulatory Authority, Inc., or FINRA. Accordingly, this offering will be made in compliance with the applicable provisions of Rules 5110 and 5121 of the Conduct Rules regarding the underwriting of securities of a company with a member that has a conflict of interest within the meaning of those rules. Goldman, Sachs & Co. has agreed to serve as a “qualified independent underwriter” as defined by FINRA and performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus forms a part. No underwriter with a conflict of interest will execute sales in discretionary accounts without the prior written specific approval of the customers. See “Underwriting—Conflicts of Interest.”</p>
Risk factors	<p>Investing in our Class A common stock involves a high degree of risk. See “Risk Factors” beginning on page 19 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in our Class A common stock.</p>
Proposed symbol for trading on the NYSE	“RH”
Unless otherwise indicated, all information in this prospectus relating to the number of shares of our common stock to be outstanding immediately after this offering:	
<ul style="list-style-type: none">• excludes unvested restricted shares of our Class A common stock and unvested restricted shares of our Class B common stock that will be issued to our executive officers and other	

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employees and consultants under the Restoration Hardware 2012 Equity Replacement Plan, which we refer to as the Replacement Plan, as replacement grants for awards previously issued pursuant to the Team Resto Ownership Plan;

- excludes options to purchase _____ shares of our Class A common stock, each with an exercise price equal to the initial public offering price, that we expect to grant in connection with this offering under the Restoration Hardware 2012 Stock Incentive Plan, which we refer to as the 2012 Plan;
- excludes options to purchase _____ shares and _____ shares of our Class A common stock, each with an exercise price equal to \$ _____ per share, that we expect to grant in connection with this offering to our Co-Chief Executive Officers, Gary Friedman and Carlos Alberini, respectively;
- excludes _____ additional shares of Class A common stock reserved for future grants under the 2012 Plan;
- assumes an initial public offering price of \$ _____ per share of Class A common stock (the midpoint of the estimated price range set forth on the cover of this prospectus); and
- assumes no exercise by the underwriters of their option to purchase up to _____ additional shares of Class A common stock from the selling stockholders.

Summary Historical Consolidated Financial and Operating Data

The following tables present Restoration Hardware, Inc.'s summary historical consolidated financial and operating data as of the dates and for the periods indicated. Restoration Hardware Holdings was formed as a Delaware corporation on August 18, 2011. Restoration Hardware Holdings will acquire all of the outstanding shares of capital stock of Restoration Hardware, Inc. prior to the effectiveness of this offering in connection with the Reorganization, and will therefore control Restoration Hardware, Inc. Restoration Hardware Holdings has not engaged in any business or other activities except in connection with its formation and the Reorganization. Accordingly, all financial and other information herein relating to periods prior to the completion of the Reorganization is that of Restoration Hardware, Inc.

All of the outstanding capital stock of Restoration Hardware, Inc. was acquired on June 16, 2008, by Home Holdings, which we refer to in this prospectus as the "Acquisition."

The summary consolidated financial data for the fiscal years ended January 30, 2010, January 29, 2011, and January 28, 2012 and as of January 28, 2012, were derived from Restoration Hardware, Inc.'s consolidated financial statements included elsewhere in this prospectus.

The summary consolidated financial data for the three months ended April 30, 2011, and April 28, 2012, and as of April 28, 2012, were derived from Restoration Hardware, Inc.'s unaudited consolidated interim financial statements included elsewhere in this prospectus. The unaudited consolidated interim financial statements were prepared on a basis consistent with that used in preparing our audited consolidated financial statements and include all adjustments, consisting of normal and recurring items, that we consider necessary for a fair presentation of our financial position and results of operations for the unaudited periods. The unaudited financial information for the twelve months ended April 30, 2011, has been derived by adding our financial information for the year ended January 29, 2011, to the financial information for the three months ended April 30, 2011, and subtracting the financial information for the three months ended May 1, 2010. The unaudited financial information for the twelve months ended April 28, 2012, has been derived by adding our financial information for the year ended January 28, 2012, to the financial information for the three months ended April 28, 2012, and subtracting the financial information for the three months ended April 30, 2011. We believe that presentation of unaudited financial information for these twelve-month periods is useful to investors because it presents information about how our business has performed in the twelve-month period immediately preceding the date of our most recent interim financial statements, which allows investors to review our current performance trends over a full year period, and because it presents results for four consecutive quarters, which presentation compensates for seasonal factors that might influence results in a particular quarter within the year.

Restoration Hardware, Inc.'s historical results are not necessarily indicative of future operating results, and interim results for the three months ended April 28, 2012, are not projections for the results to be expected for the fiscal year ending February 2, 2013. The summary historical consolidated data presented below should be read in conjunction with the sections entitled "Risk Factors," "Selected Historical Consolidated Financial and Operating Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes thereto and other financial data included elsewhere in this prospectus.

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	Year Ended			Three Months Ended		Last Twelve Months Ended (1)	
	January 30, 2010	January 29, 2011	January 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011	April 28, 2012
(dollars in thousands, excluding per share and per square foot data)							
Statement of Operations Data:							
Net revenues	\$ 625,685	\$ 772,752	\$ 958,084	\$ 184,760	\$ 217,914	\$ 825,004	\$ 991,238
Cost of goods sold	412,629	501,132	601,735	121,576	142,646	532,275	622,805
Gross profit	213,056	271,620	356,349	63,184	75,268	292,729	368,433
Selling, general and administrative expenses	238,889	275,859	329,753	68,816	77,401	287,219	338,338
Income (loss) from operations	(25,833)	(4,239)	26,596	(5,632)	(2,133)	5,510	30,095
Interest expense	(3,241)	(3,150)	(5,134)	(899)	(1,575)	(3,192)	(5,810)
Income (loss) before income taxes	(29,074)	(7,389)	21,462	(6,531)	(3,708)	2,318	24,285
Income tax expense (benefit)	(423)	685	1,121	(204)	56	521	1,419
Net income (loss)	\$ (28,651)	\$ (8,074)	\$ 20,341	\$ (6,327)	\$ (3,764)	\$ 1,797	\$ 22,866
Basic and diluted net income (loss) per share	\$(286,510)	\$(80,740)	\$ 203,410	\$(63,270)	\$(37,640)	\$ 17,970	\$ 228,660
Basic and diluted average number of shares outstanding	100	100	100	100	100	100	100
Pro forma net income (loss) per share (2):							
Basic			\$		\$		
Diluted			\$		\$		
Pro forma average number of shares outstanding (2):							
Basic							
Diluted							
Other Financial and Operating Data:							
Growth in net revenues:							
Stores (3)	(6)%	15%	22%	26%	16%	17%	20%
Direct	(15)%	37%	27%	60%	21%	45%	20%
Total	(10)%	24%	24%	39%	18%	28%	20%
Retail (4):							
Comparable store sales change (5)	(7)%	19%	25%	25%	26%	19%	25%
Retail stores open at end of period	95	91	74	89	74	89	74
Average gross square footage (in thousands) (6)	1,042	1,014	913	958	805	999	875
Average selling square footage (in thousands) (6)	660	641	580	605	519	632	559
Retail sales per selling square foot (7)	\$ 525	\$ 635	\$ 846	\$ 148	\$ 200	\$ 671	\$ 903
Direct:							
Catalogs circulated (in thousands) (8)	31,336	46,507	26,052	7,958	15,811	44,735	33,905
Catalog pages circulated (in millions) (8)	4,418	6,260	8,848	2,109	7,651	6,690	14,389
Direct as a percentage of net revenues (9)	39%	43%	44%	46%	47%	44%	45%
Capital expenditures	\$ 2,024	\$ 39,907	\$ 25,593	\$ 3,577	\$ 6,193	\$ 40,986	\$ 28,209
Adjusted EBITDA (10)	\$ 17,596	\$ 41,097	\$ 80,154	\$ 5,333	\$ 6,159	\$ 52,228	\$ 80,980

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	As of April 28, 2012	
	Actual	Pro Forma As Adjusted (11)
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	\$ 10,205	\$
Working capital (excluding cash and cash equivalents) (12)	171,619	
Total assets	633,059	
Revolving line of credit	125,465	
Term loan	14,798	
Total debt (including current portion) (13)	147,894	
Total stockholders' equity	247,164	

- (1) The unaudited financial information for the twelve months ended April 30, 2011, has been derived by adding our financial information for the year ended January 29, 2011, to the financial information for the three months ended April 30, 2011, and subtracting the financial information for the three months ended May 1, 2010. The unaudited financial information for the twelve months ended April 28, 2012, has been derived by adding our financial information for the year ended January 28, 2012, to the financial information for the three months ended April 28, 2012, and subtracting the financial information for the three months ended April 30, 2011.
- (2) Pro forma net income (loss) per share gives effect to (i) the Reorganization, (ii) the issuance of _____ shares of Class A common stock in this offering and (iii) the application of a portion of the estimated net proceeds from the sale of Class A common stock by us in this offering to repay a portion of the outstanding amounts under Restoration Hardware, Inc.'s revolving line of credit and term loan as if the offering and those transactions had occurred on January 30, 2011. This assumes net proceeds of this offering of \$ _____ million, assuming the shares of Class A common stock are offered at \$ _____ per share, the midpoint of the estimated price range set forth on the cover of this prospectus, after deducting the underwriting discount and estimated offering expenses.
- (3) Store data represent retail stores plus outlet stores.
- (4) Retail data have been calculated based upon retail stores, including our Baby & Child stores, and exclude outlet stores.
- (5) Comparable store sales have been calculated based upon retail 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. Comparable store sales exclude revenues from outlet stores.
- (6) Average square footage (gross or selling, as applicable) is calculated for each quarter 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. Average square footage for periods of six, nine and twelve months is calculated by averaging the average square footage for the quarters within such periods.
- (7) Retail sales per selling square foot is calculated by dividing total net revenues for all retail stores, comparable and non-comparable, by the average selling square footage for the period.
- (8) The catalogs and catalog pages circulated from period to period do not take into account different page sizes per catalog distributed. Page sizes and page counts vary for different catalog mailings and we sometimes mail different versions of a catalog at the same time. Accordingly, period to period comparisons of catalogs circulated and catalog pages circulated do not take these variations into account. In fiscal 2010, we mailed a larger number of catalogs that contained fewer pages and in some cases significantly smaller page sizes than in prior periods. In fiscal 2011, we mailed fewer catalogs that contained a significant increase in number of pages as compared to fiscal 2010.
- (9) Direct revenues include sales through our catalogs and websites.
- (10) A reconciliation of net income (loss) under accounting principles generally accepted in the United States ("GAAP") to EBITDA and Adjusted EBITDA is set forth below in "Selected Historical Consolidated Financial and Operating Data."

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EBITDA and Adjusted EBITDA have been presented in this prospectus and are supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. EBITDA is defined as consolidated net income (loss) before depreciation and amortization, interest expense and provision for income taxes. Adjusted EBITDA is calculated in accordance with and is the basis of our Management Incentive Program (or "MIP"), which is our cash-based incentive compensation program designed to motivate and reward annual performance for eligible employees, and reflects further adjustments to EBITDA to eliminate the impact of certain items, including non-cash or other items that we do not consider representative of our ongoing operating performance, as discussed in more detail in the section entitled "Selected Historical Consolidated Financial and Operating Data."

EBITDA and Adjusted EBITDA are included in this prospectus because they are key metrics used by management, our board of directors and our Principal Equity Holders to assess our financial performance, and Adjusted EBITDA is used in connection with determining incentive compensation under our MIP. Additionally, EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use EBITDA and Adjusted EBITDA, alongside other GAAP measures such as gross profit, operating income (loss) and net income (loss), to measure profitability, as a key profitability target in our annual and other budgets, and to compare our performance against that of peer companies. We believe that Adjusted EBITDA provides useful information facilitating operating performance comparisons from period to period and company to company.

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income (loss) as a measure of financial performance, cash flows from operating activities as a measure of liquidity or any other performance measure derived in accordance with GAAP, and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as tax payments and debt service requirements and certain other cash costs that may recur in the future. EBITDA and Adjusted EBITDA contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized, and exclude certain unusual charges that may recur in the future. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying primarily on our GAAP results and by using EBITDA and Adjusted EBITDA only supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

- (11) Pro Forma as Adjusted amounts give effect to (i) the Reorganization, (ii) the issuance of _____ shares of Class A common stock in this offering, (iii) the application of \$ _____ million of estimated net proceeds of this offering to repay a portion of the outstanding amounts under the revolving line of credit and term loan, (iv) the use of \$ _____ million of the estimated net proceeds to pay other fees and expenses incurred in connection with this offering, including management fees of \$ _____ to Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement with them, (v) \$ _____ non-cash impact to accumulated deficit for stock based compensation charges related to the _____ shares of unvested Class A common stock that will vest upon this offering, (vi) \$ _____ non-cash impact to accumulated deficit for stock based compensation charges related to the _____ shares of unvested Class B common stock that will vest upon this offering, (vii) \$ _____ non-cash impact to accumulated deficit for stock based compensation charges related to the _____ shares of Class A common stock underlying options granted to Mr. Friedman and Mr. Alberini in conjunction with this offering and (viii) additional cash payments of \$2.2 million to former employees that are due as a result of this stock offering. A \$1.00 increase (decrease) in the assumed initial public offering price of \$ _____ per share of Class A common stock, the midpoint of the

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estimated price range set forth on the cover of this prospectus, would increase (decrease) the pro forma as adjusted amount of cash and cash equivalents by \$ million, total assets by \$ million, revolving line of credit by \$ million, term loan by \$ million, total debt (including current portion) by \$ million and total stockholders' equity by \$ million, assuming the number of shares of Class A common stock offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses.

- (12) Working capital is defined as current assets, excluding cash and cash equivalents, less current liabilities, excluding the current portion of long-term debt.
- (13) Total debt (including current portion) includes amounts outstanding under the revolving line of credit, term loan and capital lease obligations.

RISK FACTORS

This offering and an investment in our Class A common stock involve a high degree of risk. You should carefully consider the risks and uncertainties described below, together with the risks and uncertainties described elsewhere in this prospectus, including our consolidated financial statements and the related notes contained elsewhere in this prospectus, before you decide to purchase shares of our Class A common stock. If any of the following risks or uncertainties actually occurs, our business, financial condition, results of operations, cash flow and prospects could be materially and adversely affected. As a result, the price of our Class A common stock could decline and you could lose all or part of your investment in our Class A common stock.

Risks Related to Our Business

We are undertaking a large number of business initiatives at the same time and if these new initiatives are not successful, they may have a negative impact on our operating results.

We are in the process of an ongoing major transformation of our business characterized by a period of rapid growth and a large number of new business initiatives. For example, we recently developed a full line Design Gallery format which involves larger store square footage. We plan to continue to open full line Design Galleries in select major metropolitan markets and we expect to close a number of our older stores and replace them with the full line Design Gallery format. We are currently contemplating other new product lines and extensions, as well as expanding sales to international markets. In addition, we are continuing a number of new initiatives in other areas of our business, including product sourcing and distribution and management information systems. For example, we have reduced the use of third-party buying agents in most foreign locations. In addition, we have significantly expanded the page counts of our catalogs, increased the number of households receiving our catalogs and reduced the number of catalog mailings.

The number of current business initiatives could strain our financial, operational and management resources. In addition, these initiatives may not be successful. If we are not successful in managing our current growth and the large number of new initiatives that are underway, we might experience an adverse impact on our financial performance and results of operations. All of the foregoing risks may be compounded in any economic downturn. In addition, if we fail to achieve the intended results of our current business initiatives, or if the implementation of these initiatives is delayed or abandoned, diverts management's attention or resources from other aspects of our business or costs more than anticipated, we may experience inadequate return on investment for some of our business initiatives, which would have a negative effect on our operating results.

Growth in our business may not be sustained and may not generate a corresponding improvement in our results of operations.

We may not be able to maintain or improve the levels of growth that we have experienced in the recent past. In addition, although we have recently experienced strong comparable store sales, if our future comparable store sales fail to meet market expectations or decline, the price of our Class A common stock could decline. Various factors affect comparable store sales, including the number, size and location of stores we open, close, remodel or expand in any period, the overall economic and general retail sales environment, consumer preferences and demand, our ability to efficiently source and distribute products, changes in our product offerings, competition, current local and global economic conditions, changes in catalog circulation and the success of marketing programs. These factors may cause our comparable store sales results to be materially lower than recent periods and our expectations, which could harm our results of operations and result in a decline in the price of our Class A common stock.

Although we have recently experienced sales growth as a result of a number of new business initiatives, this sales growth may not continue and the level of our sales could return to prior levels if customer response to our product offerings is not sustained. Many factors can influence customer response to our product offerings and store formats including responses from our competitors, who may introduce similar products or merchandise

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formats. In addition, sales levels for particular merchandise or product categories may not continue over time if customer demand levels are not sustained. The level of customer response to new store formats including our full line Design Galleries may vary in different markets and store locations. Similarly, the level of customer response to our new Source Book large catalog format, in which we display a greater percentage of our product assortment, may vary in different markets. In addition, there can be no assurance that we will be able to migrate customer demand successfully when we choose to close a store in a particular location in favor of a full line Design Gallery in the same or an adjacent market location. While our objective is to retain a high percentage of customer demand from store locations that we close, there can be no assurance that we will retain a high percentage of sales from stores closed in the future or that we will continue to retain a high percentage of sales from stores previously closed.

In addition, continued increased activity in our business could result in material changes in our operating costs, including increased merchandise inventory costs and costs for paper and postage associated with the mailing and shipping of catalogs and products. We cannot assure you that we will succeed in offsetting these expenses with increased efficiency or that cost increases associated with our business will not have an adverse effect on our financial results.

If we fail to successfully anticipate consumer preferences and demand, or to manage our inventory commensurate with demand, our results of operations may be adversely affected.

Our success depends in large part on our ability to originate and define home product trends, as well as to anticipate, gauge and react to changing consumer demands in a timely manner. Our products must appeal to a range of consumers whose preferences cannot always be predicted with certainty. We cannot assure you that we will be able to continue to develop products that customers positively respond to or that we will successfully meet consumer demands in the future. Any failure on our part to anticipate, identify or respond effectively to consumer preferences and demand could adversely affect sales of our products. If this occurs, our sales may decline significantly, and we may be required to mark down certain products to sell the resulting excess inventory or to sell such inventory through our outlet stores, either of which could have a material adverse effect on our financial condition and results of operations.

In addition, we must manage our merchandise in stock and inventory levels to track consumer demand. Much of our merchandise requires that we provide vendors with significant ordering lead time, frequently before market factors are known. In addition, the seasonal nature of our products requires us to carry a significant amount of inventory prior to peak selling seasons. If we are not able to anticipate consumer demand for our different product offerings, or successfully manage inventory levels for products that are in demand, we may experience:

- back orders, order cancellations and lost sales for products that are in high demand for which we did not stock adequate inventory; and
- overstock inventory levels for products that have lower consumer demand, requiring us to take markdowns or other steps to sell slower-moving merchandise.

As a result of these and other factors, we are vulnerable to demand and pricing shifts and to misjudgments in the selection and timing of merchandise purchases.

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

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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 2011, we purchased approximately 84% 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, 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 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.

We may not be able to locate and develop relationships with a sufficient number of new vendors, which could lead to product shortages and customer backorders, which could harm our business.

In the event that one or more of our vendors is unable to meet the quantity or quality of our product requirements, we may not be able to develop relationships with new vendors in a manner that is sufficient to supply the shortfall. Even if we do identify such new vendors, we may experience product shortages and customer backorders as we transition our product requirements to incorporate the alternative suppliers. In addition, we cannot assure you that any new vendor with which we do business, particularly any new vendor abroad, would not be subject to the same or similar quality and quantity risks as our existing suppliers.

We do not have exclusive relationships with many of our vendors, and there is a risk that our vendors may sell similar or identical products to our competitors, which could harm our business.

Our arrangements with our vendors are generally not exclusive. As a result, most of our vendors might be able to sell similar or identical products to certain of our competitors, some of whom purchase products in significantly greater volume, or enter into arrangements with suppliers that could impair our ability to sell their products, including by requiring suppliers to enter into exclusive arrangements, which could limit our access to such arrangements or products. Our vendors could also initiate or expand sales of their products through their own stores or through the Internet to the retail market and therefore compete with us directly or sell their products through outlet centers or discount stores, increasing the competitive pricing pressure we face.

We may not have adequate remedies with our vendors for defective merchandise, which could damage our reputation and brand image and harm our business.

If products that we purchase from vendors are damaged or prove to be defective, we may not be able to return products to these vendors and obtain refunds of our purchase price or obtain other indemnification from them. Our vendors' limited capacities may result in a vendor's inability to replace any defective merchandise in a

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timely manner. In addition, our vendors' limited capitalization or liquidity may mean that a vendor that has supplied defective merchandise will not be able to refund the purchase price to us or pay us any penalties or damages.

In addition, our vendors may not adhere to our quality control standards, and we might not identify the deficiency before merchandise ships to our stores or customers. Our vendors' failure to manufacture or import quality merchandise in a timely and effective manner could damage our reputation and brand image, and could lead to an increase in product returns or exchanges or customer litigation against us and a corresponding increase in our routine and non-routine litigation costs. Further, any merchandise that does not meet our quality standards or other government requirements could become subject to a recall, which could damage our reputation and brand image and harm our business.

Changes in consumer spending or the housing market may significantly harm our revenue and results of operations.

Our business depends on consumer demand for our products and, consequently, is sensitive to a number of factors that influence consumer spending in the retail home furnishings sector, including, among other things, the general state of the economy, capital and credit markets, consumer confidence, general business conditions, the availability and cost of consumer credit, the level of consumer debt, interest rates, level of taxes affecting consumers, housing prices, new construction and other activity in the housing sector and the state of the mortgage industry and other aspects of consumer credit tied to housing, including the availability and pricing of mortgage refinancings and home equity lines of credit. We believe that a number of these factors have had, and may continue to have, an adverse impact on the retail home furnishings sector, and have also affected our business and results, and these factors may make it difficult for us to accurately predict our operating and financial results for future periods. For example, the prolonged slump in the housing market has affected the level of home purchases and remodelings which, in turn, has reduced consumer spending on home furnishings and, as a result, the overall demand for our products has been affected by weakness in the home furnishings sector. While there have been some recent positive changes in both the housing market and the North American economy, the overall outlook remains uncertain and there can be no assurance that any economic or housing recovery will be sustained or, in particular, that our business will continue to perform well in the face of a weak overall housing market.

If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.

The success of our business depends upon the continued service of our key personnel, including our Co-Chief Executive Officers, Gary Friedman and Carlos Alberini. The loss of the services of our key personnel could make it more difficult to successfully operate our business and achieve our business goals. In addition, we do not maintain key man life insurance policies on any of our key personnel. As a result, we may not be able to cover the financial loss we may incur in losing the services of any of our key personnel.

We also may be unable to retain other existing personnel that are important to our business or hire additional qualified personnel. Competition for qualified employees and personnel in the retail industry is intense. The process of locating personnel with the combination of skills and attributes required to carry out our goals is often lengthy. Our success depends to a significant degree upon our ability to attract, retain and motivate qualified management, marketing and sales personnel, in particular store managers, and upon the continued contributions of these people. We cannot assure you that we will be successful in attracting and retaining qualified executives and personnel.

In addition, our success depends in part upon our ability to attract, motivate and retain a sufficient number of store employees who understand and appreciate our corporate culture and customers. Turnover in the retail industry is generally high. Excessive store employee turnover will result in higher employee costs associated with finding, hiring and training new store employees. If we are unable to hire and retain store personnel capable

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of consistently providing a high level of customer service, our ability to open new stores may be impaired, the performance of our existing and new stores could be materially adversely affected and our brand image may be negatively impacted.

Our operations have significant liquidity and capital requirements and depend on the availability of adequate financing on reasonable terms, and if we are unable to borrow sufficient capital, it could have a significant negative effect on our business.

Our operations have significant liquidity and capital requirements. Among other things, the seasonality of our businesses requires us to purchase merchandise well in advance of the outdoor selling season in our second fiscal quarter and the holiday selling season in our fourth fiscal quarter. In addition, we have invested significant capital expenditures in remodeling and opening new stores and these capital expenditures will increase in fiscal 2012 and succeeding fiscal periods as we open additional full line Design Galleries. During fiscal 2011, we spent \$15.7 million for capital expenditures related to new stores and remodeling, and we incurred \$9.9 million of additional capital expenditures related to supply chain investments and systems infrastructure. We plan to continue our growth and expansion, including opening full line Design Galleries in select major metropolitan markets, pursuing category extensions of our brand, and exploring new business areas. We purchased the building and land for our store in San Francisco but to date we have relied upon leases with landlords for our other locations. As we develop new stores in the future, we may explore other models for our real estate which could include joint ventures or other forms of equity ownership in the real estate interests associated with new sites and buildings. These approaches might require greater capital investment than a traditional store lease with a landlord.

We depend on our ability to generate cash flows from operating activities, as well as revolving borrowings under the Restoration Hardware, Inc. revolving line of credit, to finance the carrying costs of our inventory, to pay for capital expenditures and operating expenses and to support our growth strategy. As of April 28, 2012, we had borrowed \$125.5 million under the revolving line of credit and had \$96.3 million available for borrowing. In addition, the total amount outstanding under the Restoration Hardware, Inc. term loan was \$14.8 million, net of \$0.2 million of unamortized debt issuance costs, as of April 28, 2012. Various factors may impact our lenders' willingness to provide funds to us, including:

- our continuing compliance with the terms of our revolving line of credit;
- the amount of availability under the revolving line of credit, which depends on various factors, including the amount of collateral available under the revolving line of credit, which relies on a borrowing base formula tied principally to the value of our assets, including our inventory; and
- our lenders' financial strength and ability to perform under the revolving line of credit.

If the cash flows from our operating activities are not sufficient to finance the carrying costs of inventory and to pay for capital expenditures and operating costs, and if we are unable to borrow a sufficient amount under the revolving line of credit to finance or pay for such expenditures and costs, it could have a significant negative effect on our business.

We currently believe that our cash flow from operations and funds available under the revolving line of credit will satisfy our capital and operating requirements for the next twelve months. However, any weakening of, or other adverse developments concerning our sales performance or adverse developments concerning the availability of credit under the revolving line of credit, could limit the overall amount of funds available to us.

In addition, we may experience cash flow shortfalls in the future, and we may otherwise require additional external funding, or we may need to raise funds to take advantage of unanticipated opportunities, to make acquisitions of other businesses or companies or to respond to changing business conditions or unanticipated competitive pressures. However, we cannot assure you that we will be able to raise funds on favorable terms, if at

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all, or that future financing requirements would not be dilutive to holders of our capital stock. If we fail to raise sufficient additional funds, we may be required to delay or abandon some of our planned future expenditures or aspects of our current operations.

A number of factors that affect our ability to successfully open new stores or optimize our store footprint are beyond our control, and these factors may harm our ability to execute our strategy of sizing stores to the potential of the market, which may negatively affect our results of operations.

We are focused on sizing our assortments and our stores to the potential of the market by adjusting the square footage and number of stores on a geographic market-by-market basis. We plan to optimize our real estate by continuing to open larger square footage full line Design Galleries in key markets and relocating or closing selected stores in these or adjacent markets. When we address the introduction of new stores in a particular market or changes to, or closure of, existing stores, we must make a series of decisions regarding the size and location of new stores (or the existing stores slated to undergo changes or closure) and the impact on our other existing stores in the area.

Our ability to maximize the productivity of our retail store base, depends on many factors, including, among others, our ability to:

- identify suitable locations, the availability of which is largely outside of our control;
- size the store locations to the market opportunity;
- retain customers in certain geographic markets when we close stores in that market;
- negotiate acceptable new lease terms or lease renewals, modifications or terminations;
- efficiently build and equip new stores or further remodel existing locations;
- source sufficient levels of inventory to meet the needs of changes in our store footprint on a timely basis;
- successfully integrate changes in our store base into our existing operations and information technology systems;
- obtain or maintain adequate capital resources on acceptable terms;
- avoid construction delays and cost overruns in connection with the expansion or further remodeling of existing stores and the opening of new stores;
- maintain adequate distribution facilities, information systems and other operational systems to serve our new stores and remodeled stores; and
- address competitive, merchandising, marketing, distribution and other challenges encountered in connection with expansion into new geographic areas and markets.

Any of these challenges could delay or prevent us from completing store openings or the additional remodeling of existing stores or hinder the operations of stores we open or remodel. If any of these challenges delays the opening of a store, our results of operations will be negatively affected as we will incur leasing and other costs during the delay without associated store revenue at such location. New or remodeled stores may not be profitable or achieve our target return on investment. Unfavorable economic and business conditions and other events could also interfere with our plans to expand or modify store footprints. Our failure to effectively address challenges such as these could adversely affect our ability to successfully open new stores or change our store footprint in a timely and cost-effective manner and could have a material adverse effect on our business, results of operations and financial condition.

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Our operating results are subject to quarterly and seasonal fluctuations, and results for any quarter may not necessarily be indicative of the results that may be achieved for the full fiscal year.

Our quarterly results have fluctuated in the past and may fluctuate significantly in the future, depending upon a variety of factors, including, among other things, our product offerings, the timing and level of markdowns, promotional events, store openings, store closings, the weather, remodeling or relocations, shifts in the timing of holidays, timing of catalog releases or sales, timing of delivery of orders, competitive factors and general economic conditions.

In addition, we historically have realized, and expect to continue to realize, higher net revenue and profitability in the fourth quarter of our fiscal year due to the holiday selling season and to a lesser extent in the second quarter due to the outdoor selling season. In fiscal 2011, we recorded net revenues of \$235.6 million and \$305.2 million in the second and fourth fiscal quarters or 24.6% and 31.9%, respectively, of our fiscal 2011 net revenue. In fiscal 2011, our gross profit for the second and fourth quarters was \$91.2 million and \$117.5 million or 25.6% and 33.0% of our fiscal 2011 gross profit, respectively. In anticipation of increased sales activity for the outdoor selling season during our second fiscal quarter and the holiday selling season during our fourth fiscal quarter, our working capital requirements are typically higher in the first and third fiscal quarters due to inventory-related working capital requirements for the outdoor selling season and the holiday selling season.

Accordingly, our results of operations may fluctuate on a seasonal basis and relative to corresponding periods in prior years. Moreover, we may take certain pricing or marketing actions that could have a disproportionate effect on our business, financial condition and results of operations in a particular quarter or selling season. During fiscal 2011, we undertook initiatives related to the opening of full line Design Gallery locations and the closure of some existing stores. In addition, during this time period, we introduced a number of new products and our Source Book. We are continuing these initiatives in fiscal 2012. For example, our recent Spring 2012 Source Books portray over 85% of our product assortment at the time of publication. These initiatives may disproportionately impact results in a particular quarter and we believe that period-to-period comparisons of our operating results are not necessarily meaningful and cannot be relied upon as indicators of future performance.

Our business depends in part on a strong brand image. We continue to invest in the development of our brand and the marketing of our business, and if we are not able to maintain and enhance our brand or market our product offerings, we may be unable to attract a sufficient number of customers or sell sufficient quantities of our products.

We believe that the brand image we have developed, and the lifestyle image associated with our brand, have contributed significantly to the success of our business to date. We also believe that maintaining and enhancing the Restoration Hardware brand is integral to our business and to the implementation of our strategies for expanding our business. This will require us to continue to make investments in areas such as marketing and advertising, as well as the day-to-day investments required for store operations, catalog mailings, website operations and employee training. Our brand image may be diminished if new products, services or other businesses fail to maintain or enhance our distinctive brand image. Furthermore, our reputation could be jeopardized if we fail to maintain high standards for merchandise and service quality, if we fail to maintain high ethical, social and environmental standards for all of our operations and activities, if we fail to comply with local laws and regulations or if we experience other negative events that affect our image or reputation. Any failure to maintain a strong brand image could have an adverse effect on our sales and results of operations.

We are exploring opportunities to expand into new categories or complementary businesses. If we are not successful in these new categories or business areas, it may have an adverse effect on our results of operations and our reputation.

We are engaged in ongoing efforts to explore new business opportunities that we believe can leverage our current business platform. We have developed a number of new product categories and extensions over the last several years, including Garden & Outdoor, Baby & Child and Big Style, small spaces. We also have introduced

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other merchandise categories that enhance the customer experience in our full line Design Galleries, including fresh cut flowers, magazines and tea, and plan further brand-enhancing offerings, such as an Art & Culture category, which could include works of art by independent artists, and a café or restaurant adjacent to, or inside of, select full line Design Galleries. We are incubating a number of other new areas for potential expansion of our business, some of which may become new core categories and others of which may be primarily offered as enrichment of the customer experience.

Developing and testing new business opportunities will involve us in business operations and areas of expertise that would be new to our organization and may require management time and resources. We may not achieve wide market acceptance or generate revenue sufficient to recoup the cost of developing and operating such new concepts, which in turn could have a material adverse effect on our results of operations. Any new businesses we enter may expose us to additional laws, regulations and risks, including the risk that we may incur ongoing operating expenses in such businesses in excess of revenues, which could harm our results of operations and financial condition. The financial profile of any such new businesses may be different than our current financial profile, which could affect our financial performance and the market price for our Class A common stock.

We compete in the home furnishings sector of the retail market, which is highly competitive.

The home furnishings sector within the retail market is highly competitive. We compete with the interior design trade and specialty stores, as well as antique dealers and other merchants that provide unique items and custom-designed product offerings at higher price points. We also compete with national and regional home furnishing retailers and department stores. In addition, we compete against mail order catalogs focused on home furnishings. We compete with these and other retailers for customers, suitable retail locations, vendors, qualified employees and management personnel. Many of our competitors have significantly greater financial, marketing and other resources than we do and therefore may be able to adapt to changes in customer preferences more quickly, devote greater resources to the marketing and sale of their products, generate greater national brand recognition or adopt more aggressive pricing policies than we can. In addition, increased catalog mailings by our competitors may adversely affect response rates to our own catalog mailings. Moreover, increased competition may result, and has resulted in the past, in potential or actual litigation between us and our competitors relating to such activities as competitive sales, hiring practices and other matters. As a result, increased competition may adversely affect our future financial performance, and we cannot assure you that we will be able to compete successfully in the future.

We believe that our ability to compete successfully is determined by several factors, including, among other things, the quality of our product selection, our brand, our merchandise presentation and value proposition, customer service, pricing and store locations. We may not ultimately succeed in competing with other retailers in our market.

Disruptions in the global financial markets may make it difficult for us to borrow a sufficient amount of capital to finance the carrying costs of inventory and to pay for capital expenditures and operating costs, which could negatively affect our business.

Disruptions in the global financial markets and banking systems have made credit and capital markets more difficult for companies to access, even for some companies with established revolving or other credit facilities. Under the credit agreement governing the Restoration Hardware, Inc. revolving line of credit, each financial institution that is part of the syndicate for the revolving line of credit is responsible for providing a portion of the loans to be made under the revolving line of credit. Factors that have previously affected our borrowing ability under the revolving line of credit have included the borrowing base formula limitations, adjustments in the appraised value of our inventory used to calculate the borrowing base and the availability of each of our lenders to advance its portion of requested borrowing drawdowns under the facility. If, in connection with a disruption in the global financial markets or otherwise, any participant, or group of participants, with a significant portion of

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the commitments in the revolving line of credit fails to satisfy its obligations to extend credit under the facility, and if we are unable to find a replacement for such participant or group of participants on a timely basis (if at all), then our liquidity and our business may be materially adversely affected.

Reductions in the volume of mall traffic or closing of shopping malls as a result of unfavorable economic conditions or changing demographic patterns could significantly reduce our sales and leave us with unsold inventory.

Most of our stores are currently located in shopping malls. Sales at these stores are derived, in part, from the volume of traffic in those malls. These stores benefit from the ability of the malls' "anchor" tenants, generally large department stores and other area attractions, to generate consumer traffic in the vicinity of our stores and the continuing popularity of the malls as shopping destinations. Unfavorable economic conditions, particularly in certain regions, have adversely affected mall traffic and resulted in the closing of certain anchor stores and have threatened the viability of certain commercial real estate firms which operate major shopping malls. A continuation of this trend, including failure of a large commercial landlord or continued declines in the popularity of mall shopping generally among our customers, could reduce our sales and leave us with excess inventory. We may respond by increasing markdowns or initiating marketing promotions to reduce excess inventory, which would further adversely impact our results of operations.

Our business depends upon the successful operation of our distribution facilities, furniture home delivery hubs and customer care center, as well as our ability to fulfill orders and to deliver our merchandise to our customers in a timely manner.

Our business depends upon the successful operation of our distribution centers, furniture home delivery hubs and customer care center, as well as our order management and fulfillment services and the re-stocking of inventories within our stores. The efficient flow of our merchandise requires that our facilities have adequate capacity to support our current level of operations, and any anticipated increased levels that may follow from any growth of our business.

If we encounter difficulties associated with any of our facilities or if any of our facilities were to shut down for any reason, including as a result of fire, earthquakes (to which our California-based distribution and home delivery facilities in Tracy and Mira Loma and our corporate headquarters in Corte Madera are particularly vulnerable), power outages or other natural disasters, we could face shortages of inventory resulting in "out of stock" conditions in our stores, significantly higher costs and longer lead times associated with distributing our products to both our stores and online customers and the inability to process orders in a timely manner or ship goods to our customers. Further, any significant interruption in the operation of our customer care center, including the call center, could also reduce our ability to receive and process orders and provide products and services to our stores and customers, which could result in lost sales, cancelled sales and a loss of loyalty to our brand.

In January 2012, we opened a furniture home delivery hub in Avenel, New Jersey and, in February 2012, we opened a furniture distribution center in North East, Maryland. We also recently expanded our West Coast distribution center in Mira Loma, California and reduced the size of our furniture delivery hub in Tracy, California. As a result of these and other efforts with respect to our distribution facilities, we may encounter operational difficulties with respect to our facilities, such as disruptions in transitioning fulfillment orders to the new distribution facilities and problems or increased expenses associated with operating new facilities or reducing the size and changing functions of existing facilities, and any such difficulties could have a material adverse effect on our business, financial condition and results of operations.

Our results may be adversely affected by fluctuations in raw materials and energy costs.

Increases in the prices of the components and raw materials used in our products could negatively affect the sales of our merchandise and our product margins. These prices may fluctuate based on a number of factors beyond our control, including: commodity prices including prices for oil, lumber and cotton, changes in supply

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and demand, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates and government regulation. In addition, energy costs have fluctuated dramatically in the past. These fluctuations may result in an increase in our transportation costs for freight and distribution, utility costs for our retail stores (particularly our facility located in Tracy, California, which has experienced problems with its power supply in recent years) and overall costs to purchase products from our vendors. Accordingly, changes in the value of the U.S. dollar relative to foreign currencies may increase our vendors' cost of business and ultimately our cost of goods sold and our selling, general and administrative costs. If we are unable to pass such cost increases on to our customers or the higher cost of the products results in decreased demand for our products, our results of operations would be harmed. Any such cost increase could reduce our earnings to the extent we are unable to adjust the prices of our products.

We are subject to risks associated with our dependence on foreign imports for our merchandise.

Based on total volume dollar purchases, in fiscal 2011 we purchased approximately 84% of our merchandise from vendors located outside the United States, including 77% from Asia, the majority of which originated from China. In addition, some of the merchandise we purchase from vendors in the United States also depends, in whole or in part, on vendors located outside the United States. As a result, our business highly depends on global trade, as well as trade and cost factors that impact the specific countries where our vendors are located, including Asia. Our future success will depend in large part upon our ability to maintain our existing foreign vendor relationships and to develop new ones. While we rely on our long-term relationships with our foreign vendors, we have no long-term contracts with them and transact business on an order by order basis. Additionally, many of our imported products are subject to existing duties, tariffs and quotas that may limit the quantity of some types of goods which we may import into the United States. Our dependence on foreign imports also makes us vulnerable to risks associated with products manufactured abroad, including, among other things, risks of damage, destruction or confiscation of products while in transit to our distribution centers located in the United States, charges on or assessment of additional import duties, tariffs and quotas, loss of "most favored nation" trading status by the United States in relation to a particular foreign country, work stoppages, including without limitation as a result of events such as longshoremen strikes, transportation and other delays in shipments, including without limitation as a result of heightened security screening and inspection processes or other port-of-entry limitations or restrictions in the United States, freight cost increases, economic uncertainties, including inflation, foreign government regulations, trade restrictions, including the United States retaliating against protectionist foreign trade practices and political unrest, increased labor costs and other similar factors that might affect the operations of our vendors in specific countries such as China.

An interruption or delay in supply from our foreign sources, or the imposition of additional duties, taxes or other charges on these imports, could have a material adverse effect on our business, financial condition and results of operations unless and until alternative supply arrangements are secured.

In addition, there is a risk that compliance lapses by our vendors could occur which could lead to investigations by U.S. government agencies responsible for international trade compliance. Resulting penalties or enforcement actions could delay future imports/exports or otherwise negatively impact our business. In addition, there remains a risk that one or more of our foreign vendors will not adhere to applicable legal requirements or our global compliance standards such as fair labor standards, the prohibition on child labor and other product safety or manufacturing safety standards. The violation of applicable legal requirements by any of our vendors or the failure to adhere to labor, manufacturing safety and other laws by any of our vendors, or the divergence of the labor practices followed by any of our vendors from those generally accepted in the United States, could disrupt our supply of products from our vendors or the shipment of products to us, result in potential liability to us and harm our reputation and brand, any of which could negatively affect our business and operating results.

We rely upon independent third-party transportation providers for the majority of our product shipments.

We currently rely upon independent third-party transportation providers for the majority of our product shipments, including shipments to all of our stores and to customers. Our utilization of their delivery services for

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shipments, or those of any other shipping companies we may elect to use, is subject to risks, including increases in fuel prices, which would increase our shipping costs, and strikes, work stoppages and inclement weather, which may impact the shipping companies' abilities to provide delivery services that adequately meet our shipping needs. If we change shipping companies, we could face logistical difficulties that could adversely affect deliveries and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those received from the third-party transportation providers we currently use, which in turn would increase our costs.

We may be exposed to risks and costs associated with protecting the integrity and security of our customers' information.

A significant number of customer purchases from us across all of our channels are made using credit cards. Additionally, approximately 50% of our customer orders are placed through our website. In order for our business to function successfully, we and other market participants must be able to handle and transmit confidential information, including credit card information, securely. There can be no assurance that we currently can, or in the future will be able to, operate our facilities and our customer service and sales operations in accordance with industry recommended practices such as Payment Card Industry, or PCI, Data Security Standards. Even if we are compliant with such standards, we still may not be able to prevent security breaches involving customer transaction data. Any breach could cause consumers to lose confidence in the security of our website and choose not to purchase from us. For example, in 2008 we terminated the employment of certain employees in our call center as a result of unauthorized credit card charges. If a computer hacker or other criminal is able to circumvent our security measures, he or she could destroy or steal valuable information or disrupt our operations. Any security breach could expose us to risks of data loss, litigation and liability and could seriously disrupt our operations and harm our reputation, any of which could adversely affect our business.

In addition, states and the federal government have recently enacted additional laws and regulations to protect consumers against identity theft. We collect and store personal information from consumers in the course of doing business. These laws have increased the costs of doing business and, if we fail to implement appropriate safeguards or we fail to detect and provide prompt notice of unauthorized access as required by some of these laws, we could be subject to potential claims for damages and other remedies. If we were required to pay any significant amounts in satisfaction of claims under these laws, or if we were forced to cease our business operations for any length of time as a result of our inability to comply fully with any such law, our business, operating results and financial condition could be adversely affected.

Material damage to, or interruptions in, our information systems as a result of external factors, staffing shortages and difficulties in updating our existing software or developing or implementing new software could have a material adverse effect on our business or results of operations.

We depend largely upon our information technology systems in the conduct of all aspects of our operations, many of which we have only adopted and implemented recently in connection with rebuilding our supply chain and infrastructure. Such systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches and natural disasters. Damage or interruption to our information systems may require a significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. Management information system failures or telecommunications system problems may disrupt operations. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations. Any material interruptions or failures in our systems may have a material adverse effect on our business or results of operations.

We also rely heavily on our information technology staff. If we cannot meet our staffing needs in this area, we may not be able to fulfill our technology initiatives while continuing to provide maintenance on existing systems.

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We rely on certain software vendors to maintain and periodically upgrade many of these systems so that they can continue to support our business. The software programs supporting many of our systems were licensed to us by independent software developers. The inability of these developers or us to continue to maintain and upgrade these information systems and software programs would disrupt or reduce the efficiency of our operations if we were unable to convert to alternate systems in an efficient and timely manner.

We are vulnerable to various risks and uncertainties associated with our websites, including changes in required technology interfaces, website downtime and other technical failures, costs and technical issues as we upgrade our website software, computer viruses, changes in applicable federal and state regulation, security breaches, legal claims related to our website operations and e-commerce fulfillment and other consumer privacy concerns. Our failure to successfully respond to these risks and uncertainties could reduce website sales and have a material adverse effect on our business or results of operations.

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

Catalog mailings are an important component of our business. Increases in costs relating to paper, printing, postal rates and other catalog distribution costs would affect the cost of our catalog mailings. We have recently significantly expanded the page counts of our catalogs, increased the number of households receiving our catalogs and reduced the number of catalog mailings. While we expect to send fewer of these catalogs overall, we cannot assure you that this strategy will be successful. We rely on customary discounts from the basic postal rate structure that are available for our catalog mailings, which could be changed or discontinued at any time. The market price for paper has fluctuated significantly during the past three fiscal years and may continue to fluctuate in the future. Future increases in postal rates, paper costs or printing costs would have a negative impact on our operating results to the extent that we are unable to offset such increases by raising prices, by implementing more efficient printing, mailing, delivery and order fulfillment systems or by using alternative direct-mail formats.

We have historically experienced fluctuations in customer response to our catalogs. Customer response to our catalogs depends substantially on product assortment, product availability and creative presentation, the selection of customers to whom the catalogs are mailed, changes in mailing strategies, the page size, page count, frequency and timing of delivery of the catalogs, as well as the general retail sales environment and current domestic and global economic conditions. The failure to effectively produce or distribute our catalogs could affect the timing of catalog delivery. The timing of catalog delivery has been and can be affected by postal service delays. Any delays in the timing of catalog delivery could cause customers to forgo or defer purchases. If the performance of our catalogs declines, if we misjudge the correlation between our catalog circulation and net sales, or if our catalog circulation optimization strategy is not successful, our results of operations could be negatively impacted.

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

We record a reserve for merchandise returns based on historical return trends together with current product sales performance in each reporting period. If actual returns are greater than those projected and reserved for by management, additional sales returns might be recorded in future periods. In addition, to the extent that returned merchandise is damaged, we often do not receive full retail value from the resale or liquidation of the merchandise. Further, the introduction of new merchandise, changes in merchandise mix, changes in consumer confidence or other competitive and general economic conditions may cause actual returns to exceed merchandise return reserves. Adverse economic conditions in the past have resulted in an increase in our merchandise returns. Any significant increase in merchandise returns that exceeds our reserves could harm our business and operating results.

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Certain of our products may be subject to recalls or other actions by regulatory authorities, and any such recalls or similar actions could have a material adverse effect on our business.

Certain of the products we sell are subject to regulation by the federal Consumer Product Safety Commission and similar state and international regulatory authorities, which require certification and testing of certain regulated substances, among other requirements. For example, in August 2008, the Consumer Product Safety Improvement Act of 2008, or CPSIA, was signed into law. In general, the CPSIA bans the sale of children's products containing lead in excess of certain maximum standards, and imposes other restrictions and requirements on the sale of children's products, including importing, testing and labeling requirements. Our products have, from time to time, been subject to recall for product safety reasons, and issues of product safety could result in future product recalls, other actions by applicable government authorities or product liability claims. Product safety concerns may also require us, whether on a voluntary or involuntary basis, to remove selected products from our stores, particularly with respect to our Restoration Hardware Baby & Child brand. Product recalls and removal of products and defending such product liability claims can result in, among other things, lost sales, diverted resources, potential harm to our reputation and increased customer service costs, any of which could have a material adverse effect on our business and results of operations.

There are claims made against us from time to time that can result in litigation or regulatory proceedings which could distract management from our business activities and result in significant liability.

From time to time we are involved in litigation, claims and other proceedings relating to the conduct of our business, including but not limited to consumer protection class action litigation, claims related to our business, including claims related to our collection of reproductions, or employment practices and claims of intellectual property infringement. 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 also 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 United States 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.

Labor activities could cause labor relations difficulties for us.

Currently none of our employees is represented by a union. However, our employees have the right at any time to form or affiliate with a union, and union organizational activities have occurred previously at our Baltimore distribution center. We cannot predict the negative effects that any future organizational activities will have on our business and operations. If we were to become subject to work stoppages, we could experience disruption in our operations and increases in our labor costs, either of which could materially adversely affect our business, financial condition or results of operations.

Our failure or inability to protect our intellectual property rights could diminish the value of our brand and weaken our competitive position.

We currently rely on a combination of copyright, trademark, trade dress and unfair competition laws, as well as confidentiality procedures and licensing arrangements, to establish and protect our intellectual property rights. We believe that our trademarks and other proprietary rights have significant value and are important to identifying and differentiating certain of our products and brand from those of our competitors and creating and sustaining demand for certain of our products. We cannot assure you that the steps taken by us to protect our intellectual property rights will be adequate to prevent infringement of such rights by others, including imitation of our products and misappropriation of our brand.

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Furthermore, third parties may assert intellectual property claims against us, particularly as we expand our business and the number of products we offer. Our defense of any claim, regardless of its merit, could be expensive and time consuming and could divert management resources. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. In addition, resolution of claims may require us to redesign our products, license rights from third parties or cease using those rights altogether. If we fail to protect and maintain our intellectual property rights, the value of our brand could be diminished and our competitive position may suffer.

We are subject to risks associated with occupying substantial amounts of space, including future increases in occupancy costs. We may choose in the future to acquire some of our store locations, which will subject us to additional risks.

We lease all but one of our retail store locations and we also lease our outlet stores, our corporate headquarters and our six distribution and delivery facilities. The initial lease term of our retail stores generally ranges from ten to fifteen years, and certain leases contain renewal options for up to fifteen years. Most leases for our retail stores provide for a minimum rent, typically including escalating rent increases, plus a percentage rent based upon sales after certain minimum thresholds are achieved, as well as common area maintenance charges, real property insurance and real estate taxes. We purchased the building and land for our store in San Francisco, but to date we have relied upon leases with landlords for our other locations. As we develop new stores in the future, we may explore other models for our real estate which could include joint ventures or other forms of equity ownership in the real estate interests associated with new sites and buildings. These approaches might require additional capital investment and could present different risks than a traditional store lease with a landlord, including greater financial exposure if a new store location is not as successful as we originally target in our plans.

If we decide to close an existing or future store, we may nonetheless have continuing obligations with respect to that property pursuant to the applicable lease or ownership arrangements, including, among other things, paying the base rent for the balance of the lease term. Our ability to re-negotiate favorable terms on an expiring lease, to arrange for the sale of an owned property or to negotiate favorable terms for a suitable alternate location could depend on conditions in the real estate market, competition for desirable properties, our relationships with current and prospective landlords and other factors that are not within our control. Our inability to enter into new leases or renew existing leases on terms acceptable to us or be released from our obligations under leases or other obligations for stores that we close could materially adversely affect our business and results of operations.

Compliance with laws may be costly, and changes in laws could make conducting our business more expensive or otherwise change the way we do business.

We are subject to numerous regulations, including labor and employment, customs, truth-in-advertising, consumer protection, privacy, safety, environmental and zoning and occupancy laws and other laws, including consumer protection regulations that regulate retailers generally or govern our business. If these regulations were to change or were violated by us or our vendors or buying agents, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational harm, which could reduce demand for our products and harm our business and results of operations.

In addition to increased regulatory compliance requirements, changes in laws could make ordinary conduct of our business more expensive or require us to change the way we do business. For example, as a retail business, changes in laws related to employee benefits and treatment of employees, including laws related to limitations on employee hours, supervisory status, leaves of absence, mandated health benefits or overtime pay, could negatively impact us by increasing compensation and benefits costs for overtime and medical expenses. In addition, newly enacted United States health care laws and potential global and domestic greenhouse gas emission requirements and other environmental legislation and regulations could result in increased direct

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compliance costs for us (or may cause our vendors to raise the prices they charge us in order to maintain profitable operations because of increased compliance costs), increased transportation costs or reduced availability of raw materials.

Because of our international operations, we could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery and anti-kickback laws.

We source a significant portion of our products abroad, and we are increasing the level of our international sourcing activities in an effort to obtain more of our products directly from vendors located abroad. The United States Foreign Corrupt Practices Act, and other similar laws and regulations, generally prohibit companies and their intermediaries from making improper payments to non-United States officials for the purpose of obtaining or retaining business. While our policies mandate compliance with these anti-bribery laws, we cannot assure you that we will be successful in preventing our employees or other agents from taking actions in violation of these laws or regulations. Such violations, or allegations of such violations, could disrupt our business and result in a material adverse effect on our financial condition, results of operations and cash flows.

Our operations are subject to risks of natural disasters, acts of war, terrorism or widespread illness, any one of which could result in a business stoppage and negatively affect our operating results.

Our business operations depend on our ability to maintain and protect our facilities, computer systems and personnel. Our operations and consumer spending may be affected by natural disasters or other similar events, including floods, hurricanes, earthquakes, widespread illness or fires. In particular, our corporate headquarters is located in Northern California, and other parts of our operations including distribution facilities are located in Northern and Southern California, each of which is in a seismically active region susceptible to earthquakes that could disrupt our operations and affect our operating results. Many of our vendors are also located in areas that may be affected by such events. Moreover, geopolitical or public safety conditions which affect consumer behavior and spending may impact our business. Terrorist attacks in the United States or threats of terrorist attacks in the United States in the future, as well as future events occurring in response to or in connection with them, could again result in reduced levels of consumer spending. Any of these occurrences could have a significant impact on our operating results, revenue and costs.

We have experienced net losses in the past and we may experience net losses in the future.

We experienced net losses of \$28.7 million and \$8.1 million in fiscal 2009 and fiscal 2010, respectively. We only recently achieved profitability, as we reported net income of \$20.3 million in fiscal 2011. We may experience net losses in the future, and we cannot assure you that we will sustain recently achieved profitability in future periods.

Fluctuations in our tax obligations and effective tax rate and realization of our deferred tax assets, including net operating loss carryforwards, may result in volatility of our operating results.

We are subject to income taxes in many United States and certain foreign jurisdictions. We record tax expense based on our estimates of future payments, which include reserves for uncertain tax positions in multiple tax jurisdictions, and valuation allowances related to certain net deferred tax assets, including net operating loss carryforwards. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. Under United States federal and state income tax laws, if over a rolling three-year period, the cumulative change in our ownership exceeds 50%, our ability to utilize our net operating loss carryforwards to offset future taxable income may be limited. Changes in ownership can occur due to transactions in our stock or the issuance of additional shares of our common stock or, in certain circumstances, securities convertible into our common stock. Certain transactions we have completed, including our going private transaction in June 2008, and the sale of shares contemplated in this offering, may impact the timing of the utilization of our net operating loss carryforwards.

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Furthermore, it is possible that transactions in our stock that may not be within our control may cause us to exceed the 50% cumulative change threshold and may impose a limitation on the utilization of our net operating loss carryforwards in the future. Any such limitation on the timing of utilizing our net operating loss carryforwards would increase the use of cash to settle our tax obligations. We expect that throughout the year there could be ongoing variability in our quarterly tax rates as events occur and exposures are evaluated.

In addition, our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of earnings, timing of the utilization of net operating loss carryforwards, changes in the valuation allowance for deferred taxes or by changes to existing accounting rules or regulations. Further, tax legislation may be enacted in the future that could negatively impact our current or future tax structure and effective tax rates.

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

New accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future. A change in accounting rules or regulations may even affect our reporting of transactions completed before the change is effective, and future changes to accounting rules or regulations or the questioning of current accounting practices may adversely affect our results of operations. For example, in August 2010, the Financial Accounting Standards Board (“FASB”) issued an exposure draft outlining proposed changes to current lease accounting in FASB Accounting Standards Codification (“Codification” or “ASC”) 840, “Leases.” In July 2011, the FASB made the decision to issue a revised exposure draft, which is expected to occur in the second half of 2012, with a final standard expected to be issued in 2013. The proposed new accounting pronouncement, if ultimately adopted in its proposed form, could result in significant changes to current accounting, including the capitalization of leases on the balance sheet that currently are recorded off balance sheet as operating leases. While this change would not impact the cash flow related to our store leases, it could adversely impact our balance sheet and could therefore impact our ability to raise financing from banks or other sources.

Our total assets include intangible assets with an indefinite life, goodwill and trademarks, and substantial amounts of long lived assets, principally property and equipment. Changes to estimates or projections used to assess the fair value of these assets, or operating results that are lower than our current estimates at certain store locations, may cause us to incur impairment charges that could adversely affect our results of operations.

Our total assets include intangible assets with an indefinite life, goodwill and trademarks, and substantial amounts of property and equipment. We make certain estimates and projections in connection with impairment analyses for these long lived assets, in accordance with FASB ASC 360, “Property, Plant and Equipment (“ASC 360”), and ASC 350, “Intangibles—Goodwill and Other” (“ASC 350”). We also review the carrying value of these assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable in accordance with ASC 360 or ASC 350. We will record an impairment loss when the carrying value of the underlying asset, asset group or reporting unit exceeds its fair value. These calculations require us to make a number of estimates and projections of future results. If these estimates or projections change, we may be required to record additional impairment charges on certain of these assets. If these impairment charges are significant, our results of operations would be adversely affected. In that regard, we recorded a \$2.1 million impairment charge on long-lived assets of certain underperforming stores in fiscal 2010, and we recorded charges amounting to \$3.2 million related to retail store closures in fiscal 2011.

Risks Related to this Offering and Ownership of Our Class A Common Stock

Our Class A common stock price may be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at or above the initial public offering price.

After this offering, the market price for our Class A common stock is likely to be volatile, in part because our shares have not been traded publicly. In addition, as a retailer, our results are significantly affected by factors outside our control, particularly consumer spending and consumer confidence, which can significantly affect our

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stock price. In addition, the market price of our Class A common stock may fluctuate significantly in response to a number of other factors, including those described elsewhere in this “Risk Factors” section and this prospectus, as well as the following:

- quarterly variations in our operating results compared to market expectations;
- changes in preferences of our customers;
- announcements of new products or significant price reductions by us or our competitors;
- size of the public float;
- stock price performance of our competitors;
- fluctuations in stock market prices and volumes;
- default on our indebtedness;
- actions by competitors or other shopping center tenants;
- changes in senior management or key personnel;
- changes in financial estimates by securities analysts or failure to meet their expectations;
- actual or anticipated negative earnings or other announcements by us or other retail companies;
- downgrades in our credit ratings or the credit ratings of our competitors;
- natural disasters or other similar events;
- issuances or expected issuances of capital stock; and
- global economic, legal and regulatory changes unrelated to our performance.

The initial public offering price of our Class A common stock will be determined by negotiations between us and the underwriters based upon a number of factors and may not be indicative of prices that will prevail following the consummation of this offering. Volatility in the market price of our Class A common stock may prevent investors from being able to sell their Class A common stock at or above the initial public offering price. As a result, you may suffer a loss on your investment.

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many retail companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

Substantial future sales of our Class A common stock, or the perception in the public markets that these sales may occur, may depress our stock price.

Sales of substantial amounts of our Class A common stock in the public market after this offering, or the perception that these sales could occur, could adversely affect the price of our Class A common stock and could impair our ability to raise capital through the sale of additional shares of Class A common stock. Upon completion of this offering, we will have million shares of Class A common stock outstanding and million shares of Class B common stock outstanding. The shares of Class A common stock offered in this offering will be freely tradable without restriction under the Securities Act of 1933, as amended (the “Securities Act”), except for any shares of our Class A common stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. Moreover, under a registration rights agreement, Home Holdings and the other Principal Equity Holders will have registration rights

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whereby, at any time following our initial public offering, Home Holdings or the other Principal Equity Holders can require us to register under the Securities Act any shares owned by Home Holdings or the other Principal Equity Holders as of the date of this prospectus and not sold in this offering. See “Certain Relationships and Related Party Transactions—Registration Rights Agreement” for a more detailed description of the stockholders agreement. If our existing stockholders sell substantial amounts of our Class A common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our Class A common stock, even if there is no relationship between such sales and the performance of our business.

We, our executive officers and directors, the selling stockholders and our other existing security holders have agreed, subject to certain exceptions, not to sell or transfer any common stock, or securities convertible into, exchangeable for, exercisable for or repayable with common stock, for 180 days after the date of this prospectus, without first obtaining written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co., representatives of the underwriters. See “Underwriting.”

All of our shares of common stock outstanding as of the date of this prospectus may be sold in the public market by existing stockholders 180 days after the date of this prospectus, subject to applicable limitations imposed under federal securities laws. See “Shares Eligible for Future Sale” for a more detailed description of the restrictions on selling shares of our common stock after this offering.

In the future, we may also issue our securities in connection with a capital raise or acquisitions. The amount of shares of our common stock issued in connection with a capital raise or acquisition could constitute a material portion of our then-outstanding shares of our common stock, which would result in dilution.

Anti-takeover provisions in our charter documents and Delaware law might discourage or delay acquisition attempts for us that you might consider favorable.

Our certificate of incorporation and bylaws, as each will be in effect upon completion of this offering, will contain provisions that may make the acquisition of our Company more difficult without the approval of our board of directors. These provisions:

- set forth the dual-class structure of our common stock, which concentrates voting power in matters submitted to a vote of our shareholders in the holders of our Class B common stock, which is held by our Co-Chief Executive Officers;
- establish a classified board of directors so that not all members of our board of directors are elected at one time;
- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock;
- after the date on which Home Holdings no longer holds at least _____ shares of our Class A common stock or otherwise loses its approval rights under the stockholders agreement, prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that our board of directors is expressly authorized to make, alter or repeal our bylaws; and
- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Our certificate of incorporation will also contain a provision that provides us with protections similar to Section 203 of the Delaware General Corporation Law (“DGCL”), and will prevent us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of three years

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from the date such person acquired such common stock unless board or stockholder approval is obtained prior to the acquisition, except that our Principal Equity Holders and any persons to whom our Principal Equity Holders sell their common stock will be deemed to have been approved by our board of directors, and thereby not subject to these restrictions. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our Company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

If you purchase shares of Class A common stock sold in this offering, you will incur immediate and substantial dilution.

If you purchase shares of Class A common stock in this offering, you will incur immediate and substantial dilution in the amount of \$ _____ per share based upon an assumed initial public offering price of \$ _____ per share (the midpoint of the estimated price range set forth on the cover of this prospectus), which is substantially higher than the pro forma net tangible book value per share of our outstanding common stock. In addition, you may also experience additional dilution, or potential dilution, upon future equity issuances to investors or to our employees, consultants and directors under our stock option and equity incentive plans. See “Dilution.”

We do not expect to pay any cash dividends for the foreseeable future.

We do not anticipate that we will pay any cash dividends on shares of our Class A common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Accordingly, if you purchase shares in this offering, realization of a gain on your investment will depend on the appreciation of the price of our Class A common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our Class A common stock.

We may apply the proceeds of this offering to uses that do not improve our operating results or increase the value of your investment.

We intend to use a portion of the net proceeds from the sale of Class A common stock in this offering to repay a portion of the outstanding amounts under the Restoration Hardware, Inc. revolving line of credit and term loan, for general corporate purposes, including working capital and capital expenditures, and to pay fees and expenses incurred in connection with this offering of approximately \$ _____, including management fees of \$ _____ to Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement we entered into with them. We may also use a portion of our net proceeds to acquire or invest in other businesses or products. However, we do not have more specific plans for the net proceeds from this offering and will have broad discretion in how we use the net proceeds of this offering. These proceeds could be applied in ways that do not improve our operating results or increase the value of your investment.

Our largest stockholders, including Home Holdings, Catterton, Tower Three, Glenhill, Gary Friedman and Carlos Alberini, will continue to have significant influence over us after this offering, including over decisions that require the approval of stockholders, and their interests in our business may be different from yours.

Upon completion of this offering, Home Holdings will own approximately _____ shares, or _____%, of our outstanding Class A common stock, representing _____% of the total voting power of our outstanding stock. Of that amount, Catterton will beneficially own approximately _____ shares, or _____%, of our outstanding Class A common stock, representing _____% of the total voting power of our outstanding common stock, Tower Three will beneficially own approximately _____ shares, or _____%, of our outstanding Class A common stock, representing _____% of the total voting power of our outstanding common stock, and Glenhill will beneficially own approximately _____ shares, or _____%, of our outstanding Class A common stock, representing _____% of the total voting power of our outstanding common stock.

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Home Holdings, and through Home Holdings, Catterton, Tower Three and Glenhill, as well as our Co-Chief Executive Officers, Gary Friedman and Carlos Alberini, will have significant influence over our reporting and corporate management and affairs and will be able to control certain matters requiring stockholder approval after this offering. It is possible that the interests of our Principal Equity Holders and our Co-Chief Executive Officers may in some circumstances conflict with the interests of our other stockholders, including you. We intend to enter into a stockholders agreement with Home Holdings that will provide for certain approval rights for Home Holdings and designation of directors by Home Holdings. The stockholder agreement provides for a waiver of the corporate opportunity doctrine with respect to Home Holdings and its affiliates, including the Principal Equity Holders. See “Certain Relationships and Related Party Transactions—Stockholders Agreement.”

Our Principal Equity Holders are also in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. Our Principal Equity Holders may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us. So long as Home Holdings or our Principal Equity Holders, or other funds controlled by or associated with our Principal Equity Holders, continue to indirectly own a significant amount of our outstanding Class A common stock, even if such amount represents less than 50% of the total voting power of our capital stock, Home Holdings and our Principal Equity Holders will continue to be able to strongly influence our decisions. Likewise, our Co-Chief Executive Officers, through the ownership of Class B common stock, which carries 3.5 votes for each share, in addition to any Class A shares they may hold, will also be in a position to strongly influence our decisions. The concentration of ownership in the hands of our Principal Equity Holders and our Co-Chief Executive Officers may have the effect of delaying, preventing or deterring a change of control of our Company, could deprive stockholders of an opportunity to receive a premium for their Class A common stock as part of a sale of our Company and might ultimately affect the market price of our Class A common stock.

We are a “controlled company” within the meaning of the NYSE listing requirements and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such corporate governance requirements.

Because of the aggregate voting power over our Company held by Home Holdings, we are considered a “controlled company” for the purposes of the NYSE listing requirements. As such, we are exempt from the corporate governance requirements that our board of directors, our compensation committee and our nominating and corporate governance committee meet the standard of independence established by those corporate governance requirements. The independence standards are intended to ensure that directors who meet the independence standard are free of any conflicting interest that could influence their actions as directors.

Following this offering, we intend to utilize these exemptions afforded to a “controlled company.” Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the

The dual-class structure of our common stock will have the effect of concentrating voting power with our Co-Chief Executive Officers and will limit your ability to influence corporate matters.

After this offering, our Class B common stock will have 3.5 votes per share and our Class A common stock, which is the stock we are selling in this offering, will have one vote per share. All shares of Class B common stock will be held by our Co-Chief Executive Officers, Gary Friedman and Carlos Alberini. Mr. Friedman and Mr. Alberini will have voting control over and shares, respectively, of our Class B common stock following this offering. Mr. Friedman’s holdings and Mr. Alberini’s holdings will represent approximately % and %, respectively, of the total voting power of our outstanding capital stock following this offering. In addition, in connection with this offering, Mr. Friedman and Mr. Alberini will be granted options to purchase shares of Class A common stock that could give them access to additional voting shares upon exercise of such options when and if they become vested. Mr. Friedman and Mr. Alberini will have significant influence over all

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matters requiring shareholder approval, including the election or removal (with or without cause) of directors and approval of any significant corporate transaction, such as a merger or other sale of us or our assets. This concentrated voting power could delay, defer or prevent a change of control, merger, consolidation, takeover or other business combination involving us that you, as a shareholder, may otherwise support. This concentrated voting power could also discourage a potential investor from acquiring our Class A common stock due to the limited voting power of such stock relative to the Class B common stock and might harm the market price of our Class A common stock.

Compliance with Section 404 of the Sarbanes-Oxley Act of 2002 may require significant expenditures and effort by management, and if our independent registered public accounting firm is unable to provide an unqualified attestation report on our internal controls, our stock price could be adversely affected.

Until June 2008, Restoration Hardware, Inc. was a public company and was required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”) and related rules and regulations. Following the completion of this offering and beginning with our Annual Report on Form 10-K for the year ending February 1, 2014, our management again will be required to report on, and we expect that our independent registered public accounting firm will have to attest to, the effectiveness of our internal control over financial reporting. We are currently in the process of reviewing, documenting and testing our internal control over financial reporting. We may encounter problems or delays in completing the implementation of any changes necessary to make a favorable assessment of our internal control over financial reporting. In addition, in connection with the attestation process by our independent registered public accounting firm, we may encounter problems or delays in completing the implementation of any requested improvements and receiving a favorable attestation.

In 2008, we reported a material weakness that resulted in us incorrectly reporting the amount of indirect costs capitalized into inventory for the first three quarters of fiscal 2007. As a result, we restated our unaudited quarterly financial information for three quarters in fiscal 2007. Under rules of the Securities and Exchange Commission (the “SEC”), a material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis. We cannot assure you that other material weaknesses will not be identified in the future.

If other material weaknesses or other deficiencies occur in the future, or if we fail to fully maintain effective internal controls in the future, it could result in a material misstatement of our financial statements that would not be prevented or detected on a timely basis, which could require a restatement, cause investors to lose confidence in our financial information or cause our stock price to decline.

We will incur new costs as a result of becoming a public company.

As a public company, we will incur significant legal, accounting, insurance and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect compliance with these public reporting requirements and associated rules and regulations to increase our legal and financial costs, and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Further, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our Class A common stock, fines, sanctions and other regulatory action and, potentially, civil litigation.

FORWARD-LOOKING STATEMENTS AND MARKET DATA

This prospectus 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 meaning in connection with any discussion of the timing or nature of future operating or financial performance or other events. For example, forward-looking statements include statements we make relating to:

- anticipated demand in given markets, market growth projections and our expected increased market share, store sales and brand awareness;
- our real estate platform transformation, including planned store openings, closings, relocations, remodeling, anticipated store demand, square footage, sales per square foot and occupancy costs, and expected inventory investments, opening expenses and initial investment payback periods for new stores;
- plans and expectations regarding merchandise assortments, product designs, product category introductions and increased merchandise margins;
- plans and expectations relating to growing our direct business through our Source Book catalog circulation strategy and by implementing our digital and social marketing initiative and increased advertising and public relations efforts;
- our intentions to expand customer services, such as by offering consultations and customization, and to explore and test new complementary business opportunities, such as an Art & Culture category and a café or restaurant adjacent to, or inside of, select full line Design Galleries;
- our plan to strategically expand our business in select countries outside of the United States and Canada and our belief that we will have strong international appeal;
- other plans and objectives for future operations, growth, initiatives or strategies, including anticipated personnel hiring and planned investments in capital;
- our intention to continue to strengthen our supply chain operations and enhance our technology systems;
- our belief that our vendors have, or will have, adequate capacity to meet our anticipated demand;
- our expectations regarding consumer spending, the housing market and the North American economy; and
- estimated and projected costs, expenditures, cash flows, growth rates, operating margins and financial results.

These and other 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” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this prospectus. 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 prospectus in the context of these risks and uncertainties.

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We caution you that the important factors referenced above may not contain all of the factors that are important to you. In addition, 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 prospectus 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.

We obtained the industry, market and competitive position data throughout this prospectus from (i) our own internal estimates and research, (ii) industry and general publications and research and (iii) studies and surveys conducted by third parties. Industry publications, research, studies and surveys generally do not guarantee the accuracy or completeness of such information. While we believe that the information included in this prospectus from such publications, research, studies and surveys is reliable, we have not independently verified data from these third-party sources. While we believe our internal estimates and research are reliable and the definitions of our market and industry are appropriate, neither such estimates and research nor such definitions have been verified by any independent source.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering, after deducting the underwriting discount and estimated offering expenses, will be approximately \$ million, assuming the shares of Class A common stock are offered at \$ per share (the midpoint of the estimated price range set forth on the cover of this prospectus). We will not receive any proceeds from the sale of shares of Class A common stock by the selling stockholders.

Each \$1.00 increase or decrease in the assumed initial public offering price of \$ per share of Class A common stock (the midpoint of the estimated price range set forth on the cover of this prospectus) would increase or decrease, as applicable, the net proceeds we receive from this offering by approximately \$ million, assuming the number of shares of Class A common stock offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses.

We intend to use a portion of the net proceeds from the sale of Class A common stock by us in this offering to repay a portion of the outstanding amounts under the Restoration Hardware, Inc. revolving line of credit and term loan, approximately \$ of the net proceeds to pay fees and expenses incurred in connection with this offering, including management fees of \$ to Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement we entered into with them, and the remaining net proceeds of approximately \$ for general corporate purposes, including working capital and capital expenditures.

The total outstanding amounts under the Restoration Hardware, Inc. revolving line of credit was \$125.5 million as of April 28, 2012. The maturity date of the revolving line of credit is August 3, 2016. Borrowings under the revolving line of credit bear interest at a rate equal to either the bank's reference rate or the London Interbank Offered Rate as published by Reuters, referred to as "LIBOR," plus an applicable margin rate. See "Description of Certain Indebtedness."

The total outstanding amounts under the Restoration Hardware, Inc. term loan was \$14.8 million, net of \$0.2 million of unamortized debt issuance costs, as of April 28, 2012. The term loan bears interest at a rate of LIBOR plus 5.0%. Restoration Hardware, Inc. is required to make quarterly payments of \$1.25 million beginning July 2012 with the final payment in April 2015. See "Description of Certain Indebtedness."

Pending use of the net proceeds from this offering described above, we intend to invest the net proceeds in short- and intermediate-term interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the United States government.

Bank of America, N.A. is a lender under the revolving line of credit and term loan and an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, an underwriter in this offering, and may receive more than five percent of the net proceeds of this offering. Thus, Merrill Lynch, Pierce, Fenner & Smith Incorporated may be deemed to have a "conflict of interest" under the applicable provisions of Rule 5121 of the Conduct Rules of FINRA. Accordingly, this offering will be made in compliance with the applicable provisions of Rules 5110 and 5121 of the Conduct Rules regarding the underwriting of securities of a company with a member that has a conflict of interest within the meaning of those rules. Goldman, Sachs & Co. has agreed to serve as a "qualified independent underwriter" as defined by FINRA and performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus forms a part. No underwriter with a conflict of interest will execute sales in discretionary accounts without the prior written specific approval of the customers. For more information, see "Underwriting—Conflicts of Interest."

DIVIDEND POLICY

We currently intend to retain all available funds and any future earnings for use in the operation of our business, and therefore we do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and other factors that our board of directors deems relevant. We are a holding company, and substantially all of our operations are carried out by our subsidiary, Restoration Hardware, Inc., and its subsidiaries. Restoration Hardware, Inc.'s ability to pay dividends to us is limited by the terms of its credit agreement, which may in turn limit our ability to pay dividends on our Class A common stock. Our ability to pay dividends may also be restricted by the terms of any future credit agreement or any future debt or preferred securities of ours or of our subsidiaries.

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CAPITALIZATION

The following table sets forth Restoration Hardware, Inc.'s consolidated cash and cash equivalents and capitalization as of April 28, 2012:

- on an actual basis; and
- on a pro forma as adjusted basis to give effect to the following:
 - the Reorganization as described under the section entitled “Prospectus Summary—Reorganization” as if it had occurred on April 28, 2012;
 - the sale of _____ shares of our Class A common stock in this offering by us at an assumed initial public offering price of \$ _____ per share (the midpoint of the estimated price range set forth on the cover of this prospectus) after deducting the underwriting discount and estimated offering expenses;
 - the use of \$ _____ million of the estimated net proceeds of this offering from the sale of Class A common stock by us in this offering to repay a portion of the outstanding amounts under the Restoration Hardware, Inc. revolving line of credit and term loan; and
 - the use of \$ _____ million of the estimated net proceeds of this offering to pay other fees and expenses incurred in connection with this offering, including management fees of \$ _____ to Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement we entered into with them.

You should read the following table in conjunction with the sections entitled “Use of Proceeds,” “Selected Historical Consolidated Financial and Operating Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this prospectus.

	As of April 28, 2012	
	Actual	Pro Forma as Adjusted (1)
	(dollars in thousands, except per share data)	
Cash and cash equivalents	\$ 10,205	\$ _____
Debt, including current portion:		
Long-term liabilities:		
Revolving line of credit	\$ 125,465	\$ _____
Term loan	14,798	_____
Total long term debt, including current portion	140,263	_____
Stockholders’ equity:		
Common stock, \$0.01 par value per share, 1,000 shares authorized, 100 issued and outstanding, actual	—	—
Class A common stock, \$0.0001 par value per share, _____ shares authorized, shares issued and outstanding, pro forma as adjusted	—	_____
Class B common stock, \$0.0001 par value per share, _____ shares authorized, shares issued and outstanding, pro forma as adjusted	—	_____
Additional paid-in capital	293,703	_____
Accumulated other comprehensive income	1,193	_____
Accumulated deficit	(47,732)	(2)
Total stockholders’ equity	247,164	_____
Total capitalization	\$ 387,427	\$ _____

- (1) A \$1.00 increase (decrease) in the assumed initial public offering price of \$ _____ per share of Class A common stock, the midpoint of the estimated price range set forth on the cover of this prospectus, would

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increase (decrease) the pro forma as adjusted amount of cash and cash equivalents by \$ million, total assets by \$ million, revolving line of credit by \$ million, term loan by \$ million, total debt (including current portion) by \$ million and total stockholders' equity by \$ million, assuming the number of shares of Class A common stock offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses.

- (2) Reflects (x) the \$ impact to accumulated deficit for the shares of unvested Class A common stock that will vest upon this offering after the conversion of outstanding units under the Team Resto Ownership Plan into restricted and unrestricted Class A common stock, (y) the \$ impact to accumulated deficit for the shares of unvested Class B common stock that will vest upon this offering after the conversion of outstanding units under the Team Resto Ownership Plan into restricted and unrestricted Class B common stock and (z) the \$ impact to accumulated deficit for the shares of Class A common stock underlying options granted to Mr. Friedman and Mr. Alberini in connection with this offering, in each case based on an assumed initial public offering price of \$ per share of Class A common stock (the midpoint of the estimated price range set forth on the cover of this prospectus), plus a total of \$2.2 million to former employees that are due as a result of the initial public offering. Such payments relate to prior periods of service of certain former employees of our Company.

The information set forth above excludes:

- unvested restricted shares of our Class A common stock and unvested restricted shares of our Class B common stock that will be issued to our executive officers and other employees and consultants under the Replacement Plan as replacement grants for awards previously issued pursuant to the Team Resto Ownership Plan (the amount of unrecognized compensation expense related to these unvested restricted shares is \$ and \$, respectively);
- options to purchase shares of our Class A common stock, each with an exercise price equal to the initial public offering price, that we expect to grant in connection with this offering under the 2012 Plan;
- options to purchase shares and shares of our Class A common stock, each with an exercise price equal to \$ per share, that we expect to grant in connection with this offering to our Co-Chief Executive Officers, Gary Friedman and Carlos Alberini, respectively (the amount of unrecognized compensation expense related to these options is \$); and
- additional shares of Class A common stock reserved for future grants under the 2012 Plan.

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DILUTION

Our pro forma net tangible book value as of April 28, 2012, before giving effect to the sale by us of _____ million shares of Class A common stock offered in this offering, but after giving effect to the Reorganization as if it had occurred on April 28, 2012, was \$ _____ million, or \$ _____ per share. Pro forma net tangible book value per share represents the amount of our total tangible assets less the amount of our total liabilities, divided by the total number of shares of common stock that would have been outstanding at April 28, 2012, after giving effect to the Reorganization as if it had occurred on April 28, 2012. Dilution in pro forma net tangible book value per share represents the difference between the amount per share paid by investors in this offering and the net tangible book value per share of our common stock outstanding immediately after this offering.

After giving further effect to (i) the sale of _____ shares of our Class A common stock in this offering by us at an assumed initial public offering price of \$ _____ per share (the midpoint of the estimated price range set forth on the cover of this prospectus) after deducting the underwriting discount and estimated offering expenses; (ii) the use of \$ _____ million of the estimated net proceeds to us in this offering from the sale of _____ million shares to repay a portion of the outstanding amounts under the Restoration Hardware, Inc. revolving line of credit and term loan; and (iii) the use of \$ _____ million of the estimated net proceeds to pay other fees and expenses incurred in connection with this offering, including management fees of \$ _____ million to Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement we entered into with them, our pro forma as adjusted net tangible book value as of April 28, 2012, would have been \$ _____ million, or \$ _____ per share of common stock. This represents an immediate increase in pro forma net tangible book value of \$ _____ per share and immediate dilution of \$ _____ per share to new investors purchasing shares of Class A common stock in this offering at the initial public offering price.

The following table illustrates this dilution to new investors:

Assumed initial public offering price per share	\$
Pro forma net tangible book value per share as of April 28, 2012 (after giving effect to the Reorganization)	\$
Decrease in pro forma net tangible book value per share attributable to fees and other expenses discussed above	_____
Increase in pro forma tangible book value per share attributable to this offering	_____
Pro forma as adjusted net tangible book value per share as of April 28, 2012	_____
Pro forma as adjusted dilution per share to new investors	\$ _____

Each \$1.00 increase (decrease) in the assumed initial public offering price of \$ _____ per share of Class A common stock (the midpoint of the estimated price range set forth on the cover of this prospectus) would increase (decrease) our pro forma as adjusted net tangible book value by \$ _____ million, or \$ _____ per share, and the pro forma as adjusted dilution to investors in this offering by \$ _____ per share, assuming that the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses. This pro forma information is illustrative only, and following the completion of this offering, will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing.

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The following table summarizes, as of April 28, 2012, on a pro forma as adjusted basis, the number of shares Class A common stock of our common stock purchased from us, the aggregate cash consideration paid to us and the average price per share paid by our existing stockholder in connection with the Acquisition. The table is based on the initial public offering price of \$ per share of Class A common stock (the midpoint of the estimated price range set forth on the cover of this prospectus), after deducting the underwriting discount and estimated offering expenses in connection with this offering:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percentage	Amount	Percentage	
Existing stockholder before this offering			\$		\$
New investors participating in this offering					
Total		100%		100%	

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share of Class A common stock (the midpoint of the estimated price range set forth on the cover of this prospectus) would increase (decrease) the total consideration paid by investors participating in this offering by \$ million, or increase (decrease) the percent of total consideration paid by investors participating in this offering by %, assuming that the number of shares of Class A common stock offered by us and the selling stockholders, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses.

Except as otherwise indicated, the discussion and tables above assume no exercise of the underwriters' option to purchase additional shares of Class A common stock, no exercise of any outstanding options to purchase our Class A common stock and no sale of Class A common stock by the selling stockholders. The sale of million shares of Class A common stock to be sold by the selling stockholders in this offering will reduce the number of shares of common stock held by such stockholders to million, or % of the total shares outstanding, and will increase the number of shares held by investors participating in this offering to million, or % of the total shares outstanding. In addition, if the underwriters' option to purchase additional shares is exercised in full, the number of shares of Class A common stock held by our existing stockholders will be further reduced to million, or % of the total number of shares of common stock to be outstanding upon the closing of this offering, and the number of shares of common stock held by investors participating in this offering will be further increased to million shares or % of the total number of shares of common stock to be outstanding upon the closing of this offering.

The tables and calculations above exclude:

- unvested restricted shares of our Class A common stock and unvested restricted shares of our Class B common stock that will be issued to our executive officers and other employees and consultants under the Replacement Plan as replacement grants for awards previously issued pursuant to the Team Resto Ownership Plan;
- options to purchase shares of our Class A common stock, each with an exercise price equal to the initial public offering price, that we expect to grant in connection with this offering under the 2012 Plan;
- options to purchase shares and shares of our Class A common stock, each with an exercise price equal to \$ per share, that we expect to grant in connection with this offering to our Co-Chief Executive Officers, Gary Friedman and Carlos Alberini, respectively; and
- additional shares of Class A common stock reserved for future grants under the 2012 Plan.

To the extent that any options or other equity awards are granted in the future and those options or other equity awards are exercised or become vested, new investors will experience further dilution.

SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA

The following tables present Restoration Hardware, Inc.'s consolidated financial and operating data as of the dates and for the periods indicated. Restoration Hardware Holdings was formed as a Delaware corporation on August 18, 2011. Restoration Hardware Holdings will acquire all of the outstanding shares of capital stock of Restoration Hardware, Inc. prior to the effectiveness of this offering in connection with the Reorganization, and will therefore control Restoration Hardware, Inc. Restoration Hardware Holdings has not engaged in any business or other activities except in connection with its formation and the Reorganization. Accordingly, all financial and other information herein relating to periods prior to the completion of the Reorganization is that of Restoration Hardware, Inc.

All of the outstanding capital stock of Restoration Hardware, Inc. was acquired on June 16, 2008, by Home Holdings, which we refer to in this prospectus as the "Acquisition." As a result of the Acquisition, a new basis of accounting was created beginning June 17, 2008. In this prospectus, the periods prior to the Acquisition are referred to as the "Predecessor" periods and the periods after the Acquisition are referred to as the "Successor" periods. The Predecessor periods presented in this prospectus include the period from February 3, 2008 through June 16, 2008, reflecting approximately 19 weeks of operations, and the Successor periods presented in this prospectus include the period from June 17, 2008 through January 31, 2009, reflecting approximately 33 weeks of operations. Due to the Acquisition, the financial statements for the Successor periods are not comparable to those of the Predecessor periods presented in this prospectus.

The selected consolidated financial data as of and for the year ended February 2, 2008, and the periods ended June 16, 2008 and January 31, 2009 and as of January 31, 2009 and January 30, 2010, were derived from Restoration Hardware, Inc.'s consolidated financial statements for such years not included herein. The selected consolidated financial data as of January 29, 2011 and January 28, 2012 and for the fiscal years ended January 30, 2010, January 29, 2011 and January 28, 2012 were derived from Restoration Hardware, Inc.'s consolidated financial statements included elsewhere in this prospectus.

The selected consolidated financial data for the three months ended April 30, 2011, and April 28, 2012, and as of April 28, 2012, were derived from Restoration Hardware, Inc.'s unaudited consolidated interim financial statements included elsewhere in this prospectus. The unaudited consolidated interim financial statements were prepared on a basis consistent with that used in preparing our audited consolidated financial statements and include all adjustments, consisting of normal and recurring items, that we consider necessary for a fair presentation of our financial position and results of operations for the unaudited periods. The unaudited financial information for the twelve months ended April 30, 2011, has been derived by adding our financial information for the year ended January 29, 2011, to the financial information for the three months ended April 30, 2011, and subtracting the financial information for the three months ended May 1, 2010. The unaudited financial information for the twelve months ended April 28, 2012, has been derived by adding our financial information for the year ended January 28, 2012, to the financial information for the three months ended April 28, 2012, and subtracting the financial information for the three months ended April 30, 2011. We believe that presentation of unaudited financial information for these twelve-month periods is useful to investors because it presents information about how our business has performed in the twelve-month period immediately preceding the date of our most recent interim financial statements, which allows investors to review our current performance trends over a full year period, and presenting results for four consecutive quarters compensates for seasonal factors that might influence results in a particular quarter within the year.

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Restoration Hardware, Inc.'s historical results are not necessarily indicative of future operating results, and interim results for the three months ended April 28, 2012 are not projections for the results to be expected for the fiscal year ending February 2, 2013. The selected historical consolidated data presented below should be read in conjunction with the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the related notes thereto and other financial data included elsewhere in this prospectus.

	Predecessor		Successor							
	Year Ended February 2, 2008	Period from February 3, 2008 Through June 16, 2008	Period from June 17, 2008 Through January 31, 2009	Year Ended			Three Months Ended		Last Twelve Months Ended (1)	
			January 31, 2009	January 30, 2010	January 29, 2011	January 28, 2012	April 30, 2011	April 28, 2012	April 30, 2011	April 28, 2012
(dollars in thousands, excluding per share and per square foot data)										
Statement of Operations Data:										
Net revenues	\$ 722,243	\$ 195,437	\$ 498,581	\$ 625,685	\$ 772,752	\$ 958,084	\$184,760	\$217,914	\$825,004	\$991,238
Cost of goods sold	490,935	140,088	308,448	412,629	501,132	601,735	121,576	142,646	532,275	622,805
Gross profit	231,308	55,349	190,133	213,056	271,620	356,349	63,184	75,268	292,729	368,433
Selling, general and administrative expenses	274,454	75,396	213,011	238,889	275,859	329,753	68,816	77,401	287,219	338,338
Income (loss) from operations	(43,146)	(20,047)	(22,878)	(25,833)	(4,239)	26,596	(5,632)	(2,133)	5,510	30,095
Interest expense	(8,663)	(2,731)	(4,907)	(3,241)	(3,150)	(5,134)	(899)	(1,575)	(3,192)	(5,810)
Income (loss) before income taxes	(51,809)	(22,778)	(27,785)	(29,074)	(7,389)	21,462	(6,531)	(3,708)	2,318	24,285
Income tax expense (benefit)	127	508	(201)	(423)	685	1,121	(204)	56	521	1,381
Net income (loss)	\$ (51,936)	\$ (23,286)	\$ (27,584)	\$ (28,651)	\$ (8,074)	\$ 20,341	\$ (6,327)	\$ (3,764)	\$ 1,797	\$ 22,904
Net income (loss) per share:										
Basic	\$ (1.34)	\$ (0.60)	\$ (275,840)	\$ (286,510)	\$ (80,740)	\$ 203,410	\$ (63,270)	\$ (37,640)	\$ 17,970	\$ 229,040
Diluted	\$ (1.34)	\$ (0.60)	\$ (275,840)	\$ (286,510)	\$ (80,740)	\$ 203,410	\$ (63,270)	\$ (37,640)	\$ 17,970	\$ 229,040
Average number of shares outstanding:										
Basic	38,831,000	38,969,000	100	100	100	100	100	100	100	100
Diluted	38,831,000	38,969,000	100	100	100	100	100	100	100	100
Pro forma net income per share (2):										
Basic						\$	\$			
Diluted						\$	\$			
Pro forma average number of shares outstanding (2):										
Basic										
Diluted										
Other Financial and Operating Data:										
Growth in net revenues:										
Stores (3)	(10)%	—	—	(6)%	15%	22%	26%	16%	17%	20%
Direct	28%	—	—	(15)%	37%	27%	60%	21%	45%	20%
Total	1%	—	—	(10)%	24%	24%	39%	18%	28%	20%
Retail (4):										
Comparable store sales change (5)	(10)%	(12)%	(8)%	(7)%	19%	25%	25%	26%	19%	25%
Retail stores open at end of period	102	100	99	95	91	74	89	74	89	74
Average gross square footage (in thousands) (6)	1,084	1,072	1,060	1,042	1,014	913	958	805	999	875
Average selling square footage (in thousands) (7)	685	677	671	660	641	580	605	519	632	559
Retail sales per selling square foot (7)	\$ 600	\$ 147	\$ 406	\$ 525	\$ 635	\$ 846	\$ 148	\$ 200	\$ 671	\$ 903
Direct:										
Catalogs circulated (in thousands) (8)	57,501	13,771	26,831	31,336	46,507	26,052	7,958	15,811	44,735	33,905
Catalog pages circulated (in millions) (8)	8,636	2,168	3,507	4,418	6,260	8,848	2,109	7,651	6,690	14,389
Direct as a percentage of net revenues (9)	38%	43%	41%	39%	43%	44%	46%	47%	44%	45%
Capital expenditures	\$ 13,282	\$ 3,821	\$ 13,428	\$ 2,024	\$ 39,907	\$ 25,593	\$ 3,577	\$ 6,193	\$ 40,986	\$ 28,209
Adjusted EBITDA (10)	\$ (4,033)	\$ (8,219)	\$ 4,386	\$ 17,596	\$ 41,097	\$ 80,154	\$ 5,333	\$ 6,159	\$ 52,228	\$ 80,980

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	Predecessor February 2, 2008	Successor				
		January 31, 2009	January 30, 2010	January 29, 2011	January 28, 2012	April 28, 2012
		(in thousands)				
Balance Sheet Data:						
Cash and cash equivalents	\$ 1,229	\$ 8,603	\$ 13,186	\$ 13,364	\$ 8,511	\$ 10,205
Working capital (excluding cash and cash equivalents) (11)	103,734	102,850	57,058	103,894	156,505	171,619
Total assets	342,546	494,773	431,528	501,991	586,809	633,059
Line of credit	78,367	110,696	57,442	111,837	107,502	125,465
Term loan	—	—	—	—	14,798	14,798
Total debt (including current portion) (12)	110,774	117,515	61,652	116,995	131,040	147,894
Total stockholders' equity	43,830	238,670	221,079	215,804	250,462	247,164

(1) The unaudited financial information for the twelve months ended April 30, 2011, has been derived by adding our financial information for the year ended January 29, 2011, to the financial information for the three months ended April 30, 2011, and subtracting the financial information for the three months ended May 1, 2010. The unaudited financial information for the twelve months ended April 28, 2012, has been derived by adding our financial information for the year ended January 28, 2012, to the financial information for the three months ended April 28, 2012, and subtracting the financial information for the three months ended April 30, 2011.

(2) Pro forma net income (loss) per share gives effect to (i) the Reorganization, (ii) the issuance of shares of Class A common stock in this offering and (iii) the application of a portion of the estimated net proceeds from the sale of Class A common stock by us in this offering to repay a portion of the outstanding amounts under Restoration Hardware, Inc.'s revolving line of credit and term loan as if the offering and those transactions had occurred on January 30, 2011. This assumes net proceeds of this offering of \$ million, assuming the shares are offered at \$ per share, the midpoint of the estimated price range set forth on the cover of this prospectus, after deducting the underwriting discount and estimated offering expenses.

(3) Store data represent retail stores plus outlet stores.

(4) Retail data have been calculated based upon retail stores, including our Baby & Child stores, and exclude outlet stores.

(5) Comparable store sales have been calculated based upon retail 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. Comparable store net revenues exclude revenues from outlet stores.

(6) Average square footage (gross or selling, as applicable) is calculated for each quarter 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. Average square footage for periods of six, nine and twelve months is calculated by averaging the average square footage for the quarters within such periods.

Average square footage (gross or selling, as applicable) for the 2008 Predecessor period is calculated by adding the average applicable square footage for the first quarter of the year ended January 31, 2009, and for the period May 4, 2008, through June 16, 2008, and dividing by two. Average square footage (gross or selling, as applicable) for the period May 4, 2008, through June 16, 2008, is calculated by taking the total applicable square footage at the beginning of the period plus the total applicable square footage at the end of the period and dividing by two.

Average square footage (gross or selling, as applicable) for the 2008 Successor period is calculated by adding the average square footage for three periods, being the period June 17, 2008, through August 2, 2008, the third quarter of the year ending January 31, 2009, and the fourth quarter of the year ended January 31, 2009, and dividing by three. Average square footage (gross or selling, as applicable) for the period June 17, 2008, through August 2, 2008, is calculated by taking the total applicable square footage at the beginning of the period plus the total applicable square footage at the end of the period and dividing by two.

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

(8) The catalogs and catalog pages circulated from period to period do not take into account different page sizes per catalog distributed. Page sizes and page counts vary for different catalog mailings and we sometimes mail different versions of a catalog at the same time. Accordingly, period to period comparisons of catalogs circulated and catalog pages circulated do not take these variations into account. In fiscal 2010, we mailed a larger number of catalogs that contained fewer pages and in some cases significantly smaller page sizes than in prior periods. In fiscal 2011, we mailed fewer catalogs that contained a significant increase in number of pages as compared to fiscal 2010.

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

(10) EBITDA and Adjusted EBITDA have been presented in this prospectus and are supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We have presented Adjusted EBITDA for the Predecessor periods consistently with the Successor periods to present such adjustments on a comparable basis for those periods. EBITDA is defined as consolidated net income (loss) before depreciation and amortization, interest expense and provision for income taxes. Adjusted EBITDA is calculated in accordance with and is the basis of our Management Incentive Program (or "MIP"), which is our cash based-incentive compensation program designed to motivate and reward annual performance for eligible employees, and reflects further adjustments to EBITDA to eliminate the impact of certain items, including non-cash or other items that we do not consider representative of our ongoing operating performance as discussed further below.

EBITDA and Adjusted EBITDA are included in this prospectus because they are key metrics used by management, our board of directors, and our Principal Equity Holders to assess our financial performance, and Adjusted EBITDA is used in connection with determining incentive compensation under our MIP. Additionally, EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use EBITDA and Adjusted EBITDA, alongside other GAAP measures such as gross profit, operating income (loss) and net income (loss), to measure profitability, as a key profitability target in our annual and other budgets, and to compare our performance against that of peer companies. We believe that Adjusted EBITDA provides useful information facilitating operating performance comparisons from period to period and company to company.

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income (loss) as a measure of financial performance, cash flows from operating activities as a measure of liquidity, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, EBITDA and Adjusted EBITDA are not intended to be

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- (f) Includes costs related to impairment of long-lived assets related to our retail store operations.
 - (g) Includes lease termination costs for retail stores that were closed prior to their respective lease termination dates. The amount in the first quarter of fiscal 2012 relates to changes in estimates regarding liabilities for future lease payments for closed stores.
 - (h) Represents non-cash impact of amortizing the net fair value adjustment to inventory recorded in connection with the purchase price allocation for the Acquisition over the period of the inventory turn.
 - (i) Represents costs related to our efforts to pursue an initial public offering.
 - (j) Represents items which management believes are not indicative of our ongoing operating performance. The 2008 Successor period includes consulting fees related to organizational matters following the Acquisition. Fiscal 2009 includes one-time start-up costs associated with Baby & Child and occupancy costs for corporate office space exited by us as part of the Acquisition. Fiscal 2010 and fiscal 2011 include consulting fees related to organizational matters and state franchise tax amounts. All periods include foreign exchange gains and losses.
- (11) Working capital is defined as current assets, excluding cash and cash equivalents, less current liabilities, excluding the current portion of long-term debt.
- (12) Total debt (including current portion) includes the revolving line of credit, term loan, and capital lease obligations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Overview

We believe Restoration Hardware is one of the fastest growing and most innovative luxury brands 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, garden, and baby and child products. 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 catalogs and websites act as virtual extensions of our stores. As of April 28, 2012, we operated 72 Galleries, 2 full line Design Galleries and 10 outlet stores throughout the United States and Canada. In fiscal 2011, we distributed approximately 26.1 million catalogs, and our websites logged over 14.3 million unique visits.

When Gary Friedman joined us as Chief Executive Officer in 2001, we began to reposition Restoration Hardware from a nostalgic, discovery-items business to a leading home furnishings brand. In 2008, we were taken private by investment funds affiliated with Catterton, Tower Three and Glenhill. As a private company, we were able to accelerate the transformation of our business and brand and the development of our multi-channel business model and infrastructure. Over the last eleven years, we have built a new company as we:

- Elevated our brand positioning;
- Enhanced our product development process;
- Refined our go-to-market strategy;
- Reconceptualized our stores and developed our full line Design Gallery format;
- Built a new supply chain and systems infrastructure; and
- Strengthened our management team.

Over the last several years, we achieved strong growth in sales and profitability, as illustrated by the following:

- From fiscal 2009 to fiscal 2011, we increased our net revenues 53% to \$958.1 million, our Adjusted EBITDA 356% to \$80.2 million and our Adjusted EBITDA margin by 555 basis points to 8.4%. Over the same time period, we increased our net income by \$49.0 million from a net loss of \$28.7 million to net income of \$20.3 million; and
- We achieved nine consecutive quarters of double-digit net revenue growth through our fiscal quarter ended April 28, 2012. We achieved this growth as we contracted our store base from 95 retail locations as of January 30, 2010, to 74 locations as of April 28, 2012.

Factors Affecting Our Operating Results

Various factors affected our results for the periods presented in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" including the following:

Overall Economic Trends. The industry in which we operate is cyclical, and consequently our revenues are affected by general economic conditions. For example, reduced consumer confidence and lower availability and higher cost of consumer credit reduces demand for our products and limits our ability to increase prices or sustain price increases. We expect that some of the economic factors that have been in place for the last several years, including the continuing economic uncertainty (particularly in the housing market in the United States) may continue in future periods. Based on our research, we believe that the domestic housewares and home furnishings

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market is anticipated to grow at a compound annual growth rate of 3 – 4% between 2011 and 2015. However, there can be no assurance that the market will grow at this rate. The growth rate of the market could be affected by macroeconomic conditions in the United States. Although we believe our annual net revenues currently represent less than 1% of the domestic housewares and home furnishings market and therefore we have opportunities to grow market share in future periods, slower rates of growth could negatively impact our results. For more information, see “Risk Factors—Changes in consumer spending or the housing market may significantly harm our revenue and results of operations.”

Our Strategic Initiatives. We are in the process of implementing a number of significant business initiatives that have had and will continue to have an impact on our results of operations, including the development of new larger full line Design Galleries in a number of new locations, the optimization of our store sizes to better fit anticipated demand in a given market, the expansion of our product categories and services and changes in the ways in which we market with our catalogs. Although these initiatives are designed to create growth in our business and continuing improvement in our operating results, the timing of expenditures related to these initiatives, as well as the achievement of returns on our investments, may affect our results of operation in future periods, and we may not achieve the desired benefits. Opening full line Design Galleries will require significant capital expenditures, and retail store closures may lead to charges including lease termination and other exit costs. These changes could affect our results of operation in future periods. In addition, the investments required to continue our strategic initiatives may have a negative impact on cash flows in future periods and could create pressure on our liquidity if we do not achieve the desired results from these initiatives in a timely manner. We expect that we will continue to incur significant capital expenditures as part of our initiative to open more full line Design Galleries over the next several years, and that these expenditures will have an impact on our cash flows during this time. For fiscal 2011, we incurred total capital expenditures of \$25.6 million and we anticipate our capital expenditure requirements to be approximately \$55.0 million (net of tenant improvement allowances from landlords) for fiscal 2012, of which \$6.2 million was spent during the first three months of fiscal 2012.

Consumer Preferences and Demand. Our ability to maintain our appeal to existing customers and attract new customers depends on our ability to originate, develop and offer a compelling product assortment responsive to customer preferences and design trends. We have successfully introduced a large number of new products during recent periods, which we believe has been a contributing factor in our sales and operating results. Periods in which our products have achieved strong customer acceptance generally have had more favorable results. If we misjudge the market for our products, we may be faced with excess inventories for some products and may be required to become more promotional in our selling activities, which would impact our net revenues and gross profit.

Our Ability to Source and Distribute Products Effectively. Our net revenue and gross profits are affected by our ability to purchase our merchandise in sufficient quantities at competitive prices. While we believe our vendors have adequate capacity to meet our current and anticipated demand, our level of net revenues have been adversely affected in prior periods by constraints in our supply chain, including the inability of our vendors to produce sufficient quantities of some merchandise in a manner that was able to match market demand from our customers, leading to higher levels of customer back orders and lost sales.

Seasonality. Our business is seasonal. As a result, our net revenues fluctuate from quarter to quarter, which often affects the comparability of our results between periods. Net revenues are historically higher in the second and fourth fiscal quarters due primarily to the impact of the outdoor selling season and the holiday selling season, respectively. Cash requirements are typically higher in the first and third quarters due to inventory-related working capital requirements for the outdoor and holiday selling periods. See “Risk Factors—Our operating results are subject to quarterly and seasonal fluctuations, and results for any quarter may not necessarily be indicative of the results that may be achieved for the full fiscal year.”

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How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of financial and operating measures that affect our operating results. These key measures for determining how our business is performing are net revenues, gross profit, gross margin, and net income (loss). Additionally, we review other important metrics such as comparable store sales and selling, general and administrative expenses, catalogs circulated and circulated catalog pages. In addition, EBITDA and Adjusted EBITDA are key metrics used by management, our board of directors and our Principal Equity Holders to assess our operating performance.

Net Revenues. Net revenues reflect our sale of merchandise plus shipping and handling revenue collected from our customers, less returns and discounts. Revenues are recognized upon receipt of product by our customers.

Comparable Store Sales. Comparable store sales have been calculated based upon retail stores that were open at least fourteen full months as of the end of the reporting period. A store is not considered a part of the comparable store sales base if the square footage of the store changed by more than 20% due to remodeling or relocation activities. If a store is closed for seven days during a month, that month will be excluded from comparable store sales. Outlet stores are not included in calculations of comparable store sales.

Comparable store sales allow us to evaluate how our retail store base is performing by measuring the change in period-over-period net revenues in stores that have been open for fourteen months or more. While we review comparable store sales as one measure of our performance, this measure is less relevant to us than it may be to other retailers due to our fully integrated, multi-channel, go-to-market strategy, which makes measures that analyze one of our channels in isolation less indicative of the performance of our business than it might be for other companies that operate their distribution channels as separate businesses. In addition to comparable store sales, we also review retail sales per selling square foot, among other metrics, to evaluate the performance of individual stores.

Selling Square Footage. Selling square footage is retail space at our stores used to sell our products. Selling square footage excludes backrooms at retail stores used for storage, office space or similar matters. Selling square footage may include exterior sales space located outside a store, such as courtyards, gardens and rooftops.

Retail Sales Per Selling Square Foot. Retail sales per selling square foot is calculated by dividing total net revenues for all retail stores, comparable and non-comparable, by the average selling square footage for the period. Sales per square foot for interior sales space may be significantly higher than sales per square foot for exterior sales space, as products are generally presented more densely within our stores.

Gross Profit. Gross profit is equal to our net revenues less cost of goods sold. Gross profit as a percentage of our net revenues is referred to as gross margin. Cost of goods sold include the direct cost of purchased merchandise; inventory shrinkage; inventory adjustments due to obsolescence, including excess and slow-moving inventory and lower of cost or market reserves; inbound freight; all freight costs to get merchandise to our stores; design, buying and allocation costs; occupancy costs related to store operations, such as rent and common area maintenance; depreciation and amortization of leasehold improvements, equipment and other assets in our stores and distribution centers; and all logistics costs associated with shipping product to our customers, which are only partially offset by shipping income collected from customers. We expect gross profit to increase to the extent that we successfully grow our net revenues and leverage the fixed portion of cost of goods sold.

Our gross profit can be favorably impacted by sales volume increases, as occupancy and certain other costs that are largely fixed do not necessarily increase proportionally with volume increases. Changes in the mix of our products may also impact our gross profit. We review our inventory levels on an ongoing basis in order to identify slow-moving merchandise and use product markdowns and our outlet stores to efficiently sell these products. The timing and level of markdowns are driven primarily by customer acceptance of our merchandise. The primary drivers of the costs of individual goods are raw materials costs, which fluctuate based on a number

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of factors beyond our control, including commodity prices, changes in supply and demand, general economic conditions, competition, import duties, tariffs and government regulation, logistics costs (which may increase in the event of, for example, interruptions in the operation of our distribution centers, furniture home delivery hubs and customer care center or damage or interruption to our information systems) and labor costs in the countries where we source our merchandise. We place orders with merchandise vendors primarily in United States dollars and, as a result, are not exposed to significant foreign currency exchange risk.

Our gross profit may not be comparable to other specialty retailers, as some companies may not include all or a portion of the costs related to their distribution network and store occupancy in calculating gross profit as we and many other retailers do, but instead may include them in selling, general and administrative expenses.

Selling, General and Administrative Expenses. Selling, general and administrative expenses include all operating costs not included in cost of goods sold. These expenses include all payroll and payroll-related expenses, store expenses other than occupancy and expenses related to many of our operations at our headquarters, including utilities, depreciation and amortization and marketing expense, which primarily includes catalog production, mailing and print advertising costs. Selling, general and administrative expenses as a percentage of net revenues is usually higher in lower-volume quarters and lower in higher-volume quarters because a significant portion of the costs are relatively fixed.

Our recent revenue growth has been accompanied by increased selling, general and administrative expenses. The most significant components of these increases are marketing and payroll costs. We expect these expenses to continue to increase as we continue to open new stores, develop new product categories and otherwise grow our business.

In addition to the metrics described above, EBITDA and Adjusted EBITDA, presented within “Summary Historical Consolidated Financial and Operating Data,” “Selected Historical Consolidated Financial and Operating Data” and this “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” are key metrics used by management, our board of directors and our Principal Equity Holders to assess our financial performance. Additionally, EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use EBITDA and Adjusted EBITDA, alongside other GAAP measures such as gross profit, operating income (loss) and net income (loss), to measure profitability, as a key profitability target in our annual and other budgets, and to compare our performance against that of peer companies. We believe that Adjusted EBITDA provides useful information facilitating operating performance comparisons from period to period and company to company. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management’s discretionary use, as they do not consider certain cash requirements such as tax payments and debt service requirements and certain other cash costs that may recur in the future. EBITDA and Adjusted EBITDA contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized, and exclude certain unusual charges that may recur in the future. We compensate for these limitations by relying primarily on our GAAP results and by using EBITDA and Adjusted EBITDA only supplementally.

Other Factors Affecting Our Results

Other important factors that affected our results for the periods presented in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” are as follows:

Purchase Accounting Impact of the Acquisition. All of the outstanding capital stock of Restoration Hardware, Inc. was acquired on June 16, 2008, by Home Holdings (which we refer to as the Acquisition) through a transaction that was accounted for under Statement of Financial Accounting Standards 141, “Business Combinations.” The purchase price was allocated to state our assets and liabilities at fair value, which took into account work performed by an independent third-party valuation firm. The allocation of the purchase price had

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the net effect of reducing the carrying amount of inventory by \$47.9 million, increasing property and equipment by \$17.6 million and increasing amortizable intangible assets by \$55.7 million. The \$47.9 million decrease in inventory value was due to the prevailing adverse economic situation at the date of acquisition and the application of a market participant approach to the valuation of inventory on hand. Such decrease was amortized to cost of goods sold over approximately nine months and resulted in increased gross profit during fiscal 2009. We are depreciating the \$17.6 million increase in property and equipment over the useful life of each asset, which has had the effect of reducing gross profit and increasing selling, general and administrative expenses subsequent to the Acquisition. The \$55.7 million increase in amortizable intangible assets is being amortized over the remaining life of each asset and has had the effect of reducing gross profit and increasing selling, general and administrative expenses subsequent to the Acquisition. We also recorded intangible assets with an indefinite life, which consisted of goodwill and trademarks, at their fair values of \$122.3 million and \$47.1 million, respectively.

The following table summarizes the financial impact of purchase accounting adjustments on gross profit and selling, general and administrative expenses in dollars, and as a percentage of net revenues, in fiscal 2009, fiscal 2010 and fiscal 2011, and in the first three months of fiscal 2011, and fiscal 2012:

	Year Ended		Year Ended		Year Ended		Three Months Ended		Three Months Ended	
	January 30, 2010		January 29, 2011		January 28, 2012		April 30, 2011		April 28, 2012	
	(dollars in thousands)									
Net revenues	\$625,685	100%	\$772,752	100%	\$958,084	100%	\$184,760	100%	\$217,914	100%
Gross profit increase (decrease)										
Amortization of inventory fair value adjustment	\$ 12,780	2.0%	\$ —	— %	\$ —	— %	\$ —	— %	\$ —	— %
Depreciation related to step up of property and equipment	(5,427)	(0.9)%	(3,076)	(0.4)%	(1,783)	(0.2)%	(567)	(0.3)%	(321)	(0.2)%
Amortization of intangible related to net fair value of leases	(2,899)	(0.3)%	(1,975)	(0.3)%	(1,507)	(0.1)%	(437)	(0.2)%	(235)	(0.1)%
	<u>\$ 4,454</u>	<u>0.8%</u>	<u>\$ (5,051)</u>	<u>(0.7)%</u>	<u>\$ (3,290)</u>	<u>(0.3)%</u>	<u>\$ (1,004)</u>	<u>(0.5)%</u>	<u>\$ (556)</u>	<u>(0.3)%</u>
Selling general and administrative increase (decrease)										
Amortization of intangible related to customer relationships	\$ 12,500	2.0%	\$ —	— %	\$ —	— %	\$ —	— %	\$ —	— %
Amortization of intangible related to core technologies	1,316	0.2%	1,316	0.2%	1,316	0.1%	329	0.1%	329	0.1%
Depreciation related to step up of property and equipment	451	0.1%	150	— %	—	— %	—	— %	—	— %
Amortization of intangible related to net fair value of leases	465	0.1%	140	— %	(21)	— %	(5)	— %	(5)	— %
	<u>\$ 14,732</u>	<u>2.4%</u>	<u>\$ 1,606</u>	<u>0.2%</u>	<u>\$ 1,295</u>	<u>0.1%</u>	<u>\$ 324</u>	<u>0.1%</u>	<u>\$ 324</u>	<u>0.1%</u>

Public Company Costs. In connection with our initial public offering, we will incur additional legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting and corporate governance requirements. These requirements include compliance with the Sarbanes-Oxley Act and other rules implemented by the SEC, and applicable stock exchange rules. We expect these rules and regulations to substantially increase our legal and financial compliance costs and to make certain financial reporting and other activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty.

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Basis of Presentation and Results of Operations

The following discussion contains references to fiscal years 2009, 2010 and 2011, which represent our fiscal years ended January 30, 2010, January 29, 2011, and January 28, 2012, respectively. Our fiscal year ends on the Saturday closest to January 31. Fiscal years 2009, 2010 and 2011 were 52-week periods. The first three months of fiscal 2011 and fiscal 2012 were 13-week periods.

Prior to the completion of this offering, all of the outstanding shares of capital stock of Restoration Hardware, Inc., will be contributed by Home Holdings to Restoration Hardware Holdings, Inc. as a capital contribution. Outstanding units under the Team Resto Ownership Plan will be converted in connection with this offering into restricted and unrestricted Class A common stock, or, in the case of the outstanding units of Mr. Friedman and Mr. Alberini, Class B common stock and the vesting status of the Home Holdings units will carry over to our Class A common stock, or, in the case of Mr. Friedman and Mr. Alberini, Class B common stock, with unvested shares constituting restricted stock.

	Year Ended			Three Months Ended	
	January 30, 2010	January 29, 2011	January 28, 2012	April 30, 2011	April 28, 2012
(dollars in thousands, excluding per square foot store data)					
Statement of Operations Data:					
Net revenues	\$ 625,685	\$ 772,752	\$ 958,084	\$ 184,760	\$ 217,914
Cost of goods sold	<u>412,629</u>	<u>501,132</u>	<u>601,735</u>	<u>121,576</u>	<u>142,646</u>
Gross profit	213,056	271,620	356,349	63,184	75,268
Selling, general and administrative expenses	<u>238,889</u>	<u>275,859</u>	<u>329,753</u>	<u>68,816</u>	<u>77,401</u>
Income (loss) from operations	(25,833)	(4,239)	26,596	(5,632)	(2,133)
Interest expense	<u>(3,241)</u>	<u>(3,150)</u>	<u>(5,134)</u>	<u>(899)</u>	<u>(1,575)</u>
Income (loss) before income taxes	(29,074)	(7,389)	21,462	(6,531)	(3,708)
Income tax expense (benefit)	<u>(423)</u>	<u>685</u>	<u>1,121</u>	<u>(204)</u>	<u>56</u>
Net income (loss)	<u>\$ (28,651)</u>	<u>\$ (8,074)</u>	<u>\$ 20,341</u>	<u>\$ (6,327)</u>	<u>\$ (3,764)</u>
Other Financial and Operating Data:					
Growth in net revenues:					
Stores (1)	(6)%	15%	22%	26%	16%
Direct	(15)%	37%	27%	60%	21%
Total	(10)%	24%	24%	39%	18%
Retail (2):					
Comparable store sales change (3)	(7)%	19%	25%	25%	26%
Retail stores open at beginning of period	99	95	91	91	74
Stores opened	—	4	5	0	2
Stores closed	4	8	22	2	2
Retail stores open at end of period	95	91	74	89	74
Average gross square footage (in thousands) (4)	1,042	1,014	913	958	805
Average selling square footage (in thousands) (4)	660	641	580	605	519
Retail sales per selling square foot (5)	\$ 525	\$ 635	\$ 846	\$ 148	\$ 200
Direct:					
Catalogs circulated (in thousands) (6)	31,336	46,507	26,052	7,958	15,811
Catalog pages circulated (in millions) (6)	4,418	6,260	8,848	2,109	7,651
Direct as a percentage of net revenues (7)	39%	43%	44%	46%	47%
Capital expenditures	\$ 2,024	\$ 39,907	\$ 25,593	\$ 3,577	\$ 6,193

- (1) Store data represent retail stores plus outlet stores. Net revenues for outlet stores were \$34.7 million in fiscal 2009, \$31.2 million in fiscal 2010 and \$43.9 million in fiscal 2011. In the first three months of fiscal 2011 and 2012, net revenues for outlet stores were \$9.3 million and \$10.9 million, respectively.

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- (2) Retail data have been calculated based upon retail stores, including our Baby & Child stores, and exclude outlet stores.
- (3) Comparable store sales have been calculated based upon retail 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. Comparable store net revenues exclude revenues from outlet stores.
- (4) Average square footage (gross or selling, as applicable) is calculated for each quarter 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. Average square footage for periods of six, nine and twelve months is calculated by averaging the average square footage for the quarters within such periods.
- (5) Retail sales per selling square foot is calculated by dividing total net revenues for all retail stores, comparable and non-comparable, by the average selling square footage for the period.
- (6) The catalogs and catalog pages circulated from period to period do not take into account different page sizes per catalog distributed. Page sizes and page counts vary for different catalog mailings and we sometimes mail different versions of a catalog at the same time. Accordingly, period to period comparisons of catalogs circulated and catalog pages circulated do not take these variations into account. In fiscal 2010, we mailed a larger number of catalogs that contained fewer pages and in some cases significantly smaller page sizes than in prior periods. In fiscal 2011 and in the first three months of fiscal 2012, we mailed fewer catalogs that contained a significant increase in number of pages as compared to fiscal 2010.
- (7) Direct revenues include sales through our catalogs and websites.

The following table sets forth, for the periods presented, our consolidated statement of operations data as a percentage of total revenues.

	Year Ended			Three Months Ended	
	January 30, 2010	January 29, 2011	January 28, 2012	April 30, 2011	April 28, 2012
Statement of Operations Data:					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	65.9	64.9	62.8	65.8	65.5
Gross margin	34.1	35.1	37.2	34.2	34.5
Selling, general and administrative expenses	38.2	35.7	34.4	37.3	35.5
Income (loss) from operations	(4.1)	(0.6)	2.8	(3.1)	(1.0)
Interest expense	(0.6)	(0.4)	(0.6)	(0.4)	(0.7)
Income (loss) before income taxes	(4.7)	(1.0)	2.2	(3.5)	(1.7)
Income tax expense (benefit)	(0.1)	—	0.1	(0.1)	0.0
Net income (loss)	<u>(4.6)%</u>	<u>(1.0)%</u>	<u>2.1%</u>	<u>(3.4)%</u>	<u>(1.7)%</u>

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

	Year Ended			Three Months Ended	
	January 30, 2010	January 29, 2011	January 28, 2012	April 30, 2011	April 28, 2012
			(in thousands)		
Stores	\$ 380,854	\$ 438,463	\$ 534,411	\$ 99,084	\$ 114,676
Direct	244,831	334,289	423,673	85,676	103,238
Net revenues	<u>\$ 625,685</u>	<u>\$ 772,752</u>	<u>\$ 958,084</u>	<u>\$ 184,760</u>	<u>\$ 217,914</u>

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First Three Months of Fiscal 2012 Compared to First Three Months of Fiscal 2011

The following table summarizes the financial impact of purchase accounting adjustments on gross profit in dollars, and as a percentage of net revenues, for the first three months of fiscal 2012 and the first three months of fiscal 2011:

	Three Months Ended				Increase	
	April 30, 2011		April 28, 2012			
			(dollars in thousands)			
Net revenues	<u>\$184,760</u>	<u>100.0%</u>	<u>\$217,914</u>	<u>100.0%</u>	<u>\$33,154</u>	
Gross profit excluding purchase accounting adjustments	\$ 64,188	34.7%	\$ 75,824	34.8%	\$ 11,636	0.1%
Decrease in gross profit from purchase accounting adjustments	(1,004)	(0.5)%	(556)	(0.3)%	448	0.2%
Gross profit	<u>\$ 63,184</u>	<u>34.2%</u>	<u>\$ 75,268</u>	<u>34.5%</u>	<u>\$ 12,084</u>	<u>0.3%</u>

Net revenues

Net revenues increased \$33.2 million, or 17.9%, to \$217.9 million in the first three months of fiscal 2012 compared to \$184.8 million in the first three months of fiscal 2011. We had 74 and 89 retail stores open at April 28, 2012 and April 30, 2011, respectively. In the first three months of fiscal 2012, we opened two stores and closed two stores. Of the two closed stores, one was closed at lease term and one was closed prior to the lease termination date. There were no charges associated with the early closure as the related lease allowed termination without charge. Stores sales increased \$15.6 million, or 15.7%, to \$114.7 million in the first three months of fiscal 2012 compared to \$99.1 million in the first three months of fiscal 2011 due in large part to our comparable store sales increase of 26% in the first quarter of fiscal 2012 compared to fiscal 2011. Direct sales increased \$17.6 million, or 20.5%, to \$103.2 million in the first three months of fiscal 2012 compared to \$85.7 million in the first three months of fiscal 2011. We believe that the increase in both comparable store and direct sales was due primarily to our customers' favorable reaction to our merchandise assortment, including expansions of existing product categories and new product categories, and an increase in circulated catalog pages.

Gross profit

Gross profit increased \$12.1 million, or 19.1%, to \$75.3 million in the first three months of 2012 from \$63.2 million in the first three months of fiscal 2011. As a percentage of net revenues, gross margin increased 0.3%, to 34.5% of net revenues in the first three months of fiscal 2012 from 34.2% of net revenues in the first three months of fiscal 2011. Gross profit in the first three months of fiscal 2012 included \$0.6 million of unfavorable gross profit impact due to purchase accounting compared to \$1.0 million of unfavorable gross profit impact due to purchase accounting in the first three months of fiscal 2011.

Excluding the impact of purchase accounting, gross margin as a percentage of net revenues increased 0.1%. This increase was primarily driven by a 250 basis point improvement in occupancy costs achieved due to improved leverage on the fixed portion of our store and distribution center occupancy costs, offset by higher freight costs as a percentage of net revenues of 40 basis points due to a higher percentage of furniture sales, which incurs greater shipping costs than our other products. Furthermore, increased promotional activity contributed to a 200 basis point decrease in gross margin in the first three months of fiscal 2012.

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Selling, general and administrative expenses

Selling, general and administrative expenses increased \$8.6 million, or 12.5%, to \$77.4 million in the first three months of fiscal 2012 compared to \$68.8 million in the first three months of fiscal 2011. The increase in selling, general and administrative expenses of \$8.6 million was primarily related to an increase of \$5.6 million in advertising and marketing costs associated with increased circulated catalog pages, an increase in employment costs of \$3.2 million associated with the growth of our operations, an increase in travel expenses of \$1.0 million, an increase of \$0.7 million in credit cards fees due to the growth in sales revenues, and a charge of \$0.6 million in the first three months of fiscal 2012 due to changes in estimates regarding liabilities for future lease payments for stores closed during fiscal 2011. These increases were primarily offset by the \$1.7 million restructuring charge associated with our Shanghai office we recorded in the first three months of fiscal 2011.

Selling, general and administrative expenses were 35.5% of net revenues in the first three months of fiscal 2012 compared to 37.2% of net revenues in the first three months of fiscal 2011. The improvement in selling, general and administrative expenses of 1.7% as a percentage of net revenues was driven largely by increased net revenues during the first three months of fiscal 2012 compared to the first three months of fiscal 2011, which resulted in a 190 basis point reduction related to corporate office costs, due in part to the restructuring charge associated with our Shanghai office in the first three months of fiscal 2011 and a decrease in pre-opening expenses related to new retail store locations, a 130 basis point reduction in employment costs and a 50 basis point reduction in professional fees, in each case as a percentage of net revenues. These reductions were partially offset by a 160 basis point increase in advertising and marketing costs, a 30 basis point increase in travel expenses and a 20 basis point increase due to a change in estimate related to one retail store location closed during fiscal 2011, in each case as a percentage of net revenues.

Interest expense

Interest expense increased \$0.7 million to \$1.6 million in the first three months of fiscal 2012 compared to \$0.9 million in the first three months of fiscal 2011. This increase was due to the higher interest rate under the modified revolving line of credit agreement entered into in August 2011, as well as an increase in the amount of borrowings under the revolving line of credit in the first three months of fiscal 2012 as compared to the first three months of fiscal 2011 primarily due to increased inventory levels.

Income tax expense

Income tax expense increased \$0.3 million to tax expense of less than \$0.1 million in the first three months of fiscal 2012 compared to an income tax benefit of \$0.2 million in the first three months of fiscal 2011. The increase in our tax expense was primarily due to an increase in taxable income for state jurisdictions. The state taxable income was primarily generated as a result of certain states disallowing the utilization of net operating loss carryovers, as well as our utilizing 100% of net operating loss carryovers available in certain states.

Net loss

Net loss decreased \$2.6 million to \$3.8 million in the first three months of fiscal 2012 compared to \$6.3 million in the first three months of fiscal 2011. This decrease was primarily due to an increase in gross profit of \$12.1 million, partially offset by an increase in selling, general and administrative expenses of \$8.6 million and interest expense of \$0.7 million, as discussed in more detail above.

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Fiscal 2011 Compared to Fiscal 2010

The following table summarizes the financial impact of purchase accounting adjustments on gross profit and selling, general and administrative expenses in dollars, and as a percentage of net revenues, for fiscal 2011 and fiscal 2010:

	Fiscal Year Ended				Increase (Decrease)	
	January 29, 2011		January 28, 2012			
	(dollars in thousands)					
Net revenues	<u>\$772,752</u>	<u>100.0%</u>	<u>\$958,084</u>	<u>100.0%</u>	<u>\$185,332</u>	
Gross profit excluding purchase accounting adjustments	<u>\$276,671</u>	<u>35.8%</u>	<u>\$359,639</u>	<u>37.5%</u>	<u>\$ 82,968</u>	<u>1.7%</u>
Decrease in gross profit from purchase accounting adjustments	<u>(5,051)</u>	<u>(0.7)%</u>	<u>(3,290)</u>	<u>(0.3)%</u>	<u>1,761</u>	<u>0.4%</u>
Gross profit	<u>\$271,620</u>	<u>35.1%</u>	<u>\$356,349</u>	<u>37.2%</u>	<u>\$ 84,729</u>	<u>2.1%</u>
Selling, general and administrative expenses excluding purchase accounting adjustments	<u>\$274,253</u>	<u>35.5%</u>	<u>\$328,458</u>	<u>34.3%</u>	<u>\$ 54,205</u>	<u>(1.2)%</u>
Increase in selling, general and administrative expenses from purchase accounting adjustments	<u>1,606</u>	<u>0.2%</u>	<u>1,295</u>	<u>0.1%</u>	<u>(311)</u>	<u>(0.1)%</u>
Selling, general and administrative expenses	<u>\$275,859</u>	<u>35.7%</u>	<u>\$329,753</u>	<u>34.4%</u>	<u>\$ 53,894</u>	<u>(1.3)%</u>

Net revenues

Net revenues increased \$185.3 million, or 24.0%, to \$958.1 million in fiscal 2011 compared to \$772.8 million in fiscal 2010. We had 74 and 91 retail stores open at January 28, 2012, and January 29, 2011, respectively. This decrease in the number of retail stores was part of our strategy to consolidate stores in markets where we open new full line Design Galleries and to close stores that do not meet our profitability objectives. In fiscal 2011, we opened five stores and closed 22 stores. Of the 22 closed stores, 16 were at lease term, while six were early closures. We incurred charges of \$3.1 million related to the early closures. Stores sales increased \$95.9 million, or 21.9%, to \$534.4 million in fiscal 2011 compared to \$438.5 million in fiscal 2010 due in large part to our comparable store sales increase of 25% in fiscal 2011 compared to fiscal 2010. Direct sales increased \$89.4 million, or 26.7%, to \$423.7 million in fiscal 2011 compared to \$334.3 million in fiscal 2010. We believe that the increase in both comparable store and direct sales was due primarily to our customers' favorable reaction to our merchandise assortment, including expansions of existing product categories and new product categories, an increase in circulated catalog pages and positive customer reaction to our new Design Gallery format.

Gross profit

Gross profit increased \$84.7 million, or 31.2%, to \$356.3 million in fiscal 2011 from \$271.6 million in fiscal 2010. As a percentage of net revenues, gross margin increased 2.1%, to 37.2% of net revenues in fiscal 2011 from 35.1% of net revenues in fiscal 2010. Gross profit in fiscal 2011 included \$3.3 million of unfavorable gross profit impact due to purchase accounting compared to \$5.1 million of unfavorable gross profit impact due to purchase accounting in fiscal 2010.

Excluding the impact of purchase accounting, gross margin as a percentage of net revenues increased 1.7%. This increase was primarily driven by a 310 basis point improvement in occupancy costs achieved due to improved leverage on the fixed portion of our store and distribution center occupancy costs, partially offset by 20 basis points of one-time costs associated with the opening of a new distribution center during fiscal 2011. The overall increase in gross margin was also offset by higher freight costs as a percentage of net revenues of 90 basis points due to a change in shipping rates charged to customers as we moved to flat rate shipping fees and

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experienced a higher percentage of furniture sales, which incurs greater shipping costs than our other products. Furthermore, increased promotional activity contributed to a 30 basis point decrease in gross margin in fiscal 2011.

Selling, general and administrative expenses

Selling, general and administrative expenses increased \$53.9 million, or 19.5%, to \$329.8 million in fiscal 2011 compared to \$275.9 million in fiscal 2010. Selling, general and administrative expenses in fiscal 2011 included \$1.3 million of unfavorable impact due to purchase accounting compared to \$1.6 million of unfavorable impact due to purchase accounting in fiscal 2010. The increase in selling, general and administrative expenses of \$54.2 million excluding the effect of purchase accounting adjustments was primarily related to an increase in employment costs of \$15.2 million associated with the growth of our operations, a \$6.4 million compensation charge related to the repayment of loans between Mr. Friedman and Home Holdings via the reclassification by Home Holdings of Mr. Friedman's ownership units, an increase of \$10.8 million in advertising and marketing costs associated with increased circulated catalog pages, an increase of \$6.0 million in management fees to Catterton, Tower Three and Glenhill and an increase of \$4.4 million in credit cards fees due to the growth in sales revenues. During fiscal 2011, we closed four retail store locations in advance of the related lease termination dates resulting in a charge of \$3.2 million. In addition, in fiscal 2011 we recorded a \$1.6 million restructuring charge associated with our Shanghai office, increased travel-related expenses of \$2.2 million, and an increase in retail store pre-opening expenses of \$0.9 million.

Selling, general and administrative expenses were 34.4% of net revenues in fiscal 2011 compared to 35.7% of net revenues in fiscal 2010. Selling, general and administrative expenses as a percentage of net revenues included 0.1% of unfavorable impact of purchase accounting in fiscal 2011 compared to 0.2% of unfavorable impact of purchase accounting in fiscal 2010. The improvement in selling, general and administrative expenses of 1.2% of net revenues excluding the effect of purchase accounting adjustments was driven largely by increased net revenues during fiscal 2011 compared to fiscal 2010, which resulted in a 120 basis point reduction in employment costs, a 30 basis point reduction in advertising and marketing costs, as well as a 10 basis point reduction in professional fees, in each case as a percentage of net revenues. These reductions were partially offset by a 30 basis point increase in costs as a percentage of net revenues related to corporate office costs, due in part to the restructuring charge associated with our Shanghai office and pre-opening expenses related to new retail store locations we opened in fiscal 2011, as well as a 10 basis point increase in occupancy expense as a percentage of net revenues primarily related to the closure of four retail store locations prior to the related lease termination dates.

Interest expense

Interest expense increased \$1.9 million to \$5.1 million in fiscal 2011 compared to \$3.2 million in fiscal 2010. This increase was primarily due to the higher interest rate under the amended credit agreement entered into in August 2011, as well as an increase in the amount of borrowings under the revolving line of credit in fiscal 2011 as compared to fiscal 2010 primarily due to increased inventory levels.

Income tax expense

Income tax expense increased \$0.4 million to \$1.1 million in fiscal 2011 compared to \$0.7 million in fiscal 2010. Our effective tax rate was 5.2% for fiscal 2011 compared to (9.3)% for fiscal 2010. The increase in our tax expense was primarily due to an increase in taxable income for state and foreign jurisdictions. The state taxable income was primarily generated as a result of certain states disallowing the utilization of net operating loss carryovers.

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Net income (loss)

Net income increased \$28.4 million to \$20.3 million in fiscal 2011 compared to a net loss of \$8.1 million in fiscal 2010. This increase was primarily due to an increase in gross profit of \$84.7 million, partially offset by an increase in selling, general and administrative expenses of \$53.9 million and interest expense of \$1.9 million, as discussed in more detail above.

Fiscal 2010 Compared to Fiscal 2009

The following table summarizes the financial impact of purchase accounting adjustments on gross profit and selling, general and administrative expenses in dollars, and as a percentage of net revenues, for fiscal 2010 and fiscal 2009:

	Fiscal Year Ended				Increase (Decrease)	
	January 30, 2010		January 29, 2011			
	(dollars in thousands)					
Net revenues	<u>\$625,685</u>	<u>100.0%</u>	<u>\$772,752</u>	<u>100.0%</u>	<u>\$147,067</u>	
Gross profit excluding purchase accounting adjustments	\$208,602	33.3%	\$276,671	35.8%	\$ 68,069	2.5%
Increase (decrease) in gross profit from accounting adjustments	4,454	0.8%	(5,051)	(0.7)%	(9,505)	(1.5)%
Gross profit	<u>\$213,056</u>	<u>34.1%</u>	<u>\$271,620</u>	<u>35.1%</u>	<u>\$ 58,564</u>	<u>1.0%</u>
Selling, general and administrative expenses excluding purchase accounting adjustments	\$224,157	35.8%	\$274,253	35.5%	\$ 50,096	(0.3)%
Increase in selling, general and administrative expenses from purchase adjustments	14,732	2.4%	1,606	0.2%	(13,126)	(2.2)%
Selling, general and administrative expenses	<u>\$238,889</u>	<u>38.2%</u>	<u>\$275,859</u>	<u>35.7%</u>	<u>\$ 36,970</u>	<u>(2.5)%</u>

Net revenues

Net revenues increased \$147.1 million, or 23.5%, to \$772.8 million in fiscal 2010 compared to \$625.7 million in fiscal 2009. We had 91 and 95 retail stores open at January 29, 2011 and January 30, 2010, respectively. In fiscal 2010, we opened 4 stores and closed 8 stores. Of the 8 closed stores, 6 were at lease term, while 2 were early closures. There were no charges associated with the early closures as the related leases allowed termination without charge. Stores sales increased \$57.6 million, or 15.1%, to \$438.5 million in fiscal 2010 compared to \$380.9 million in fiscal 2009. This increase was due in large part to our comparable store sales increase of 19% in fiscal 2010 compared to fiscal 2009, partially offset by a lower number of retail stores and lower revenues in our outlet stores. Direct sales increased \$89.5 million, or 36.5%, to \$334.3 million in fiscal 2010 compared to \$244.8 million in fiscal 2009. We believe that this increase was due primarily to our customers' favorable reaction to our assortment of products, including extensions of existing product categories and new product categories, as well as an increase in circulated catalogs of 48.4% and of circulated pages by 41.7%.

Gross profit

Gross profit increased \$58.6 million, or 27.5%, to \$271.6 million in fiscal 2010 from \$213.1 million in fiscal 2009. As a percentage of net revenues, gross margin increased 1.0%, to 35.1% of net revenues in fiscal 2010 from 34.1% of net revenues in fiscal 2009. Gross profit in fiscal 2010 included \$5.1 million of unfavorable gross profit impact due to purchase accounting compared to \$4.5 million of favorable gross profit impact due to purchase accounting in fiscal 2009.

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Excluding the impact of purchase accounting, gross margin as a percentage of net revenues increased 2.5%. This increase was primarily driven by a 260 basis point improvement in occupancy costs achieved due to improved leverage on the fixed portion of our store and distribution center occupancy costs, partially offset by 140 basis points of higher freight costs as a percentage of net revenues due to a higher percentage of furniture sales. Furthermore, reduced promotional activity and improved product sourcing contributed to a 130 basis point increase in gross margin in fiscal 2010.

Selling, general and administrative expenses

Selling, general and administrative expenses increased \$37.0 million, or 15.5%, to \$275.9 million for fiscal 2010 compared to \$238.9 million for fiscal 2009. Selling, general and administrative expenses in fiscal 2010 included \$1.6 million of unfavorable impact due to purchase accounting compared to \$14.7 million of unfavorable impact due to purchase accounting in fiscal 2009. The increase in selling, general and administrative expenses of \$50.1 million excluding the effect of purchase accounting adjustments was primarily related to an increase in employment costs of \$15.6 million associated with the growth of our operations, as well as an increase in advertising and marketing costs of \$12.4 million associated with a 41.7% increase in circulated catalog pages. Professional fees increased \$10.2 million in fiscal 2010 as compared to fiscal 2009 primarily due to an increase in legal and other fees of \$3.0 million related to our expansion into Asia, executive personnel matters and real estate activity, an increase of \$2.4 million in information technology consulting costs in connection with new business intelligence software and database consulting and the incurrence of \$2.4 million in preparation for our initial public offering. In addition, there was an increase in credit card fees and related expenses associated with the growth in sales revenue of \$8.2 million and an increase in travel-related expenses of \$2.6 million.

Selling, general and administrative expenses were 35.7% of net revenues in fiscal 2010 compared to 38.2% of net revenues in fiscal 2009. Selling, general and administrative expenses as a percentage of net revenues included 0.2% of unfavorable impact of purchase accounting in fiscal 2010 compared to 2.4% of unfavorable impact of purchase accounting in fiscal 2009. The improvement in selling, general and administrative expenses of 0.3% of net revenues, excluding the effect of purchase accounting adjustments was driven largely by increased net revenues, which resulted in a 170 basis point reduction in employment costs as a percentage of net revenues, as well as a 40 basis point reduction in occupancy costs as a percentage of net revenues. This overall improvement was partially offset by 20 basis points of increased volume-related costs as a percentage of net revenues as a result of changes in our product mix, 30 basis points of higher advertising and marketing costs as a percentage of net revenues and 130 basis points associated with increased corporate office costs as a percentage of net revenues, due in part to increased professional fees in fiscal 2010 in connection with the preparation for an initial public offering.

Interest expense

Interest expense decreased \$0.1 million, or 2.8%, to \$3.1 million in fiscal 2010 compared to \$3.2 million in fiscal 2009. This decrease resulted primarily from lower borrowings under the revolving line of credit.

Income tax expense

Income tax expense was \$0.7 million for fiscal 2010 compared to an income tax benefit of \$0.4 million for fiscal 2009, an increase in tax expense of \$1.1 million.

Net loss

Net loss decreased \$20.6 million, or 71.8%, to \$8.1 million in fiscal 2010 compared to \$28.7 million in fiscal 2009. This decrease was primarily due to an increase in gross profit of \$58.6 million, partially offset by an increase in selling, general and administrative expenses of \$37.0 million, as discussed in more detail above.

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Quarterly Results and Seasonality

The following table sets forth our historical quarterly consolidated statements of income for each of the last eight fiscal quarters ended through April 28, 2012. This quarterly information has been prepared on the same basis as our annual audited financial statements appearing elsewhere in this prospectus and includes all adjustments that we consider necessary to present fairly the financial information for the fiscal quarters presented. The quarterly data should be read in conjunction with our consolidated financial statements and the related notes appearing elsewhere in this prospectus.

Our business is seasonal and we have historically realized a higher portion of our net revenues and net income in the second and fourth fiscal quarters due primarily to the outdoor selling season in the second fiscal quarter and the holiday selling season in the fourth fiscal quarter. Working capital requirements are typically higher in the first and third fiscal quarters due to inventory-related working capital requirements in advance of the outdoor selling season and the holiday selling season. During these peak periods we have historically increased our borrowings under the Restoration Hardware, Inc. revolving line of credit. As such, results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of our business may affect comparisons between periods.

	Fiscal 2010			Fiscal 2011				Fiscal 2012
	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
	(dollars in thousands)							
Net revenues	\$198,346	\$186,021	\$255,877	\$184,760	\$235,623	\$232,459	\$305,242	\$217,914
Cost of goods sold	<u>123,651</u>	<u>127,098</u>	<u>159,950</u>	<u>121,576</u>	<u>144,377</u>	<u>148,066</u>	<u>187,716</u>	<u>142,646</u>
Gross profit	74,695	58,923	95,927	63,184	91,246	84,393	117,526	75,268
Selling, general, and administrative expenses	<u>68,997</u>	<u>70,841</u>	<u>78,565</u>	<u>68,816</u>	<u>81,803</u>	<u>88,523</u>	<u>90,611</u>	<u>77,401</u>
Income (loss) from operations	5,698	(11,918)	17,362	(5,632)	9,443	(4,130)	26,915	(2,133)
Interest expense	<u>(722)</u>	<u>(847)</u>	<u>(724)</u>	<u>(899)</u>	<u>(989)</u>	<u>(1,598)</u>	<u>(1,648)</u>	<u>(1,575)</u>
Income (loss) before income taxes	4,976	(12,765)	16,638	(6,531)	8,454	(5,728)	25,267	(3,708)
Income tax expense (benefit)	<u>81</u>	<u>(201)</u>	<u>845</u>	<u>(204)</u>	<u>987</u>	<u>(871)</u>	<u>1,209</u>	<u>56</u>
Net income (loss)	<u>\$ 4,895</u>	<u>\$ (12,564)</u>	<u>\$ 15,793</u>	<u>\$ (6,327)</u>	<u>\$ 7,467</u>	<u>\$ (4,857)</u>	<u>\$ 24,058</u>	<u>\$ (3,764)</u>
Adjusted EBITDA (1)	\$ 14,792	\$ (352)	\$ 32,455	\$ 5,333	\$ 22,414	\$ 11,102	\$ 41,305	\$ 6,159
Comparable store sales (2)	26%	16%	13%	25%	17%	36%	22%	26%

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- (1) The following table presents a reconciliation of net income (loss), the most directly comparable GAAP financial measure, to EBITDA and Adjusted EBITDA for the periods indicated below. For further discussion of the use of EBITDA and Adjusted EBITDA, see footnote 10 to the table included in “Selected Historical Consolidated Financial and Operating Data.”

	Fiscal 2010			Fiscal 2011				Fiscal 2012
	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter
	(in thousands)							
Net income (loss)	\$ 4,895	\$ (12,564)	\$ 15,793	\$ (6,327)	\$ 7,467	\$ (4,857)	\$ 24,058	\$ (3,764)
Depreciation and amortization	7,508	9,656	7,860	7,386	7,597	7,373	6,830	6,424
Interest expense	722	847	724	899	989	1,598	1,648	1,575
Income tax expense (benefit)	81	(201)	845	(204)	987	(871)	1,209	56
EBITDA	13,206	(2,262)	25,222	1,754	17,040	3,243	33,745	4,291
Management and board fees (a)	1,288	1,119	1,200	1,198	1,198	1,149	7,170	889
Non-cash compensation (b)	424	507	380	498	602	6,714	340	423
Terminated operations (c)	1	—	(67)	1,666	—	14	(100)	—
Severance and other related costs (d)	(57)	46	1,250	28	—	443	150	—
Impairment of long-lived assets (e)	—	—	2,115	—	—	—	—	—
Lease termination costs (f)	—	—	—	—	3,571	(461)	—	575
Non-capitalized IPO costs (g)	—	162	2,189	—	—	—	—	—
Other adjustments allowable under our agreements with our stockholders (h)	(70)	76	166	189	3	—	—	(19)
Adjusted EBITDA	<u>\$ 14,792</u>	<u>\$ (352)</u>	<u>\$ 32,455</u>	<u>\$ 5,333</u>	<u>\$ 22,414</u>	<u>\$ 11,102</u>	<u>\$ 41,305</u>	<u>\$ 6,159</u>

- (a) Includes fees paid in accordance with our management services agreement with Home Holdings, as well as fees and expense reimbursements paid to our board of directors.
- (b) Represents non-cash charges related to stock-based compensation programs. The third quarter of fiscal 2011 includes a \$6.4 million compensation charge related to the repayment of loans owed to Home Holdings by Mr. Friedman, our Chairman and Co-Chief Executive Officer, through the reclassification by Home Holdings of Mr. Friedman’s Class A and Class A-1 ownership units into an equal number of Class A Prime and Class A-1 Prime ownership units.
- (c) Fiscal 2010 includes the impact of closing four temporary clearance centers operated from October 2008 to March 2010 and fiscal 2011 includes costs related to the restructuring of our Shanghai office location.
- (d) Generally includes executive severance and other related costs.
- (e) Includes costs related to impairment of long-lived assets related to our retail store operations.
- (f) Includes lease termination costs for retail stores that were closed prior to their respective lease termination dates. The lease termination amounts in the third quarter of fiscal 2011 and the first quarter of fiscal 2012 include changes in estimates regarding liabilities for future lease payments for closed stores.
- (g) Represents costs related to our efforts to pursue an initial public offering.

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- (h) Represents items which management believes are not indicative of our ongoing operating performance. The second quarter of fiscal 2011 include consulting fees related to organizational matters. The fourth quarter of fiscal 2010 and the first quarter of fiscal 2011 include state franchise tax amounts. All periods include foreign exchange gains and losses.
- (2) Comparable store sales have been calculated based upon retail 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. Comparable store net revenues exclude revenues from outlet stores.

Liquidity and Capital Resources

General

Our business relies on cash flows from operations and the revolving line of credit and term loan as our primary sources of liquidity. Our primary cash needs are for merchandise inventories, payroll, 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 is seasonal as a result of our building inventory for the key selling seasons, and as a result our borrowings are generally higher during these periods when compared to the rest of our fiscal year. Our borrowings generally increase in our first fiscal quarter as we prepare for the outdoor selling season, which is in our second fiscal quarter, and our borrowings generally increase in the third fiscal quarter as we prepare for the holiday selling season, which is in our fourth fiscal quarter. We believe that cash expected to be generated from operations, and the availability of borrowings 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 and term loan for at least the next 12 – 24 months. Our investments in capital for the full fiscal year 2012 are planned at approximately \$55.0 million (net of tenant improvement allowances from landlords) of which \$6.2 million was spent during the first three months of fiscal 2012. The planned net investments in capital are approximately \$25.0 million for construction of new stores and approximately \$30.0 million for our infrastructure, including supply chain, information technology and our corporate headquarters. As we develop new stores in future years, we may explore new funding models, which could include joint ventures or other forms of equity ownership in the real estate interests associated with new sites and buildings. These approaches might require additional capital investment.

Cash Flow Analysis

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

	Year Ended			Three Months Ended	
	January 30, 2010	January 29, 2011	January 28, 2012	April 30, 2011	April 28, 2012
	(in thousands)				
Provided by (used in) operating activities	\$ 57,068	\$ (11,810)	\$ 17,121	\$(20,129)	\$(8,966)
Used in investing activities	(2,024)	(39,907)	(25,593)	(3,577)	(6,193)
Provided by (used in) financing activities	(51,055)	51,601	3,370	20,961	16,853
Increase (decrease) in cash and cash equivalents	4,583	178	(4,853)	(2,608)	1,694
Cash and cash equivalents at end of period	13,186	13,364	8,511	10,756	10,205

Net Cash Provided By (Used In) Operating Activities

Cash from operating activities consists primarily of net income adjusted for non-cash items including depreciation and amortization, impairment of property and equipment, stock-based compensation and non-cash interest expense and the effect of changes in working capital and other activities.

For the first three months of fiscal 2012, net cash used in operating activities was \$9.0 million and consisted of a net loss of \$3.8 million and an increase in working capital and other activities of \$12.2 million, offset by non-cash items of \$7.0 million. Working capital and other activities consisted primarily of increases in inventory

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of \$24.0 million in anticipation of future demand and as a result of the increased capacity available due to opening a new distribution center at the end of fiscal 2011, prepaid expenses of \$13.2 million primarily due to an increase in catalog costs associated with the Source Book strategy, and accounts receivable of \$5.8 million due to timing of payments received related to our credit card receivables. These uses of cash from working capital components were offset by sources of cash from increases in accrued liabilities and accounts payable of \$20.8 million primarily due to timing of payments, increases in deferred rent and lease incentives of \$4.4 million due to construction on our new Boston location and increases in deferred revenue and customer deposits of \$7.1 million due to the timing of shipments made at fiscal quarter end.

For the first three months of fiscal 2011, net cash used in operating activities was \$20.1 million and consisted of a net loss of \$6.3 million and an increase in working capital and other activities of \$22.4 million, offset by non-cash items of \$8.6 million. Working capital and other activities consisted primarily of increases in inventory of \$27.2 million in anticipation of future demand, prepaid expenses of \$17.2 million primarily due to an increase in catalog costs associated with the Source Book strategy, and accounts receivable of \$4.7 million due to timing of payments received related to our credit card receivables. These uses of cash from working capital components were offset by sources of cash from increases in accrued liabilities and accounts payable of \$19.1 million primarily due to timing of payments, increases in deferred revenue and customer deposits of \$5.1 million due to the timing of shipments made at fiscal quarter end, as well as increases in other current liabilities of \$2.5 million.

For fiscal 2011, net cash provided by operating activities was \$17.1 million and consisted of net income of \$20.3 million and non-cash items of \$48.9 million, offset by an increase in working capital and other activities of \$52.1 million. Non-cash items of \$48.9 million include expenses of \$6.4 million related to the repayment of the executive loan by our Co-Chief Executive Officer Gary Friedman and \$6.0 million for the management fee to the Principal Equity Holders, both incurred by Home Holdings on our behalf and reflected as capital contributions. Working capital and other activities consisted primarily of increases in inventory of \$39.5 million in anticipation of future demand and as a result of the increased capacity available due to opening a new distribution center in fiscal 2011, prepaid expenses of \$36.4 million primarily due to an increase in catalog costs associated with the Source Book strategy and accounts receivable of \$7.3 million due to timing of payments received related to our credit card receivables. These uses of cash from working capital components were offset by sources of cash from increases in accrued liabilities and accounts payable of \$14.4 million primarily due to timing of payments, increases in deferred revenue and customer deposits of \$11.4 million due to the timing of shipments made at fiscal year end, as well as increases in other current liabilities of \$3.9 million primarily due to an increase in gift certificate related liabilities.

For fiscal 2010, net cash used in operating activities was \$11.8 million and consisted of an increase in working capital and other activities of \$39.0 million, and a net loss of \$8.1 million partially offset by non-cash expenses included in the net loss of \$35.3 million. Working capital and other activities consisted primarily of increases in inventory of \$57.1 million, partially offset by increases in deferred rent and lease incentives of \$8.6 million, accrued liabilities and accounts payable of \$5.5 million primarily due to timing of payments, other current liabilities of \$3.4 million primarily due to an increase in gift certificate related liabilities and deferred revenue and customer deposits of \$2.5 million primarily due to an increase in special orders as well as timing of shipments made at period end.

For fiscal 2009, net cash provided by operating activities was \$57.1 million and consisted of net loss of \$28.7 million, offset by non-cash expenses included in the net loss of \$37.1 million and a decrease in working capital and other activities of \$48.6 million. Working capital and other activities consisted primarily of a decrease in inventory of \$35.0 million, a decrease in accounts receivable of \$3.8 million due to timing of payments related to our credit card receivables and an increase in accrued liabilities and accounts payable of \$8.2 million.

Net Cash Used In Investing Activities

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

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For the first three months of fiscal 2012, capital expenditures were \$6.2 million as a result of investments in new stores of \$4.3 million and investment in supply chain and systems infrastructure of \$1.9 million.

For the first three months of fiscal 2011, capital expenditures were \$3.6 million as a result of investments in new stores of \$2.2 million and investment in supply chain and systems infrastructure of \$1.4 million.

For fiscal 2011, capital expenditures were \$25.6 million as a result of investments in new stores of \$15.7 million and investment in supply chain and systems infrastructure of \$9.9 million.

For fiscal 2010, capital expenditures were \$39.9 million as a result of investments in approximately 80 Gallery store conversions of \$21.2 million, new stores of \$11.0 million and investment in supply chain and systems infrastructure of \$7.7 million.

For fiscal 2009, capital expenditures were \$2.0 million as a result of investments in new stores of \$0.7 million and investment in supply chain and systems infrastructure of \$1.3 million.

Net Cash Provided By (Used In) Financing Activities

Financing activities consist primarily of borrowings and repayments related to our revolving line of credit, term loan and capital contributions.

For the first three months of fiscal 2012, net cash provided by financing activities was \$16.9 million primarily due to an increase in net borrowing under the revolving line of credit of \$18.0 million resulting from an increase in inventory purchases made during the period. This overall increase in cash provided by financing activities was partially offset by payments on capital lease obligations of \$1.1 million.

For the first three months of fiscal 2011, net cash provided by financing activities was \$21.0 million primarily due to an increase in net borrowing under the revolving line of credit of \$21.9 million resulting from an increase in inventory purchases made during the period. This overall increase in cash provided by financing activities was partially offset by payments on capital lease obligations of \$1.0 million.

For fiscal 2011, net cash provided by financing activities was \$3.4 million primarily due to entering into an amendment to Restoration Hardware, Inc.'s credit agreement, for the purpose of incorporating a term loan facility for \$15.0 million in January 2012. This increase is offset by net repayments under the revolving line of credit of \$4.6 million, debt issuance costs related to the amended credit agreement and term loan of \$2.8 million, as well as payments on capital lease obligations of \$4.2 million.

For fiscal 2010, net cash provided by financing activities was \$51.6 million primarily due to an increase in net borrowing under the revolving line of credit of \$54.2 million resulting from an increase in inventory purchases made during the period. This overall increase in cash provided by financing activities was partially offset by payments on capital lease obligations of \$2.6 million.

For fiscal 2009, net cash used in financing activities was \$51.1 million primarily due to net payments made under the revolving line of credit of \$53.5 million resulting from the sale of inventory during the period. In addition, we made payments on capital lease obligations of \$2.6 million. These uses were partially offset by capital contributions from Home Holdings of \$5.0 million.

Revolving Line of Credit and Term Loan

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 amended credit agreement modified a previous facility in which Restoration Hardware, Inc. had a revolving line of credit for up to \$190.0 million, as of July 30, 2011. As a result of the modification, the

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unamortized deferred financing fees related to the previous line of credit on the date of the modification of \$0.2 million will be amortized over the life of the new revolving line of credit, which has a maturity date of August 3, 2016. Under the credit agreement (which was further amended in January 2012 to add thereto a term loan facility), Restoration Hardware, Inc. has (i) a revolving line of credit available of up to \$317.5 million, of which \$10.0 million is available to Restoration Hardware Canada, Inc., and (ii) a \$15.0 million term loan with a maturity date of July 6, 2015.

Under the terms of the amended credit agreement, Restoration Hardware, Inc. may increase the amount of the revolving line of credit by up to an additional \$100.0 million, provided that, among other things, the lenders agree to participate in the increased loan commitments under the revolving line of credit, no default under the credit agreement then exists or would result from such increase and sufficient borrowing base collateral is available to support increased loan amounts.

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 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, in the case of 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 2.8% as of April 28, 2012. The term loan bears interest at a rate of LIBOR plus 5.0%, and the interest rate for the term loan was 5.2% as of April 28, 2012.

As of April 28, 2012, \$125.5 million was outstanding under the revolving line of credit, and the outstanding principal amount of the term loan was \$14.8 million, net of \$0.2 million of unamortized debt issuance costs. As of April 28, 2012, Restoration Hardware, Inc.'s undrawn borrowing availability under the revolving line of credit was \$96.3 million and there were \$8.6 million in outstanding letters of credit.

Restoration Hardware, Inc. is required to repay the term loan in quarterly installments of \$1.25 million beginning July 2012 with the final payment in April 2015. In addition, the term loan must be repaid with the net proceeds of any disposition of any registered trade name.

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 April 28, 2012, 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

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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 January 28, 2012, our contractual cash obligations over the next several periods were as follows:

	Payments Due by Period				
	Total	2012	2013-2014	2015-2016	Thereafter
			(in thousands)		
Revolving line of credit (1)	\$ 107,502	\$ —	\$ —	\$ 107,502	\$ —
Term loan (1)	15,000	3,750	10,000	1,250	—
Other long term obligations (2)	9,261	4,445	4,560	256	—
Operating leases (3)	478,190	54,398	109,438	81,665	232,689
Letters of credit	6,852	6,852	—	—	—
Total	<u>\$ 616,805</u>	<u>\$ 69,445</u>	<u>\$ 123,998</u>	<u>\$ 190,673</u>	<u>\$ 232,689</u>

- (1) Excludes estimated interest under the revolving line of credit and term loan of \$41.5 million. Interest costs for the revolving line of credit and term loan have been estimated based on interest rates in effect for our indebtedness as of January 28, 2012, as well as estimated borrowing levels in the future based upon planned inventory purchases. Actual borrowing levels and interest costs may differ. The revolving line of credit has a maturity date of August 3, 2016. The term loan has a maturity date of July 6, 2015.
- (2) Other long-term obligations consist primarily of capital lease obligations.
- (3) 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 \$1.3 million at January 28, 2012.

The liability of \$2.5 million as of January 28, 2012, for unrecognized tax benefits associated with uncertain tax positions (see Note 9—*Income Taxes* to Restoration Hardware, Inc.'s audited 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 April 28, 2012. We have obligations to make payments in connection with the successful completion of this offering for management fees of \$ to Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement with them. See "Certain Relationships and Related Party Transactions." In addition, certain former executives are entitled to cash payment up to \$2.2 million as a result of the successful completion of this offering.

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

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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 results of operations and financial position, and are therefore discussed as critical. The following critical accounting policies reflect the significant estimates and judgments used in the preparation of our consolidated financial statements. With respect to critical accounting policies, even a relatively minor variance between actual and expected experience can potentially have a materially favorable or unfavorable impact on subsequent results of operations. However, our historical results for the periods presented in the consolidated financial statements have not been materially impacted by such variances. More information on all of our significant accounting policies can be found in Note 3—*Significant Accounting Policies* to Restoration Hardware, Inc.'s audited consolidated financial statements.

Revenue Recognition

We recognize revenues and the related cost of goods sold when merchandise is received by our customers, which reflects an estimate of non-furniture shipments through common carriers that have not yet been received by the customer. This estimate is based on contractual shipping terms with our contracted carrier which approximates our actual, historical delivery times.

We recognize shipping and handling fees as revenue when the merchandise is shipped to the customer. Costs of shipping and handling are included in cost of goods sold.

Sales tax collected is not recognized as revenue as it is ultimately remitted to governmental authorities.

We reserve for projected merchandise returns based on actual, historical experience and various other assumptions that we believe to be reasonable. Actual merchandise returns are monitored regularly and have not been materially different from the estimates recorded. Merchandise returns are granted for various reasons, including delays in product delivery, product quality issues and other similar matters. Product returned often represents merchandise that can be resold. Amounts refunded to customers are generally made by issuing the same payment tender as used in the original purchase. Merchandise exchanges of the same product and price are not considered merchandise returns and, therefore, are excluded when calculating the sales returns reserve.

Gift Certificates and Merchandise Credits

We sell gift certificates and issue merchandise credits to our customers in our stores and through our websites and product catalogs. Such gift certificates and merchandise credits do not have expiration dates. Revenue associated with gift certificates and merchandise credits is deferred until either (i) redemption of the gift certificate and merchandise credits or (ii) when the likelihood of redemption is remote and there exists no legal obligation to remit the value of unredeemed gift certificates or merchandise credits to the relevant jurisdictions (breakage). The breakage rate is based on monitoring of certificates issued, actual certificate redemptions and our analysis of when we believe it is remote that redemptions will occur.

Redeemed gift certificates and merchandise credits are recorded in net revenues. The liability for unredeemed gift certificates and merchandise credits is reversed to selling, general and administrative expenses when it is determined that certificates will not be redeemed.

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Merchandise Inventories

Our merchandise inventories are composed of finished goods and are carried at the lower of cost or market, with cost determined on a weighted-average cost method and market determined based on the estimated net realizable value. To determine if the value of inventory should be marked down below original cost, we consider current and anticipated demand, customer preference and the merchandise age. The inventory value is adjusted periodically to reflect current market conditions, which requires management judgments that may significantly affect the ending inventory valuation, as well as gross margin. The significant estimates used in inventory valuation are obsolescence (including excess and slow-moving inventory and lower of cost or market reserves) and estimates of inventory shrinkage. We adjust our inventory for obsolescence based on historical trends, aging reports, specific identification and our estimates of future retail sales prices.

Reserves for shrinkage are estimated and recorded throughout the period as a percentage of net sales based on historical shrinkage results and current inventory levels. Actual shrinkage is recorded throughout the year based upon periodic cycle counts and the results of our annual physical inventory count. Actual inventory shrinkage and obsolescence can vary from estimates due to factors including the mix of our inventory (which ranges from large furniture to decorative accessories) and execution against loss prevention initiatives in our stores, distribution centers, off-site storage locations and with third-party transportation providers.

Due to these factors, our obsolescence and shrinkage reserves contain uncertainties. Both estimates have calculations that require management to make assumptions and to apply judgment regarding a number of factors, including market conditions, the selling environment, historical results and current inventory trends. If actual observed obsolescence or periodic updates of our shrinkage estimates differ from our original estimates, we adjust our inventory reserves accordingly throughout the period. Management does not believe that changes in the assumptions used in these estimates would have a significant effect on our net income or inventory balances. We have not made any material changes to our assumptions included in the calculations of the obsolescence and shrinkage reserves during the periods presented or recorded significant adjustments related to the physical inventory process.

Impairment of Goodwill and Long-Lived Assets

Goodwill

We evaluate goodwill annually to determine whether it is impaired. Goodwill is also tested between annual impairment tests if an event occurs or circumstances change that would indicate that the fair value of a reporting unit is less than its carrying amount. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset; general economic conditions, such as increasing Treasury rates or unexpected changes in gross domestic product growth; a change in our market share; budget-to-actual performance and consistency of operating margins and capital expenditures; a product recall or an adverse action or assessment by a regulator; or changes in management or key personnel. If an impairment indicator exists, we test the intangible asset for recoverability. We have identified only one single reporting unit. We selected the fourth fiscal quarter to perform our annual goodwill impairment testing.

In fiscal 2011, we elected to early adopt the option to qualitatively assess goodwill impairment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The fair value of our reporting unit used for this assessment was derived from our January 29, 2011 goodwill impairment assessment. Accordingly, we performed a qualitative analysis examining key events and circumstances affecting fair value and determined it is more likely than not that the reporting unit's fair value is greater than its carrying amount. As such, no further analysis was required for purposes of testing of our goodwill for impairment.

For goodwill not qualitatively assessed, a two-step quantitative approach is used. In the first step, we compare the fair value of the reporting unit, generally defined as the same level as or one level below an operating segment, to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the

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net assets assigned to that unit, goodwill is considered not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference. The assumptions used in such valuations are subject to volatility and may differ from actual results.

The fair value of our reporting unit as of January 29, 2011 was determined using a combination of the discounted cash flow method of the income approach, as well as the guideline company method and subject transaction method of the market approach. The determination of fair value pursuant to those methods and approaches requires assumptions and estimates of many critical factors, including, among others, the nature and history of our Company, financial and economic conditions affecting us, our industry and the general economy, past results, our current operations and future prospects, sales of similar businesses or capital stock of publicly held similar businesses, as well as prices, terms and conditions affecting past sales of similar businesses. Forecasts of future operations are based, in part, on operating results and management's expectations as to future market conditions. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgments to estimate industry economic factors and the profitability of future business strategies. However, if actual results are not consistent with our estimates and assumptions, we may be exposed to future impairment losses that could be material.

In performing the income approach, we utilized the discounted cash flow method to determine the free operating cash flow attributable to the business enterprise for the projection period ending January 31, 2017 and the residual period subsequent to January 31, 2017. The projected financial results were created from management's critical assumptions and estimates. Annual revenue growth was primarily driven by management's revenue growth projections based upon current and historical financial information as well as expected market conditions. The primary business variables driving our discounted cash flow model include revenue growth and product gross margin. Management also projected EBITDA, which together with assumptions for working capital, depreciation and capital expenditures was used to calculate the cash flow generated by the business. The discount rate of 15% utilized in the income approach was based on a weighted average cost of capital utilizing market and other empirical inputs.

In performing the market approach, we utilized the guideline company method by reviewing the market values of public companies of similar size, type of business, financial performance and investment characteristics. We computed revenue, EBITDA and EBIT multiples in order to determine the indicated enterprise value of each of the guideline companies. We then compared our Company's characteristics to the guideline companies to determine the most appropriate enterprise value to assign to our Company. We also utilized the subject company transaction method by computing the implied multiples arising from the Acquisition multiplied by projected revenue and EBITDA of our Company.

We weighted the results of the three different methods utilized under the income approach and market approach in order to arrive at the business enterprise value. We assigned the most significant weight to the discounted cash flow method, because this method uses historical company data and management estimates of future operations, and the least weight to the subject transaction method. All three methods yielded business enterprise values that exceeded the carrying value of net assets as of January 29, 2011, in the range from 50% to 150%. The weighted business enterprise value determined during our goodwill impairment test as of January 29, 2011, exceeds the carrying value of our net assets by more than 60%. No impairment of goodwill has been recorded in any period.

Based on the carrying value of our goodwill as of January 28, 2012, relative to its estimated fair value as of January 29, 2011, we do not anticipate any material impairment charges in the near term.

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Long-Lived Assets

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset, a product recall or an adverse action or assessment by a regulator. If the sum of the estimated undiscounted future cash flows related to the asset are less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, usually determined by the estimated discounted cash flow analysis of the asset.

We evaluate long-lived tangible assets at an individual store level, which is the lowest level at which independent cash flows can be identified. We evaluate corporate assets or other long-lived assets that are not store-specific at the consolidated level.

Since there is typically no active market for our long-lived tangible assets, we estimate fair values based on the expected future cash flows. We estimate future cash flows based on store-level historical results, current trends, and operating and cash flow projections. Our estimates are subject to uncertainty and may be affected by a number of factors outside our control, including general economic conditions and the competitive environment. While we believe our estimates and judgments about future cash flows are reasonable, future impairment charges may be required if the expected cash flow estimates, as projected, do not occur or if events change requiring us to revise our estimates.

Stock-Based Compensation

We account for stock-based compensation in accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) No. 718, *Compensation-Stock Compensation*, which requires the fair value of stock-based payments to be recognized in the consolidated financial statements as compensation expense over the requisite service period. Compensation expense based upon the fair value of awards is recognized on a graded basis, net of forfeitures, over the requisite service period for awards that actually vest. Stock-based compensation expense is recorded in selling, general and administrative expenses.

Home Holdings has granted performance-based units that vest and become deliverable upon achievement or satisfaction of performance conditions specified in the performance agreement or upon the return on investment attained by certain of the equity investors in Home Holdings at defined liquidity events, including an initial public offering or certain sale or merger transactions. We estimate the fair value of performance-based units awarded to employees at the grant date based on the fair value of our Company on such date. We also consider the probability of achieving the established performance targets in determining our stock-based compensation with respect to these awards. We recognize compensation cost over the performance period. When the performance is related to a specific event occurring in the future, we recognize the full expense at the time of the event. Prior to the consummation of the offering, Home Holdings will exchange these performance-based units for shares of our Class A common stock, or, in the case of Mr. Friedman and Mr. Alberini, Class B common stock, with substantially similar terms and conditions.

We estimate the fair value of each grant on the date of grant based upon a lattice model that incorporates a Monte Carlo Simulation (the “Monte Carlo method”). The Monte Carlo method requires various significant judgment assumptions in order to derive a final fair value determination for each type of award including:

- *Total Equity Value*—The total equity value of Home Holdings (whose sole investment has been its acquisition of 100% of the equity ownership interests in Restoration Hardware, Inc.) is determined as described further below based upon a range of factors including independent third-party valuation studies of net equity value as well as an assessment of future financial projections and the stage of development and financial position of the business enterprise.

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- *Expected Unit Life*—The Monte-Carlo method analysis included an estimate of the expected unit life from grant date which represents the period that the units are anticipated to be outstanding after initial grant until expiration or settlement based upon various factors including expectations concerning a potential liquidity event, the contractual terms of the equity-based awards and vesting schedules.
- *Expected Equity Returns and Volatility*—The Monte-Carlo method incorporates both expectations concerning equity returns in the future and an expected volatility in terms of the possible range of returns units based upon historical volatility data from a group of comparable companies prior to the valuation date and expectations of future volatility over a timeframe consistent with the expected life of the awards.
- *Risk Free Interest Rate*—The Monte-Carlo method incorporates an assumed risk-free interest rate which is based on the United States Treasury yield curve rates in effect at the time of the grant using the term most consistent with the expected life of the award.
- *Discount for Lack of Marketability*—Fair value of the units is adjusted to take into account the lack of marketability associated with the absence of any public trading market for the equity.

Significant Factors Used in Determining Fair Value of Net Equity

To determine the total net equity value of Home Holdings underlying the unit awards, a determination is made of the value of the business enterprise and then this value is reduced by the amount of interest-bearing debt of Restoration Hardware, Inc. as of the valuation date. The determination of business enterprise value takes into consideration work performed by an independent third-party valuation firm with expertise in the valuation of businesses. Third-party valuation reports were performed as of April 4, 2010, January 31, 2011, and September 8, 2011, using generally accepted valuation methodologies.

In performing the valuation analysis, we engaged in discussions with the valuation firm and management, we analyzed historical and forecasted financial results, and information concerning selected comparable guideline companies, and we reviewed relevant governing documents and other records including the distribution priorities of different classes of units of Home Holdings based upon an assumed liquidation event such as a sale of the business.

The business enterprise valuation methodology used by us and the valuation firm incorporates two principal approaches: the income and market approaches. The income approach is based upon a calculation of the expected present value of future cash generated by the enterprise based upon a discounted cash flow analysis that incorporates expected future cash flows using forecasted growth in the business enterprise. The market approach is an estimate of value based upon actual stock prices or transaction prices using comparable guideline companies: (i) in the guideline transaction method to the market approach, the acquisition of Restoration Hardware, Inc. by Home Holdings was used as a representative transaction; and (ii) in the guideline company method a number of selected public company comparable companies were examined. Once calculated, the different valuations yielded by the income approach and market approach are weighted to determine a composite valuation. Over time, greater weight was given to the income approach and lesser weight was given to the market approach's reference to the acquisition of Restoration Hardware, Inc. by Home Holdings, as that transaction has become a further reference point in time.

As of each grant date with respect to units granted by Home Holdings as compensation awards, the board of directors or compensation committee reached conclusions about the fair market value of the class of units being granted by Home Holdings based upon assumptions concerning the underlying net equity value of Restoration Hardware, Inc. stock held by Home Holdings and the resulting "waterfall" distribution applicable to the different classes of units of Home Holdings that would be applicable upon a liquidity event, such as a sale of our business. The terms of the awards were determined based upon the net equity value of Home Holdings on the date of the award in such a manner as to have zero net value at date of grant for purposes of the foregoing liquidation analysis. In making its determinations, the board of directors or compensation committee of Home Holdings

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considered information from management, independent reports prepared by a third-party valuation firm which addressed the net equity value of Home Holdings, as well as a number of other factors.

The board of directors or compensation committee determines the fair value of units awarded as compensation, as well as the underlying net equity value of Home Holdings, by considering a number of objective and subjective factors in accordance with guidance in the AICPA Technical Practice Aid, *Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. These objective and subjective factors include:

- the distribution priorities of the different classes of units granted by Home Holdings;
- our operating and financial performance;
- the hiring of key personnel;
- the introduction of new products;
- the risks inherent in the development and expansion of our products;
- industry information such as market growth and volume;
- the fact that grants involve illiquid securities in a private company;
- the likelihood of achieving a liquidity event, such as an initial public offering or sale of our Company; and
- assumptions about anticipated financial performance, including assumptions based upon expectations regarding our EBITDA and Adjusted EBITDA.

The following table summarizes, by grant date, the number of units granted since January 1, 2011, through the date of this prospectus, and the associated intrinsic value for each unit based upon an analysis of the value that would have been paid to holders of such units on the respective grant dates assuming a sale of the business enterprise for consideration equal to net equity value at the grant date:

	Total Number of Units Granted	Estimated Intrinsic Value Per Unit
Grant Date—Time-based Units (1)(2)		
January 1, 2011	50,000	—
May 9, 2011	300,000	—
May 20, 2011	741,000	—
September 8, 2011	585,000	—
Grant Date—2X—3X Performance-based Units (1)		
May 20, 2011	194,000	—
Grant Date—Other Performance-based Units (1)		
May 9, 2011	550,000	—

- (1) See “Executive Compensation—Employee Benefit and Stock Plans—Team Resto Ownership Plan” herein for a discussion of time-based units, 2X—3X Performance-based Units and 3X—5X Performance-based Units. Such units are Class B units under Home Holdings’ limited liability company agreement.
- (2) 100,000 units granted on May 9, 2011 and 225,000 units granted on May 20, 2011 were originally awarded as 3X—5X Performance-based Units and the vesting schedules of such awards were modified on September 8, 2011 to a five year vesting schedule of 20% vesting each year from the original grant date.

Based upon an initial public offering price of \$ _____, the midpoint of the estimated price range set forth on the cover of this prospectus, the intrinsic value of the unit awards outstanding at _____, 2012, was approximately \$ _____ million, of which approximately \$ _____ million related to the unit awards that were vested (including those assumed to vest as a result of the initial public offering) and approximately \$ _____ million related to the unit awards that were not vested.

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Income Taxes

We account for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. In estimating future tax consequences, we generally take into account all expected future events then known to us, other than changes in the tax law or rates which have not yet been enacted and which are not permitted to be considered. Accordingly, we may record a valuation allowance to reduce our net deferred tax assets to the amount that is more-likely-than-not to be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based upon management's best estimate of the recoverability of our net deferred tax assets. Future taxable income and ongoing prudent and feasible tax planning are considered in determining the amount of the valuation allowance, and the amount of the allowance is subject to adjustment in the future. Specifically, in the event we are to determine that we are not more-likely-than-not able to realize our net deferred tax assets in the future, an adjustment to the valuation allowance would decrease income in the period such determination is made. This allowance does not alter our ability to utilize the underlying tax net operating loss and credit carryforwards in the future, the utilization of which is limited to achieving future taxable income.

In assessing the need for a valuation allowance, we consider both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more-likely-than-not the deferred tax assets will not be realized, we record a valuation allowance. The weight given to the positive and negative evidence is commensurate with the extent to which the evidence may be objectively verified. As such, it is generally difficult for positive evidence regarding projected future taxable income exclusive of reversing taxable temporary differences to outweigh objective negative evidence of recent financial reporting losses. United States GAAP states that cumulative losses in recent years are a significant piece of negative evidence that is difficult to overcome in determining that a valuation allowance is not needed against deferred tax assets.

Due to the historical losses incurred, we have recorded a full valuation allowance against the U.S. net deferred tax assets, excluding deferred tax liabilities related to indefinite lived intangibles, as well as against the net deferred tax assets in Shanghai.

A sustained period of profitability in our operations is required before we would change our judgment regarding the need for a full valuation allowance against our net deferred tax assets. Accordingly, although we were profitable in fiscal 2011, we continue to record a full valuation allowance against the net deferred tax assets in the United States and Shanghai. Although the weight of negative evidence related to cumulative losses is decreasing, we believe that this objectively measured negative evidence outweighs the subjectively determined positive evidence, and accordingly, we have not changed our judgment regarding the need for a full valuation allowance in fiscal 2011.

The accounting standard for uncertainty in income taxes prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. Differences between tax positions taken in a tax return and amounts recognized in the financial statements generally result in an increase in a liability for income taxes payable or a reduction of an income tax refund receivable, or a reduction in a deferred tax asset or an increase in a deferred tax liability, or both. We recognize interest and penalties related to unrecognized tax benefits in tax expense.

Recently Issued Accounting Pronouncements

Disclosures Regarding Fair Value Measurements

In May 2011, the Financial Accounting Standards Board ("FASB") issued guidance to amend the fair value measurement and disclosure requirements. The guidance requires the disclosure of quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion around the

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sensitivity of the measurements. The guidance is effective during interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. We adopted this guidance on January 29, 2012 and such adoption did not have a material impact on the disclosures in the notes to our consolidated financial statements.

Other Comprehensive Income Presentation

In June 2011, the FASB issued guidance that revises the manner in which entities present comprehensive income in their financial statements. The guidance requires entities to report the components of comprehensive income in either a single, continuous statement or two separate but consecutive statements. In December 2011, the FASB issued guidance which defers certain requirements set forth in June 2011. These amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income in all periods presented. Both sets of guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, and are to be applied retrospectively. We adopted this guidance on January 29, 2012 and such adoption only resulted in a change in how we present the components of comprehensive income, which was previously presented within our consolidated statements of stockholders' equity.

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 and term loan, which bear interest at variable rates. At April 28, 2012, \$125.5 million was outstanding under the revolving line of credit and \$14.8 million was outstanding under the term loan, net of \$0.2 million of unamortized debt issuance costs. As of April 28, 2012, the undrawn borrowing availability under the revolving line of credit was \$96.3 million, and there were \$8.6 million in outstanding letters of credit. We currently do not engage in any interest rate hedging activity and currently have no intention to do so in the foreseeable future. Based on the average interest rate on the revolving line of credit during the first three months of fiscal 2012, 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 results of operations and financial condition have been immaterial.

Internal Control Over Financial Reporting

The process of improving our internal controls has required and will continue to require us to expend significant resources to design, implement and maintain a system of internal controls that is adequate to satisfy our reporting obligations as a public company. There can be no assurance that any actions we take will be completely successful. We will continue to evaluate the effectiveness of our disclosure controls and procedures and internal control over financial reporting on an ongoing basis.

We have not begun testing or documenting our internal control procedures in order to comply with the requirements of Section 404 of the Sarbanes-Oxley Act. Section 404 requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent auditors addressing these assessments. We will be required to comply with Section 404 at the time we file our annual report for fiscal 2013 with the SEC. As part of this process, we may identify specific internal controls as being deficient. We anticipate retaining additional personnel to assist us in complying with our Section 404 obligations. We are currently evaluating whether such personnel will be retained as consultants or as employees.

BUSINESS

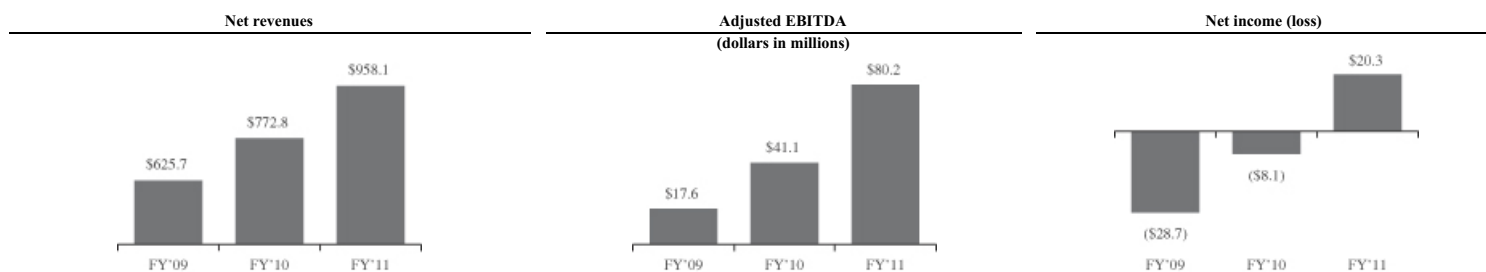
Our Company

We believe Restoration Hardware is one of the most innovative and fastest growing luxury brands in the home furnishings marketplace. We believe our brand stands alone and is redefining this highly fragmented and growing market, contributing to our superior sales growth and market share gains over the past several years as compared to industry growth rates. Our ability to innovate, curate and integrate products, categories, services and businesses with a completely authentic and distinctive point of view, then rapidly scale them across our fully integrated multi-channel infrastructure is a powerful platform for continued long-term growth. Additionally, our unique product development, go-to-market and supply chain capabilities, together with our significant scale, enable us to offer a compelling combination of design, quality and value that we believe is unparalleled in the marketplace.

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 catalogs and websites act as virtual extensions of our stores. We are transforming our real estate platform from a mall-based retail footprint to a portfolio focused on full line Design Galleries. As of April 28, 2012, we operated a total of 74 retail stores, consisting of 72 Galleries and 2 full line Design Galleries, and 10 outlet stores throughout the United States and Canada. In fiscal 2011, we distributed approximately 26.1 million catalogs, and our websites logged over 14.3 million unique visits.

Over the last several years, we achieved strong growth in sales and profitability, as illustrated by the following:

- From fiscal 2009 to fiscal 2011, we increased our net revenues 53% to \$958.1 million, our Adjusted EBITDA 356% to \$80.2 million and our Adjusted EBITDA margin by 555 basis points to 8.4%. Over the same time period we increased our net income by \$49.0 million from a net loss of \$28.7 million to net income of \$20.3 million; and
- We achieved nine consecutive quarters of double-digit net revenue growth through our fiscal quarter ended April 28, 2012. We achieved this growth as we reduced our store base from 95 retail locations as of January 30, 2010 to 74 locations as of April 28, 2012.



See “Prospectus Summary—Summary Historical Consolidated Financial and Operating Data” for a discussion of Adjusted EBITDA and a reconciliation of the differences between Adjusted EBITDA and net income (loss).

Our Competitive Strengths

We attribute our success to the following competitive strengths:

Our Market-Redefining Luxury Brand. We believe Restoration Hardware stands alone as a leading luxury brand of inspired design, and is redefining the highly fragmented home furnishings market. We provide dominant merchandise assortments across a growing number of categories and feature a highly differentiated style,

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presentation and customer experience. We believe that offering a compelling combination of design, quality and value enables us to remain relevant with our target customer and expand our reach. We believe we are changing the home furnishings landscape by attracting affluent consumers from designer showrooms and high-end boutiques with our compelling value proposition, as well as aspirational consumers trading up to our more sophisticated aesthetic relative to what can be found in department stores and other home furnishings retailers. We believe this has led to our superior sales growth and market share gains over the past several years as compared to industry growth rates. In a market characterized by smaller, independent competitors, we believe our luxury positioning, superior quality and significant scale enable us to grow our market share.

Our Unique Development Model. We believe our unique approach to the development of new products, categories and services enables us to gain market share, adapt our business to emerging trends, stay relevant with our customers and enter into new businesses that leverage our strengths. The foundation of our unique development model is:

- *Innovation.* We are dedicated to offering products and services that push established boundaries. We are driven to look beyond current business paradigms and best practices to create new paradigms and next practices. The scope of our innovation is demonstrated in every aspect of our organization, including in our products and services, our stores and presentation, our channel-agnostic go-to-market strategy and our fully integrated supply chain and systems infrastructure.
- *Curation.* At our core we are not designers, rather we are curators and composers of inspired design and experiences. We travel the world in search of people, ideas, items, experiences and inspiration, and then create a composition that is unique and entirely our own. Through this journey of searching, discovering, re-imagining, curating and composing the ideas, items and experiences that we love, we create a completely unique and authentic expression in the marketplace.
- *Integration.* Everything we curate and compose must be beautifully and intelligently integrated, enhancing the appeal of our offering and experience. This process involves both “art and science” as we integrate new products that enhance existing products, new categories that enhance existing categories and new services and businesses that enhance existing services and businesses, and as our supporting functions and infrastructure are integrated to achieve our goals.

Our ability to innovate, curate and integrate products, categories, services and businesses, then rapidly scale them across our fully integrated multi-channel infrastructure is a powerful platform for continued long-term growth.

Our Superior Capabilities. Our product development and multi-channel go-to-market capabilities together with our fully integrated infrastructure and significant scale, enable us to offer a compelling combination of design, quality and value that we believe is unparalleled in the marketplace.

- *Highly Differentiated Product Development Capabilities.* We have architected a proprietary product development platform that is fully integrated from product ideation to presentation. We have established a cross-functional organization centered on product leadership, with teams that collaborate across our product development, sourcing, merchandising, inventory and creative functions. Our product development facility, the *Restoration Hardware Center of Innovation & Product Leadership*, supports and streamlines the entire product development process. We work closely with our network of artisan partners who possess specialized design and manufacturing capabilities and who we consider an extension of our product development team. Our product development platform and significant scale have enabled us to introduce an increasing number of new products with each collection and dramatically shorten our product lead times from 12 – 18 months to 3 – 9 months and reduce product costs, which allow us to offer greater value to our customers.
- *Multi-Channel Go-To-Market Ability.* We pursue a market-based rather than a channel-based sales strategy and allocate resources by market to maximize our return on invested capital. Our strategy is to

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size our product assortments to the potential of the market and to size our stores to the potential of the geographic area that each location serves. We leverage our direct channels to maximize reach, increase brand awareness and allow customers to access our complete product offering. Our channels are fully integrated and complement each other, with our stores acting as showrooms for our brand while our Source Books and our websites act as virtual extensions of our stores. Our stores allow our customers to experience our product collections in lifestyle settings and to consult with our highly qualified sales associates and interior designers to develop design solutions for their homes. We complement our stores with targeted catalog mailings, emails and catalog apps for Apple's iPad and iPhone. In our stores, our sales associates use iPads and other devices to allow customers to shop our entire merchandise assortment while in the store. We believe that by offering a seamless experience across our stores and direct channels, we present a consistent brand image and inspire our customers to shop with us more often. This approach is designed to enhance our customer experience, generate greater sales, increase our market share and deliver higher returns on invested capital.

- *Fully Integrated Infrastructure.* Our infrastructure is integrated across our multiple channels, providing three key advantages. First, we have strong direct sourcing capabilities and direct vendor relationships that contribute to shortened product lead times and reduced merchandise costs. Second, our inventory is centrally managed across our channels to drive working capital efficiency and optimize product availability. Third, our reconfigured distribution network and new order management, warehouse management and point-of-sale systems contribute to improved customer service levels, including shorter delivery times. Our systems platform has business intelligence reporting capabilities that provide multi-channel information which enable us to make timely and informed decisions across all aspects of our business. We believe our infrastructure provides us with a sophisticated operating platform and significant capabilities to support our future growth.

Our High Performance Culture and Team. We have built a high-performance organization driven by a company-wide commitment to our core values of People, Quality, Service and Innovation. Our team is led by our Co-Chief Executive Officers, Gary Friedman and Carlos Alberini, who have worked together for the last two years developing our strategy and driving our recent transformation. The leadership team has over 100 years of specialty home experience and significant expertise across all of our core functions, including brand management, product development, sourcing, supply chain, merchandising, finance and operations. With over 24 years of experience in executive roles in the specialty home industry, Mr. Friedman is recognized as a creative force and design leader. Since joining in 2001, Mr. Friedman has successfully repositioned Restoration Hardware to what we believe is one of the fastest growing and most innovative luxury brands in the home furnishings market. Prior to joining us, Mr. Friedman spent 13 years at Williams-Sonoma, Inc. in various executive roles, most recently as President and Chief Operating Officer. Mr. Friedman was responsible for the development of Williams-Sonoma's Grande Cuisine store and the reconceptualization of the Pottery Barn brand. Mr. Friedman leads our product development and design, sourcing, merchandising, marketing and branding efforts. Mr. Alberini is a highly respected financial and operational leader in the retail sector, having most recently served as President and Chief Operating Officer of Guess? from 2000 to 2010. Mr. Alberini is widely recognized in the industry for his role in helping to build Guess? into a leading global brand and business. Mr. Alberini joined us in 2010 and leads our finance, stores, supply chain, information technology, operations, real estate and human resources efforts. We believe our leadership team, including the complementary skills of Mr. Friedman and Mr. Alberini, is a key driver of our success and positions us well to execute our long-term growth strategy.

Our Growth Strategy

Key elements of our growth strategy are to:

Transform Our Real Estate Platform. We believe we have an opportunity to significantly increase our sales by transforming our real estate platform from a mall-based retail footprint to a portfolio focused on full line Design Galleries. With a target size of approximately 21,500 square feet of selling space, our full line Design Galleries have approximately three times the selling square footage of our current average Gallery and allow

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consumers to experience a broader merchandise assortment in a highly differentiated retail setting. We have found that we experience higher sales across all of our channels when we showcase more of our assortment. We have identified approximately 50 key metropolitan markets where we can open new full line Design Galleries in iconic or high profile locations that are representative of our luxury brand positioning. We believe, based on our analysis of the market, that we have the opportunity to double our current selling square footage in the United States and Canada over the next 7 to 10 years as we transform our real estate platform by opening full line Design Galleries in these 50 identified markets.

In 2011, we opened our first two full line Design Galleries in Los Angeles and Houston where we consolidated demand by closing existing retail stores in each market. By offering a greater product assortment and raising the profile of our brand, in the Los Angeles market, we have increased store demand by 85% and direct demand by 30% and in the Houston market, we have increased store demand by over 60% and direct demand by over 50%, in each case from the date of opening our new full-line Design Gallery in that market to May 19, 2012. Over the next 24 months, we plan to open full line Design Galleries in iconic or high profile locations in Scottsdale, Boston, Greenwich (Connecticut) and Atlanta. We are also actively exploring opening Design Galleries in other key markets such as New York City, Miami, Dallas and Chicago. We have opened two Galleries in 2012 and plan to open one Gallery in 2013.

Expand Our Offering and Increase Our Market Share. We participate in the domestic housewares and home furnishings market, that based on our research we believe represented \$143 billion in sales in 2010. Our annual net revenues currently represent less than 1% of this market, and we believe we have a significant opportunity to increase our market share as more customers are exposed to our growing merchandise assortment and as introductions of new products and services inspire current and new customers to add to their collections. We believe our dominant assortments and continued expansion of product categories enable us to change the highly fragmented luxury home furnishings landscape and grow our market share. We apply our unique design aesthetic and superior product development capabilities to bring a fresh and differentiated perspective to existing and new product categories, new services and new businesses:

- *Increase Product Categories and Assortments.* Over the past few years we have successfully expanded our offering across our categories. We are continuing this strong level of innovation with a number of initiatives in 2012, including in: (i) indoor and outdoor furniture, where we continue to broaden our assortments in upholstery, dining and occasional; (ii) smaller home furnishings products, which we call our Big Style, small spaces collection; (iii) rugs, where we continue to significantly enhance our collection developed by Ben Soleimani of Mansour Rugs, a 4th generation, family rug business known for its innovative designs; and (iv) baby and child products, where we will continue to expand our assortments in furniture, textiles and décor. We have a successful record of new category introductions, including Outdoor in Spring 2006, Baby & Child in Spring 2008 and Garden in Spring 2010. We plan to continue introducing select new product categories, such as hard window coverings in Fall 2012 and Tabletop in 2013, where we can offer a dominant merchandise assortment consistent with our brand positioning in other product categories.
- *Expand Services.* We plan to provide our customers with a growing range of services designed to enhance the customer experience and optimize sales. We are developing and will be introducing in select locations our interior design services that provide our customers with complimentary in-store and in-home design consultation. Based on the results achieved to date with several tests in our full line Design Galleries, we believe that our interior design team will contribute to increased sales as they assist, inspire and influence customers in the manner in which they envision their homes. In addition, an expanded portion of our product offering can be customized to meet individual preferences, including different choices of materials, fabrics and finishes. We are also enhancing our existing registry services and believe that a significant opportunity exists to expand and improve our bridal and gift registry businesses with the expansion of our Baby & Child offering and our planned introduction of Tabletop products.

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- *Enter New Businesses.* We believe we have the ability to leverage our defining strengths of taste, style and innovation across multiple businesses, which can enhance brand awareness, reinforce our lifestyle positioning and enrich the customer experience. We plan to explore and test from time to time new business opportunities complementary to our core business which can capitalize on our unique development model, such as an Art & Culture category, which could include works of art by independent artists. We believe we can scale new businesses rapidly, leveraging our fully integrated multi-channel infrastructure and providing a powerful platform for continued long-term growth.

Increase Brand Awareness. We will continue to increase our brand awareness and customer loyalty through our real estate transformation, our circulation strategy, our digital and social media marketing initiatives and our increased advertising and public relations efforts.

- *Real Estate Positioning.* Our stores are a critical branding vehicle, as approximately 55% of new customers are acquired through our stores. We believe the transformation of our real estate platform from a mall-based retail footprint to a portfolio focused on full line Design Galleries will contribute to increased brand awareness as our customers experience an enhanced expression of our luxury brand positioning.
- *Circulation Strategy.* Our catalogs are also an important branding and advertising vehicle. We plan to continue expanding our catalog page count and circulation, as well as mailing new households. We have found that when we display a greater merchandise assortment in our catalogs, we experience increased sales across all of our channels. Since Spring 2011, we have pursued our Source Book strategy, whereby we distribute to a higher number of households dominant catalogs that feature expanded page counts and present over 85% of our product assortment at the time of publication. This strategy contributed to a 41% increase in the number of catalog pages circulated and a 27% increase in net revenues for our direct business in fiscal 2011. We are planning to increase the number of catalog pages circulated in fiscal 2012 by more than 30%.
- *Digital and Social Media Initiatives.* We are investing in enhanced marketing initiatives for our e-commerce business, which we believe will result in greater website traffic and sales. Our websites display our most comprehensive product assortment and serve as critical tools for introducing and testing new products. We are continually enhancing the navigation and presentation features of our websites, which enable our customers to develop design solutions for themselves. In order to increase traffic to our websites, we have increased our email marketing efforts and have developed catalog apps for Apple's iPad and iPhone, which provide an additional means for our customers to view and purchase our growing product assortment.
- *Advertising and Public Relations Efforts.* We proactively market our brand through public relations and print advertisements in brand relevant publications such as *Architectural Digest*, *Vanity Fair*, *Elle Décor*, *House Beautiful*, *Veranda* and *Town and Country*. In addition, we plan to continue to host in-store events related to new store openings and product launches. We believe that increased brand awareness will drive higher sales in our stores and our direct business over time.

Pursue International Expansion. We plan to strategically expand our business into select countries outside of the United States and Canada over the next several years. We believe that our luxury brand positioning and unique aesthetic will have strong international appeal. We expanded into the Canadian market in 1998 and successfully built our presence into a multi-channel business featuring five retail locations and in-market catalog and online capabilities. We intend to leverage this experience as we expand our business internationally.

Increase Operating Margins. We have the opportunity to continue to improve our operating margins by leveraging our fixed occupancy costs and scalable infrastructure, and by expanding our merchandise margins. We believe that our real estate transformation will allow us to better leverage our fixed occupancy costs by consolidating multiple Galleries into single full line Design Galleries, opening locations outside of malls that tend to have lower lease costs per square foot, reducing non-selling backroom space and closing unproductive

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stores. Our full line Design Galleries are architected to offer more compelling unit economics by increasing the selling square footage devoted to our retail assortment and utilizing non-traditional selling space such as rooftops and garden courtyards, which carry much lower occupancy costs than the typical retail space. We have a well-developed, scalable infrastructure that is positioned to support our revenue growth without a proportionate increase in operating expenses. We believe we can further increase our merchandise margins by: (i) continuing to benefit from our direct sourcing initiatives, whereby we eliminated most buying agents and generally procure merchandise directly from our vendors; (ii) optimizing product pricing and utilizing more targeted promotions through improved data analysis; and (iii) using new merchandise planning systems to manage inventory more efficiently across all of our channels.

Our High-Performance Culture

We believe that to know our Company, you have to know our culture and our values. We are a team of people who believe we can change the world. We believe in our ability to create an endless reflection of hope, inspiration, passion and love that will ignite the human spirit and transcend our existence.

Our culture is driven by our management team, which instills a company-wide commitment to our core values. Every leader in our Company participates in a training program annually and signs our Leadership Contract, a commitment to model and teach our values. We believe our distinct corporate culture allows us to attract highly talented team members who are passionate and driven and who share our vision. Our Company's core values are:

- *People*—We believe the “right” people are our greatest asset. We value people with high energy, who possess the ability to energize others. People who are smart, creative and have a point of view. People who see the answer in every problem, versus those who see the problem in every answer. People who are driven, determined and won't take “no” for an answer. We value team players, people who are more concerned with what is right, rather than who is right.
- *Quality*—Quality starts with our people and should be visible in every aspect of our Company. From our people to our products, to our service and our standards, from the way we communicate to our commitment to educate. From the accuracy and efficiency in our distribution facilities, to the marketing and presentation of our products in our stores, catalogs and websites. Being committed to quality means being able to see it in every detail of our organization.
- *Service*—We believe that service starts inside the organization and embrace a concept called “People First.” Simply put, it means “if we expect our people to deliver first class service to our customers, we must first deliver first class service to our people.” It is everyone's responsibility to remove the obstacles and provide support so our associates throughout the organization are empowered to “Do the right thing.” Our people smile when we smile, our people serve our customers when we serve our people.
- *Innovation*—We value innovation, taking risks and boldly going where no company has gone before. We believe you're either striving to get better, or allowing yourself to get worse, there is no such thing as staying the same. The power of innovation comes from leveraging the creative minds and spirit of all our people at all levels of the organization. We strive to build an environment that encourages people to challenge, ask “why?” and “why not?” We embrace those people who have the courage to put forth new ideas and breathe new life into our Company. Innovation is at the core of what we do.

Evolution of Our Business

When Gary Friedman joined us as Chief Executive Officer in 2001, we began to reposition Restoration Hardware from a nostalgic, discovery-items business to a leading home furnishings brand. In 2008, we were taken private by investment funds affiliated with Catterton, Tower Three and Glenhill. Our strategic plan at the time of the going private transaction required significant investments in infrastructure to develop our distribution

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center in West Jefferson, Ohio and other initiatives to improve our merchandise delivery capabilities. As part of the going private process, we received access to additional equity capital from our investors and as a result we were able to accelerate the transformation of our business and brand and the development of our multi-channel business model and infrastructure. Over the last eleven years, we have built a new company through the following initiatives:

- *Elevated Our Brand Positioning*—We significantly enhanced the quality and design of our merchandise, elevating our brand to a luxury positioning. We believe this strategy, along with our compelling combination of design, quality and value, have allowed us to change the highly fragmented home furnishings landscape and position us to grow our market share.
- *Enhanced Our Product Development Process*—We established a collaborative organization with cross-functional teams in product development, sourcing, merchandising, inventory and creative, all focused on product leadership. We built the *Restoration Hardware Center of Innovation & Product Leadership*, a facility which supports and streamlines the entire product development process. In addition, we have developed direct sourcing relationships with our artisan partners. The transformation of our creative process has dramatically shortened our typical product lead times, reduced our product costs and enhanced our ability to successfully introduce new categories.
- *Refined Our Go-To-Market Strategy*—We aligned our organization and the way in which we approach the consumer to pursue a market-based rather than channel-based sales strategy across our stores and direct channels. Our strategy is to size our product assortments to the potential of the market and to size our stores to the potential of the geographic area that each location serves. We believe this approach enables us to strategically deploy our resources by market to maximize return on invested capital. In order to expose more customers to a broader product assortment we use our Source Books and websites as virtual extensions of our stores. We introduced our new Source Book large catalog format that displays a greater percentage of our product assortment, which we believe is continuing to increase sales across all of our channels because customers respond to the assortments that we emphasize and feature prominently both in our catalogs and in our stores.
- *Reconceptualized Our Stores and Developed Full Line Design Gallery Format*—In 2009 and 2010, we remodeled substantially all of our existing retail stores into our Gallery format that reconceptualizes the store experience by presenting our products in sophisticated lifestyle settings. We experienced enhanced productivity and profitability as a result of our Gallery conversions. In 2011, we developed our full line Design Gallery format, which offers approximately three times the selling square footage of an average Gallery. This format is architected to offer more compelling unit economics by increasing the selling square footage devoted to our retail assortment and utilizing non-traditional selling space such as rooftops and garden courtyards, which carry much lower occupancy costs than the typical retail space.
- *Built a New Supply Chain and Systems Infrastructure*—We invested over \$60 million from fiscal 2006 to fiscal 2010 in our supply chain and systems infrastructure, including: (i) reconfiguring and adding to our distribution network; (ii) implementing new point-of-sale, warehouse management, order management and customer service systems; and (iii) enhancing our direct sourcing capabilities.
- *Strengthened Our Management Team*—We strengthened our management team by adding a new Co-Chief Executive Officer as well other senior leaders in merchandising, product development, finance, information technology and inventory planning who bring extensive experience in their respective fields.

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We believe these initiatives have contributed to our recent strong performance and increased profitability, and position us for sustained growth and profitability. The following chart illustrates some of the principal aspects of the transformation of the old Restoration Hardware to the new Restoration Hardware:

	<u>Old Restoration Hardware</u>	<u>New Restoration Hardware</u>
Merchandise Strategy	Nostalgic, discovery items	Category dominance, integrated lifestyle presentation
Product Development	Internally designed and developed (12 – 18 months lead time)	Externally discovered and curated (3 – 9 months lead time)
Go-to-Market Strategy	Conventional channel-focused marketing	Fully integrated market-based, multi-channel strategy
Retail Strategy	Multiple small locations in a given market showcasing narrow and redundant assortment	Consolidated markets, generally featuring larger locations showcasing broader assortment
Direct Strategy	84-page catalog; limited mailing list; nascent e-commerce platform	Over 1,100 pages across Home, Outdoor & Garden and Baby & Child catalogs; broader mailing list; established e-commerce platform
Sourcing	Traditional agent buying structure	Highly collaborative direct vendor relationships
Supply Chain & Systems	Channel specific architecture	Fully integrated multi-channel platform

Our Market

We participate in the large and growing U.S. housewares and home furnishings market. Based on our research, we believe this market generated \$143 billion in retail sales in 2010 and is projected to grow at a compound annual growth rate of 3% – 4% between 2011 and 2015. Our annual net revenues currently represent less than 1% of this market, providing us with a substantial opportunity to gain market share. We believe the seven major categories in the housewares and home furnishings market are the following: indoor furniture, textiles, dishes and flatware, bath, lighting, outdoor furniture, and carpets and floor coverings. Based on our research, we believe that indoor furniture represented the largest percentage of the market in 2010 at 43%, or \$62 billion in total sales, and textiles represented the second largest segment. We believe that our dominant merchandise assortments and differentiated product designs in these key categories will enable us to increase our market share.

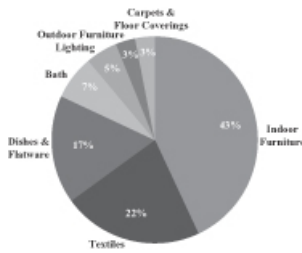


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According to Euromonitor International, a market research and analysis firm, the U.S. housewares and home furnishings market is highly fragmented. The top 20 companies comprised only 20% of the total market in 2008, with the largest player representing less than 3% of the total market. As a result of the weakening housing market and economic downturn in 2007, many home furnishings retailers were forced to close stores, dramatically scale back operations or lower prices. Companies such as Bombay Company, Smith & Hawken, Linens 'n Things, Z Gallerie and Levitz declared bankruptcy or liquidated, while many others were weakened. While our sales results were also adversely affected during this period, this disruption also created an opportunity for us to differentiate our brand in the marketplace. We believe we are well positioned to gain market share in the current competitive environment as a result of our compelling combination of design, quality and value.

We target households with incomes of \$200,000 and higher, which we believe drive a disproportionate share of spending in the home furnishings market. We believe that these customers are highly attractive as they tend to be less impacted by an economic downturn and return to spending more quickly in an economic recovery.

Our Products

We are merchants of luxury home furnishings offering collections of timeless, updated classics and reproductions. We operate as a curator of products that we regard as the finest historical design. Our luxury products embody our design aesthetic and reflect inspiration from across the centuries and around the globe. Our objective is to position Restoration Hardware as a lifestyle brand and design authority by offering dominant merchandise assortments across a growing number of categories, including furniture, lighting, textiles, bathware, décor, outdoor, garden, and baby and child products.

The following is a description of our primary product categories:

<u>Category</u>	<u>Select Products Offered</u>	<u>Select Product Highlights</u>
Furniture	<ul style="list-style-type: none">• Bedroom• Dining• Upholstery• Home Office• Media• Cabinets	Our bedroom collections reflect classical 18th and 19th century designs with handcrafted artisan details and fine English construction in styles such as the St. James, French Empire, Warner and Vienne. Our dining room collections use architecturally inspired new and salvaged wood in both classic and contemporary designs and include the Russian Oak, Trestle and Farmhouse collections. Our home office products include vintage and industrial-inspired desks, seating and storage solutions reconceived for the home office, including the Aviator Wing Desk, inspired by World War II fighter planes and the Mayfair Steamer Secretary Trunk, created in collaboration with antiques dealer and furniture maker Timothy Oulton of London, England.
Lighting	<ul style="list-style-type: none">• Ceiling• Table• Floor• Wall• Outdoor	Our lighting designs and reproductions draw from architectural and historical pieces. In Fall 2011, we introduced a hand wrought iron birdcage inspired by a vintage birdcage and featuring a crystal chandelier inside, as well as reproduction 19th century hand carved wooden chandeliers and a full line of light bulbs. We carry a comprehensive assortment of floor, table wall and ceiling lighting.

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<u>Category</u>	<u>Select Products Offered</u>	<u>Select Product Highlights</u>
Textiles	<ul style="list-style-type: none">• Bed Linens• Bath Linens• Drapery• Rugs• Pillows & Throws	<p>We offer fine Italian bedding, which includes our signature Italian hotel collection, designed in close partnership with Carlo Bertelli, a proprietor of a Florentine atelier recognized for luxurious Italian linen. Our bath linens use fine 100% Turkish cotton terry cloth with meticulous hand sewn detail, and are sourced in partnership with Haluk Eke of Turkey. Our drapes are made of high quality fabrics that include Libeco Ligae Belgian linen, Thai Silk and vintage velvet. In Fall 2011, we introduced an exclusive line of rugs designed by Ben Soleimani of Mansour Rugs, a 4th generation, family rug business known for its innovative designs.</p>
Bathware	<ul style="list-style-type: none">• Faucets• Hardware• Furniture• Sinks	<p>Our bath faucets are all made from drop forged brass and available in several finishes. Our fittings are German-made and feature drip-free valves. Our furniture and sink collections reflect classic designs and are made of fine materials.</p>
Décor	<ul style="list-style-type: none">• Decorative Accessories• Home Accessories• Wall Art• Gifts	<p>Our décor assortment is centered around beautiful accents for the home in objects, frames, candlelight and wall art. In Fall 2011, we partnered with Jefferson Mack, a blacksmith recognized for his artisanal craftsmanship, to introduce an exclusive collection of wrought iron hearth collections. Our holiday assortment features an assortment of vintage inspired ornaments and carefully curated gifts. This fall we will be introducing tabletop into our assortment, complete with dinnerware, glassware, flatware and table linens.</p>
Outdoor & Garden	<ul style="list-style-type: none">• Furniture• Textiles• Lighting• Accessories• Fire• Shade	<p>We carry 24 collections of outdoor furniture that feature teak, metal and all-weather wicker. We partner with Perennials and Sunbrella to create a collection of outdoor fabrics for our cushions and umbrellas. Our Garden collection is focused on completing the outdoor space with statuary, fire tables, garden structure, containers and lanterns.</p>
Baby & Child	<ul style="list-style-type: none">• Furniture• Bedding• Window Coverings• Flooring• Lighting• Décor	<p>We developed Baby & Child as an extension of our brand, offering the same level of quality and design for children's furnishings as we offer for the rest of the home. We offer core categories for both nurseries and children's rooms. Our furniture collections are inspired by 18th and 19th century European designs, vintage industrial styles and French antiques, all built with the same level of quality as our home brand. Within textiles, we offer European bedding, Turkish towels, high-quality lined drapery, roman shades, and wool rugs. Our accessories include wall décor, storage solutions and playroom accents, inspired by vintage finds, industrial design and classic style and function.</p>

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We are in the process of expanding the following existing categories: (i) indoor and outdoor furniture, where we continue to broaden our assortments in upholstery, dining and occasional; (ii) smaller home furnishings products, which we call our Big Style, small spaces collection; (iii) rugs, where we continue to significantly enhance our collection developed by Ben Soleimani of Mansour Rugs, a 4th generation, family rug business known for its innovative designs; and (iv) baby and child products, where we will expand our assortments in furniture, textiles and décor. We plan to continue introducing select new product categories, such as hard window coverings in Fall 2012 and Tabletop in 2013, where we can offer a dominant merchandise assortment consistent with our brand positioning in other product categories.

We have a successful record in introducing complementary product categories, including Outdoor in Spring 2006, Baby & Child in Spring 2008, Garden in Spring 2010 and Big Style, small spaces in 2012. Each of these new product categories was introduced as a new, standalone catalog. Historically, once a category is tested and proven in our direct business, we selectively roll out an edited collection of the products in our stores. We believe this approach allows us to efficiently launch categories in a disciplined, expeditious and cost-effective manner. For example, our Garden collection took seven months from concept to introduction, with minimal additional resources required to launch.

Product Development

Over the past several years we have architected a proprietary product development platform that is fully integrated from ideation to presentation. We have streamlined our product development organization and process to shorten product lead times and enhance our ability to introduce more new products with each collection. We believe that our new product development organization, process and facility allow us to deliver home furnishings with a compelling combination of design, quality and value. Key aspects are:

- *Organization*—We have established a collaborative, cross-functional organization centered on product leadership and coordinated across our product development, sourcing, merchandising, inventory and creative teams. Our product teams are focused on maximizing the sales potential of each product category across all channels, which eliminates the channel conflicts and functional redundancies often found in other retail organizations.
- *Process*—For many of our products, we work closely with our network of artisan partners who possess specialized product development and manufacturing capabilities and who we consider an extension of our product development team. We collaborate with our global network of specialty vendors and manufacturers to produce artisanal pieces on a large scale with a high level of quality and value, including both distinctive original designs and reinterpretations of antiques.
- *Facility*—We have built the *Restoration Hardware Center of Innovation and Product Leadership*, a facility which supports the entire product development process, from product ideation to presentation for all channels.

As a result of our proprietary organization, process and facility, we have shortened our typical product lead times from 12 – 18 months to 3 – 9 months and enhanced our ability to introduce more new products with each collection. In addition, our product development platform, sourcing capabilities and significant scale have enabled us to reduce our product costs, which allows us to offer greater value to our customers.

Sales Channels

We distribute our products through a fully integrated sales platform comprised of our stores, catalogs and websites. We believe the level of integration among all of our channels and our approach to the market distinguishes us from most other retailers. For fiscal 2011, sales of products originating in our stores represented 56% of our net revenues, while sales from our direct business represented 44% of our net revenues. We believe our channels complement each other and our customers' buying decisions are influenced by their experiences

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across more than one of our sales channels. We encourage our customers to shop across our channels and have aligned our business and internal organization to be channel agnostic. Our integrated distribution and product delivery network serves all of our channels.

We believe the key advantage of our multiple sales channels is our ability to leverage the unique attributes of each channel in our approach to the market. Our catalog mailings serve as a key driver of sales through both our websites and retail stores. Through our Source Book strategy, we have expanded the page count and circulation of our catalogs to expose more customers to a broader product assortment. Our customers respond to the Source Books across all of our channels, with sales trends closely correlating to the assortments that we emphasize and feature prominently both in our Source Books and in our stores. Our retail stores reinforce our luxury brand aesthetic and showcase product collections in lifestyle settings consistent with the presentation in our direct channels. In addition, our store associates use Apple iPads and other devices to allow customers to shop our entire merchandise assortment while in the store.

We maintain a database of customer information, which include sales patterns, detailed purchasing information, certain demographic information, geographic locations and email addresses of our customers. As of April 28, 2012, our customer database contained 13.5 million names. This database supports our ability to analyze our customers' buying behaviors across sales channels and facilitates the development of targeted marketing strategies. We segment our customer files based on multiple variables, and we tailor our catalog mailings and emails in response to the purchasing patterns and product needs of our customers. We focus on continually improving the segmentation of customer files and the expansion of our customer database.

In addition to our core channels, we are also expanding into professional services channels, including Trade and Contract. In the Trade channel, we work directly with independent interior designers purchasing for their businesses. Separately, we sell directly to customers who make purchases with the assistance of their own interior designers or decorators, which we refer to as "designer-assisted sales." We are also expanding our Contract business, which services hospitality, real estate development, and other business clients. These channels offer additional avenues for reaching new customers, including both businesses and individuals. For fiscal 2011, our Trade and Contract businesses generated combined net revenues of \$17.3 million, which amount does not include designer-assisted sales. We believe there is substantial opportunity for us to grow these businesses.

Stores

Retail Stores

As of April 28, 2012, we operated a total of 74 retail stores throughout the United States and Canada, consisting of 72 Galleries and 2 full line Design Galleries. Our retail stores are located primarily in upscale malls and street locations. We believe situating our stores in desirable locations with high visibility is critical to the success of our business, and we identify store locations based on several store specific aspects including geographic location, demographics, and proximity to other high-end specialty retail stores. We pursue a market based sales strategy, whereby we assess each market's overall sales potential and how best to approach the market across all of our channels. We customize square footage and catalog circulation to maximize each market's sales potential and increase our return on invested capital.

We operate three distinct store types: (1) our full line Design Gallery format, typically between 22,000 and 28,000 gross square feet, (2) our existing Gallery format of approximately 7,000 – 15,000 gross square feet, and (3) our Baby & Child Gallery format of approximately 2,000 – 3,000 gross square feet. Substantially all of our existing stores are Galleries. We are transforming our real estate portfolio from a mall-based retail footprint to a portfolio based on full line Design Galleries, which are sized to maximize the potential of each market. In key metropolitan markets, we will continue to open full line Design Galleries and in small to mid-sized markets, we expect to continue to open and operate Galleries. We have two stand-alone Baby & Child Galleries, one in Corte Madera, California and the other in Houston, Texas. We will evaluate potential opportunities for additional Baby & Child Galleries either as stand-alone locations or within our full line Design Galleries.

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Our store formats convey a design aesthetic and shopping environment that is highly differentiated from other home furnishings retailers. We have reconceptualized the customer experience by showcasing products in a sophisticated lifestyle setting that we believe is on par with world-class interior designers, consistent with the imagery and product presentation featured in our catalogs and on our websites. Products in our stores are presented in fully appointed rooms, emphasizing collections over individual pieces. This encourages a higher average order value as customers are inspired to purchase a full collection of products to replicate the design aesthetic found in our stores. We have optimized our selling space to display a greater number of products, resulting in higher sales productivity and profitability.

Most of our Galleries display less than 50% of our current assortment due to their space constraints. Based on our historical performance, when a product is presented on the selling floor, we experience a significant increase in sales for that product across all of our channels. We have designed a new store model, the full line Design Gallery, which significantly enhances our merchandise presentation and customer experience, to capitalize on this opportunity for sales growth.

Full line Design Galleries are shopping destinations in iconic or high profile locations with high customer visibility that enhance the Restoration Hardware brand. In general, they are planned with approximately 15,000-20,000 square feet of interior selling space and 4,000 – 7,000 square feet of outdoor selling space, including courtyards and rooftop terraces that feature outdoor and garden products. These locations will offer an average of three times the selling square footage of our current average Galleries and will display a much greater percentage of our current product assortment. In addition, we may introduce new complementary brand-enhancing businesses in our full line Design Galleries, such as a Hospitality business, which could include a café or restaurant adjacent to, or inside of, select full line Design Galleries.

We expect that our full line Design Galleries will capture demand from larger market areas and allow us to close select existing locations, thereby eliminating unnecessary duplication of our assortment, optimizing our working capital investment and reducing occupancy costs and other expenses. We have identified approximately 50 markets in which we plan to execute this strategy, which began with the Los Angeles and Houston markets in 2011. By offering a greater assortment and raising the profile of our brand, in the Los Angeles market, we have increased store demand by 85% and direct demand by 30% and in the Houston market, we have increased store demand by over 60% and direct demand by over 50%, in each case from the date of opening our new full line Design Gallery in that market to May 19, 2012. Over the next 24 months, we plan to open full line Design Galleries in iconic or high profile locations in Scottsdale, Boston, Greenwich (Connecticut) and Atlanta. We are also actively exploring opening full line Design Galleries in other key markets such as New York City, Miami, Dallas and Chicago. We believe this strategy will enhance our sales, profitability and return on invested capital in key markets while making a powerful brand statement, as our full line Design Galleries heighten the visibility of our brand with customers and underscore our position as a destination for luxury home furnishings.

For full line Design Galleries, we target locations with approximately 25,000 gross square feet, including approximately 21,500 selling square feet. Our capital investment to open a target full line Design Gallery is approximately \$250 per gross square foot, net of landlord contributions of approximately \$25 per gross square foot. Our expected initial inventory investment is approximately \$1,375,000, which includes store inventory and working capital to support projected sales volumes. Our expected pre-opening expenses are approximately \$500,000. We target annual sales per selling square foot of approximately \$850, and a store level cash contribution margin of approximately 27% of sales. We target an average payback period of approximately 20 months on our initial investment.

Our Galleries are generally located in premium shopping malls and street locations. Our Galleries have an average of approximately 10,800 gross square feet and 6,800 selling square feet. However, we target new locations to have approximately 12,000 gross square feet and 9,500 selling square feet. Our capital investment to open a Gallery is approximately \$115 per gross square foot, net of landlord contributions of approximately \$100 per gross square foot. Our expected initial inventory investment is approximately \$650,000, which includes store

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inventory, as well as working capital to support projected sales volumes, and our expected pre-opening expenses are approximately \$200,000. We target annual sales per selling square foot of approximately \$550, and a store level cash contribution margin of approximately 20% of sales, which is higher than our historical store level cash contribution margin. We target an average payback period of approximately 25 months on our initial investment. We have opened two Galleries in 2012 and plan to open one additional Gallery in 2013.

The table below highlights certain information regarding our retail stores open during the three years ended January 28, 2012, and through April 28, 2012.

	Fiscal Year			Three Months Ended
	2009	2010	2011	April 28, 2012
Stores open at beginning of period	99	95	91	74
Stores opened	—	4	5	2
Stores closed	(4)	(8)	(22)	(2)
Stores open at end of period	95	91	74	74

We continually analyze opportunities to selectively close stores which have been under-performing, will be consolidated in connection with openings of our full line Design Galleries or are no longer consistent with our brand positioning. We closed two stores in the first three months of fiscal 2012, and anticipate that we will close an additional five stores by the end of fiscal 2012. In many cases, we operated the store until lease expiration in order to effect the closure in a cost-efficient manner. In fiscal 2011, we recorded a charge of approximately \$3.2 million, relating primarily to closing stores prior to lease expiration.

The following list shows the number of retail stores operated in each state and each province in Canada as of April 28, 2012:

Location	Store	Location	Store	Location	Store
Alabama	1	Massachusetts	2	Rhode Island	1
Arizona	1	Michigan	1	Tennessee	1
California	16	Minnesota	1	Texas	6
Colorado	1	Missouri	2	Utah	1
Connecticut	3	New Jersey	2	Virginia	2
Florida	4	New York	3	Washington	1
Georgia	1	North Carolina	2	Wisconsin	1
Illinois	5	Ohio	3	District of Columbia	1
Indiana	1	Oklahoma	1	Alberta	2
Louisiana	1	Oregon	1	British Columbia	1
Maryland	1	Pennsylvania	2	Ontario	2
			Total		74

Outlet Stores

As of April 28, 2012, we operated 10 outlet stores in 9 states. Our outlet stores are branded as Restoration Hardware Outlet and located primarily in large outlet-malls. Our outlet stores serve as an efficient means to sell discontinued or irregular inventory outside of our core sales channels.

Source Books

We produce a series of catalogs to showcase our merchandise assortment, including our Home, Outdoor & Garden and Baby & Child catalogs. Our catalogs are one of our primary branding and advertising vehicles. We have been expanding the page counts of our catalogs which allows us to showcase nearly our entire product

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assortment. We refer to these larger catalogs as Source Books. For example, our Spring 2012 Source Books presented over 85% of our product assortment at the time of publication. As in our retail stores, our catalogs present our merchandise in lifestyle settings that represent our unique design aesthetic. Our Source Books also feature profiles of select artisan vendors and other compelling editorial content regarding home décor. All creative work on our catalogs is coordinated by our in-house personnel in our *Restoration Hardware Center of Innovation & Product Leadership*, providing us greater control over the brand image presented to our customers while also reducing our catalog production costs.

We use our catalogs to drive sales across all of our channels, and we generally experience increased sales of the products featured in our catalogs. We mail our catalogs to addresses from our proprietary customer database, as well as to addresses provided to us by third parties. We also use customer data that we collect to determine which prospective customers are most likely to respond to our catalogs.

Our catalogs, in concert with our e-commerce channel, are a cost-effective means of testing new products, and allow us to launch categories in a disciplined, expeditious and cost-effective manner. For example, our Garden launch took seven months from conception to introduction, with minimal additional resources required.

E-Commerce

Our primary website, located at www.restorationhardware.com, provides our customers with the ability to purchase our merchandise online. In May 2008, we launched www.rhbabyandchild.com, an e-commerce enabled website devoted to our baby and child category. In May 2011, we launched catalog apps for Apple's iPad and iPhone that enable customers to view and purchase our growing product assortment.

Our e-commerce platform provides simplicity and ease of use while allowing customers to experience the Restoration Hardware lifestyle reflected in our catalogs and throughout our stores. We update our website on a regular basis to reflect product availability and special offers. In fiscal 2011, our websites logged over 14.3 million unique visits, an increase of 18% over fiscal 2010.

We display substantially all of our current product assortment on our websites. The websites also offer a room-based navigation, which allows the customer to envision and shop items by room or by product, expanding on the richness of the online experience. For example, customers can search our website for products by size or color, browse through our extensive product categories and see detailed information about each item and collection, such as dimensions, materials and care instructions. Additionally, customers can select color swatches and view merchandise displayed with different color and fabric options.

Marketing and Advertising

We employ a variety of marketing and advertising vehicles to drive customer traffic across all our channels, strengthen and reinforce our brand image and acquire new customers. These include targeted catalog circulation, promotional mailings, email communications, online and print advertisements and public relations activities. We maintain a database of 13.5 million customers, which includes sales patterns, detailed purchasing information, demographic data, geographic locations and postal and email addresses. We use this information to tailor our programs and increase productivity of our marketing and promotion initiatives. We leverage our marketing and advertising expenses across all our channels as we seek to optimize the efficiency of our investment.

Our stores and our catalogs are the primary branding and advertising vehicles for the Restoration Hardware brand. The highly-differentiated design aesthetic and shopping environment of our stores drive customer traffic not only to our stores but also to our direct channels. Approximately 55% of new customers are acquired through our stores, where we collect customer addresses and emails. Our catalogs and targeted emails further reinforce the Restoration Hardware brand image and drive sales across all of our sales channels. We also engage in a wide range of other marketing, promotional and public relations activities to promote our brand. These campaigns

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include media coverage in design, lifestyle, culture/society and specialty publications, as well as in-store events related to new store openings and product launches. We also engage print advertising in brand-relevant publications such as *Architectural Digest*, *Vanity Fair*, *Elle Décor*, *Veranda*, *House Beautiful*, *Town and Country* and others, and from time to time have also engaged in online advertising. We believe that these efforts will drive increased brand awareness, leading to higher sales in our stores and our direct business over time.

Sourcing

We do not own or operate any manufacturing facilities; instead, we contract with third-party vendors for the manufacture of our merchandise. Our sourcing strategy focuses on identifying and using vendors that can provide the quality materials and fine craftsmanship that our customers expect of our brand. To ensure that our high standards of quality and timely delivery of merchandise are met, we work closely with vendors and manufacturers. We seek to ensure the consistent quality of our manufacturers' products by selectively inspecting pre-production samples, conducting periodic site visits to certain of our vendors' production facilities and by selectively inspecting inbound shipments at our distribution facilities. We source approximately 75% of our purchase dollar volume from approximately 40 vendors and no vendor accounts for more than 15% of our purchase dollar volume. Based on total dollar volume of purchases for fiscal 2011, approximately 77% of our products were sourced in Asia, the majority of which originated from China, 16% from the United States, 6% from Europe and the remainder from other regions.

We have a limited number of long-term merchandise supply contracts but we believe that we generally have strong relationships with our product vendors. Although we transact business primarily on an order by order basis, we typically work with many of our vendors over extended periods of time, and many vendors are making long term capacity investments to serve our increasing demands. We are currently engaged in a sourcing initiative to develop closer relationships with our vendors in order to achieve better efficiencies and further improve our product development process. Over the last several years, we have eliminated the use of most third party purchasing agents in favor of a model in which we directly manage our vendors. We have achieved significant cost savings and other efficiencies from this initiative.

Distribution and Delivery

We manage the distribution and delivery of our products through six facilities, each of which serves all of our sales channels:

- Our West Jefferson, Ohio facility, which we opened in 2008, is approximately 805,000 square feet with the capacity to expand an additional 400,000 square feet. It serves as our distribution center for all of our small package direct-to-customer orders and retail store replenishment, as well as a furniture home delivery hub for surrounding areas including metropolitan areas in Ohio, Kentucky and Indiana.
- Our Baltimore, Maryland facility is approximately 508,000 square feet. It serves as a furniture distribution center for the Eastern and Central regions of the United States and Canada, as well as a furniture home delivery hub for the greater Washington, D.C. metropolitan area and the greater New York/New Jersey metropolitan area.
- Our North East, Maryland facility, which we opened in February 2012, is approximately 600,000 square feet and is located near our Baltimore facility. It serves as a second furniture distribution center for the Eastern and Central regions of the United States and Canada. We plan on expanding this site to 1,200,000 square feet by the end of 2012.
- Our Mira Loma, California facility, which we opened in 2011, is approximately 886,000 square feet. It serves as our furniture distribution center for the Western regions of the United States and Canada, as well as a furniture home delivery hub for the greater Los Angeles metropolitan area.
- Our Tracy, California facility is approximately 151,000 square feet. It serves as a furniture home delivery hub for the San Francisco Bay Area market. In December 2011, we leased approximately

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133,000 additional square feet of short-term, temporary storage within the same facility to also serve our furniture distribution network.

- Our Avenel, New Jersey facility, which we opened in January 2012, is approximately 114,000 square feet. It serves as a furniture delivery hub for the greater New York/New Jersey metropolitan area.

We offer a white glove home delivery service for larger furniture items and items delivered with multiple components, where our delivery personnel assist our customers by properly installing and assembling the product. We have recently increased our in-sourced home delivery operations in several key markets, while managing deliveries in other markets through third-party vendors. We plan to continue this trend of in-sourcing these services in additional markets over time to further leverage operating costs and improve our customers' service experience, while reducing returns and damage to our products.

Through expansions and upgrades to our inventory warehousing, distribution and delivery operations over the last four years, we have improved our supply chain and distribution operations, and have built a scalable infrastructure with significant capabilities to support our future growth. We believe our enhanced supply chain and fulfillment operations allow us to manage customer orders and distribute merchandise to stores and customers in an efficient and cost-effective manner. We also believe that these upgrades have improved customer satisfaction by reducing delivery times, reducing damage to merchandise and improving the customer's overall buying experience.

We intend to continue to strengthen our supply chain operations through a number of key initiatives in 2012 designed to improve our delivery logistics, reduce store replenish cycle times and achieve greater efficiencies in the management of our inventories.

Management and Information Technology

We use industry-standard information technology systems to provide customer service, business process support, and business intelligence across our sales channels. Over the past four years, our technology team has systematically upgraded several of our core systems, including:

- Implementing new order management and warehouse management systems to improve efficiencies, accuracy and service levels;
- Implementing a platform upgrade to our e-commerce and search software products in support of our marketing strategy and customer ordering preferences;
- Rolling out new point of sale systems, and in store iPads, with associated ordering tools, in all of our stores to support secure, in store purchasing;
- Deploying a new business intelligence and data warehouse system that equips management with more timely analysis of the current business trends, results, and comparisons to our historical performance; and
- Delivering a variety of supply chain enhancements to several key software systems that increase the efficiencies of operations, and enable our associates to deliver quality services.

We believe these substantial upgrades to our information technology systems provide management with the ability to drive ongoing improvement in our operating model, focus on efficiency opportunities, and increase management control. New access to results through our technology tools also equips management to more timely identify, analyze and respond to business trends.

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Over the next three years, we intend to further enhance our technology systems through a number of key initiatives as follows:

- Further upgrading our multi-channel ordering, supply chain and inventory management systems to maximize operating efficiencies;
- Enhancing our e-commerce websites' capabilities to optimize the customer shopping experience;
- Continuing our expansion of business intelligence capabilities and data warehouse management to optimize information for timely decision making; and
- Utilizing state-of-the-art technology and tools to provide a unique and differentiated customer experience in our store.

We are committed to a high level of integration in technology across our business. We believe our approach to technology demonstrates an appropriate balance of strategic planning and innovation to support both today's business and tomorrow's growth.

Competition

The home furnishings industry is highly competitive. We primarily compete against a large number of independent retailers that provide unique items and custom-designed product offerings at high price points, including antique dealers and home furnishings retailers who market to the interior design community. We also compete with national and regional home furnishings retailers and department stores.

We believe we compete primarily on the basis of design, quality, value and customer service. We believe our distinct combination of design, quality and value allows us to compete effectively and we believe we differentiate ourselves from competitors based on the strength of our brand, products and our fully integrated multi-channel business model. We compete with the interior design trade and specialty merchants by providing a broader product assortment at an exceptional value based both upon the price and quality of our products. We compete against certain other home furnishings retailers primarily by offering what we believe is superior quality, highly distinctive design styles and a sophisticated lifestyle presentation in our product offering.

We also believe that our success depends in substantial part on our ability to originate and define product trends, as well as to timely anticipate, gauge and react to changing consumer demands. Certain of our competitors are larger and have greater financial, marketing and other resources than us. However, many smaller specialty retailers may lack the financial resources, infrastructure, scale and national brand identity necessary to compete effectively with us.

Employees

As of April 28, 2012, we had approximately 2,800 employees, of which approximately 1,000 were part-time employees. As of that date, approximately 1,700 of our employees were based in our stores. None of our employees is represented by a union, and we have had no labor-related work stoppages. We believe our relations with our employees are good.

Intellectual Property

The "Restoration Hardware" trademark and certain variations thereon, such as the Restoration Hardware logo, the Baby & Child logo and many trademarks used for our product lines are registered or are the subject of pending trademark applications with the U.S. Patent and Trademark Office and with the trademark registries of many foreign countries. In addition, we own many domain names, including "restorationhardware.com," "rhhbabyandchild.com" and others that include our trademarks. We also have pending patent applications for some of our proprietary product designs and own copyrights in our catalogs and websites. We believe that our trademarks, product designs and copyrighted works have significant value and we vigorously protect them against infringement.

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Seasonality

Our business is seasonal, and we have historically realized a higher portion of our net sales, net income and operating cash flows in the fourth fiscal quarter, attributable to the impact of the holiday selling season. In addition, some of our product offerings such as outdoor furniture and garden products are seasonal in nature and experience higher sales during our second fiscal quarter. As a result of these factors, our working capital requirements and demands on our product distribution and delivery network fluctuate during the year in response to seasonal trends in our business, and are greatest in the first and third fiscal quarters as we ramp up for the outdoor selling season and the holiday season, respectively.

Properties

We currently lease approximately 170,000 square feet for use as our corporate headquarters in Corte Madera, California, including approximately 15,000 square feet of warehouse space. We lease an additional 13,000 square feet of warehouse space in San Rafael, California. The leases for these spaces expire between January 2013 and May 2021, other than certain small storage space leases that are leased on a month-to-month basis.

We lease four separate distribution facilities and two standalone furniture delivery hubs, described above under “—Distribution and Delivery.” Our West Jefferson, Ohio facility lease expires in May 2023. Our Baltimore, Maryland facility lease expires in June 2014. Our North East, Maryland facility lease expires in 2027. Our Mira Loma, California facility lease expires in June 2020. Our Tracy, California facility lease expires in September 2016. Our Avenel, New Jersey facility lease expires in November 2016.

As of April 28, 2012, we lease approximately 800,000 gross square feet for our 72 Galleries, 2 full line Design Galleries and 10 outlet stores. The initial lease term of our retail stores is generally 10 – 15 years. Certain leases contain renewal options for up to 15 years. Most leases for our retail stores provide for a minimum rent, typically including escalating rent increases, plus a percentage rent based upon sales after certain minimum thresholds are achieved. The leases generally require us to pay insurance, utilities, real estate taxes and repair and maintenance expenses. We also lease approximately 39,000 square feet for offsite storage.

We currently own one store, our approximately 8,000 square foot Gallery in San Francisco’s Design District.

We believe that our current offices and facilities are in good condition, are being used productively and are adequate to meet our requirements for the foreseeable future.

Regulation and Legislation

We are subject to labor and employment laws, laws governing truth-in-advertising, privacy laws, safety regulations and other laws, including consumer protection regulations that regulate retailers and govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

Legal Proceedings

From time to time we are involved in litigation, claims and other proceedings relating to the conduct of our business, including but not limited to consumer protection class action litigation, claims related to our business, including claims related to our collection of reproductions or employment practices, and claims of intellectual property infringement. 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

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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 also 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.

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MANAGEMENT

Below is a list of the names and ages, as of May 25, 2012, of our directors, director designees and executive officers and a description of the business experience of each of them.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Gary Friedman	54	Co-Chief Executive Officer and Chairman of the Board of Directors
Carlos Alberini	56	Co-Chief Executive Officer and Director
Karen Boone	38	Chief Financial Officer
Ken Dunaj	45	Chief Operating Officer
J. Michael Chu	54	Director
Scott Dahnke	46	Director
Mark Demilio	56	Director
William Forrest	51	Director
Glenn Krevlin	52	Director
Marc Magliacano	37	Director
Frederick Wilson	65	Director

Executive Officers

Gary Friedman was appointed Chairman and Co-Chief Executive Officer in June 2010 and has served as our Chief Executive Officer since March 2001. He has also been a director since March 2001. Prior to joining us, from 1988 to 2001, Mr. Friedman worked for Williams-Sonoma, Inc., a specialty retailer of products for the home, where he served in various capacities, including as President and Chief Operating Officer from May 2000 to March 2001, as Chief Merchandising Officer and President of Retail Stores from 1995 to 2000 and as Executive Vice President and President of the Williams-Sonoma and Pottery Barn brands from 1993 to 1995. Prior to joining Williams-Sonoma, Mr. Friedman spent eleven years with The Gap, Inc., a specialty retailer, in various management positions. Mr. Friedman was selected to our board of directors because he possesses particular knowledge and experience in retail and merchandising, home furnishing merchandise and branded consumer goods, sales and distribution and leadership of complex organizations. Mr. Friedman's employment agreement provides that he will serve as our Co-Chief Executive Officer and as a member of our board of directors.

Carlos Alberini joined us as our Co-Chief Executive Officer in June 2010. He has also been a director since June 2010. Prior to joining us, he was President and Chief Operating Officer of Guess?, Inc., a publicly traded specialty retailer of apparel and accessories, from December 2000 to June 2010. From May 2006 to July 2006, Mr. Alberini served as Interim Chief Financial Officer of Guess?, Inc. Mr. Alberini served as a member of the board of directors of Guess?, Inc. from December 2000 to September 2011. From October 1996 to December 2000, Mr. Alberini served as Senior Vice President and Chief Financial Officer of Footstar, Inc., a retailer of footwear. From May 1995 to October 1996, Mr. Alberini served as Vice President of Finance and Acting Chief Financial Officer of the Melville Corporation, a retail holding corporation. From 1987 to 1995, Mr. Alberini was with The Bon-Ton Stores, Inc., an operator of department stores, in various capacities, including Corporate Controller, Senior Vice President, Chief Financial Officer and Treasurer. Prior to that, Mr. Alberini served in various positions at PricewaterhouseCoopers LLP, an audit firm. Mr. Alberini was selected to our board of directors because he possesses particular knowledge and experience in retail and merchandising, branded consumer goods, accounting, financing and capital finance, board practices of other large retail companies and leadership of complex organizations. Mr. Alberini's employment agreement provides that he will serve as our Co-Chief Executive Officer and as a member of our board of directors.

Karen Boone joined us as our Chief Financial Officer in June 2012. For the 15 years prior to joining us, Ms. Boone worked for Deloitte & Touche LLP, an accounting and consulting firm, where she most recently served as an audit partner. Before becoming an audit partner, she served as a senior manager in Deloitte's audit practice from 2005 to 2010 and as a manager from 2002 to 2005. Her entire career at Deloitte was spent specializing in service to retail and consumer products companies.

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Ken Dunaj has served as our Chief Operating Officer since May 2006. From August 2005 to May 2006, Mr. Dunaj served as Senior Vice President, Global Logistics, for Williams-Sonoma, a specialty retailer of products for the home. From September 2000 to August 2005, Mr. Dunaj held various other positions at Williams-Sonoma, Inc., including Vice President, Distribution. Prior to joining Williams-Sonoma, Mr. Dunaj held various positions at Toys “R” Us, Inc., Genesis Direct, Inc., Reebok International Ltd. and NIKE, Inc.

Directors

We believe our board of directors should be composed of individuals with sophistication and experience in many substantive areas that impact our business. We believe experience, qualifications, or skills in the following areas are most important: retail merchandising; marketing and advertising; furniture and consumer goods; sales and distribution; accounting, finance, and capital structure; strategic planning and leadership of complex organizations; legal/regulatory and government affairs; people management; and board practices of other major corporations. We believe that all our current board members possess the professional and personal qualifications necessary for board service, and have highlighted particularly noteworthy attributes for each board member in the individual biographies below, or above in the case of our Co-Chief Executive Officers.

J. Michael Chu was appointed to our board of directors in June 2008. Mr. Chu serves as a Managing Partner of Catterton Partners, a private equity firm he co-founded in 1989. Prior to forming Catterton Partners, Mr. Chu held a variety of senior management positions with The First Pacific Company and its various subsidiaries, including as Vice President and Corporate Treasurer of First Pacific in Hong Kong, and as Chief Financial Officer and Chief Operating Officer of various operating companies owned or controlled by First Pacific in both the United States and Europe. First Pacific is a Hong Kong publicly listed investment and management company where he was employed from 1983 to 1989. Prior to First Pacific he was Assistant Treasurer at Allied Bank International from 1980 to 1983. Mr. Chu was selected to our board because he possesses particular knowledge and experience both in the United States and globally, in supporting high-growth consumer businesses.

Scott Dahnke has served as a member of our board of directors since June 2008. Mr. Dahnke has served as a Managing Partner of Catterton Partners, a private equity firm, since February 2003. Mr. Dahnke has a broad range of business experience in private equity, consulting, management and finance. During 2002, he was a Managing Director at Deutsche Bank Capital Partners, a private equity firm, and from 1998 to 2002, he was a Managing Director at AEA Investors, a private equity firm, where he led its consumer products investing efforts. From 1997 to 1998, Mr. Dahnke was the Chief Executive Officer of infoUSA (now infogroup), a provider of business and consumer marketing products and services. Prior to joining infoUSA, Mr. Dahnke served clients on an array of strategic and operational issues as a Partner at McKinsey & Company. His early career also included experience in the Merger Department of Goldman, Sachs & Co. and with General Motors. Mr. Dahnke was selected to our board of directors because of his broad consumer marketing and direct marketing experience, his financial experience as a private equity investor and his service on the boards of directors of a range of other consumer companies.

Mark Demilio has served as a member of our board of directors since September 2009. Mr. Demilio has been a member of the board of directors of Cosi, Inc., a publicly traded national restaurant chain, since April 2004. He served as Chairman of the board of directors of Cosi from March 2010 to December 2011 and served as interim Chief Executive Officer of Cosi from September 2011 to December 2011. From April 2004 until he was named Chairman of the board of directors of Cosi, Mr. Demilio served as Chairman of the company’s audit committee. From December 2000 until his retirement in October 2008, Mr. Demilio served as the Chief Financial Officer of Magellan Health Services, Inc., a publicly traded managed specialty healthcare company that manages the delivery of behavioral healthcare treatment services, specialty pharmaceuticals and radiology services. Mr. Demilio has also been the Chief Financial Officer of Youth Services International, Inc., a financial analyst for CareFirst BlueCross BlueShield of Maryland and a certified public accountant with Arthur Andersen LLP. He was a principal officer of Magellan Health Services, Inc. and 88 of its affiliates, which commenced a case on March 11, 2003, under Chapter 11 of Title 11 of the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the

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Southern District of New York. These companies emerged from Chapter 11 on January 5, 2004. Mr. Demilio was selected to our board of directors because he possesses particular knowledge and experience in accounting, finance and capital structure, strategic planning and leadership of complex organizations and board practices of other major corporations.

William Forrest was first appointed to our board of directors in June 2008. Since November 2007, he has been the Founder and Managing Partner of Tower Three Partners, LLC, a private equity firm. He served as the Non-Executive Chairman of Cosi, Inc., a publicly traded national restaurant chain, from December 2006 through November 2007. He served as the Executive Chairman of Cosi from May 2003 until December 2006. Prior to joining Cosi, Mr. Forrest was a Managing Director leading the restructuring group and serving on the management committee at Gleacher & Co., an investment bank, from 2001 until 2004. Throughout his career, he has served in executive management, investment banking and investor roles with organizations in a variety of industries including healthcare, manufacturing and food services. Mr. Forrest was selected to our board of directors because he possesses particular knowledge and experience in accounting, finance and capital structure, strategic planning and leadership of complex organizations, retail businesses and board practices of other major corporations.

Glenn Krevlin has served as one of our directors since March 2001. Since 2001, Mr. Krevlin has been Principal and Portfolio Manager of Glenhill Capital, a New York based investment manager he founded in 2001. Glenhill Capital manages assets for Glenhill Capital LP, a Delaware limited partnership, Glenhill Capital Overseas Master Fund, LP, a Cayman Islands exempted limited partnership and Glenhill Concentrated Long Master Fund, LLC, a Delaware limited liability company. Mr. Krevlin is the Managing Member and Director of the General Partner for each of the Glenhill Funds. From August 2009 to the present, Mr. Krevlin has served as Chairman of the board of directors of Design Within Reach, Inc., a publicly traded specialty retailer of products for the home. Mr. Krevlin was selected to our board of directors because he possesses particular knowledge and experience in accounting, finance, capital structure, strategic planning, retail businesses and investment.

Marc Magliacano was first appointed to our board of directors in June 2008. Mr. Magliacano has been a senior investment professional at Catterton Partners, a private equity firm, since May 2006 and has served as Partner since August 2010. Prior to joining Catterton Partners, from 1999 to 2006, Mr. Magliacano was a Principal at North Castle Partners, a private equity firm focused on making consumer investments that benefit from healthy living and aging trends. While at North Castle, he originated and executed investments in the consumer health and wellness sectors. Prior to joining North Castle, Mr. Magliacano worked at NMS Capital, the merchant bank of NationsBanc Montgomery Securities, making growth investments in early stage consumer and retail businesses. As a result of these and other professional experiences, Mr. Magliacano was selected to our board of directors because of his experience in successfully developing strategies for growing branded consumer businesses.

Frederick Wilson has served as a member of our board of directors since June 2009. Mr. Wilson has been President and Chief Executive Officer of Saks Fifth Avenue Enterprises (SFAE) from December 2003 to February 2006 and was named Chairman and Chief Executive Officer of SFAE in March 2004. Mr. Wilson is responsible for leading SFAE's Saks Fifth Avenue luxury department stores, Off 5th outlet stores and saks.com. Mr. Wilson served as Chairman, President and Chief Executive Officer of the Donna Karan Company, a division of Louis Vuitton Moet Hennessy (LVMH), from February 2002 to November 2003, as well as Chairman and Chief Executive Officer of Eluxury.com, the LVMH e-tailing arm based in San Francisco, from February 2002 to November 2003. Mr. Wilson held the posts of Chief Executive Officer for the LVMH Fashion Group for the Americas from February 2000 to February 2002 and Chief Executive Officer for the LVMH Speciality Store Retail division from February 1997 to February 2000. Prior to joining LVMH, he spent 17 years with Duty Free Stores, serving as President and Chief Merchant of that company. As a result of these and other professional experiences, Mr. Wilson was selected to our board of directors because he possesses particular knowledge and experience in retail business, branded consumer goods, accounting, finance and capital structure, strategic planning and leadership of complex organizations and board practices of other major corporations.

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Selection Arrangements

Upon completion of this offering Home Holdings will continue to control a majority of the voting power of our common stock and as a result, we expect that Home Holdings will control the election of our directors.

Corporate Governance

Composition of our Board of Directors

Initially, our board of directors will consist of _____ directors, including our Co-Chief Executive Officers. Our certificate of incorporation, as will be in effect prior to the completion of this offering, will provide that, subject to any rights applicable to any then outstanding preferred stock and the terms of our stockholders agreement, our board of directors shall consist of such number of directors as determined from time to time by resolution adopted by a majority of the total number of authorized directors whether or not there exists any vacancies in previously authorized directorships. Subject to any rights applicable to any then-outstanding preferred stock and the terms of the stockholders agreement, any additional directorships resulting from an increase in the number of directors may only be filled by the directors then in office unless otherwise required by law or by a resolution passed by our board of directors. The term of office for each director will be until his or her successor is elected at our annual meeting or his or her death, resignation or removal, whichever is earliest to occur.

Our board of directors will be divided into three classes, with each director serving a three-year term, and one class being elected at each year's annual meeting of stockholders. _____, _____ and _____ will serve as Class I directors with an initial term expiring in 2013. _____, _____ and _____ will serve as Class II directors with an initial term expiring in 2014. _____, _____ and _____ will serve as Class III directors with an initial term expiring in 2015. Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the total number of directors.

Upon completion of this offering, Home Holdings will continue to control a majority of the voting power of our outstanding common stock. As a result, we will be a "controlled company" under the NYSE corporate governance standards. As a controlled company, exemptions under the NYSE standards will mean that we are not required to comply with certain corporate governance requirements, including the requirements:

- that a majority of our board of directors consists of "independent directors," as defined under the rules of the NYSE;
- that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- that we conduct an annual performance evaluation of the nominating and governance committee and compensation committee.

These exemptions do not modify the independence requirements for our audit committee, and we intend to comply with the applicable requirements of the Sarbanes-Oxley Act and rules with respect to our audit committee within the applicable time frame.

Director Independence

In _____, 2012, our board of directors undertook a review of the independence of our directors and considered whether any director has a material relationship with us that could compromise that director's ability to exercise independent judgment in carrying out that director's responsibilities. Our board of directors has affirmatively determined that _____, _____ and _____ are each an "independent director," as defined under the rules of the NYSE.

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Director Voting

Our certificate of incorporation and stockholders agreement will provide that no action may be taken or vote approved by our board of directors or any committee thereof (other than the audit committee or any other committee of directors that may be created with the approval of Home Holdings) without the affirmative vote of both directors nominated by Home Holdings. Accordingly, Home Holdings will be able to control the decisions by our board of directors and its committees, other than the audit committee or any such other committee whose creation is approved by Home Holdings. Home Holdings will cease to have these veto rights when it ceases to own at least shares of our Class A common stock and in certain other circumstances.

Board Leadership Structure

Upon completion of this offering, our board of directors will have four standing committees: the audit committee, the compensation committee, the nominating and corporate governance committee and the stock option committee. Each of these committees reports to our board of directors as it deems appropriate and as our board of directors may request.

With respect to the roles of Chairman of the Board and Chief Executive Officer, our Corporate Governance Guidelines, as will be in effect prior to the completion of this offering, will provide that the roles may be separated or combined, and our board of directors exercises its discretion in combining or separating these positions as it deems appropriate in light of prevailing circumstances. Our board of directors believes that the combination or separation of these positions should continue to be considered as part of our succession planning process. Currently the roles are combined, with Mr. Friedman serving as Chairman and Co-Chief Executive Officer. Our Corporate Governance Guidelines will provide the flexibility for our board of directors to modify our leadership structure in the future as appropriate. We believe that Restoration Hardware, like many United States companies, is well served by this flexible leadership structure.

Board Committees

Our board of directors currently has an audit committee and a compensation committee. Prior to the completion of this offering, our board of directors will establish a new audit committee and a new compensation committee, which will replace our current committees, and our board of directors will establish a nominating and corporate governance committee and a stock option committee. In the future, our board of directors may establish other committees, as it deems appropriate, to assist it with its responsibilities. The composition, duties and responsibilities of our committees is as set forth below.

Audit Committee

The audit committee will be responsible for, among other matters: (1) appointing, compensating, retaining, evaluating, terminating and overseeing our independent registered public accounting firm; (2) discussing with our independent registered public accounting firm the independence of its members from its management; (3) reviewing with our independent registered public accounting firm the scope and results of their audit; (4) approving all audit and permissible non-audit services to be performed by our independent registered public accounting firm; (5) overseeing the financial reporting process and discussing with management and our independent registered public accounting firm the interim and annual financial statements that we file with the Securities and Exchange Commission; (6) reviewing and monitoring our accounting principles, accounting policies, financial and accounting controls and compliance with legal and regulatory requirements; (7) establishing procedures for the confidential anonymous submission of concerns regarding questionable accounting, internal controls or auditing matters; and (8) reviewing and approving related-person transactions.

Upon completion of this offering, our audit committee will consist of and . Rule 10A-3 of the Exchange Act and rules require us to have one independent audit committee member upon the listing of our Class A common stock on the NYSE, a majority of independent directors within 90 days of the date of this

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prospectus and all independent audit committee members within one year of the date of this prospectus. Our board of directors has affirmatively determined that meets the definition of “independent director” for purposes of serving on an audit committee under Rule 10A-3 and NYSE rules, and we intend to comply with the other independence requirements within the time periods specified. In addition, our board of directors has determined that will qualify as an “audit committee financial expert,” as such term is defined in Item 407(d)(5) of Regulation S-K. Our board of directors will adopt a new written charter for the audit committee, which will be available on our principal corporate website at www.restorationhardware.com prior to the completion of this offering.

Compensation Committee

The compensation committee will be responsible for, among other matters: (1) reviewing key employee compensation goals, policies, plans and programs; (2) reviewing and approving the compensation of our directors, Co-Chief Executive Officers and other executive officers; (3) reviewing and approving employment agreements and other similar arrangements between us and our executive officers; and (4) appointing and overseeing any compensation consultants.

Upon completion of this offering, our compensation committee will consist of and . As a controlled company, we will rely upon the exemption from the requirement that we have a separate compensation committee composed entirely of independent directors. Our board of directors will adopt a new written charter for the compensation committee, which will be available on our principal corporate website at www.restorationhardware.com prior to the completion of this offering.

Nominating and Corporate Governance Committee

The nominating and corporate governance committee will be responsible for, among other matters: (1) identifying individuals qualified to become members of our board of directors, consistent with criteria approved by our board of directors; (2) overseeing the organization of our board of directors to discharge the board’s duties and responsibilities properly and efficiently; (3) recommending corporate governance principles; and (4) developing and recommending to our board of directors a set of corporate governance guidelines and principles.

Upon completion of this offering, our nominating and corporate governance committee will consist of and . As a controlled company, we will rely upon the exemption from the requirement that we have a separate nominating and corporate governance committee composed entirely of independent directors. Our board of directors will adopt a new written charter for the nominating and corporate governance committee, which will be available on our principal corporate website at www.restorationhardware.com prior to the completion of this offering.

Stock Option Committee

The stock option committee has the authority to grant all awards under the 2012 Plan. Upon completion of this offering, our compensation committee will consist of and . Each member of the stock option committee is a “non-employee director” as defined in Rule 16b-3 under the Exchange Act and is an “outside director” as defined in Section 162(m) of the Code.

Risk Oversight

Our board of directors is responsible for overseeing our risk management process. Our board of directors focuses on our general risk management strategy, the most significant risks facing us, and oversees the implementation of risk mitigation strategies by management. Our board of directors is also apprised of particular risk management matters in connection with its general oversight and approval of corporate matters and significant transactions.

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Risk Considerations in Our Compensation Program

We conducted an assessment of our compensation policies and practices for our employees and concluded that these policies and practices are not reasonably likely to have a material adverse effect on our Company.

Director Compensation

None of our directors serving on Home Holdings' board of managers received compensation as a manager during fiscal 2011, other than Fred Wilson and Mark Demilio, who each were paid an annual retainer of \$150,000. Our board of directors has affirmatively determined that Mr. Wilson and Mr. Demilio are each an "independent director," as defined under the rules of the NYSE.

Our board of directors intends to adopt a compensation policy that, effective upon the completion of this offering, will be applicable to all of our non-employee directors. All directors receive reimbursement for reasonable out-of-pocket expenses incurred in connection with meetings of our board of directors.

Compensation Committee Interlocks and Insider Participation

For fiscal 2011, the members of the compensation committee of our board of directors were Mr. Chu and Mr. Forrest. Neither Mr. Chu nor Mr. Forrest is an officer or employee, or former officer or employee, of us or any of our subsidiaries. Mr. Chu is a managing partner of Catterton, and Mr. Forrest is the managing partner of Tower Three. Catterton and Tower Three are two of our Principal Equity Holders, and certain of their respective affiliates provide advisory and consulting services to us. See "Certain Relationships and Related Transactions—2008 Acquisition-Related Agreements—Management Services Agreement."

No interlocking relationships exist between the members of our board of directors or compensation committee and the board of directors or compensation committee of any other company.

Code of Ethics

We have adopted a code of business conduct and ethics applicable to our principal executive, financial and accounting officers and all persons performing similar functions. A copy of that code will be available on our principal corporate website at www.restorationhardware.com prior to completion of this offering. We expect that any amendments to the code, or any waivers of its requirements, will be disclosed on our website or as required by applicable law or NYSE listing requirements.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Introduction

The following discussion and analysis of compensation arrangements of our named executive officers identified below for fiscal 2011 should be read together with the compensation tables and related disclosures set forth below.

We refer to the following individuals as our “named executive officers” for fiscal 2011:

- Gary Friedman, Chairman and Co-Chief Executive Officer
- Carlos Alberini, Co-Chief Executive Officer
- Ken Dunaj, Chief Operating Officer
- Chris Newman, Former Chief Financial Officer
- James Stewart, Former Senior Vice President, Finance and Principal Accounting Officer

Our board of directors has established a compensation committee, which has been comprised of Mr. Chu and Mr. Forrest since July 2008. The compensation committee is responsible for the oversight, implementation and administration of all of our executive compensation plans and programs. The compensation committee determined all of the components of compensation for our Co-Chief Executive Officers for fiscal 2011 and, in consultation with our Co-Chief Executive Officers, the compensation committee determined the compensation of the other named executive officers for fiscal 2011.

Upon completion of this offering, our compensation committee will be comprised of _____ and _____. We expect that our compensation committee will undertake additional review of our existing compensation programs, objectives and philosophy and determine the extent to which such programs, objectives and philosophy should be modified given that we will have become a public company.

Overview of Compensation Program and Philosophy

Our compensation program is intended to support the achievement of our annual and long-term strategic goals by attracting and rewarding employees for superior results. Such a program aligns our named executive officers’ interests with those of the equity holders by rewarding performance that reaches or exceeds established goals, with the ultimate objective of improving company value.

To that end, we evaluate both performance and compensation of our named executive officers to ensure that our Company maintains its ability to attract and retain senior management.

This compensation philosophy guides the compensation committee in assessing the compensation to be paid to our named executive officers. The compensation committee endeavors to ensure that the total compensation paid to named executive officers is fair, reasonable and competitive, consistent with our compensation philosophy. This compensation philosophy also guides the compensation committee as to the proper allocation among long-term compensation, current cash compensation and short-term bonus compensation.

In determining the particular elements of compensation, the compensation committee takes into consideration a number of factors related to our performance, such as our Adjusted EBITDA and revenue growth, as well as competitive practices among peer companies. Although the compensation committee has not historically “benchmarked” our named executive officer compensation levels against a peer group, the compensation committee did benchmark the compensation of our named executive officers against a peer group in fiscal 2011, as described below under “—Compensation Committee Review of Compensation.” In the future, we anticipate that we will rely more upon competitive analyses with respect to executive compensation decisions.

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Role of Co-Chief Executive Officers in Compensation Decisions

With regard to the compensation paid to each named executive officer other than our Co-Chief Executive Officers, our Co-Chief Executive Officers review, on an annual basis, the compensation paid to each such named executive officer during the past year and submit to the compensation committee their recommendations regarding the compensation to be paid to such persons during the next year. Following a review of such recommendations, the compensation committee takes such action regarding such compensation as it deems appropriate, including either approving compensation in an amount the compensation committee deems reasonable or submitting to the board of directors for ratification its recommendation regarding the compensation to be paid to such named executive officers. Our Co-Chief Executive Officers have played a significant role in the compensation-setting process for the other named executive officers by:

- evaluating executive performance;
- recommending business performance targets and establishing objectives; and
- recommending salary levels, bonuses and stock awards.

Executive Compensation Components

For the fiscal year ended January 28, 2012, the principal components of compensation for the named executive officers were:

- base salary;
- performance-based annual cash incentives;
- long-term equity incentive compensation; and
- perquisites and other personal benefits.

Base Salary

We provide our named executive officers with base salary to compensate them for services rendered during the fiscal year. In setting base salaries, the compensation committee periodically reviews broad-based third-party survey data for the industry as an informal “market check” for salary levels. The base salary for each of the named executive officers is guided by the salary levels for comparable positions in the industry, as well as such individual’s personal performance, responsibilities and internal alignment considerations. The relative weight given to each factor is not specifically quantified and varies with each individual at the compensation committee’s discretion.

Each named executive officer’s base salary is typically reviewed annually and is adjusted from time to time on the basis of (i) the compensation committee’s evaluation of the executive officer’s personal performance for the year, (ii) the recommendations of our Co-Chief Executive Officers (other than with respect to the base salary of either Co-Chief Executive Officer), and (iii) the competitive marketplace for executives in comparable positions.

The performance and profitability of our Company also may be a factor in determining the base salaries for the named executive officers, as well as increases in the base salaries for the executive officers. In addition, increases in base salaries for an executive officer have been approved in the past by the compensation committee as a result of an individual’s performance or increases in the executive officer’s responsibilities. Further, in certain cases the compensation committee has approved, as part of an executive officer’s initial employment arrangement with us, a pre-determined increase in the executive officer’s base salary in a later year. Pursuant to the terms of the amended and restated employment agreement we have with Mr. Friedman, we increased his base salary from \$900,000 to \$1 million effective as of February 1, 2011, because our twelve-month trailing EBITDA (as such metric was determined in good faith by the board of directors in accordance with the amended and restated employment agreement) exceeded \$37 million as of January 29, 2011. We tied this salary increase to our

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EBITDA results to align Mr. Friedman's incentives with our Company's overall corporate goals. We increased Mr. Alberini's salary from \$800,000 to \$1 million effective as of July 1, 2011 based on the findings of our compensation consultant and the compensation committee's determination that cash compensation for Mr. Alberini should be above the median due to his individual contributions to our Company.

Performance-Based Annual Cash Incentives

We have adopted a Management Incentive Plan, or "MIP," which is a cash based-incentive compensation program designed to motivate and reward annual performance for eligible employees, including our named executive officers. The compensation committee considers at the beginning of each year whether MIP bonus targets should be established for the year and, if so, approves the group of employees eligible to participate in the MIP for that year. The MIP includes various incentive levels based on the participant's position. Cash bonuses under the MIP have the effect of linking a significant portion of the named executive officers' total cash compensation to our overall performance.

The named executive officers are eligible to receive an annual cash bonus based on a percentage of annual base salary under the MIP. The compensation committee sets minimum achievement levels and target achievement levels for our financial objectives each year and the payment and amount of any bonus is dependent upon whether we achieve those performance goals. The compensation committee generally establishes financial objectives for our Company that it believes can be reasonably achieved with strong individual performance over the fiscal year.

Generally, the compensation committee sets the minimum levels and target levels based upon our achievement of specified company results with respect to Adjusted EBITDA (which is calculated as described further under the heading "Summary Historical and Consolidated Financial and Operating Data" set forth herein), subject to the compensation committee's oversight and modification of those levels. Minimum levels are set below the target level. In making the determination of minimum levels and target levels, the compensation committee may consider the specific circumstances facing our Company during the year and our strategic plan for the year.

The MIP bonus for our named executive officers is based on the achievement of corporate goals, rather than individual performance, in order to focus the entire senior management team on the attainment of such corporate goals.

For fiscal 2011, the bonus amount at the minimum achievement level under the MIP for Mr. Friedman and Mr. Alberini was 20% of annual base salary, and the bonus amount at the target achievement level under the MIP for Mr. Friedman and Mr. Alberini was 100% of annual salary. For our other named executive officers, the bonus amount at the minimum achievement level under the MIP was 10% of annual base salary, and the bonus amount at the target achievement level under the MIP was 50% of annual salary.

The exact amount of the bonus payable under the MIP is based on a sliding scale with respect to the level of achievement of our Adjusted EBITDA. For fiscal 2011, an Adjusted EBITDA of \$68.8 million equaled the 20% minimum achievement level, and an Adjusted EBITDA of \$77.0 million equaled the 100% target achievement level. No bonuses would be paid under the MIP for fiscal 2011 unless we met the threshold of at least a 20% achievement level with respect to our Adjusted EBITDA (or \$68.8 million of Adjusted EBITDA). At the 20% achievement level, Mr. Friedman and Mr. Alberini would have received a bonus equal to 20% of their annual base salary, and the other named executive officers would have received a bonus equal to 10% of their annual base salary. The target Adjusted EBITDA amount under the MIP was the 100% achievement level (or \$77.0 million of Adjusted EBITDA). At the 100% achievement level, Mr. Friedman and Mr. Alberini would have received a bonus equal to 100% of their annual base salary, and the other named executive officers would have received a bonus equal to 50% of their annual base salary. At the 120% achievement level of Adjusted EBITDA of \$79.8 million, Mr. Friedman and Mr. Alberini would have received a bonus equal to 120% of their annual base salary, and Mr. Dunaj would have received a bonus equal to 60% of his annual base salary. The table entitled

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“Grants of Plan-Based Awards” in this prospectus sets forth the estimated range of cash payouts to named executive officers under the MIP assuming threshold and target performance objectives were met for fiscal 2011.

Our actual Adjusted EBITDA for fiscal 2011 was \$80.2 million. Under the terms of the MIP, this equated to a payout of 126% of the target payout amount. We have made the following payments to each of the following named executive officers in April 2012 under the MIP for fiscal 2011 performance:

Name	2011 MIP Bonus Award
Gary Friedman	\$ 1,249,519
Carlos Alberini	\$ 1,145,195
Ken Dunaj	\$ 337,050

Mr. Newman and Mr. Stewart did not receive bonuses under the MIP for fiscal 2011 because neither was employed by the Company following the end of fiscal year 2011.

The compensation committee retains wide discretion to interpret the terms of the MIP and to interpret and determine whether our Adjusted EBITDA objectives have been met in any particular fiscal year. The compensation committee also retains the right to exclude extraordinary charges or other special circumstances in determining whether our Adjusted EBITDA objectives were met during any particular fiscal year, although no such exclusions or adjustments were made to Adjusted EBITDA under the MIP for fiscal 2011. The compensation committee exercises such discretion based on its business judgment and the experience and familiarity of its members with both recurring and extraordinary factors affecting performance of companies in our industry of a similar scale to ours. Accordingly, for purposes of determining whether certain MIP goals have been met, the compensation committee may determine to exclude from the Adjusted EBITDA calculation isolated items that the compensation committee does not believe are indicative of future Company performance or other items that the compensation committee does not believe should impact the amount of the bonuses paid to employees under the MIP. The compensation committee may consult with our board of directors or seek ratification from our board of directors with respect to interpretations of the terms of the MIP.

In addition, cash bonuses awarded to executive officers outside of the MIP may also be approved by the compensation committee on a discretionary basis for other reasons, such as individual performance. For fiscal 2011, the compensation committee did not approve any discretionary cash bonuses.

The compensation committee has not yet finalized the MIP bonus ranges for our named executive officers for fiscal 2012, however we anticipate the fiscal 2012 MIP bonus ranges to be consistent with those for fiscal 2011.

Long-Term Equity Incentive Compensation

We believe that providing long-term incentives as a component of compensation helps us to attract and retain our named executive officers. These incentives also align the financial rewards paid to our named executive officers with our long-term performance, thereby encouraging our named executive officers to focus on our long-term goals.

Summary of Our Current Plan. In early 2009, Home Holdings implemented the 2008 Team Resto Ownership Plan, or “Team Resto Ownership Plan,” to provide certain of our employees, including the named executive officers, the opportunity to participate in the equity appreciation of our business. The compensation committee of Home Holdings generally administered and made awards under the Team Resto Ownership Plan, although the board of managers of Home Holdings, in certain cases, approved awards under the Team Resto Ownership Plan. The composition of the compensation committee of Home Holdings is identical to the composition of the Restoration Hardware, Inc. compensation committee prior to our initial public offering. Through , 2012, units were issued and outstanding under the Team Resto Ownership Plan.

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Participants in the Team Resto Ownership Plan were granted Class B units, Class B-1 units or Class B Prime units that represented membership interests in Home Holdings, which prior to this offering owned 100% of our equity interests. Holders of such units generally were entitled to receive a percentage of distributions made by Home Holdings after the initial investors in Home Holdings, including Catterton and Tower Three, received distributions equal to their invested capital.

The size of an award under the Team Resto Ownership Plan for named executive officers was set at a level that is intended to create a meaningful opportunity for growth in equity value based upon an individual's position with Restoration Hardware, Inc. and his or her potential to advance our long-term success. In general, the number and types of units awarded under the Team Resto Ownership Plan to our named executive officers were determined at the discretion of the compensation committee of Home Holdings, in consultation with our Co-Chief Executive Officers in 2010 in the case of the named executive officers other than our Co-Chief Executive Officers. The compensation committee considers the size and type of the award to a named executive officer based on his or her experience and skills, the amount of his or her total compensation and his or her position with us. No formal benchmarking or similar efforts were made by the board of managers or the compensation committee of Home Holdings with respect to the determination of the number, types of units and terms of awards to our named executive officers. The level of equity provided to our Co-Chief Executive Officers was the result of a negotiation of overall terms of employment for each of our Co-Chief Executive Officers.

Awards under the Team Resto Ownership Plan were made up of the following types of units: (1) time-based units with units vesting in annual installments over a specified period; (2) performance-based units with vesting based on a return on equity investment to our investors of between two times and three times such investment, with the exact range varying by individual award (the "2X—3X Performance-based Units"); (3) performance-based units with vesting based on a return on equity investment to our investors between three times and five times such investment, with the exact range varying by individual award (the "3X—5X Performance-based Units"); and (4) performance-based units with vesting tied to specific metrics relating to a return on equity investment amount to our investors or other performance objectives as specified in the individual award.

Time-based units were intended to act as retention mechanisms for named executive officers and generally vested over a period of five years, with 15% of the units vesting on the first anniversary; 15% of the units vesting on the second anniversary; 20% of the units vesting on the third anniversary; 25% of the units vesting on the fourth anniversary; and the remaining 25% of the units vesting on the fifth and final anniversary.

All named executive officers, other than Mr. Stewart, were awarded 2X—3X Performance-based Units. In addition, in the case of our Co-Chief Executive Officers and our Chief Operating Officer, 3X—5X Performance-based Units were awarded as stretch goals.

Under the terms of the Team Resto Ownership Plan, 2X—3X Performance-based Units vest to the extent cumulative return on equity investment was greater than two times and up to and including three times the original invested capital amount, with proportional vesting in between. At a return on equity investment equal to three times the original invested capital amount, 100% of the 2X—3X Performance-based Units vest. In the case of 3X—5X Performance-based Units, these performance-based units vest to the extent cumulative return on equity investment is greater than three and, in the case of our Co-Chief Executive Officers and our Chief Operating Officer, up to and including five times the original invested capital amount, with proportional vesting in between. In the case of these 3X—5X Performance-based Units, 100% of the units vest at cumulative return on equity investment equal to five times the original invested capital amount. Performance-based units that do not so vest will be cancelled for no consideration.

Under the Team Resto Ownership Plan, vesting of performance-based units will occur upon the consummation of this offering (except in the case of certain of the performance-based units granted to each of our Co-Chief Executive Officers, as discussed below), and return on equity investment will be calculated based

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upon a return on investment to our investors assuming that our investors had sold all of their equity in this offering at the initial public offering price.

In the case of performance-based units awarded under the Team Resto Ownership Plan to each of our Co-Chief Executive Officers, upon the consummation of this offering, such units vest as follows: for a period of 36 months after the offering, each of our Co-Chief Executive Officers may elect, in such officer's discretion during such 36-month period after the offering, vesting of such performance-based units in whole or in part upon the cumulative return on equity investment to our investors based upon the price at which our Class A common stock trades in the market after this offering. In determining the return on equity investment as of a particular date selected by a Co-Chief Executive Officer as a vesting date for certain of such performance-based units during the 36-month period after the date of this offering, our investors shall be deemed to have received cash in exchange for the full amount of their original equity investment in an amount equal to (i) the closing price of our equity as reported on the exchange on which it is traded averaged over the 20 trading days preceding the applicable selected date, plus (ii) the aggregate amount of any distributions paid to such investors and their respective affiliates prior to such selected date plus certain of the fees paid to such investors.

The units granted under the Team Resto Ownership Plan were named Class B units, other than the units granted to our Co-Chief Executive Officers which were named Class B-1 units and Class B Prime units that are held by our Chief Operating Officer. We also granted Mr. Alberini one Class B-2 unit, as described further below.

Under the Team Resto Ownership Plan, Mr. Friedman had been awarded, in fiscal 2009, a total of 7,183,441 units, of which 3,380,443 units are time-based units and the remainder are performance-based units. Under the Team Resto Ownership Plan, Mr. Alberini had been awarded upon his hiring in June 2010, a total of 4,225,554 units, of which 2,112,777 units are time-based units and the remainder are performance-based units. See the "Grants of Plan-Based Awards" table below for information on the number of units granted to the named executive officers under the Team Resto Ownership Plan.

In connection with the grants made to Carlos Alberini under the Team Resto Ownership Plan, we also granted Mr. Alberini one Class B-2 unit outside the Team Resto Ownership Plan which represents the right to receive upon the occurrence of certain transactions constituting a sale of our Company a one-time payment (the "Contingent Payment") equal to the amount, if any, by which \$15,000,000 exceeds the cumulative equity value received with respect to Mr. Alberini's Class B-1 units up to and including the transaction involving a sale of our Company. If such cumulative equity value of the Class B-1 units exceeds \$15,000,000, then no Contingent Payment is payable to Mr. Alberini. Cumulative "equity value" is the value of all cash, property and securities that have been distributed or paid in respect of the Class B-1 units up to and including the transaction involving a sale of our Company.

The right to receive the Contingent Payment is subject to certain exceptions and requirements as detailed in Mr. Alberini's grant letter. However, the termination of Mr. Alberini's employment (i) by us not for cause, as defined in the grant letter (and other than in the case of his death or disability), or (ii) by Mr. Alberini with good reason, as defined in the grant letter, shall not prevent Mr. Alberini from receiving the Contingent Payment upon the later occurrence of a transaction involving a sale of our Company.

Conversion of Units in Connection with Offering In connection with this offering, we have implemented the Restoration Hardware 2012 Equity Replacement Plan, which we refer to as the Replacement Plan, and outstanding units under the Team Resto Ownership Plan will be converted into restricted Class A or Class B common stock, as applicable, in the case of unvested units and shares of Class A or Class B common stock, as applicable, in the case of vested units, in each case under the Replacement Plan and based upon the valuation of our Company in connection with this offering. All units granted to Mr. Friedman and Mr. Alberini will convert into shares of Class B common stock. All other units will convert into shares of Class A common stock. See "Prospectus Summary—Reorganization."

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This offering is treated as an event under the Team Resto Ownership Plan that triggers vesting of performance-based units issued under the plan (other than certain of the performance-based units granted to each of our Co-Chief Executive Officers, as discussed below) based upon the price at which our stock is sold in the initial public offering. In addition, consistent with the terms of the Team Resto Ownership Plan, units will be converted in connection with this offering into shares of vested Class A or Class B common stock, as applicable, or restricted Class A or Class B common stock, as applicable, under the Replacement Plan. Time-based units under the Team Resto Ownership Plan will continue to vest under the Replacement Plan as restricted Class A or Class B common stock awards, as applicable, on the same time vesting schedule applicable to the unit awards that they replaced. Time-based units that have already vested and performance-based units that vest as a result of the initial public offering will be converted into vested shares of Class A or Class B common stock, as applicable, under the Replacement Plan. Shares of vested Class A or Class B common stock, as applicable, and additional restricted Class A or Class B common stock, as applicable, that vest at a future date will still be subject to other restrictions on transfer as set forth in the Replacement Plan.

In the case of the performance-based units granted to each of our Co-Chief Executive Officers, upon the consummation of this offering, such units will be converted into restricted Class B common stock under the Replacement Plan and will remain unvested subject to the following vesting conditions: for a period of 36 months after the offering, each of our Co-Chief Executive Officers may elect, in such officer's discretion during such 36-month period after the offering, vesting of such performance-based units in whole or in part upon the cumulative return on equity investment to our investors based upon the price at which our Class A common stock trades in the market after this offering.

The aggregate outstanding units under the Team Resto Ownership Plan will be converted into shares of restricted Class A and Class B common stock, as applicable, and vested shares of Class A and Class B common stock, as applicable, under the Replacement Plan based upon the valuation of our Company in this offering. See "Prospectus Summary—Reorganization" and "Certain Relationships and Related Party Transactions."

Restoration Hardware 2012 Stock Incentive Plan. In connection with this offering, we have implemented the Restoration Hardware 2012 Stock Incentive Plan, or 2012 Plan, pursuant to which a total of _____ shares of our Class A common stock will be reserved for issuance. The 2012 Plan will provide for grants of stock options, stock appreciation rights, restricted stock and other stock-based awards. Independent directors, officers and other employees of our Company and our subsidiaries, as well as others performing consulting or advisory services for us, will be eligible for grants under the 2012 Plan. A summary of the material terms of the 2012 Plan is set forth below under the heading "Employee Benefit and Stock Plans—2012 Stock Incentive Plan."

Other Equity Issuances. Our Co-Chief Executive Officers also have purchased certain units of Home Holdings. In particular, Mr. Friedman has purchased (i) 1,118,064 units, with each such unit consisting of both one Class A-1 unit and one Class A-2 unit at a price of \$4.50 for each pair of units, and (ii) 215,269 Class A units at a price of \$4.50 per unit, for an aggregate purchase price of \$6,000,000. Mr. Friedman purchased such units through loans from Home Holdings, which loans were repaid in their entirety on September 8, 2011 through the reclassification by Home Holdings of Mr. Friedman's Class A units and Class A-1 units into an equal number of Class A Prime units and Class A-1 Prime units, respectively. Please refer to "Certain Relationships and Related Party Transactions" below. In addition, Mr. Friedman also purchased 1,000,000 Class A units at the time of the acquisition of our Company on June 17, 2008 by means of a rollover transaction involving 1,000,000 shares of the common stock of Restoration Hardware, Inc. previously owned by Mr. Friedman at the time of the acquisition transaction.

Mr. Alberini purchased 888,889 units, with each unit consisting of both one Class A-1 unit and one Class A-2 unit at a price of \$4.50 for each pair of securities, for an aggregate purchase price of \$4,000,000. Mr. Alberini purchased the units through a loan from Home Holdings. The outstanding principal on the loan, together with accrued interest thereon, was repaid in full by Mr. Alberini on August 25, 2010. The Class A-1

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units and Class A-2 units sold to Mr. Alberini are subject to transfer and other restrictions, including vesting and certain repurchase rights as set forth in a restricted unit purchase agreement. See “Certain Relationships and Related Party Transactions—Loans to Certain Directors and Executive Officers.”

Mr. Alberini was also granted one Class B-2 unit outside the terms of the Team Resto Ownership Plan as described above.

401(k) Plan

We maintain a 401(k) retirement savings plan. Each participant who is a United States employee may contribute to the 401(k) plan, through payroll deductions, up to 50% of their salaries limited to the maximum allowed by the Internal Revenue Service regulations. All amounts contributed by employee participants and earnings on these contributions are fully vested at all times and are not taxable to participants until withdrawn. Employee participants may elect to invest their contributions in various established funds. We may make contributions to the accounts of plan participants.

Perquisites and Other Personal Benefits

We provide certain named executive officers with perquisites and other personal benefits that we and the compensation committee believe are reasonable and consistent with our overall compensation program to better enable us to attract and retain superior employees for key positions. The compensation committee periodically reviews the levels of perquisites and other personal benefits provided to the named executive officers.

Certain named executive officers are provided an automobile allowance. In addition, it has been our practice to provide key executive officers with relocation benefits in connection with their initial hiring by our Company. Mr. Alberini received a relocation allowance in connection with his hiring in 2010.

Severance Benefits

We have entered into agreements with certain key employees providing severance benefits in the event of termination, including certain of the named executive officers. These severance protection agreements are designed to promote stability and continuity of senior management. Information regarding applicable payments that would be payable under such agreements for the named executive officers is provided under the heading “Potential Payments Upon Termination and Change in Control” on page 123. In the event that any termination payments made to our Co-Chief Executive Officers are deemed under Section 280G of the U.S. Internal Revenue Code of 1986, as amended (the “Code”), to constitute excess parachute payments subject to an excise tax, we will gross up such payments to cover the excise tax and any additional taxes associated with such gross-up. See “Employment and Other Agreements” below.

Total Compensation

In making decisions with respect to any element of a named executive officer’s compensation, the compensation committee considers the total compensation that may be awarded to the officer, including salary, annual bonus and long-term equity incentive compensation. In addition, in reviewing and approving employment agreements for the named executive officers, the compensation committee considers the other benefits to which the officer is entitled by the agreement, including compensation payable upon termination of the agreement under a variety of circumstances. The compensation committee’s goal is to award compensation that is reasonable when all elements of potential compensation are considered.

Compensation Committee Review of Compensation

We expect that following this offering, the compensation committee will review compensation elements and amounts for named executive officers on an annual basis, at the time of a promotion or other change in level of responsibilities, as well as when competitive circumstances or business needs may require.

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In January 2011, the compensation committee retained the services of Steven Hall & Partners, a compensation consultant, in connection with the compensation committee's review of executive compensation at our Company. The compensation committee retained the compensation consultant to conduct a marketplace review of compensation levels for the senior executive team and to analyze the cash compensation structure of management below the senior executive team. The scope of the assignment was to review market competitiveness of cash compensation for members of the senior executive team benchmarked to comparator group proxy and industry survey data and to review the cash compensation structure for other executives benchmarked to industry survey data. The comparator group was developed based on companies with similar businesses, specifically retail companies in the specialty retail, home furnishings and Internet and catalog retail business, and taking into account the size in terms of revenue, net income and operating income. The comparator group included Abercrombie & Fitch Co., American Eagle Outfitters, Inc., Ann Inc., Ethan Allen Interiors Inc., Guess?, Inc., HSN, Inc., J. Crew Group, Inc., Jos A Bank Clothiers Inc., La-Z-Boy Incorporated, Leggett & Platt, Incorporated, lululemon athletica inc., Lumber Liquidators Holdings, Inc., Pier 1 Imports, Inc., rue21, inc., Saks Incorporated, The Buckle, Inc., Tiffany & Co., Urban Outfitters, Inc., Vera Bradley, Inc., Vitamin Shoppe, Inc. and Williams-Sonoma, Inc. Our compensation consultant's report delivered in 2011 indicated that our overall executive cash compensation (including base salary and total cash compensation) was at the median for our industry peers, and that Mr. Alberini's cash compensation was below the median for our industry. In response to these findings and the competition for talented executives in our industry, the compensation committee determined that the cash compensation for Mr. Alberini should be above the median indicated by the compensation consultant's report. Accordingly, the compensation committee approved an increase to the salary of Mr. Alberini as set forth under "—Base Salary," effective from and after July 1, 2011.

In making compensation decisions in the future with respect to our named executive officers, we expect that we will continue to use the services of a third-party compensation consultant to assist us with determining compensation levels for our named executive officers and we will gather information that includes a report of benchmark data for executive positions for similar companies, including summaries of base salary, annual cash incentive plan opportunities and awards and long-term incentive award values.

We expect that the Co-Chief Executive Officers will provide compensation recommendations to the compensation committee for executives other than themselves based on data described above and the other considerations mentioned in this Compensation Discussion and Analysis. We expect that the compensation committee will recommend a compensation package that is consistent with our compensation philosophy strategically positioned above the median of the peer group and competitive with other leading retail organizations. The compensation committee will then discuss these recommendations with the Co-Chief Executive Officers and may with respect to certain elements of our compensation programs make a recommendation to our board of directors, which our board of directors will consider and approve, if appropriate.

We expect that the compensation committee will consider input from our Co-Chief Executive Officers and our Chief Financial Officer when setting financial objectives for our incentive plans. We also expect that the compensation committee in determining compensation will consider input from our Co-Chief Executive Officers (for officers other than for themselves) regarding benchmarking and recommendations for base salary, annual incentive targets and other compensation awards. The compensation committee will likely give significant weight to our Co-Chief Executive Officers' judgment when assessing each of the other named executive officer's individual performance and determining appropriate compensation levels and incentive awards. The members of our board of directors (other than the Co-Chief Executive Officers), or the compensation committee, meeting in executive session, will determine the compensation of the Co-Chief Executive Officers, including their annual incentive targets.

Accounting and Tax Considerations

In determining which elements of compensation are to be paid, and how they are weighted, we also take into account whether a particular form of compensation will be deductible under Section 162(m) of the Code.

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Section 162(m) generally limits the deductibility of compensation paid to our named executive officers (other than the Chief Financial Officer) to \$1 million during any fiscal year unless such compensation is “performance-based” under Section 162(m). However, under a Section 162(m) transition rule for compensation plans or agreements of corporations which are privately held and which become publicly held in an initial public offering, compensation paid under a plan or agreement that existed prior to the initial public offering will not be subject to Section 162(m) until the earliest occurrence of any of the following: (1) the expiration of the plan or agreement; (2) a material modification of the plan or agreement; (3) the issuance of all employer stock and other compensation that has been allocated under the plan; or (4) the first meeting of stockholders at which directors are to be elected that occurs after the close of the third calendar year following the year of the initial public offering (the “Transition Date”). After the Transition Date, rights or awards granted under the plan, other than certain options and stock appreciation rights, will not qualify as “performance-based compensation” for purposes of Section 162(m) unless such rights or awards are granted or vest upon pre-established objective performance goals, the material terms of which are disclosed to and approved by our stockholders.

Our compensation program is intended to maximize the deductibility of the compensation paid to our named executive officers to the extent that we determine it is in our best interests. Consequently, we may rely on the exemption from Section 162(m) afforded to us by the transition rule described above for compensation paid pursuant to our pre-existing plans.

Stock Ownership Guidelines

We do not require that the named executive officers maintain a minimum ownership interest in our Company.

Compensation Tables

Summary Compensation Table

The following table shows the compensation earned by our named executive officers during fiscal 2011 and fiscal 2010.

Name and Principal Position	Fiscal Year	Salary	Bonus	Stock Awards (1)	Option Awards	Non-Equity Incentive Plan Compensation (2)	All Other Compensation (3)	Total
Gary Friedman	2011	\$995,769	—	—	—	\$ 1,249,519	\$ 11,400	\$2,256,688
<i>Chairman and Co-Chief Executive Officer</i>	2010	\$900,000	—	—	—	\$ 747,000	\$ 11,400	\$1,658,400
Carlos Alberini	2011	\$908,462	—	—	—	\$ 1,145,195	\$ 352,272	\$2,405,929
<i>Co-Chief Executive Officer</i>	2010	\$507,692	—	\$1,922,627	—	\$ 531,200(4)	\$ 250,406	\$3,211,925
Ken Dunaj	2011	\$535,000	—	—	—	\$ 337,050	\$ 6,000	\$ 878,050
<i>Chief Operating Officer</i>	2010	\$526,923	—	—	—	\$ 218,673	\$ 6,000	\$ 751,596
Chris Newman (5)	2011	\$272,115	—	—	—	—	\$ 579,923	\$ 852,038
<i>Former Chief Financial Officer</i>	2010	\$418,077	—	\$ 91,272	—	\$ 173,502	\$ 6,000	\$ 688,851
James Stewart (6)	2011	\$310,577	\$150,000(7)	\$ 504,000	—	—	\$ 4,375	\$ 968,952
<i>Former Senior Vice President, Finance and Principal Accounting Officer</i>								

- (1) Reflects the aggregate grant date fair value of the grants of performance-based Class B, Class B-1 and Class B-2 awards made to Mr. Alberini in fiscal 2010 and time-based Class B units made to Mr. Stewart in fiscal 2011, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 (“FASB ASC 718”). See Note 11—*Stock-Based Compensation* to Restoration Hardware, Inc.’s audited consolidated financial statements. Does not include grants of performance-based awards that have a grant date fair value of zero based on the probable outcome of the performance conditions as assessed on the grant date,

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- calculated in accordance with FASB ASC 718. With respect to Mr. Stewart’s performance-based awards in fiscal 2011, if the performance-based awards were valued based on the maximum outcome of performance-based conditions, then such awards would be valued on grant date as \$56,000.
- (2) Reflect the cash awards that our named executive officers received under our MIP for fiscal 2011 and fiscal 2010 performance, as applicable. The MIP is a cash based-incentive compensation program designed to motivate and reward annual performance for eligible employees, including our named executive officers. The MIP includes various incentive levels based on the participant’s position.
 - (3) Reflects perquisites to the named executive officers in the form of car allowances. For Mr. Alberini this amount also includes relocation benefits. For fiscal 2011, the relocation benefits provided to Mr. Alberini were in the aggregate amount of \$340,872, which includes \$120,000 as a housing stipend, \$198,247 in moving-related expenses and a tax adjustment “gross up” payment of \$22,625. For fiscal 2010, the relocation benefits were in the aggregate amount of \$243,756, which includes \$120,000 as a housing stipend, \$51,653 in moving-related expenses and a tax adjustment “gross up” payment of \$72,103. For Mr. Newman, this amount also includes salary continuation payments of \$576,923.
 - (4) Mr. Alberini’s employment with our Company commenced June 14, 2010, and his bonus amount for fiscal 2010 reflects a prorated portion equal to 80% of what he would have earned had he been employed with us for all of fiscal 2010.
 - (5) Mr. Newman left our Company effective as of July 31, 2011
 - (6) Mr. Stewart’s employment with our Company commenced May 9, 2011 and Mr. Stewart left our Company effective as of January 27, 2012.
 - (7) Reflects a transition bonus related to the timing of Mr. Stewart’s separation from our Company.

Grants of Plan-Based Awards

The following table provides information on the estimated possible payouts under our MIP for fiscal 2011 based on certain assumptions about the achievement of performance objectives for our Company and the individual named executive officer at various levels. The following table does not set forth the actual bonuses awarded to the named executive officers for fiscal 2011 under the MIP. The actual bonuses awarded to the named executive officers for fiscal 2011 are reported in the Summary Compensation Table under the column entitled “Non-Equity Incentive Plan Compensation.”

The following table also provides information on awards of performance-based and time-based units under the Team Resto Ownership Plan granted or approved in fiscal 2011 to each of our named executive officers.

Name	Grant Date	Board/ Compensation Committee Approval Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stocks or Units (2)	Grant Date Fair Value of Stock Awards (3)
			Threshold	Target	Maximum		
Gary Friedman	N/A	N/A	\$ 200,000	\$ 1,000,000	—	—	—
Carlos Alberini	N/A	N/A	\$ 183,333	\$ 916,667	—	—	—
Ken Dunaj	N/A	N/A	\$ 53,500	\$ 267,500	—	—	—
Chris Newman	N/A	N/A	\$ 50,000	\$ 250,000	—	—	—
James Stewart	N/A	N/A	\$ 31,058	\$ 155,289	—	—	—
	5/9/11	5/9/11	—	—	—	200,000	\$ 350,000
	5/9/11	5/9/11	—	—	—	100,000	\$ 28,000
	5/9/11	5/9/11	—	—	—	100,000	\$ 28,000
	9/8/11	9/8/11	—	—	—	100,000	\$ 154,000

- (1) Amounts shown in these columns are the estimated possible payouts for fiscal 2011 under our MIP and assume the achievement of performance objectives for our Company at various levels. The actual bonuses awarded to the named executive officers for fiscal 2011 are reported in the Summary Compensation Table under the column entitled “Non-Equity Incentive Plan Compensation.”

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The named executive officers are eligible to receive an annual cash bonus based on a percentage of base salary under our MIP. Our Company's financial objectives are established each year and the payment and the amount of any bonus are dependent upon whether our Company achieves those performance goals. The specific amount any participant could receive is dependent on the level of our performance. The amounts shown in these columns for the named executive officers are based on the following assumptions:

- In the "threshold" column, the amount for each named executive officer reflects the minimum bonus that would have been awarded if we had met, but had not exceeded, our minimum financial objectives.
 - In the "target" column, the amount for each named executive officer reflects the midpoint of the range of bonus amounts that would have been awarded if we had met, but had not exceeded, our midpoint financial objectives.
- (2) Includes 200,000 time-based units awarded on May 9, 2011, 100,000 performance-based units awarded on May 9, 2011 (which would vest upon Mr. Stewart's appointment as Chief Financial Officer), and 100,000 time-based units awarded on May 9, 2011 (which would begin to vest over time only following an initial public offering of the Company). In addition, Mr. Stewart was awarded 100,000 3X—5X Performance-based Units awards on May 9, 2011, but such awards were modified on September 8, 2011 to provide for time-based vesting. These 100,000 time-based awards awarded on September 8, 2011 are included in the above table. See "Compensation Discussion and Analysis—Long-Term Equity Incentive Compensation—Summary of Our Current Plan" above for additional information.
- (3) Reflects the aggregate grant date fair value of the grants of time-based and performance-based units made in fiscal 2011, computed in accordance with FASB ASC 718. See Note 10—*Stock-Based Compensation* to Restoration Hardware, Inc.'s audited consolidated financial statements. Also see footnote 1 to the Summary Compensation Table above.

Outstanding Equity Awards at Fiscal Year-End

The table below sets forth certain information regarding the outstanding equity awards held by our named executive officers as of January 28, 2012.

Name	Grant Date	Stock Awards			
		Number of Shares or Units of Stock That Have Not Vested (1)	Market Value of Shares or Units of Stock That Have Not Vested (2)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (3)
Gary Friedman	5/19/2009	1,690,221	\$ 4,715,777	—	—
	5/19/2009	—	—	1,267,666(4)	—
Carlos Alberini (6)	5/19/2009	—	—	2,535,332(5)	—
	5/12/2010	1,795,860	\$ 5,010,449	—	—
	5/12/2010	—	—	704,259(4)	—
Ken Dunaj	5/12/2010	—	—	1,408,518(5)	—
	5/19/2009	380,000	\$ 923,400	—	—
	5/19/2009	—	—	505,000(4)	—
	5/19/2009	—	—	545,000(7)	—

- (1) Time-based units granted on May 19, 2009, under the Team Resto Ownership Plan vest incrementally as follows: 15% on June 17, 2009, 15% on June 17, 2010, 20% on June 17, 2011, 25% on June 17, 2012, and the remaining 25% on June 17, 2013. Time-based units granted after May 19, 2009, under the Team Resto Ownership Plan vest incrementally as follows: 15% on the first anniversary of the grant date, 15% on the second anniversary of the grant date, 20% on the third anniversary of the grant date, 25% on the fourth anniversary of the grant date and the remaining 25% on the first anniversary of the grant date.

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- (2) Represents the liquidation value per unit for these time-based profit interest units at January 28, 2012, multiplied by the number of outstanding, unvested units on such date.
- (3) The liquidation value per unit for these performance-based profit interest units at January 28, 2012 was zero.
- (4) These performance-based units have a minimum requirement for vesting of two times return on equity investment as described in “Employee Benefit and Stock Plans—Team Resto Ownership Plan” below.
- (5) These performance-based units have a minimum requirement for vesting of three times return on equity investment as described in “Employee Benefit and Stock Plans—Team Resto Ownership Plan” below. For a period of 36 months after the offering, such officer may elect, in such officer’s discretion, vesting of performance-based units in whole or in part based upon the cumulative return on equity investment to our investors, which in turn is based upon the price at which our Class A common stock trades in the market after this offering.
- (6) In addition to the grants set forth in this table, Mr. Alberini was also granted one Class B-2 unit which represents the right to receive upon the occurrence of certain transactions constituting a sale of our Company a one-time payment (the “Contingent Payment”) equal to the amount, if any, by which \$15,000,000 exceeds the cumulative equity value received with respect to Mr. Alberini’s Class B-1 units up to and including the transaction involving a sale of our Company. If such cumulative equity value of the Class B-1 units exceeds \$15,000,000, then no Contingent Payment is payable to Mr. Alberini. Cumulative “equity value” is the value of all cash, property and securities that have been distributed or paid in respect of the Class B-1 units up to and including the transaction involving a sale of our Company.
- (7) These performance-based units have a minimum requirement for vesting of three times return on equity investment as described in “Executive Compensation—Employee Benefit and Stock Plans—Team Resto Ownership Plan” below.

Options Exercised and Stock Vested

None of our named executive officers held stock options to purchase shares of our common stock during fiscal 2011. The following table provides information relating to the time-based units awarded under the Team Resto Ownership Plan that vested during fiscal 2011.

Name	Stock Awards	
	Number of Shares Acquired on Vesting	Value Realized on Vesting (1)
Gary Friedman	676,089	\$ 1,980,941
Carlos Alberini	316,917	\$ 928,567
Ken Dunaj	152,000	\$ 445,360
Chris Newman	—	—
James Stewart	—	—

- (1) Represents the fair market value per unit for these units as of the date the units vested.

Equity Grants in Conjunction with this Offering

Stock Option Grants to Gary Friedman and Carlos Alberini

In conjunction with this offering, we intend to grant new stock options to Mr. Friedman to purchase _____ shares of our Class A common stock and to Mr. Alberini to purchase _____ shares of our Class A common stock, each at an exercise price of \$ _____ per share. We expect to recognize \$ _____ in compensation expense in connection with these option grants.

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Other Stock Option Grants in Conjunction with this Offering

In conjunction with this offering, we intend to grant stock options under the 2012 Plan to purchase an aggregate of shares of Class A common stock at an exercise price per share equal to the initial public offering price per share to certain employees, including members of our management team. These options are being granted in order to continue to provide these employees with incentive to build shareholder value over the long-term. We intend that options to purchase _____ of the shares so granted will vest annually in equal 25% installments over four years, commencing on the first anniversary of the date of grant, and that options to purchase _____ of the shares so granted will vest upon the satisfaction of certain performance-based metrics.

Employment and Other Agreements

The following is a description of the terms of the employment agreements with each of our named executive officers.

Gary Friedman

We entered into an amended and restated compensation and severance agreement, effective as of February 1, 2010, with Mr. Friedman. Mr. Friedman's annual salary under his agreement is currently \$1.0 million. He is eligible for annual bonus compensation targeted at between 85% and 125% of his annual base salary, although his actual annual bonus range has varied from year to year.

If Mr. Friedman's employment is terminated by us without cause (as defined in the agreement), or by Mr. Friedman for good reason (as defined in the agreement), he is entitled to (a) all accrued salary and vacation pay through the termination date, (b) any earned and unpaid portion of his annual bonus, (c) severance payments totaling \$1.5 million, less withholdings, paid on our regular payroll schedule over the 12 months following the termination date, (d) a pro-rata amount (based on the number of days Mr. Friedman was employed during the fiscal year through the termination date) of the greater of the last annual bonus paid or payable (i.e., if the performance period was completed but the bonus not yet paid) to Mr. Friedman prior to the termination date or Mr. Friedman's target bonus for the applicable fiscal year in which termination of employment occurs, (e) subject to his timely election under COBRA, continuation of medical benefits for 24 months following the termination date, subject to Mr. Friedman's payment of applicable premiums at the same rate that would have been applied had he remained an executive officer of our Company, paid for by us to the same extent that we paid for his health insurance prior to termination, (f) accelerated vesting of his time-based units as to the number of time-based units that would have vested through the termination date and for an additional 24-month period following the termination date, and (g) his performance-based units will remain outstanding and vest according to their terms for a period of 24 months following the termination date.

Mr. Friedman has agreed that, during his employment with us and during the 24-month period following the termination date, he will not directly or indirectly work for or engage or invest in any competitor. If Mr. Friedman engages in such restricted activity during the severance period, we may terminate any and all severance payments that may still be due and owing, as well as any further vesting for any units. In addition, Mr. Friedman has agreed that, during his employment with us and during any severance period, he will not solicit, directly or through any third party, (a) any employee of our Company or (b) any business from any of our material customers or suppliers or encourage any of our customers to reduce their business or contractual relationship with us.

Mr. Friedman will be entitled to receive a tax "gross-up" payment under Sections 280G and 4999 of the Code in the event that any of his compensation would become subject to an excise tax or if he incurs any interest or penalties with respect to such an excise tax.

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Carlos Alberini

Effective May 12, 2010, we entered into an employment agreement with Mr. Alberini, our Co-Chief Executive Officer. Mr. Alberini's employment agreement provides for an annual base salary under his employment agreement of at least \$800,000. Mr. Alberini's base salary was increased to \$1.0 million on July 1, 2011. Mr. Alberini is eligible for annual bonus compensation targeted at between 85% and 125% of his annual base salary, although his actual annual bonus range has varied from year to year.

If Mr. Alberini's employment is terminated by us without cause (as defined in the agreement), or by Mr. Alberini for good reason (as defined in the agreement), he is entitled to (a) all accrued salary and vacation pay through the termination date, (b) any earned and unpaid portion of his annual bonus, (c) severance payments totaling \$1.5 million, less withholdings, paid on our regular payroll schedule over the 12 months following the termination date, (d) a pro-rata amount (based on the number of days Mr. Alberini was employed during the fiscal year through the termination date) of Mr. Alberini's target bonus for the applicable fiscal year in which termination of employment occurs, (e) subject to his timely election under COBRA, continuation of medical benefits for 24 months following the termination date, subject to Mr. Alberini's payment of applicable premiums at the same rate that would have been applied had he remained an executive officer of our Company, paid for by us to the same extent that we paid for his health insurance prior to termination, (f) accelerated vesting of his time-based units as to the number of time-based units that would have vested through the termination date and for an additional 24-month period following the termination date, and (g) his performance-based units will remain outstanding and vest according to their terms for a period of 24 months following the termination date.

Mr. Alberini has agreed that, during his employment with us and during the 12-month period following the termination date, he will not directly or indirectly work for or engage or invest in any competitor. If Mr. Alberini engages in such restricted activity during the severance period, we may terminate any and all severance payments that may still be due and owing, as well as any further vesting for any units. In addition, Mr. Alberini has agreed that, during his employment with us and during any severance period, he will not solicit, directly or through any third party, (a) any employee of our Company or (b) any business from any of our material customers or suppliers or encourage any of our customers to reduce their business or contractual relationship with us.

Mr. Alberini will be entitled to receive a tax "gross-up" payment under Sections 280G and 4999 of the Code in the event that any of his compensation would become subject to an excise tax or if he incurs any interest or penalties with respect to such an excise tax.

Ken Dunaj

Effective May 5, 2006, we entered into an employment agreement with Mr. Dunaj, our Chief Operating Officer. Mr. Dunaj's employment agreement provides that if his employment is terminated by us other than for cause (as defined in the agreement), he will receive salary continuation for a period of one year from such termination date. The agreement provides that the receipt of this severance is conditioned on Mr. Dunaj's execution of a release of claims and his compliance with his proprietary information agreements with us and certain other conditions.

Chris Newman

We entered into an amended employment agreement with Mr. Newman effective as of December 31, 2010, following Mr. Newman's exercise of his right to terminate his earlier employment agreement following the Acquisition and thereafter receive the severance benefits provided thereunder. The amended employment agreement provided that Mr. Newman would remain with our Company until July 31, 2011, when his employment would then terminate and he would be entitled to thereafter receive the severance and other benefits provided therein. Pursuant to the terms of the amended employment agreement, Mr. Newman's employment with our Company ended effective as of July 31, 2011, and Mr. Newman is receiving compensation continuation (paid according to our regular payroll schedule) for a period of 12 months from such termination date in an aggregate

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amount equal to \$1,250,000. Mr. Newman surrendered for no additional consideration all but 50,000 of the vested time-based incentive units granted to him under the Team Resto Ownership Plan as of his termination date.

James Stewart

We entered into a transition agreement with Mr. Stewart, effective as of December 21, 2011, confirming our mutual agreement concerning Mr. Stewart's transition from employment with our Company. Under the transition agreement, Mr. Stewart's employment terminated on January 27, 2012, as of which time he received payments in respect of unpaid salary, accrued but unused vacation time and a transition bonus payment of \$150,000 related to Mr. Stewart's separation from our Company.

Potential Payments Upon Termination and Change in Control

The information below describes and quantifies certain compensation that would have been paid to the following named executive officers in the event of their termination of employment or a change in control, assuming such event was effective at January 28, 2012. Due to a number of factors that affect the nature and amount of any benefits provided upon the events discussed below, any actual amounts paid or distributed in the event of an officer's termination or a change in control may be different. Factors that could affect these amounts include the timing during the year of any such event. The compensation received by our executive officers whose employment with us terminated prior to January 28, 2012, James Stewart and Chris Newman, is described under the heading "—Employment and Other Arrangements."

Gary Friedman

<u>Benefits and Payments</u>	<u>Change in Control</u>	<u>Termination Without Cause or Resignation With Good Reason</u>	
		<u>With Change in Control</u>	<u>Without Change in Control</u>
Cash severance payment (1)	\$ —	\$ 2,700,000	\$ 2,700,000
Accelerated vesting of equity (2)	2,602,940	2,602,940	2,602,940
Health coverage benefits (3)	—	42,120	42,120
Tax gross-up (4)	—	—	—
Total	\$ 2,602,940	\$ 5,345,060	\$ 5,345,060

- (1) This amount includes salary continuation in the aggregate amount of \$1,500,000 paid over 12 months and a lump sum payment of \$1,200,000, which corresponds to Mr. Friedman's MIP bonus amount for fiscal 2011.
- (2) Represents the liquidation value of Mr. Friedman's time-based units at January 28, 2012 that would accelerate upon the change in control and/or termination event.
- (3) Includes all health benefits Mr. Friedman would have been entitled to following termination of employment.
- (4) Applies only in the event that any other benefits or payments upon separation are deemed subject to excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by Mr. Friedman with respect to such excise tax.

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Carlos Alberini

Benefits and Payments	Change in Control	Termination Without Cause or Resignation With Good Reason (1)	
		With Change in Control	Without Change in Control
Cash severance payment (2)	\$ —	\$ 2,600,000	\$ 2,600,000
Accelerated vesting of equity (3)	15,000,000	15,000,000	1,681,066
Health coverage benefits (4)	—	42,120	42,120
Tax gross-up (5)	4,975,075	6,432,136	—
Total	\$ 19,975,075	\$ 24,074,256	\$ 4,323,186

- (1) The amounts set forth in this column are payable upon termination without cause or resignation with good reason. In the event of executive's death or disability, he would be entitled to receive his accrued benefits through the date of termination, plus a pro-rata amount of the annual bonus he would have been eligible to receive had he remained employed by us for the remainder of the year.
- (2) This amount includes salary continuation in the aggregate amount of \$1,500,000 paid over 12 months and a lump sum payment of \$1,100,000, which corresponds to Mr. Alberini's MIP bonus amount for fiscal 2011.
- (3) Represents the liquidation value of Mr. Alberini's time-based units at January 28, 2012 that would accelerate upon the change in control or termination event. Also represents an additional payment of \$12,234,376 pursuant to the terms of Mr. Alberini's Class B-2 unit. Amount assumes that Home Holdings would not elect to repurchase any of Mr. Alberini's Class A-1 or Class A-2 units upon Mr. Alberini's termination of employment pursuant to the terms of the restricted unit purchase agreement between Home Holdings and Mr. Alberini.
- (4) Includes all health benefits Mr. Alberini would have been entitled to following termination of employment.
- (5) Applies only in the event that any other benefits or payments upon separation are deemed subject to excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by Mr. Alberini with respect to such excise tax.

Ken Dunaj

Payments	Change in Control	Termination or Resignation Without Cause
Cash severance (1)	\$ —	\$ 535,000
Accelerated vesting of equity (2)	585,200	—
Total	\$585,200	\$ 535,000

- (1) This amount reflects salary continuation at Mr. Dunaj's current salary rate paid over 12 months.
- (2) Represents the liquidation value of Mr. Dunaj's time-based units at January 28, 2012, that would accelerate upon the change in control.

Employee Benefit and Stock Plans

2012 Equity Replacement Plan

We anticipate that prior to the completion of this offering, our board of directors will adopt the Restoration Hardware 2012 Equity Replacement Plan, which we refer to as the Replacement Plan. As described in "Compensation Discussion and Analysis—Summary of Our Current Plan," "Compensation Discussion and Analysis—Conversion of Units in Connection with Offering," "Prospectus Summary—Reorganization" and "Certain Relationships and Related Party Transactions," the Replacement Plan replaces and preserves all of the substantive terms of outstanding awards under the existing Team Resto Ownership Plan. As set forth in those

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sections, upon the consummation of this offering, the aggregate outstanding units under the Team Resto Ownership Plan will be converted into shares of restricted Class A or Class B common stock, as applicable, and vested shares of Class A or Class B common stock, as applicable, under the Replacement Plan, based upon the valuation of our Company in connection with this offering. All units granted to Mr. Friedman and Mr. Alberini will convert into shares of Class B common stock. All other units will convert into shares of Class A common stock.

Aside from the awards of restricted stock in connection with the conversion of Team Resto Ownership Plan units, no other awards will be granted under the Replacement Plan.

2012 Stock Incentive Plan

We anticipate that prior to the completion of this offering, our board of directors will adopt the Restoration Hardware 2012 Stock Incentive Plan, which we refer to as the 2012 Plan. The 2012 Plan will become effective on the date of the completion of this offering. The 2012 Plan will provide for the grant of incentive stock options, within the meaning of Section 422 of the Code to our employees and any parent and subsidiary corporations' employees, and for the grant of non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units and dividend equivalent rights to our employees, directors and consultants and our parent and subsidiary corporations' employees, directors and consultants.

Share Reserve

We will reserve a total of _____ shares of our Class A common stock for issuance pursuant to the 2012 Plan. In addition, the 2012 Plan will provide for annual increases in the number of shares available for issuance thereunder on the first business day of each fiscal year, beginning with our fiscal year following the year of this offering, equal to the lowest of (x) _____ shares; (y) _____ percent of the number of shares of our common stock outstanding as of such date; or (z) a lower number of shares determined by the administrator.

Administration

Our board of directors or a committee of our board of directors will administer the 2012 Plan. In the case of awards intended to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code, the committee will consist of two or more "outside directors" within the meaning of Section 162(m) of the Code. The administrator will have the power to determine and interpret the terms and conditions of the awards, including the employees, directors and consultants who will receive awards, the exercise price, the number of shares subject to each such award, the vesting schedule and exercisability of the awards, the restrictions on transferability of awards and the form of consideration payable upon exercise. The administrator also will have the authority to institute an exchange program whereby the exercise prices of outstanding awards may be reduced or outstanding awards may be surrendered or cancelled in exchange for other awards of the same type (which may have higher or lower exercise prices) or awards of a different type.

Stock Options

The 2012 Plan will allow for the grant of incentive stock options that qualify under Section 422 of the Code only to our employees and employees of any parent or subsidiary of ours. Non-qualified stock options may be granted to our employees, directors, and consultants and those of any parent or subsidiary of ours. The exercise price of all options granted under the 2012 Plan must at least be equal to the fair market value of our common stock on the date of grant. The term of an incentive stock option may not exceed ten years, except that with respect to any employee who owns more than 10% of the voting power of all classes of our outstanding stock or any parent or subsidiary corporation as of the grant date, the term must not exceed five years, and the exercise price must equal at least 110% of the fair market value on the grant date.

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After the continuous service of an employee, director or consultant terminates, he or she may exercise his or her option, to the extent vested, for the period of time specified in the option agreement. However, an option may not be exercised later than the expiration of its term.

Stock Appreciation Rights

The 2012 Plan will allow for the grant of stock appreciation rights. Stock appreciation rights allow the recipient to receive the appreciation in the fair market value of our common stock between the date of grant and the exercise date. The administrator will determine the terms of stock appreciation rights, including when such rights become exercisable and whether to pay the increased appreciation in cash or with shares of our common stock, or a combination thereof, except that the base appreciation amount for the cash or shares to be issued pursuant to the exercise of a stock appreciation right will be no less than 100% of the fair market value per share on the date of grant. After the continuous service of an employee, director or consultant terminates, he or she may exercise his or her stock appreciation right, to the extent vested, only to the extent provided in the stock appreciation right agreement.

Restricted Stock Awards

The 2012 Plan will allow for the grant of restricted stock. Restricted stock awards are shares of our common stock that vest in accordance with terms and conditions established by the administrator. The administrator will determine the number of shares of restricted stock granted to any employee, director or consultant. The administrator may impose whatever conditions on vesting it determines to be appropriate. For example, the administrator may set restrictions based on the achievement of specific performance goals. Shares of restricted stock that do not vest are subject to our right of repurchase or forfeiture.

Restricted Stock Units

The 2012 Plan will allow for the grant of restricted stock units. Restricted stock units are awards that will result in payment to a recipient at the end of a specified period only if the vesting criteria established by the administrator are achieved or the award otherwise vests. The administrator may impose whatever conditions to vesting, or restrictions and conditions to payment that it determines to be appropriate. The administrator may set restrictions based on the achievement of specific performance goals or on the continuation of service or employment. Payments of earned restricted stock units may be made, in the administrator's discretion, in cash, with shares of our common stock or other securities, or a combination thereof.

Transferability of Awards

The 2012 Plan will allow for the transfer of awards under the 2012 Plan only (i) by will, (ii) by the laws of descent and distribution and (iii) for awards other than incentive stock options, to the extent authorized by the administrator. Only the recipient of an incentive stock option may exercise such award during his or her lifetime.

Certain Adjustments

In the event of certain changes in our capitalization, to prevent diminution or enlargement of the benefits or potential benefits available under the 2012 Plan, the administrator will make adjustments to one or more of the number or class of shares that are covered by outstanding awards, the exercise or purchase price of outstanding awards, the numerical share limits contained in the 2012 Plan, and any other terms that the administrator determines require adjustment. In the event of our complete liquidation or dissolution, all outstanding awards will terminate immediately upon the consummation of such transaction.

Corporate Transactions and Changes in Control

The 2012 Plan will provide that in the event of a corporate transaction, as defined in the 2012 Plan, each outstanding award will terminate upon the consummation of the corporate transaction to the extent that such

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awards are not assumed by the acquiring or succeeding corporation. Prior to or upon the consummation of a corporate transaction or a change in control, as defined in the 2012 Plan, an outstanding award may vest, in whole or in part, to the extent provided in the award agreement or as determined by the administrator in its discretion. The administrator may condition the vesting of an award upon the subsequent termination of the recipient's service or employment within a specified period of time following the consummation of a corporate transaction or change in control. The administrator will not be required to treat all awards similarly in the event of a corporate transaction or change in control.

Plan Amendments and Termination

The 2012 Plan will automatically terminate ten years following the date it becomes effective, unless we terminate it sooner. In addition, our board of directors has the authority to amend, suspend or terminate the 2012 Plan provided such action does not impair the rights under any outstanding award unless mutually agreed to in writing by the recipient and us.

Director and Officer Indemnification and Limitation of Liability

Our bylaws, as will be in effect prior to the completion of this offering, provide that we will indemnify our directors and officers to the fullest extent permitted by the DGCL. In addition, our certificate of incorporation as will be in effect prior to the completion of this offering, will provide that our directors will not be liable for monetary damages for breach of fiduciary duty.

Prior to the completion of this offering, we will enter into indemnification agreements with each of our executive officers and directors. The indemnification agreements will provide the executive officers and directors with contractual rights to indemnification, expense advancement and reimbursement, to the fullest extent permitted under the DGCL.

There is no pending litigation or proceeding naming any of our directors or officers to which indemnification is being sought, and we are not aware of any pending or threatened litigation that may result in claims for indemnification by any director or officer.

PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth information as of _____, 2012 regarding the beneficial ownership of our common stock immediately prior to this offering and as adjusted to give effect to this offering, by:

- each person or group who is known by us to own beneficially more than 5% of our outstanding shares of our common stock;
- each of our named executive officers;
- each of our directors and our director designees;
- each of our selling stockholders; and
- all of our current executive officers, directors and director designees as a group.

For further information regarding material transactions between us and our stockholders or their affiliates, see “Certain Relationships and Related Party Transactions.”

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Beneficial ownership for the purposes of the following table is determined in accordance with the rules and regulations of the SEC. These rules generally provide that a person is the beneficial owner of securities if such person has or shares the power to vote or direct the voting thereof, or to dispose or direct the disposition thereof or has the right to acquire such powers within 60 days. Common stock subject to options that are currently exercisable or exercisable within 60 days of _____, 2012 are deemed to be outstanding and beneficially owned by the person holding the options. These shares, however, are not deemed outstanding for the purposes of computing the percentage ownership of any other person. Percentage of beneficial ownership is based on _____ million shares of Class A common stock and _____ million shares of Class B common stock to be outstanding after the completion of this offering after giving effect to the Reorganization, assuming no exercise of the underwriters' option to purchase additional shares of Class A common stock, or _____ million shares of Class A common stock and _____ million shares of Class B common stock, assuming full exercise of the underwriters' option to purchase additional shares of Class A common stock. Except as disclosed in the footnotes to this table and subject to applicable community property laws, we believe that each stockholder identified in the table possesses sole voting and investment power over all shares of common stock shown as beneficially owned by the stockholder. Unless otherwise indicated in the table or footnotes below, the address for each beneficial owner is c/o Restoration Hardware, Inc., 15 Koch Road, Suite J, Corte Madera, CA 94925.

Name	Shares Beneficially Owned Prior to This Offering (1)			Shares of Class A Common Stock To Be Sold in This Offering (1) Number	Shares Beneficially Owned After This Offering Assuming No Option to Purchase Additional Shares (1)			Shares Beneficially Owned After This Offering Assuming Full Exercise of Option to Purchase Additional Shares (1)		
	Class A	Class B	Percent		Class A	Class B	Percent	Class A	Class B	Percent
5% Stockholders:										
Home Holdings, LLC (2)			100%							
Catterton (2)(3)										
Tower Three (2)(4)										
Glenhill (2)(5)										
Executive Officers, Directors and Director Designees:										
Designees:										
Gary Friedman										
Carlos Alberini										
Ken Dunaj										
James Stewart										
J. Michael Chu (3)										
Scott Dahnke (3)										
Mark Demilio										
William Forrest (4)										
Glenn Krevlin (5)										
Marc Magliacano										
Frederick Wilson										
All current executive officers, directors and director designees as a group (12 persons)										
Other Selling Stockholders:										

* Represents beneficial ownership of less than 1% of our outstanding common stock.

(1) Prior to the completion of the offering, all of our common stock is held directly by Home Holdings. All holdings set forth in this table with respect to any holder other than Home Holdings reflects indirect holdings of such shares through ownership of outstanding membership interests in Home Holdings.

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- (2) CP Home Holdings, LLC beneficially owns % of the outstanding membership interests of Home Holdings, Tower Three Home LLC beneficially owns % of the outstanding membership interests of Home Holdings and funds affiliated with Glenhill Capital Management LLC, beneficially own % of the outstanding membership interests of Home Holdings.
- (3) Mr. Chu and Mr. Dahnke share voting control and investment power over the shares held by CP Home Holdings, LLC, but disclaim beneficial ownership of such shares except to the extent of their pecuniary interest therein.
- (4) Mr. Forrest has voting control and investment power over the shares held by Tower Three Home LLC, but disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein.
- (5) Includes shares beneficially owned by Glenhill Capital Overseas Master Fund, LP, shares beneficially owned by Glenn J. Krevlin, Trustee of the Glenn J. Krevlin Revocable Trust and shares beneficially owned by Krevlin 2005 Gift Trust. Mr. Krevlin has voting control and investment power over the shares held by the entities affiliated with Glenhill, but disclaims beneficial ownership of such shares except to the extent of his pecuniary interest therein and except with respect to the shares held by the Glenn J. Krevlin Revocable Trust.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

2008 Acquisition-Related Agreements

In connection with the Acquisition in June 2008, the following agreements were entered into:

- an agreement and plan of merger, as amended by the first amendment thereto, was entered into by and between Restoration Hardware, Inc., Home Holdings and Home Merger Sub, Inc. (“Merger Sub” and a wholly owned subsidiary of Home Holdings), pursuant to which Merger Sub was merged with and into Restoration Hardware, Inc. and Restoration Hardware, Inc. became Home Holdings’ wholly owned subsidiary;
- rollover agreements were entered into between Home Holdings and certain of Restoration Hardware, Inc.’s stockholders prior to the Acquisition, including our current chairman and Co-Chief Executive Officer, Gary Friedman (collectively, the “Rollover Participants”), pursuant to which each of the Rollover Participants agreed to contribute to us a portion of his or its shares of Restoration Hardware, Inc.;
- stockholder voting agreements were entered into by and between each of the Rollover Participants and Restoration Hardware, Inc. pursuant to which the Rollover Participants agreed to vote for and support the Acquisition;
- limited guarantees were provided to Restoration Hardware, Inc. by Catterton Partners VI Offshore, L.P., a fund affiliated with Catterton, to guaranty our obligations and Merger Sub’s obligations under the agreement and plan of merger;
- unsecured promissory notes in the aggregate amount of \$25.0 million were issued by Restoration Hardware, Inc. to funds controlled by Catterton in exchange for aggregate gross proceeds of \$25.0 million received from such funds;
- a management services agreement was entered into by and between Restoration Hardware, Inc., Home Holdings, Catterton Management Company, LLC, an affiliate of Catterton, Tower Three Partners LLC, an affiliate of Tower Three, and GJK Capital Advisors, LLC, an affiliate of Glenhill, pursuant to which Catterton Management Company, LLC, Tower Three LLC and GJK Capital Advisors, LLC provided certain management services to Restoration Hardware, Inc.; and
- a limited liability company agreement was entered into between Catterton, Tower Three and the Rollover Participants.

Certain of the above agreements have been amended, replaced or terminated, and we currently are party to the following agreements with Catterton, Tower Three and GJK Capital Advisors, LLC:

- the management services agreement discussed above, which will be terminated upon completion of this offering; and
- the limited liability company agreement discussed above, which will be amended in connection with this offering.

All of the foregoing agreements and arrangements are described in further detail below.

Merger Agreement

Pursuant to the agreement and plan of merger, Merger Sub was merged with and into Restoration Hardware, Inc., with Restoration Hardware, Inc. as the surviving corporation and becoming Home Holdings’ direct, wholly owned subsidiary. At the effective time of the merger, each share of Restoration Hardware, Inc. common stock issued and outstanding immediately prior to the effective time of the merger was cancelled and converted into the right to receive \$4.50 in cash, other than with respect to those shares contributed by the Rollover Participants (as described below).

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Home Holdings was formed by Catterton VI, L.P. and Catterton VI Offshore, L.P., investment funds managed by Catterton Management Company, LLC in anticipation of the Acquisition. At the time of the Acquisition, Tower Three made an investment in us in an amount that was approximately equal to the investment made by Catterton in us at the time of the closing, which investments were made to fund the merger consideration at closing.

The Acquisition was a “going-private” transaction, and Restoration Hardware, Inc.’s common stock no longer traded on the NASDAQ Global Market as of June 16, 2008, the effective time of the merger.

Rollover Agreements

Each of the Rollover Participants entered into a rollover agreement with Home Holdings pursuant to which the Rollover Participants agreed to contribute, immediately prior to the effective time of the merger, a portion of his or its shares of Restoration Hardware, Inc.’s common stock in exchange for a pro rata equity interest in Home Holdings. The Rollover Participants were Mr. Friedman, our Chairman and Co-Chief Executive Officer, certain funds affiliated with Glenhill (Mr. Krevlin, our director, has sole voting power and control with respect to investments made by such funds) and certain funds affiliated with Palo Alto Investors, LLC.

Voting Agreements

Each of the Rollover Participants also entered into separate stockholder voting agreements with Restoration Hardware, Inc. in connection with the Acquisition. The voting agreements provided that each Rollover Participant would vote for and support the Acquisition.

Promissory Notes

In connection with the execution of the first amendment to the agreement and plan of merger in January 2008, Restoration Hardware, Inc. received aggregate gross proceeds of \$25.0 million from certain funds controlled by Catterton, in exchange for the issuance of unsecured promissory notes in the aggregate original principal amount of \$25.0 million. Each of the notes accrued interest at a rate of 8% per annum through and including December 31, 2008. Interest on the notes was payable in kind. The maturity date of the notes was December 30, 2012. Restoration Hardware, Inc. was obligated to pay an arrangement fee of \$625,000 to Catterton on July 1, 2008 or earlier upon repayment.

Notwithstanding the foregoing, in lieu of repayment of the notes, Home Holdings agreed with the funds affiliated with Catterton to exchange the notes upon the closing of the merger for a pro rata (in kind and amount) share of Home Holdings’ common equity based upon the unpaid principal balance of the notes plus all accrued but unpaid interest through the date of the closing and the arrangement fee relating to the notes to the extent not previously paid.

Guarantees

Pursuant to certain limited guarantees, funds controlled by Catterton agreed to guaranty Home Holdings’ obligations and Merger Sub’s obligations under the agreement and plan of merger for up to the amount of \$10,680,000 with respect to certain termination fees that may have been payable by Home Holdings under the agreement and plan of merger.

Management Services Agreement

Restoration Hardware, Inc. and Home Holdings entered into a management services agreement as of June 17, 2008, with Catterton Management Company, LLC, Tower Three Partners LLC and GJK Capital Advisors, LLC, which agreement was amended and restated in June 2009. Under this agreement, Catterton Management Company, LLC, Tower Three Partners LLC and GJK Capital Advisors, LLC provide management

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and advisory service to Restoration Hardware, Inc. and its affiliates, including general management consulting services, support and analysis with respect to financing alternatives and strategic planning functions. The fees payable under the management services agreement may be paid either by Restoration Hardware, Inc. or Home Holdings. The aggregate fees paid to Catterton Management Company, LLC under the agreement were \$0.88 million for the 2008 Successor period and \$1.83 million, \$1.83 million and \$4.65 million for fiscal years 2009, 2010 and 2011, respectively; the fees paid to Tower Three Partners LLC under the agreement were \$0.79 million for the 2008 Successor period and \$1.73 million, \$1.73 million and \$4.39 million for fiscal 2009, 2010 and 2011, respectively; and the fees paid to GJK Capital Advisors, LLC were \$0.21 million for the 2008 Successor period and \$0.34 million, \$0.34 million and \$0.85 million for fiscal 2009, 2010 and 2011, respectively. The management services agreement provides that it shall terminate upon the consummation of this initial public offering and that a fee shall be payable in connection with an initial public offering. In connection with this offering, we plan to pay Catterton Management Company, LLC, Tower Three Partners LLC and GJK Capital Advisors, LLC fees in the amount of \$, \$ and \$, respectively. See "Use of Proceeds."

Registration Rights Agreement

We intend to enter into a registration rights agreement with Home Holdings, our Principal Equity Holders, our Co-Chief Executive Officers and certain other stockholders in connection with the offering. The registration rights agreement will provide that Home Holdings and the Principal Equity Holders will have registration rights whereby, at any time following our initial public offering, Home Holdings or the Principal Equity Holders can require us to register under the Securities Act any shares in our Company owned by Home Holdings or the Principal Equity Holders as of the date of this prospectus and not sold in this offering. The registration rights agreement will also provide for piggyback registration rights for all stockholders that are parties to the agreement.

Stockholders Agreement

We intend to enter into a stockholders agreement with Home Holdings in connection with the offering. The stockholders agreement provides for a waiver of the corporate opportunity doctrine with respect to Home Holdings and its affiliates, including the Principal Equity Holders. In addition, the stockholders agreement will provide that no action may be taken or vote approved by our board of directors or any committee thereof (other than the audit committee) without the affirmative vote of both directors nominated by Home Holdings. This agreement will provide that certain actions may not be taken without the prior approval of Home Holdings, including:

- a change of control or the merger or consolidation of us or any of our subsidiaries;
- entering into any contract relating to a joint venture, investment, recapitalization, or reorganization with any other person or the acquisition of any securities or assets of another person (other than inventory acquired in the ordinary course of business);
- any transfer of a material amount of assets of us or any of our subsidiaries, other than inventory sold in the ordinary course of business;
- the issuance of any capital stock of us or any of our subsidiaries, other than certain issuances upon the grant of equity awards;
- the filing of any registration statement by the us or any of our subsidiaries, or the commencement of any public offering by us or any of our subsidiaries, other than in respect of certain equity awards;
- the guarantee, assumption, incurrence or refinancing of indebtedness for borrowed money by the Company or any of its subsidiaries other than our existing;
- entering into related party transactions;

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- the adoption of a “poison pill” or other material defensive mechanisms not in place as of the consummation of this offering;
- the payment of dividends or distributions on our capital stock;
- redemptions or repurchases of our capital stock (other than repurchases of shares from employees upon termination of employment pursuant to terms of equity grants);
- any amendment of our certificate of incorporation or the terms of the Class A common stock or Class B common stock;
- the creation any new class or series of shares of having rights, preferences or privileges senior to or on a parity with the Class A common stock, other than the Class B common stock;
- any issuance of additional shares of Class B common stock;
- the creation of any committees of our board of directors or the board of any of our subsidiaries, or delegation of authority to a committee, except as set forth in committee charters adopted as of the consummation of this offering;
- certain actions in respect of liquidation, dissolution or bankruptcy; and
- the entering into of any agreement to do any of the foregoing.

The approval rights of the directors nominated by Home Holdings and of Home Holdings will lapse when Home Holdings ceases to own at least _____ shares of Class A common stock or in certain other circumstances set forth in the stockholders agreement.

Loans to Certain Directors and Executive Officers

Home Holdings entered into loan agreements with our Co-Chief Executive Officers, Mr. Friedman and Mr. Alberini, and with our Chief Operating Officer, Ken Dunaj. All of such loans have been repaid.

Mr. Friedman entered into a loan agreement with Home Holdings in December 2008 in the principal amount of \$968,712 in connection with his purchase of 215,269 Class A units of Home Holdings. The unpaid principal balance under the loan accrued interest at the rate of 8% per annum. In connection with Mr. Friedman’s purchase in May 2010 of 1,118,064 units, with each such unit consisting of both one Class A-1 unit and one Class A-2 unit at a price of \$4.50 for each pair of units, Mr. Friedman entered into an amendment to the loan agreement which, among other things, increased the principal amount of the loan to \$6 million in the aggregate and changed the interest rate to 5% per annum, effective as of the date of the original \$968,712 loan received in December 2008. On September 8, 2011, Mr. Friedman repaid the entire unpaid principal amount of the loan and accrued interest thereon through the reclassification by Home Holdings of Mr. Friedman’s Class A units and Class A-1 units into an equal number of Class A Prime units and Class A-1 Prime units, respectively. The Class A Prime units and Class A-1 Prime units do not entitle Mr. Friedman to distributions from Home Holdings until after certain amounts have been distributed to the holders of Class A units, commensurate with the amount of all previously outstanding principal and interest on his loans. On the date of such repayment, the total principal amount of the loan, including all accrued interest thereon, was \$6,559,877. No prior payments of principal or interest were made by Mr. Friedman under the loan agreement.

Mr. Alberini entered into a loan agreement with Home Holdings in May 2010 in the principal amount of approximately \$4 million in connection with his purchase of 888,889 units, with each unit consisting of both one Class A-1 unit and one Class A-2 unit at a price of \$4.50 for each pair of securities. The unpaid principal balance under the loan accrued interest at the rate of 5% per annum. The outstanding principal on the loan, together with accrued interest thereon, was repaid in full by Mr. Alberini on August 25, 2010, in the amount of \$4,057,535. No prior payments of principal or interest were made by Mr. Alberini under the loan agreement.

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Mr. Dunaj entered into a loan agreement with Home Holdings in April 2011 in the principal amount of \$600,000. The unpaid principal balance under the loan accrued interest at the rate of 5% per annum. On September 8, 2011, Mr. Dunaj repaid the entire unpaid principal amount of the loan and accrued interest thereon through the reclassification of Mr. Dunaj’s Class B units of Home Holdings into Class B Prime units of Home Holdings that are entitled to a lower distribution amount than Class B units, commensurate with the amount of all previously outstanding principal and interest on his loan. On the date of such repayment, the total principal amount of the loan, including all accrued interest thereon, was \$620,712. No prior payments of principal or interest were made by Mr. Dunaj under the loan agreement.

Employment Agreements

We have entered into employment agreements with our executive officers. For more information regarding these agreements, see “Executive Compensation—Employment and Other Agreements.”

Equity Unit Grants

We have made certain unit grants to members of our senior management and certain members of our board of directors. For more information regarding these grants, see “Executive Compensation—Employee Benefit and Stock Plans—Team Resto Ownership Plan.”

The table below sets forth certain information regarding the outstanding equity awards held by each of our named executive officers under the Team Resto Ownership Plan, and by each of the members of our board of directors who holds any equity awards under the Team Resto Ownership Plan, as well as how such awards will be converted into shares of our Class A common stock, or, in the cases of Mr. Friedman and Mr. Alberini, Class B common stock, and restricted Class A common stock, or, in the cases of Mr. Friedman and Mr. Alberini, Class B common stock, in connection with this offering, based on equity awards vested as of , 2012:

<u>Name</u>	<u>Number of Vested Units (#) (1)</u>	<u>Number of Unvested Units (#) (2)</u>	<u>Shares of Vested Class A or Class B Common Stock (#) (3)</u>	<u>Shares of Unvested Restricted Class A or Class B Common Stock (\$ (4)</u>
Gary Friedman				
Carlos Alberini				
Ken Dunaj				
James Stewart				
Fred Wilson				
Mark Demilio				

- (1) Represents that portion of vested time-based units awarded under the Team Resto Ownership Plan as of , 2012 and those performance-based units that vest as a result of this offering.
- (2) Represents the unvested portion of unvested time-based awards as of , 2012 and certain 3X—5X performance-based units that are subject to continued vesting after the completion of this offering.
- (3) Vested shares of common stock under the Replacement Plan are subject to certain additional restrictions on transfer after this offering as described in “Executive Compensation—Employee Benefit and Stock Plans—Team Resto Ownership Plan” above.
- (4) Represents shares of restricted common stock under the Replacement Plan that are subject to performance-based vesting after the completion of this offering based upon a deemed 3X—5X return on equity investment that will be measured based upon the price at which our stock price trades during the three year period after the date of this offering. In the event that our Class A common stock trades at or above a price per share of \$ for a twenty trading day measurement period, then such shares of restricted common stock would vest in full.

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Indemnification Agreements

Prior to the completion of this offering, we will enter into indemnification agreements with each of our executive officers and directors. The indemnification agreements and our bylaws will require us to indemnify our directors and officers to the fullest extent permitted under the DGCL. See “Executive Compensation—Director and Officer Indemnification and Limitation of Liability.”

Our Policy Regarding Related Party Transactions

In connection with this offering, we will adopt a written policy with respect to related party transactions. Under our related party transaction policies and procedures, a “Related Party Transaction” is any financial transaction, arrangement or relationship (or series of similar transactions, arrangements or relationships) in which we or any of our subsidiaries is a participant and in which a Related Party has or will have a direct or indirect interest, other than any transactions, arrangements or relationships in which the aggregate amount involved will not or may not be expected to exceed \$120,000 in any calendar year, subject to certain exceptions. A “Related Party” is any of our executive officers, directors or director nominees, any stockholder directly or indirectly beneficially owning in excess of 5% of our stock or securities exchangeable for our stock and any immediate family member of any of the foregoing persons.

Pursuant to our related person transaction policies and procedures, any Related Party Transaction must be reviewed by the audit committee of our board of directors. In connection with its review of a Related Party Transaction, the audit committee may take into account, among other factors it deems appropriate, whether the Related Party Transaction is on terms no less favorable than terms generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party’s interest in the Related Party Transaction. Management shall present to the audit committee the following information, to the extent relevant, with respect to actual or potential Related Party Transactions:

1. A general description of the transaction(s), including the material terms and conditions;
2. The name of the related party and the basis on which such person or entity is a related party;
3. The related party’s interest in the transaction(s), including the related party’s position or relationship with, or ownership of, any entity that is a party to or has an interest in the transaction(s);
4. The approximate dollar value of the transaction(s), and the approximate dollar value of the related party’s interest in the transaction(s) without regard to amount of profit or loss;
5. In the case of a lease or other transaction providing for periodic payments or installments, the aggregate amount of all periodic payments or installments expected to be made;
6. In the case of indebtedness, the aggregate amount of principal to be outstanding and the rate or amount of interest to be payable on such indebtedness; and
7. Any other material information regarding the transaction(s) or the related party’s interest in the transaction(s).

Other than compensation agreements and other arrangements which are described under “Executive Compensation,” and the transactions described above, since February 1, 2009, there has not been, and there is not currently proposed, any transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeded or will exceed \$120,000 and in which any of our directors, executive officers, holders of more than 5% of any class of our voting securities or any member of the immediate family of the foregoing persons had or will have a direct or indirect material interest.

DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a summary of the material terms of the Restoration Hardware, Inc. revolving line of credit and term loan. This summary is qualified in its entirety by reference to the agreements which are filed as exhibits to the registration statement, of which this prospectus forms a part.

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 amended credit agreement modified a previous facility in which Restoration Hardware, Inc. had a revolving line of credit for up to \$190.0 million, as of July 30, 2011. As a result of the modification, the unamortized deferred financing fees related to the previous line of credit on the date of the modification of \$0.2 million will be amortized over the life of the new revolving line of credit, which has a maturity date of August 3, 2016. Under the credit agreement (which was further amended in January 2012 to add thereto a term loan facility), Restoration Hardware, Inc. has (i) a revolving line of credit available of up to \$317.5 million, of which \$10.0 million is available to Restoration Hardware Canada, Inc., and (ii) a \$15.0 million term loan with a maturity date of July 6, 2015.

The revolving line of credit is available to be used for working capital, the financing of capital expenditures and other general corporate purposes. The revolving line of credit allows for swing line advances to us of up to \$30.0 million and the issuance of letters of credit to us of up to \$50.0 million. The revolving line of credit allows for up to \$10.0 million of loans to, or letters of credit for, Restoration Hardware Canada, Inc. Restoration Hardware, Inc. may increase the amount of the revolving line of credit by up to an additional \$100.0 million, provided that, among other things, the lenders agree to participate in the increased loan commitments under the revolving line of credit, no default under the credit agreement then exists or would result from such increase and sufficient borrowing base collateral is available to support increased loan amounts. The term loan was fully funded in January 2012 and amounts thereof may not be redrawn once repaid.

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).

Borrowings under the revolving line of credit are subject to interest, at 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, in the case of 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 margin rate is determined quarterly based on the average daily domestic availability under the revolving line of credit over the preceding fiscal quarter. The weighted-average interest rate for the revolving line of credit was 2.8% as of April 28, 2012. The term loan bears interest at a rate of LIBOR plus 5.0%, and the interest rate for the term loan was 5.2% as of April 28, 2012.

As of April 28, 2012, \$125.5 million was outstanding under the revolving line of credit, and the outstanding principal amount of the term loan was \$14.8 million, net of \$0.2 million of unamortized debt issuance costs. As of April 28, 2012, Restoration Hardware, Inc.'s undrawn borrowing availability under the revolving line of credit was \$96.3 million, and there were \$8.6 million in outstanding letters of credit.

Restoration Hardware, Inc. is required to repay the term loan in quarterly installments of \$1.25 million beginning July 2012 with the final payment in April 2015. In addition, the term loan must be repaid with the net proceeds of any disposition of any registered trade name.

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A letter of credit fee accrues on the face amount of all letters of credit, and is payable quarterly in arrears. A commitment fee accrues on the amount of the revolving line of credit not utilized in the form of borrowings or letters of credit, and is payable quarterly in arrears. Certain other customary fees are payable in connection with the credit agreement.

Interest on borrowings is payable monthly in arrears, in the case of interest accruing at the bank's reference rate, and every one, two or three months, as applicable, in arrears, in the case of interest accruing based on LIBOR. Voluntary prepayments are permitted in whole or in part without premium or penalty (subject to customary breakage costs).

Borrowings under the credit agreement are subject to, among other conditions, the material accuracy of representations and warranties, the absence of any material adverse change and the absence of events of default.

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 April 28, 2012, 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.

Events of default under the credit agreement include, but are not limited to: (i) nonpayment of principal, interest, fees or other amounts; (ii) failure to perform or observe covenants; (iii) certain cross-default to indebtedness; (iv) bankruptcy or insolvency of borrowers, guarantors or subsidiaries; (v) inability of the borrowers, guarantors, or their material subsidiaries to pay debts; (vi) certain monetary judgments against borrowers, guarantors or their material subsidiaries and material non-monetary judgments; and (vii) failure of subordination, in each case, subject to certain exceptions and qualifications.

All obligations under the credit agreement are secured by a first-priority lien on substantially all of borrowers' assets, including accounts receivable, inventory, intangible assets, property, equipment, goods and fixtures. All of Restoration Hardware, Inc.'s material domestic subsidiaries, if any, must become either borrowers or guarantors of the obligations under the credit agreement and pledge substantially all of their respective assets as security therefor.

DESCRIPTION OF CAPITAL STOCK

The following is a description of the material terms and provisions of our Class A common stock, Class B common stock and preferred stock, our certificate of incorporation and bylaws, as they will be in effect upon completion of this offering, and of the DGCL. For more complete information, you should read our certificate of incorporation and bylaws, copies of which are or will be filed with the SEC as exhibits to the registration statement, of which this prospectus is a part.

Authorized Capitalization

Upon completion of this offering, our authorized capital stock will consist of _____ million shares of Class A common stock, par value \$0.0001 per share, _____ million shares of Class B common stock, par value \$0.0001 per share, and _____ million shares of preferred stock, par value \$0.0001 per share. As of _____, 2012, we had outstanding _____ shares of common stock, held of record by _____ stockholders. Based upon (i) _____ million shares of our Class A common stock and _____ million shares of our Class B common stock that will be outstanding after giving effect to the Reorganization and (ii) the issuance of _____ million shares of Class A common stock in this offering to be sold by us, there will be _____ million shares of our Class A common stock and _____ million shares of our Class B common stock outstanding upon completion of this offering, and no shares of preferred stock will be outstanding, including _____ shares of restricted Class A common stock and _____ shares of restricted Class B common stock. In addition, as of _____ 2012, there were _____ shares of our Class A common stock and _____ shares of our Class B common stock that were issuable pursuant to the exercise of outstanding options.

Class A Common Stock and Class B Common Stock

Our certificate of incorporation divides our common stock into two classes of common stock, Class A common stock and Class B common stock. Holders of Class A common stock and Class B common stock have identical rights, except with respect to voting and conversion as further described below. The holders of Class A common stock are entitled to one vote per share held of record and holders of Class B common stock are entitled to 3.5 votes per share held of record on all matters submitted to a vote of stockholders, including the election of directors. Except as may be provided with respect to shares of preferred stock, the holders of our common stock will possess the exclusive voting power.

Holders of our common stock will have no preference, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any of our securities.

Voting Rights

Holders of Class A common stock are entitled to one vote for each share held of record, and holders of Class B common stock are entitled to 3.5 votes for each share held of record on all matters submitted to a vote of stockholders. On all matters on which the holders of our common stock are entitled to vote, the holders of the Class A common stock and the Class B common stock vote together as a single class, except as required by applicable law. Under the DGCL, holders of shares of a class are entitled to vote as a separate class upon a proposed amendment to the certificate of incorporation, if the amendment would increase or decrease the aggregate number of authorized shares of that class, increase or decrease the par value of the shares of that class, or alter or change the powers, preferences or special rights of the shares of that class so as to affect them adversely.

Subject to any rights that may be applicable to any then outstanding preferred stock, our common stock votes as a single class on all matters relating to the election and removal of directors on our board of directors and as provided by law. Holders of our common stock will not have cumulative voting rights. Except in respect of matters relating to the election of and removal of directors on our board of directors and as otherwise provided in our certificate of incorporation or required by law, all matters to be voted on by our stockholders must be

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approved by a majority of the shares present in person or by proxy at the meeting and entitled to vote on the subject matter. In the case of election of directors, all matters to be voted on by our stockholders must be approved by a plurality of the votes entitled to be cast by all shares of common stock. In the case of removal of directors, all matters to be voted on by our stockholders must be approved by an affirmative vote of 66²/₃% of our common stock.

Conversion

Upon completion of this offering, all of the Class B common stock will be held by Gary Friedman and Carlos Alberini. Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. In addition, each share of Class B common stock will convert automatically into one share of Class A common stock upon any transfer, whether or not for value, except for certain transfers described in our certificate of incorporation, including, without limitation, transfers for tax and estate planning purposes, so long as the transferring holder continues to hold sole voting and dispositive power with respect to the shares transferred.

All shares of Class B common stock over which Mr. Friedman has voting and dispositive power will convert automatically into Class A common stock on the date on which Mr. Friedman has sole voting and dispositive power over fewer than _____ shares of Class B common stock.

All shares of Class B common stock over which Mr. Alberini has voting and dispositive power will convert automatically into Class A common stock on the date on which Mr. Alberini has sole voting and dispositive power over fewer than _____ shares of Class B common stock.

All of the Class B common stock over which either Mr. Friedman or Mr. Alberini has voting and dispositive power will also convert into Class A common stock on a one-for-one basis in connection with certain events involving the death, permanent mental disability or termination of employment of Mr. Friedman or Mr. Alberini, as the case may be.

Once converted into Class A common stock, the Class B common stock may not be reissued.

Dividend Rights

Subject to preferences that may be applicable to any then-outstanding shares of our preferred stock, the holders of our outstanding shares of common stock are entitled to receive dividends, if any, as may be declared from time to time by our board of directors out of legally available funds. It is our present intention not to pay cash dividends on our common stock for the foreseeable future. We are a holding company and substantially all of our operations are carried out by our subsidiary, Restoration Hardware, Inc., and its subsidiaries. Restoration Hardware, Inc.'s ability to pay dividends to us is limited by the terms of its credit agreement, which in turn may limit our ability to pay dividends on our common stock. See "Dividend Policy."

Liquidation Rights

In the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs, holders of our common stock would be entitled to share ratably in our assets that are legally available for distribution to our common stockholders after payment of our debts and other liabilities. If we have any preferred stock outstanding at such time, holders of the preferred stock may be entitled to distribution or liquidation preferences. In either such case, we must pay the applicable distribution to the holders of our preferred stock before we may pay distributions to the holders of our common stock.

Preferred Stock

Our certificate of incorporation authorizes our board of directors to provide for the issuance of up to _____ shares of preferred stock in one or more series and to fix the preferences, powers and relative, participating,

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optional or other special rights, and qualifications, limitations or restrictions thereof, including the dividend rate, conversion rights, voting rights, redemption rights and liquidation preference and to fix the number of shares to be included in any such series without any further vote or action by our stockholders. Any preferred stock so issued may rank senior to our common stock with respect to the payment of dividends or amounts upon liquidation, dissolution or winding up, or both. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of our Company without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others. At present, we have no plans to issue any shares of preferred stock.

Corporate Opportunity

As permitted under the DGCL, in our certificate of incorporation, as it will be in effect upon completion of this offering, we will renounce any interest or expectancy in, or any offer of an opportunity to participate in, specified business opportunities that are presented to us or one or more of our officers, directors or stockholders.

Director Voting

Our certificate of incorporation and stockholders agreement will provide that no action may be taken or vote approved by our board of directors or any committee thereof (other than the audit committee or any other committee of directors that may be created with the approval of Home Holdings) without the affirmative vote of both directors nominated by Home Holdings. Accordingly, Home Holdings will be able to control the decisions by our board of directors and its committees, other than the audit committee or any such other committee whose creation is approved by Home Holdings. Home Holdings will cease to have these veto rights when it ceases to own at least _____ shares of our Class A common stock and in certain other circumstances.

Exclusive Venue

Unless we consent otherwise, the Court of Chancery in the State of Delaware shall be the sole and exclusive forum for stockholder actions against us.

Antitakeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws

Our certificate of incorporation and bylaws, as they will be in effect upon completion of this offering, also contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will discourage coercive takeover practices or inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors, which we believe may result in an improvement of the terms of any such acquisition in favor of our stockholders. However, they also give our board of directors the power to discourage acquisitions that some stockholders may favor.

Dual-Class Structure and Concentrated Voting Power

As discussed above, our Class B common stock has 3.5 votes per share, while our Class A common stock, which is the class of stock we are selling in this offering, and which will be the only class of stock that is publicly traded, has one vote per share. After this offering, all of our Class B common stock will be controlled by our Co-Chief Executive Officers, Gary Friedman and Carlos Alberini, and will represent _____ % of the voting power of our outstanding capital stock. In addition, upon consummation of this offering, Home Holdings will continue to hold more than 50% of the voting power of our outstanding common stock through its ownership of Class A common stock. Home Holdings, Mr. Friedman and Mr. Alberini will have significant influence over all matters submitted to our shareholders for approval, including the election and removal of directors and significant corporate transactions such as a merger or other sale of our Company or of our assets. The concentrated voting power described above could also delay, defer or prevent a change of control, merger, consolidation, takeover or other business combination involving us that other shareholders may support, and could discourage a potential acquiror from initiating such a transaction.

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Undesignated Preferred Stock

The authorization of undesignated preferred stock in our certificate of incorporation will make it possible for our board of directors to issue preferred stock with super voting, special approval, dividend or other rights or preferences on a discriminatory basis that could impede the success of any attempt to acquire us. These and other provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or management of our Company.

Classified Board of Directors

Our certificate of incorporation will provide that our board of directors will be divided into three classes, with each class serving three-year staggered terms. In addition, our certificate of incorporation will provide that directors may only be removed from our board of directors with cause and by an affirmative vote of 66 2/3% of our common stock. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers, or changes in control or management of our Company.

Requirements for Advance Notification of Stockholder Meetings, Nominations and Proposals

Our certificate of incorporation will provide that, upon completion of this offering, special meetings of the stockholders may be called only by a resolution adopted by the affirmative vote of the majority of the directors then in office. Our bylaws will prohibit the conduct of any business at a special meeting other than as specified in the notice for such meeting. In addition, any stockholder who wishes to bring business before an annual meeting or nominate directors must comply with the requirements set forth in our bylaws. These provisions may have the effect of deferring, delaying or discouraging hostile takeovers or changes in control or management of our Company.

Stockholder Action by Written Consent

Pursuant to Section 228 of the DGCL, any action required to be taken at any annual or special meeting of the stockholders may be taken without a meeting, without prior notice and without a vote if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares of our stock entitled to vote thereon were present and voted, unless our Company's certificate of incorporation provides otherwise. Our certificate of incorporation will provide that, after the date on which Home Holdings no longer holds at least shares of our Class A common stock or otherwise loses its approval rights under the stockholders agreement, any action required or permitted to be taken by our stockholders may be effected at a duly called annual or special meeting of our stockholders and may not be effected by consent in writing by such stockholders.

Business Combinations with Interested Stockholders

We will elect in our certificate of incorporation not to be subject to Section 203 of the DGCL, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with a person or group owning 15% or more of the corporation's voting stock for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Accordingly, we will not be subject to any anti-takeover effects of Section 203. However, our certificate of incorporation will contain provisions that have the same effect as Section 203, except that they will provide that our Principal Equity Holders and any persons to whom our Principal Equity Holders sell their common stock will be deemed to have been approved by our board of directors, and thereby not subject to the restrictions set forth in these provisions.

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Amendments

Any amendments to the foregoing provisions of our certificate of incorporation (except related to preferred stock) and any amendments to our bylaws will require the affirmative vote of at least _____ of the voting power of all shares of our common stock then outstanding.

Listing

We will apply to list our Class A common stock on the NYSE under the symbol “RH.”

Transfer Agent and Registrar

The transfer agent and registrar for our common stock will be Computershare Trust Company, N.A.

SHARES ELIGIBLE FOR FUTURE SALE

Since June 2008 and prior to this offering, there has been no public market for our Class A common stock. Future sales of substantial amounts of our Class A common stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our Class A common stock. No prediction can be made as to the effect, if any, future sales of shares, or the availability of shares for future sales, will have on the market price of our Class A common stock prevailing from time to time. The sale of substantial amounts of our Class A common stock in the public market, or the perception that such sales could occur, could harm the prevailing market price of our Class A common stock.

Sale of Restricted Shares

Upon completion of this offering, we will have _____ shares of Class A common stock and _____ shares of Class B common stock outstanding. Of these shares of common stock, the _____ shares of Class A common stock being sold in this offering, plus any shares of Class A common stock sold by the selling stockholders upon exercise of the underwriters' option to purchase additional shares, will be freely tradable without restriction under the Securities Act, except for any such shares which may be held or acquired by an "affiliate" of ours, as that term is defined in Rule 144 promulgated under the Securities Act, which shares will be subject to the volume limitations and other restrictions of Rule 144 as described below. The remaining _____ shares of Class A common stock and the _____ shares of Class B common stock held by our existing stockholders upon completion of this offering will be "restricted securities," as that phrase is defined in Rule 144, and may be resold only after registration under the Securities Act or pursuant to an exemption from such registration, including, among others, the exemptions provided by Rule 144 and 701 under the Securities Act, which rules are summarized below. These remaining shares of common stock held by our existing stockholders upon completion of this offering will be available for sale in the public market after the expiration of the lock-up agreements described in "Underwriting," taking into account the provisions of Rules 144 and 701 under the Securities Act.

Each share of Class B common stock will be convertible at any time, at the option of the holder, into one share of Class A common stock. Each share of Class B common stock shall convert automatically into one share of Class A common stock upon transfer, with limited exceptions. See "Description of Capital Stock."

Rule 144

Under Rule 144, persons who became the beneficial owner of shares of our Class A common stock prior to the completion of this offering may not sell their shares until the earlier of (1) the expiration of a six-month holding period, if we have been subject to the reporting requirements of the Exchange Act and have filed all required reports for at least 90 days prior to the date of the sale, or (2) a one-year holding period.

At the expiration of the six-month holding period, a person who was not one of our affiliates at any time during the three months preceding a sale would be entitled to sell an unlimited number of shares of our Class A common stock provided current public information about us is available, and a person who was one of our affiliates at any time during the three months preceding a sale would be entitled to sell within any three-month period only a number of shares of Class A common stock that does not exceed the greater of either of the following:

- 1% of the number of shares of our Class A common stock then outstanding, which will equal approximately _____ shares immediately after this offering, based on the number of shares of our Class A common stock outstanding after completion of this offering; or
- the average weekly trading volume of our Class A common stock on the NYSE during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

At the expiration of the one-year holding period, a person who was not one of our affiliates at any time during the three months preceding a sale would be entitled to sell an unlimited number of shares of our Class A

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common stock without restriction. A person who was one of our affiliates at any time during the three months preceding a sale would remain subject to the volume restrictions described above.

Sales under Rule 144 by our affiliates are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 701

In general, under Rule 701, any of our employees, directors, officers, consultants or advisors who acquired shares from us in connection with a compensatory stock or option plan or other written agreement in compliance with Rule 701 before the effective date of the registration statement of which this prospectus is a part, are eligible to resell such shares in reliance upon Rule 144 beginning 90 days after the date of this prospectus, subject to the terms at any applicable lock-up restrictions as discussed below. If such person is not an affiliate, the sale may be made without complying with the minimum holding period or public information requirements of Rule 144. If such a person is an affiliate, the sale may be made under Rule 144 without compliance with its one-year minimum holding period, but subject to the other Rule 144 restrictions.

Stock Plans

We intend to file one or more registration statements on Form S-8 under the Securities Act to register shares of our Class A common stock issued or reserved for issuance under the Replacement Plan and the 2012 Plan. The first such registration statement is expected to be filed soon after the date of this prospectus and will automatically become effective upon filing with the SEC. Accordingly, shares registered under such registration statement will be available for sale in the open market following the effective date, unless such shares are subject to vesting restrictions with us, Rule 144 restrictions applicable to our affiliates or the lock-up restrictions described below.

Lock-Up Agreements

We, our executive officers and directors, the selling stockholders and other existing security holders have agreed, subject to certain limited exceptions, not to sell or transfer any common stock or securities convertible into, exchangeable for, exercisable for, or repayable with common stock, for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. See "Underwriting."

**MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS TO NON-U.S. HOLDERS
OF OUR CLASS A COMMON STOCK**

The following is a summary of the material U.S. federal income tax consequences applicable to non-U.S. holders (as defined below) with respect to the acquisition, ownership and disposition of shares of our Class A common stock, but does not purport to be a complete analysis of all potential tax considerations related thereto. This summary is based on current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), final, temporary or proposed Treasury regulations promulgated thereunder, administrative rulings and judicial opinions, all of which are subject to change, possibly with retroactive effect. We have not sought any ruling from the U.S. Internal Revenue Service, or the IRS, with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

This summary is limited to non-U.S. holders who purchase shares of our Class A common stock issued pursuant to this offering and who hold such shares of our Class A common stock as capital assets (within the meaning of Section 1221 of the Code).

This discussion does not address all aspects of U.S. federal income taxation that may be important to a particular non-U.S. holder in light of that non-U.S. holder's individual circumstances, nor does it address any aspects of U.S. federal estate or gift tax laws or tax considerations arising under the laws of any non-U.S., state or local jurisdiction. This discussion also does not address tax considerations applicable to a non-U.S. holder subject to special treatment under the U.S. federal income tax laws, including without limitation:

- banks, insurance companies or other financial institutions;
- partnerships or other pass-through entities;
- tax-exempt organizations;
- tax-qualified retirement plans;
- dealers in securities or currencies;
- traders in securities that elect to use a mark-to-market method of accounting for their securities holdings;
- U.S. expatriates and certain former citizens or long-term residents of the United States;
- controlled foreign corporations;
- passive foreign investment companies;
- persons that own, or have owned, actually or constructively, more than 5% of our Class A common stock; and
- persons that will hold Class A common stock as a position in a hedging transaction, "straddle" or "conversion transaction" for tax purposes.

Accordingly, we urge prospective investors to consult with their own tax advisors regarding the U.S. federal, state, local and non-U.S. income and other tax considerations of acquiring, holding and disposing of shares of our Class A common stock.

If a partnership (or other entity or arrangement classified as a partnership for U.S. federal income tax purposes) is a beneficial owner of shares of our Class A common stock, the tax treatment of a partner in the partnership (or member in such other entity) will generally depend upon the status of the partner and the activities of the partnership. Any partner in a partnership holding shares of our Class A common stock (and such partnership) should consult their own tax advisors.

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PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF SHARES OF OUR CLASS A COMMON STOCK ARISING UNDER THE U.S. FEDERAL ESTATE OR GIFT TAX RULES OR UNDER THE LAWS OF ANY STATE, LOCAL, NON-U.S. OR OTHER TAXING JURISDICTION OR UNDER ANY APPLICABLE TAX TREATY.

Definition of Non-U.S. Holder

In general, a “non-U.S. holder” is any beneficial owner of shares of our Class A common stock (other than a partnership or other entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. person. A “U.S. person” is any of the following:

- an individual citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States, any state thereof or the District of Columbia (or other entity treated as such for U.S. federal income tax purposes);
- an estate, the income of which is includible in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) it has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

Distributions on Our Class A Common Stock

As described in the section titled “Dividend Policy,” we currently do not anticipate paying dividends on shares of our Class A common stock in the foreseeable future. If, however, we make cash or other property distributions on shares of our Class A common stock (other than certain pro rata distributions of shares of our Class A common stock), such distributions will constitute dividends for U.S. federal income tax purposes to the extent paid from our current earnings and profits for that taxable year or accumulated earnings and profits, as determined under U.S. federal income tax principles. Amounts not treated as dividends for U.S. federal income tax purposes will constitute a return of capital and will first be applied against and reduce a non-U.S. holder’s adjusted tax basis in the shares of our Class A common stock, but not below zero. Any excess will be treated as gain realized on the sale or other disposition of shares of our Class A common stock and will be treated as described under the section titled “—Gain on Sale or Other Disposition of Shares of Our Class A Common Stock” below.

Dividends paid to a non-U.S. holder of shares of our Class A common stock generally will be subject to U.S. federal withholding tax at a rate of 30% of the gross amount of the dividends, or such lower rate specified by an applicable income tax treaty. To receive the benefit of a reduced treaty rate, a non-U.S. holder must furnish to us or our paying agent a valid IRS Form W-8BEN (or other applicable form) certifying, under penalties of perjury, such non-U.S. holder’s qualification for the reduced rate. This certification must be provided to us or our paying agent prior to the payment of dividends and must be updated periodically.

If a non-U.S. holder holds shares of our Class A common stock in connection with the conduct of a trade or business in the United States, and dividends paid on shares of our Class A common stock are effectively connected with such non-U.S. holder’s U.S. trade or business (and, if required by an applicable income tax treaty, are attributable to a permanent establishment maintained by the non-U.S. holder in the United States), the non-U.S. holder will be exempt from the aforementioned U.S. federal withholding tax. To claim the exemption, the non-U.S. holder must furnish to us or our paying agent a properly executed IRS Form W-8ECI (or applicable successor form).

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Such effectively connected dividends generally will be subject to U.S. federal income tax on a net income basis at the regular graduated U.S. federal income tax rates in the same manner as if such non-U.S. holder were a resident of the United States. A non-U.S. holder that is a non-U.S. corporation also may be subject to an additional branch profits tax equal to 30% (or such lower rate specified by an applicable income tax treaty) of a portion of its effectively connected earnings and profits for the taxable year. Non-U.S. holders should consult any applicable income tax treaties that may provide for different rules.

A non-U.S. holder that claims exemption from withholding or the benefit of an applicable income tax treaty generally will be required to satisfy applicable certification and other requirements prior to the distribution date. Non-U.S. holders that do not timely provide us or our paying agent with the required certification, may obtain a refund of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty or applicability of other exemptions from withholding.

Gain on Sale or Other Disposition of Shares of Our Class A Common Stock

Subject to the discussion below regarding backup withholding, a non-U.S. holder generally will not be subject to U.S. federal income tax on any gain realized upon the sale or other disposition of shares of our Class A common stock, unless:

- the gain is effectively connected with a trade or business carried on by the non-U.S. holder in the United States and, if required by an applicable income tax treaty, the gain is attributable to a permanent establishment of the non-U.S. holder maintained in the United States;
- the non-U.S. holder is an individual present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met; or
- we are or have been a U.S. real property holding corporation, or a USRPHC, for U.S. federal income tax purposes at any time within the shorter of the five-year period preceding the disposition and the non-U.S. holder's holding period for the shares of our Class A common stock, and our Class A common stock has ceased to be traded on an established securities market prior to the beginning of the calendar year in which the sale or other disposition occurs. The determination of whether we are a USRPHC depends on the fair market value of our U.S. real property interests relative to the fair market value of our other trade or business assets and our foreign real property interests.

We believe we currently are not, and we do not anticipate becoming, a USRPHC for U.S. federal income tax purposes.

Gain described in the first bullet point above will be subject to U.S. federal income tax on a net income basis at regular graduated U.S. federal income tax rates generally in the same manner as if such non-U.S. holder were a resident of the United States. A non-U.S. holder that is a non-U.S. corporation also may be subject to an additional branch profits tax equal to 30% (or such lower rate specified by an applicable income tax treaty) of a portion of its effectively connected earnings and profits for the taxable year. Non-U.S. holders should consult any applicable income tax treaties that may provide for different rules.

Gain described in the second bullet point above will be subject to U.S. federal income tax at a flat 30% rate (or such lower rate specified by an applicable income tax treaty) but may be offset by U.S. source capital losses (even though the individual is not considered a resident of the United States), provided that the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses. Non-U.S. holders should consult any applicable income tax treaties that may provide for different rules.

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Backup Withholding and Information Reporting

Generally, we must report annually to the IRS and to each non-U.S. holder the amount of dividends paid to, and the tax withheld with respect to, each non-U.S. holder. This information also may be made available under a specific treaty or agreement with the tax authorities in the country in which the non-U.S. holder resides or is established. Backup withholding generally will not apply to distributions to a non-U.S. holder of shares of our Class A common stock provided the non-U.S. holder furnishes to us or our paying agent the required certification as to its non-U.S. status, such as by providing a valid IRS Form W-8BEN or IRS Form W-8ECI, or certain other requirements are met. Notwithstanding the foregoing, backup withholding may apply if either we or our paying agent has actual knowledge, or reason to know, that the holder is a U.S. person that is not an exempt recipient.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be allowed as a refund or a credit against a non-U.S. holder's U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

New Legislation Relating to Foreign Accounts

Newly enacted legislation may impose withholding taxes on certain types of payments made to "foreign financial institutions," as specially defined under such rules, and certain other non-U.S. entities. The legislation imposes a 30% withholding tax on dividends on, or gross proceeds from the sale or other disposition of, shares of our Class A common stock paid to a foreign financial institution unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these reporting and other requirements. In addition, the legislation imposes a 30% withholding tax on the same types of payments to a foreign non-financial entity unless the entity certifies that it does not have any substantial U.S. owners or furnishes identifying information regarding each substantial U.S. owner. Pursuant to a recently issued IRS notice and proposed Treasury regulations, these rules generally would apply to payments of dividends made after December 31, 2013, and to gross proceeds from the sale or other disposition of shares of our Class A common stock after December 31, 2014. Prospective investors should consult their tax advisors regarding this legislation.

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UNDERWRITING

Subject to the terms and conditions set forth in a purchase agreement among us, the selling stockholders and the underwriters, we and the selling stockholders have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us and the selling stockholders, the number of shares of Class A common stock set forth opposite its name below. Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. are acting as representatives of each of the underwriters listed below.

<u>Underwriter</u>	<u>Number of Shares</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Goldman, Sachs & Co.	
Robert W. Baird & Co. Incorporated	
William Blair & Company, L.L.C.	
Piper Jaffray & Co.	
Stifel, Nicolaus & Company, Incorporated	
Total	

Subject to the terms and conditions set forth in the purchase agreement, the underwriters have agreed, severally and not jointly, to purchase all of the shares sold under the purchase agreement if any of these shares are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the purchase agreement may be terminated.

We and the selling stockholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the shares, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the shares, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the shares of Class A common stock to the public at the public offering price set forth on the cover of this prospectus and to dealers at that price less a concession not in excess of \$ per share. After the initial offering, the public offering price, concession or any other term of the offering may be changed.

The following table shows the public offering price, underwriting discount and proceeds before expenses to us and the selling stockholders. The information assumes either no exercise or full exercise by the underwriters of their option to purchase additional shares of Class A common stock.

	<u>Per Share</u>	<u>Without Option</u>	<u>With Option</u>
Public offering price	\$	\$	\$
Underwriting discount	\$	\$	\$
Proceeds, before expenses, to us	\$	\$	\$
Proceeds, before expenses, to the selling stockholders	\$	\$	\$

The expenses of the offering, not including the underwriting discount, are estimated at \$ and are payable by us.

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Option to Purchase Additional Shares

The selling stockholders have granted an option to the underwriters to purchase up to _____ additional shares of Class A common stock at the public offering price, less the underwriting discount. The underwriters may exercise this option for 30 days from the date of this prospectus. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional shares proportionate to that underwriter's initial amount reflected in the above table.

Lockup Agreements

We, our executive officers and directors, the selling stockholders and our other existing security holders have agreed not to sell or transfer any common stock or securities convertible into, exchangeable for, exercisable for, or repayable with common stock, for 180 days after the date of this prospectus without first obtaining the written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. Specifically, we and these other persons have agreed, with certain limited exceptions, not to directly or indirectly:

- offer, pledge, sell or contract to sell any common stock;
- sell any option or contract to purchase any common stock;
- purchase any option or contract to sell any common stock;
- grant any option, right or warrant for the sale of any common stock;
- lend or otherwise dispose of or transfer any common stock;
- file, or request or demand or cause to be filed any a registration statement related to the common stock or other securities referred to below; or
- enter into any swap or other agreement or transaction that transfers, in whole or in part, the economic consequence of ownership of any common stock or other securities referred to below,

whether any such swap or transaction is to be settled by delivery of shares or other securities, in cash or otherwise. However, the lock-up provisions do not restrict these persons from participating as selling stockholders in this offering, including by sale or transfer of their shares or other securities to the underwriters.

This lock-up provision applies to common stock and to securities convertible into or exchangeable or exercisable for or repayable with common stock. It also applies to common stock owned now or acquired later by the person executing the agreement or for which the person executing the agreement later acquires the power of disposition. In the event that either (x) during the last 17 days of the lock-up period referred to above, we issue an earnings release or material news or a material event relating to us occurs or (y) prior to the expiration of the lock-up period, we announce that we will release earnings results or become aware that material news or a material event will occur during the 16-day period beginning on the last day of the lock-up period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event, unless Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co. waive, in writing, such extension.

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Listing

We expect the shares of Class A common stock to be approved for listing on the NYSE under the symbol “RH.”

Prior to this offering, there has been no public market for our Class A common stock. The initial public offering price will be determined through negotiations between us and the representatives. In addition to prevailing market conditions, the factors to be considered in determining the initial public offering price are:

- the valuation multiples of publicly traded companies that the representatives believe to be comparable to us;
- our financial information;
- the history of, and the prospects for, our Company and the industry in which we compete;
- an assessment of our management, its past and present operations, and the prospects for, and timing of, our future revenues;
- the present state of our development; and
- the above factors in relation to market values and various valuation measures of other companies engaged in activities similar to ours.

An active trading market for the shares may not develop. It is also possible that after the offering the shares will not trade in the public market at or above the initial public offering price.

The underwriters do not expect to sell more than 5% of the shares in the aggregate to accounts over which they exercise discretionary authority.

Price Stabilization, Short Positions and Penalty Bids

Until the distribution of the shares is completed, SEC rules may limit underwriters and selling group members from bidding for and purchasing our Class A common stock. However, the representatives may engage in transactions that stabilize the price of the Class A common stock, such as bids or purchases to peg, fix or maintain that price.

In connection with the offering, the underwriters may purchase and sell our Class A common stock in the open market. These transactions may include short sales, purchases on the open market to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. “Covered” short sales are sales made in an amount not greater than the underwriters’ option to purchase additional shares described above. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option to purchase additional shares. “Naked” short sales are sales in excess of the option to purchase additional shares. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of our Class A common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of shares of Class A common stock made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased shares sold by or for the account of such underwriter in stabilizing or short covering transactions.

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Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our Class A common stock or preventing or retarding a decline in the market price of our Class A common stock. As a result, the price of our Class A common stock may be higher than the price that might otherwise exist in the open market. The underwriters may conduct these transactions on the NYSE, in the over-the-counter market or otherwise.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our Class A common stock. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Offer, Sale and Distribution of Shares

In connection with the offering, certain of the underwriters or securities dealers may distribute prospectuses by electronic means, such as email.

Conflicts of Interest

Bank of America, N.A., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, an underwriter in this offering, is a lender under the Restoration Hardware, Inc. revolving line of credit and term loan and may receive more than 5% of the net proceeds of this offering as a result of our intention to repay borrowings under the revolving line of credit and term loan. Because Merrill Lynch, Pierce, Fenner & Smith Incorporated is an underwriter and may receive more than 5% of the entire net proceeds in this offering, Merrill Lynch, Pierce, Fenner & Smith Incorporated may be deemed to have a "conflict of interest" under the applicable provisions of Rule 5121 of the Conduct Rules of the Financial Industry Regulatory Authority, Inc., or FINRA. Accordingly, this offering will be made in compliance with the applicable provisions of Rules 5110 and 5121 of the Conduct Rules regarding the underwriting of securities of a company with a member that has a conflict of interest within the meaning of those rules. Pursuant to Rule 5121, Goldman, Sachs & Co. has served as the "qualified independent underwriter," as defined by FINRA, and, in that capacity, has performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus forms a part. Goldman, Sachs & Co. has received \$10,000 from us as compensation for such role. No underwriter with a conflict of interest will execute sales in discretionary accounts without the prior written specific approval of the customers.

Other Relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), no offer of shares may be made to the public in that Relevant Member State other than:

- A. to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- B. to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives; or
- C. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of shares shall require us or the representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each person in a Relevant Member State who initially acquires any shares or to whom any offer is made will be deemed to have represented, acknowledged and agreed that (A) it is a “qualified investor” within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive, and (B) in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, the shares acquired by it in the offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than “qualified investors” as defined in the Prospectus Directive, or in circumstances in which the prior consent of the representatives has been given to the offer or resale. In the case of any shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, each such financial intermediary will be deemed to have represented, acknowledged and agreed that the shares acquired by it in the offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any shares to the public other than their offer or resale in a Relevant Member State to qualified investors as so defined or in circumstances in which the prior consent of the representatives has been obtained to each such proposed offer or resale.

We, the representatives and their affiliates will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

This prospectus has been prepared on the basis that any offer of shares in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of shares. Accordingly any person making or intending to make an offer in that Relevant Member State of shares which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for us or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither we nor the underwriters have authorized, nor do they authorize, the making of any offer of shares in circumstances in which an obligation arises for us or the underwriters to publish a prospectus for such offer.

For the purpose of the above provisions, the expression “an offer to the public” in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the shares to be offered so as to enable an investor to decide to purchase or subscribe the shares, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

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Notice to Prospective Investors in the United Kingdom

In addition, in the United Kingdom, this prospectus is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are “qualified investors” (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the “Order”) and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as “relevant persons”). This prospectus must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this prospectus relates is only available to, and will be engaged in with, relevant persons.

Notice to Prospective Investors in Hong Kong

This prospectus has not been approved by or registered with the Securities and Futures Commission of Hong Kong or the Registrar of Companies of Hong Kong. The shares will not be offered or sold in Hong Kong other than (a) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the shares which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) has been issued or will be issued in Hong Kong or elsewhere other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

Notice to Prospective Investors in Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act (Chapter 289) (the “SFA”), (ii) to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, then shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 except: (i) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions, specified in Section 275 of the SFA; (ii) where no consideration is given for the transfer; or (iii) by operation of law.

Notice to Prospective Investors in Japan

The shares have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in

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Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, “Japanese Person” shall mean any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Notice to Prospective Investors in Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange (“SIX”) or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this prospectus nor any other offering or marketing material relating to the offering, the Company or the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this prospectus will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority, and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes (“CISA”). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

Notice to Prospective Investors in the Dubai International Financial Centre

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (“DFSA”). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

LEGAL MATTERS

The validity of the Class A common stock offered hereby will be passed upon for us by Morrison & Foerster LLP, San Francisco, California. Certain legal matters will be passed upon for the underwriters by Sidley Austin LLP, San Francisco, California.

EXPERTS

The balance sheets of Restoration Hardware Holdings, Inc. as of September 2, 2011 and January 28, 2012 and the consolidated financial statements of Restoration Hardware, Inc. as of January 29, 2011 and January 28, 2012 and for the fiscal years ended January 30, 2010, January 29, 2011 and January 28, 2012 included in this prospectus have been so included in reliance on the reports of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act that registers the shares of our Class A common stock to be sold in this offering. The registration statement, including the attached exhibits, contains additional relevant information about us and our Class A common stock. The rules and regulations of the SEC allow us to omit from this document certain information included in the registration statement.

You may read and copy the reports and other information we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of this information by mail from the public reference section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may obtain information regarding the operation of the public reference room by calling 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of that website is <http://www.sec.gov>.

Upon completion of this offering, we will become subject to the reporting, proxy and information requirements of the Exchange Act, and as a result will be required to file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference room and on the website of the SEC referred to above, as well as on our website, www.restorationhardware.com. The contents of our website are not part of this prospectus, and you should not consider the contents of our website in making an investment decision with respect to our Class A common stock.

We intend to furnish our stockholders with annual reports containing audited financial statements and make available to our stockholders quarterly reports for the first three quarters of each fiscal year containing unaudited interim financial information.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Restoration Hardware Holdings, Inc.:

In our opinion, the accompanying balance sheets present fairly, in all material respects, the financial position of Restoration Hardware Holdings, Inc. at September 2, 2011, and January 28, 2012, in conformity with accounting principles generally accepted in the United States of America. The balance sheets are the responsibility of the Company's management. Our responsibility is to express an opinion on these balance sheets based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheets are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheets, assessing the accounting principles used and significant estimates made by management, and evaluating the overall balance sheet presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Francisco, CA
April 26, 2012

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RESTORATION HARDWARE HOLDINGS, INC.
BALANCE SHEETS

(In thousands, except share amounts)

	September 2, 2011	January 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1	\$ 1
Total assets	<u>\$ 1</u>	<u>\$ 1</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Commitments and contingencies	\$ —	\$ —
Stockholder's equity:		
Common stock, zero par value, 1,000 shares authorized, 1,000 shares issued and outstanding as of both September 2, 2011 and January 28, 2012	—	—
Additional paid-in capital	<u>1</u>	<u>1</u>
Total liabilities and stockholder's equity	<u>\$ 1</u>	<u>\$ 1</u>

The accompanying notes are an integral part of these Balance Sheets.

**RESTORATION HARDWARE HOLDINGS, INC.
NOTES TO BALANCE SHEETS**

NOTE 1—THE COMPANY

Restoration Hardware Holdings, Inc. (the “Company”), a Delaware corporation, was formed on August 18, 2011 and capitalized on September 2, 2011 as a holding company for the purposes of facilitating an initial public offering of common equity. The Company has not engaged in any business or other activities. It is expected that following an internal reorganization, Restoration Hardware, Inc., a Delaware corporation, will become a direct, wholly owned subsidiary of the Company prior to the completion of the initial public offering.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The balance sheets and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

NOTE 3—SUBSEQUENT EVENTS

Management has evaluated all events and transactions that occurred after January 28, 2012, through April 26, 2012, which is the date the financial statements are available to be issued. No material subsequent events have occurred since January 28, 2012 that require recognition or disclosure in these financial statements.

RESTORATION HARDWARE HOLDINGS, INC.
BALANCE SHEETS

(In thousands, except share amounts)
(Unaudited)

	<u>January 28,</u> <u>2012</u>	<u>April 28,</u> <u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ <u>1</u>	\$ <u>1</u>
Total assets	<u>\$ 1</u>	<u>\$ 1</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Commitments and contingencies	\$ —	\$ —
Stockholder's equity:		
Common stock, zero par value, 1,000 shares authorized, 1,000 shares issued and outstanding as of both January 28, 2012 and April 28, 2012	—	—
Additional paid-in capital	<u>1</u>	<u>1</u>
Total liabilities and stockholder's equity	<u>\$ 1</u>	<u>\$ 1</u>

The accompanying notes are an integral part of these Balance Sheets.

RESTORATION HARDWARE HOLDINGS, INC.
NOTES TO BALANCE SHEETS
(Unaudited)

NOTE 1—THE COMPANY

Restoration Hardware Holdings, Inc. (the “Company”), a Delaware corporation, was formed on August 18, 2011 and capitalized on September 2, 2011 as a holding company for the purposes of facilitating an initial public offering of common equity. The Company has not engaged in any business or other activities. It is expected that following an internal reorganization, Restoration Hardware, Inc., a Delaware corporation, will become a direct, wholly owned subsidiary of the Company prior to the completion of the initial public offering.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The balance sheets and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States.

Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

NOTE 3—SUBSEQUENT EVENTS

Management has evaluated all events and transactions that occurred after April 28, 2012, through June 25, 2012, which is the date the financial statements are available to be issued. No material subsequent events have occurred since April 28, 2012 that require recognition or disclosure in these financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of Restoration Hardware, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive loss, stockholders' equity and cash flows present fairly, in all material respects, the financial position of Restoration Hardware, Inc. and its subsidiaries at January 29, 2011, and January 28, 2012, and the results of their operations and their cash flows for the years ended January 30, 2010, January 29, 2011, and January 28, 2012 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP
San Francisco, CA

April 26, 2012, except for the change in the presentation of comprehensive income discussed in Note 3, as to which the date is June 25, 2012.

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RESTORATION HARDWARE, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	January 29, 2011	January 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,364	\$ 8,511
Accounts receivable—net	4,462	11,759
Merchandise inventories	206,406	245,876
Prepaid expense and other current assets	20,361	56,731
Total current assets	244,593	322,877
Property and equipment—net	76,450	83,558
Goodwill	122,603	122,595
Trademarks	47,100	47,100
Other intangible assets—net	8,793	5,426
Other assets	2,452	5,253
Total assets	<u>\$ 501,991</u>	<u>\$ 586,809</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 90,726	\$ 105,694
Deferred revenue and customer deposits	14,001	25,419
Other current liabilities	25,000	30,861
Total current liabilities	129,727	161,974
Revolving line of credit	111,837	107,502
Term loan	—	14,798
Deferred rent and lease incentives	18,130	19,851
Deferred tax liabilities	17,853	22,153
Other long-term obligations	8,640	10,069
Total liabilities	286,187	336,347
Commitments and contingencies (See Note 14 to the consolidated financial statements)	—	—
Stockholders' equity:		
Common stock, \$0.01 par value, 1,000 shares authorized, 100 shares issued and outstanding as of both January 29, 2011 and January 28, 2012	—	—
Additional paid-in capital	279,126	293,280
Accumulated other comprehensive income	987	1,150
Accumulated deficit	(64,309)	(43,968)
Total stockholders' equity	215,804	250,462
Total liabilities and stockholders' equity	<u>\$ 501,991</u>	<u>\$ 586,809</u>

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

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RESTORATION HARDWARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)

	Year Ended		
	January 30, 2010	January 29, 2011	January 28, 2012
Net revenues	\$ 625,685	\$ 772,752	\$ 958,084
Cost of goods sold	<u>412,629</u>	<u>501,132</u>	<u>601,735</u>
Gross profit	213,056	271,620	356,349
Selling, general and administrative expenses	<u>238,889</u>	<u>275,859</u>	<u>329,753</u>
Income (loss) from operations	(25,833)	(4,239)	26,596
Interest expense	<u>(3,241)</u>	<u>(3,150)</u>	<u>(5,134)</u>
Income (loss) before income taxes	(29,074)	(7,389)	21,462
Income tax expense (benefit)	<u>(423)</u>	<u>685</u>	<u>1,121</u>
Net income (loss)	<u>\$ (28,651)</u>	<u>\$ (8,074)</u>	<u>\$ 20,341</u>
Basic and diluted net income (loss) per share	\$(286,510)	\$ (80,740)	\$ 203,410
Shares used in computing basic and diluted net income (loss) per share	100	100	100
Pro forma basic and diluted net income per share (unaudited)			\$
Pro forma shares used in computing basic and diluted net income per share (unaudited)			

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

RESTORATION HARDWARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)

	<u>Year Ended</u>		
	<u>January 30,</u> <u>2010</u>	<u>January 29,</u> <u>2011</u>	<u>January 28,</u> <u>2012</u>
Net income (loss)	\$ (28,651)	\$ (8,074)	\$ 20,341
Foreign currency translation adjustment—net of tax	1,576	657	163
Total comprehensive income (loss)	<u>\$ (27,075)</u>	<u>\$ (7,417)</u>	<u>\$ 20,504</u>

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

RESTORATION HARDWARE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balances—January 31, 2009	100	\$ —	\$267,500	\$ (1,246)	\$ (27,584)	\$ 238,670
Capital contribution	—	—	5,000	—	—	5,000
Capital contribution—management fee	—	—	3,892	—	—	3,892
Stock-based compensation	—	—	592	—	—	592
Net loss	—	—	—	—	(28,651)	(28,651)
Foreign currency translation adjustment—net of tax	—	—	—	1,576	—	1,576
Comprehensive loss	—	—	—	—	—	—
Balances—January 30, 2010	100	—	276,984	330	(56,235)	221,079
Stock-based compensation	—	—	2,142	—	—	2,142
Net loss	—	—	—	—	(8,074)	(8,074)
Foreign currency translation adjustment—net of tax	—	—	—	657	—	657
Comprehensive loss	—	—	—	—	—	—
Balances—January 29, 2011	100	—	279,126	987	(64,309)	215,804
Stock-based compensation	—	—	1,804	—	—	1,804
Capital contribution—executive compensation	—	—	6,350	—	—	6,350
Capital contribution—management fee	—	—	6,000	—	—	6,000
Net income	—	—	—	—	20,341	20,341
Foreign currency translation adjustment—net of tax	—	—	—	163	—	163
Comprehensive income	—	—	—	—	—	—
Balances—January 28, 2012	<u>100</u>	<u>\$ —</u>	<u>\$293,280</u>	<u>\$ 1,150</u>	<u>\$ (43,968)</u>	<u>\$ 250,462</u>

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

RESTORATION HARDWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	January 30, 2010	January 29, 2011	January 28, 2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	\$ (28,651)	\$ (8,074)	\$ 20,341
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	43,065	31,263	29,186
Net non-cash charges resulting from inventory fair value adjustment	(12,780)	—	—
Impairment of property and equipment	2,304	2,115	—
Loss on disposal of property and equipment	—	—	674
Stock-based compensation expense	592	2,142	1,804
Capital contribution—executive compensation	—	—	6,350
Capital contribution—management fee paid by Parent on behalf of the Company	3,892	—	6,000
Deferred income taxes	(179)	(427)	4,299
Amortization of financing fees	193	193	573
Change in assets and liabilities:			
Accounts receivable	3,804	68	(7,280)
Merchandise inventories	34,953	(57,103)	(39,475)
Prepaid expense and other current assets	(1,009)	(1,477)	(36,371)
Other assets	704	(797)	(573)
Accounts payable and accrued expenses	8,202	5,475	14,374
Deferred revenue and customer deposits	1,188	2,503	11,418
Other current liabilities	(208)	3,395	3,915
Deferred rent and lease incentives	1,236	8,638	1,732
Other long-term obligations	(238)	276	154
Net cash provided by (used in) operating activities	<u>57,068</u>	<u>(11,810)</u>	<u>17,121</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(2,024)	(39,907)	(25,593)
Net cash used in investing activities	<u>(2,024)</u>	<u>(39,907)</u>	<u>(25,593)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Gross borrowings under revolving line of credit	616,878	875,936	1,007,330
Gross repayments under revolving line of credit	(670,325)	(821,734)	(1,011,937)
Proceeds from issuance of term loan	—	—	15,000
Debt issuance costs	—	—	(2,835)
Payments on capital leases and other long-term obligations	(2,608)	(2,601)	(4,188)
Capital contributions	5,000	—	—
Net cash (used in) provided by financing activities	<u>(51,055)</u>	<u>51,601</u>	<u>3,370</u>
Effects of foreign currency exchange rate translation	594	294	249
Net increase (decrease) in cash and cash equivalents	4,583	178	(4,853)
Cash and cash equivalents			
Beginning of period	8,603	13,186	13,364
End of period	<u>\$ 13,186</u>	<u>\$ 13,364</u>	<u>\$ 8,511</u>
Cash paid for interest	\$ 2,761	\$ 2,068	\$ 3,737
Cash paid for taxes	354	744	1,697
Non-cash transactions:			
Property and equipment acquired under capital lease	—	3,550	7,770
Property and equipment additions in accounts payable	41	454	645
Capital contribution—executive compensation	—	—	6,350
Capital contribution—management fee paid by Parent on behalf of the Company	3,892	—	6,000

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

RESTORATION HARDWARE, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—NATURE OF BUSINESS

Restoration Hardware, Inc., a Delaware corporation, together with its subsidiaries (collectively, the “Company”), is a luxury home furnishings retailer that offers a growing number of categories including furniture, lighting, textiles, bathware, décor, outdoor, garden, and baby and child products. These products are sold through the Company’s stores, catalogs and websites. As of January 28, 2012, the Company operated a total of 74 retail stores and 10 outlet stores in 29 states, the District of Columbia and Canada, and had sourcing operations in Shanghai and Hong Kong.

NOTE 2—ORGANIZATION

In June 2008, the Company completed a merger with a wholly owned subsidiary (“Merger Sub”) of Home Holdings, LLC (“Parent”), a Delaware limited liability company, pursuant to which Merger Sub merged with and into the Company and the Company became a direct wholly owned subsidiary of Parent (the “Acquisition”). Parent is controlled by investment funds affiliated with Catterton Management Company, LLC (“Catterton”) and Tower Three Partners, LLC (“Tower Three”). In addition, certain of the Company’s stockholders prior to the merger (including Mr. Friedman, the Company’s Chairman and Co-Chief Executive Officer, and certain funds affiliated with GJK Capital Advisors, LLC (“Glenhill”)) exchanged their shares of the Company’s common stock for equity interests in Parent in connection with the Acquisition.

Subsequent to the Acquisition, Parent has transferred an additional \$40 million to the Company, which was originally contributed by Parent’s equityholders to Parent, and is recorded as additional paid-in capital on the consolidated statements of stockholders’ equity. Parent transferred \$35 million of such funds to the Company in 2008 and \$5 million of such funds to the Company in fiscal 2009.

In connection with the Acquisition, goodwill of \$122.3 million was recognized by the Company.

NOTE 3—SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Accordingly, all intercompany balances and transactions have been eliminated through the consolidation process.

Fiscal Years

The Company’s fiscal year ends on the Saturday closest to January 31. As a result, the Company’s fiscal year may include 53 weeks. The fiscal years ended January 30, 2010 (“fiscal 2009”), January 29, 2011 (“fiscal 2010”), and January 28, 2012 (“fiscal 2011”) each consisted of 52 weeks.

Use of Accounting Estimates

The preparation of the Company’s consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and such differences could be material to the consolidated financial statements.

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Cash and Cash Equivalents

The Company considers highly liquid investments with original maturities of three months or less to be cash equivalents.

Concentration of Credit Risk

The Company maintains its cash and cash equivalent accounts in financial institutions in both U.S. dollar and Canadian dollar denominations. Accounts at the U.S. institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 and accounts at the Canadian institutions are insured by the Canada Deposit Insurance Corporation ("CDIC") up to \$100,000 Canadian dollars. As of January 28, 2012, the Company had four U.S. bank account balances that were in excess of the FDIC insurance limit. No Canadian bank account balances were in excess of the CIDC insurance limit as of January 28, 2012. The Company performs ongoing evaluations of these institutions to limit its concentration of credit risk.

Accounts Receivable

Accounts receivable consist primarily of receivables from the Company's credit card processors for sales transactions and tenant improvement allowances from the Company's landlords in connection with new leases. Accounts receivable is presented net of allowance for doubtful accounts which is recorded on a specific identification basis. The allowance for doubtful accounts was not significant as of January 29, 2011 and January 28, 2012.

Merchandise Inventories

The Company's merchandise inventories are comprised of finished goods and are carried at the lower of cost or market, with cost determined on a weighted average cost method and market determined based on the estimated net realizable value. To determine if the value of inventory should be marked down below original cost, the Company considers current and anticipated demand, customer preference and the merchandise age. The inventory value is adjusted periodically to reflect current market conditions, which requires management judgments that may significantly affect the ending inventory valuation, as well as gross margin. The significant estimates used in inventory valuation are obsolescence (including excess and slow-moving inventory and lower of cost or market reserves) and estimates of inventory shrinkage. The Company adjusts its inventory for obsolescence based on historical trends, aging reports, specific identification and its estimates of future retail sales prices.

Reserves for shrinkage are estimated and recorded throughout the period as a percentage of net sales based on historical shrinkage results and current inventory levels. Actual shrinkage is recorded throughout the year based upon periodic cycle counts and the results of the Company's annual physical inventory count. Actual inventory shrinkage and obsolescence can vary from estimates due to factors including the mix of the Company's inventory (which ranges from large furniture to decorative accessories) and execution against loss prevention initiatives in the Company's stores, distribution centers, off-site storage locations and with its third-party transportation providers.

Due to these factors, the Company's obsolescence and shrinkage reserves contain uncertainties. Both estimates have calculations that require management to make assumptions and to apply judgment regarding a number of factors, including market conditions, the selling environment, historical results and current inventory trends. If actual obsolescence or shrinkage estimates change from the Company's original estimates, the Company will adjust its inventory reserves accordingly throughout the period. Management does not believe that changes in the assumptions used in these estimates would have a significant effect on the Company's net income (loss) or inventory balances. The Company's inventory reserve balances were \$3.7 million and \$5.6 million as of January 29, 2011 and January 28, 2012, respectively.

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The allocation of the purchase price accounting as a result of the Acquisition had the net effect of reducing the carrying amount of the Company's inventory by \$47.9 million at the time of the Acquisition. This decrease in inventory value was amortized to cost of goods sold over a nine-month period, resulting in a decrease to costs of goods sold of \$12.8 million in fiscal 2009. As this amount was fully amortized in fiscal 2009, there was no impact in fiscal 2010 or fiscal 2011.

Prepaid Catalog and Advertising Expenses

Advertising expenses primarily represent the costs associated with the Company's catalog mailings, as well as print and website marketing. All advertising costs are expensed as incurred, with the exception of prepaid catalog expenses. Prepaid catalog expenses consist primarily of third-party incremental direct costs to prepare, print and distribute catalogs. Such costs are capitalized as prepaid catalog expenses and are amortized over their expected period of future benefit. Such amortization is based upon the ratio of actual revenues to the total of actual and estimated future revenues on an individual catalog basis. Estimated future revenues are based upon various factors such as the total number of catalogs and pages circulated, the probability and magnitude of consumer response and the assortment of merchandise offered. Each catalog is generally fully amortized within a six- to seven-month period, with the majority of the amortization occurring within the first three to four months. Prepaid catalog expenses are evaluated for realizability on a regular basis by comparing the carrying amount associated with each catalog to the estimated probable remaining future sales associated with that catalog. The Company had \$6.6 million and \$28.6 million of prepaid catalog costs that are included in prepaid expense and other current assets on the consolidated balance sheets as of January 29, 2011, and January 28, 2012, respectively.

Advertising costs, recorded in selling, general and administrative expenses, were \$43.6 million, \$56.1 million, and \$66.9 million in fiscal 2009, fiscal 2010, and fiscal 2011, respectively.

Property and Equipment

Property and equipment is recorded at cost, net of accumulated depreciation and amortization. Depreciation is calculated using the straight-line method, generally using the following useful lives:

<u>Category of Property and Equipment</u>	<u>Useful Life</u>
Building	40 years
Furniture, fixtures and equipment	3 to 7 years
Machinery and equipment	3 to 5 years
Computer software	3 years

The cost of leasehold improvements and lease acquisitions is amortized over the lesser of the useful life of the asset or the applicable lease term.

Interest is capitalized on construction in progress and software projects during the period in which expenditures have been made, activities are in progress to prepare the asset for its intended use and actual interest costs are being incurred.

Assets acquired under non-cancelable leases, which meet the criteria of capital leases, are capitalized in property and equipment and amortized over the lesser of the useful life of the asset or the applicable lease term.

The land purchased by the Company is recorded at cost and is a non-depreciable asset.

Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of assets may not be recoverable.

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Intangible Assets

Intangible assets reflect the value assigned to trademarks, customer relationships, core technologies and the fair market value of the Company's leases at the time of the Acquisition. Customer relationships, core technologies and the fair market value of the leases are amortized over their useful life. The Company does not amortize trademarks as the Company defines the life of the asset as indefinite.

Impairment

Goodwill

The Company evaluates goodwill annually to determine whether it is impaired. Goodwill is also tested between annual impairment tests if an event occurs or circumstances change that would indicate that the fair value of a reporting unit is less than its carrying amount. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset; general economic conditions, such as increasing Treasury rates or unexpected changes in GDP growth; a change in the Company's market share; budget-to-actual performance and consistency of operating margins and capital expenditures; a product recall or an adverse action or assessment by a regulator; or changes in management, key personnel, etc. If an impairment indicator exists, the Company tests the intangible asset for recoverability. The Company has identified only one single reporting unit. The Company selected the fourth fiscal quarter to perform its annual goodwill impairment testing.

In fiscal 2011, the Company elected to early adopt the option to qualitatively assess goodwill impairment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Accordingly, the Company performed a qualitative analysis examining key events and circumstances affecting fair value and determined it is more likely than not that the reporting unit's fair value is greater than its carrying amount. As such, no further analysis was required for purposes of testing of the Company's goodwill for impairment.

If goodwill is not qualitatively assessed, a two-step quantitative approach is used. In the first step, the Company compares the fair value of the reporting unit, generally defined as the same level as or one level below an operating segment, to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and the Company is not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then the Company would record an impairment loss equal to the difference.

The Company's tests for impairment of goodwill resulted in a determination that the fair value of the Company substantially exceeded the carrying value of the Company's net assets in fiscal 2010 and fiscal 2011. No impairment to goodwill has been recorded in any period.

Trademarks

The Company annually evaluates whether trademarks continue to have an indefinite life. Trademarks are reviewed for impairment annually in the fourth quarter and may be reviewed more frequently if indicators of impairment are present. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset, a product recall or an adverse action or assessment by a regulator.

The impairment review is performed by comparing the carrying value to the estimated fair value, determined using a discounted cash flow methodology. Factors used in the valuation of intangible assets with indefinite lives include, but are not limited to, management's plans for future operations, brand initiatives, recent operating results and projected future cash flows. The Company tested the trademarks for impairment and concluded that there has been no impairment in any period.

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Long-Lived Assets

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset, a product recall or an adverse action or assessment by a regulator. If the sum of the estimated undiscounted future cash flows related to the asset are less than the carrying value, the Company recognizes a loss equal to the difference between the carrying value and the fair value, usually determined by the estimated discounted cash flow analysis of the asset.

The Company evaluates long-lived tangible assets at an individual store level, which is the lowest level at which independent cash flows can be identified. The Company evaluates corporate assets or other long-lived assets that are not store-specific at the consolidated level.

Since there is typically no active market for the Company's long-lived tangible assets, the Company estimates fair values based on the expected future cash flows. The Company estimates future cash flows based on store-level historical results, current trends, and operating and cash flow projections. The Company's estimates are subject to uncertainty and may be affected by a number of factors outside its control, including general economic conditions and the competitive environment. While the Company believes its estimates and judgments about future cash flows are reasonable, future impairment charges may be required if the expected cash flow estimates, as projected, do not occur or if events change requiring the Company to revise its estimates.

The Company recorded a \$2.3 million and \$2.1 million impairment charge on long-lived assets of certain underperforming stores in fiscal 2009 and fiscal 2010, respectively, which is included in cost of goods sold on the consolidated statements of operations. The Company did not record an impairment charge on long-lived assets in fiscal 2011.

Capital and Operating Leases

The Company classifies leases at the inception of the lease as either a capital lease or an operating lease. A lease is classified as a capital lease if any of the following conditions are met: (i) the ownership of the leased property is transferred to the lessee by the end of the lease term, (ii) there is a bargain purchase option, (iii) the lease term is at least 75% of the property's estimated remaining economic life or (iv) the present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property. A capital lease is accounted for as if there were an acquisition of an asset and an incurrence of an obligation at the inception of the lease. All leases not identified as capital leases are accounted for as operating leases.

The Company leases stores, distribution facilities, office space and certain machinery and equipment under various operating leases. Most real estate lease agreements contain, among other terms and conditions, tenant improvement allowances, rent holidays, lease premiums, rent escalation clauses and contingent rent provisions. For purposes of recognizing lease incentives, premiums and minimum rental expenses on a straight-line basis over the terms of the leases, the Company uses the date of initial possession to begin amortization, which is generally when the Company enters the space and begins to make improvements in preparation of intended use. For tenant improvement allowances and rent holidays, the Company records a deferred rent liability, reported as a long-term liability on the consolidated balance sheets, and amortizes the deferred rent over the term of the lease as an adjustment to rent expense.

For scheduled rent changes during the lease terms or for rental payments commencing at a date other than the date of initial occupancy (rent holidays), the Company records minimum rental expenses on a straight-line basis over the term of the lease.

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Certain leases provide for contingent rents, which are determined as a percentage of gross sales in excess of specified levels. The Company records a contingent rent liability in accounts payable and accrued expenses on the consolidated balance sheets and the corresponding rent expense when specified levels have been achieved or when management estimates that achieving the specified levels during the lease term is probable.

Debt Issuance Costs

The Company capitalizes debt issuance costs related to its revolving line of credit and term loan. Capitalized costs related to the revolving line of credit are included in other assets on the consolidated balance sheets as deferred financing fees. Capitalized costs paid to lenders relating to the term loan are netted against the term loan on the consolidated balance sheets. Deferred financing fees are amortized utilizing the straight-line method and are included in interest expense on the consolidated statements of operations.

Revenue Recognition

The Company recognizes revenues and the related cost of goods sold when merchandise is received by its customers. Revenues from “cash-and-carry” store sales is recognized at the point of sale in the store. Revenues from direct-to-customer and home-delivered sales is recognized when the merchandise is delivered to the customer. Discounts provided to customers are accounted for as a reduction of sales.

The Company recognizes shipping and handling fees as revenue when the merchandise is shipped to the customer. Costs of shipping and handling are included in cost of goods sold.

Sales tax collected is not recognized as revenue but is included in accounts payable and accrued expenses on the consolidated balance sheets as it is ultimately remitted to governmental authorities.

The Company reserves for projected merchandise returns. Merchandise returns are often resaleable merchandise and are refunded by issuing the same payment tender of the original purchase. Merchandise exchanges of the same product and price are not considered merchandise returns and, therefore, are excluded when calculating the sales returns reserve.

The Company’s customers may return purchased items for an exchange or refund. The Company provides an allowance for sales returns based on historical return rates. A summary of the allowance for sales returns, presented net of cost of goods sold, is as follows (*in thousands*):

	<u>Year Ended</u>		
	<u>January 30, 2010</u>	<u>January 29, 2011</u>	<u>January 28, 2012</u>
Balance at beginning of fiscal year	\$ 2,119	\$ 3,145	\$ 3,403
Provision for sales returns	78,107	83,393	102,875
Actual sales returns	(77,081)	(83,135)	(103,097)
Balance at end of fiscal year	<u>\$ 3,145</u>	<u>\$ 3,403</u>	<u>\$ 3,181</u>

Deferred Revenue and Customer Deposits

Deferred revenue represents the revenue associated with orders that have been shipped by the Company to its customers but have not yet been received by the customer. As the Company recognizes revenue when the merchandise is received by its customers, it is included as deferred revenue on the consolidated balance sheets while in-transit.

Customer deposits represent payments made by customers on custom orders. At the time of purchase the Company collects deposits for all custom orders equivalent to 50% of the customer purchase price. Custom order deposits are recognized as revenue when the merchandise is received by the customer or at the time of cancellation of the order by the customer.

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Gift Certificates and Merchandise Credits

The Company sells gift certificates and issues merchandise credits to its customers in its stores and through its websites and product catalogs. Such gift certificates and merchandise credits do not have expiration dates. Revenue associated with gift certificates and merchandise credits is deferred until either (i) redemption of the gift certificate and merchandise credits or (ii) when the likelihood of redemption is remote and there exists no legal obligation to remit the value of unredeemed gift certificates or merchandise credits to the relevant jurisdictions (breakage). The breakage rate is based on monitoring of certificates issued, actual certificate redemptions and the Company's analysis of when it believes it is remote that redemptions will occur.

Redeemed gift certificates and merchandise credits are recorded in net revenues. Breakage resulted in a reduction of selling, general and administrative expenses on the consolidated statements of operations of \$2.7 million, \$3.0 million, and \$3.2 million in fiscal 2009, fiscal 2010, and fiscal 2011, respectively.

Self Insurance

The Company maintains insurance coverage for significant exposures, as well as those risks that, by law, must be insured. In the case of the Company's health care coverage for employees, the Company has a managed self insurance program related to claims filed. Expenses related to this self insured program are computed on an actuarial basis, based on claims experience, regulatory requirements, an estimate of claims incurred but not yet reported ("IBNR") and other relevant factors. The projections involved in this process are subject to uncertainty related to the timing and amount of claims filed, levels of IBNR, fluctuations in health care costs and changes to regulatory requirements.

The Company is not self-insured for workers' compensation claims related to incidents incurred after October 31, 2007. The Company is self-insured for all workers' compensation claims prior to November 1, 2007.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with applicable guidance which requires the fair value of stock-based payments to be recognized in the consolidated financial statements as compensation expense over the requisite service period. Compensation expense is recognized on a graded basis, net of forfeitures, over the requisite service period for the fair value of awards that actually vest.

Parent has granted performance-based units in Parent that vest and become deliverable upon achievement or satisfaction of performance conditions specified in the performance agreement or upon the return on investment attained by certain of the equity investors in Parent at defined liquidity events, including an initial public offering or certain sale or merger transactions. The Company estimates the fair value of performance-based units awarded to employees at the grant date based on the fair value of the Company on such date. The Company also considers the probability of achieving the established performance targets in determining its stock-based compensation with respect to these awards. The Company recognizes compensation cost over the performance period. When the performance is related to a specific event occurring in the future, the Company recognizes the full expense at the time of the event.

Cost of Goods Sold

Cost of goods sold includes, but is not limited to, the direct cost of purchased merchandise, inventory shrinkage, inventory reserves and write-downs, inbound freight, all freight costs to get merchandise to the Company's stores, design and buying costs, occupancy costs related to store operations, such as rent, property tax and common area maintenance, depreciation and amortization, and all logistics costs associated with shipping product to customers.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses include all operating costs not included in cost of goods sold. These expenses include payroll, expenses related to many of the Company's operations at its headquarters, including utilities, depreciation and amortization, store expenses other than occupancy and marketing expense, which primarily includes catalog production, mailing and print advertising costs.

Store Pre-Opening Activities

All store pre-opening costs are expensed as incurred.

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period. Diluted earnings (loss) per share is computed as net income (loss) divided by the weighted average number of common shares outstanding for the period plus common stock equivalents consisting of shares subject to stock-based awards with exercise prices less than or equal to the average market price of the Company's common stock for the period, to the extent their inclusion would be dilutive. Potential dilutive securities are excluded from the computation of diluted earnings (loss) per share if their effect is anti-dilutive. The Company did not have any anti-dilutive securities in fiscal 2009, fiscal 2010, or fiscal 2011 because all securities granted in those periods were granted by Parent.

Income Taxes

The Company accounts for income taxes under an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's consolidated financial statements or tax returns. In estimating future tax consequences, the Company generally takes into account all expected future events then known to it, other than changes in the tax law or rates which have not yet been enacted and which are not permitted to be considered. Accordingly, the Company may record a valuation allowance to reduce its net deferred tax assets to the amount that is more-likely-than-not to be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based upon management's best estimate of the recoverability of the Company's net deferred tax assets. Future taxable income and ongoing prudent and feasible tax planning are considered in determining the amount of the valuation allowance, and the amount of the allowance is subject to adjustment in the future. Specifically, in the event the Company were to determine that it is not more-likely-than-not able to realize its net deferred tax assets in the future, an adjustment to the valuation allowance would decrease income in the period such determination is made. This allowance does not alter the Company's ability to utilize the underlying tax net operating loss and credit carryforwards in the future, the utilization of which is limited to achieving future taxable income.

The accounting standard for uncertainty in income taxes prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. Differences between tax positions taken in a tax return and amounts recognized in the financial statements generally result in an increase in a liability for income taxes payable or a reduction of an income tax refund receivable, or a reduction in a deferred tax asset or an increase in a deferred tax liability, or both. The Company recognizes interest and penalties related to unrecognized tax benefits in tax expense.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and borrowings under the revolving line of credit approximate their estimated fair values.

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The degree of judgment used in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established and the characteristics specific to the transaction. Financial instruments with readily available active quoted prices for which fair value can be measured generally will have a higher degree of pricing observability and a lesser degree of judgment used in measuring fair value. Conversely, financial instruments rarely traded or not quoted will generally have less, or no, pricing observability and a higher degree of judgment used in measuring fair value.

The Company's financial assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories:

- Level 1—Quoted prices are available in active markets for identical investments as of the reporting date.
- Level 2—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3—Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs used in the determination of fair value require significant management judgment or estimation.

The Company's financial assets and liabilities were classified as Level 1 as of January 29, 2011 and January 28, 2012.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). The Company's other comprehensive income (loss) consists of foreign currency translation adjustments.

Foreign Currency Translation

Local currencies are generally considered the functional currencies outside the United States of America. Assets and liabilities denominated in non-U.S. currencies are translated at the rate of exchange prevailing on the date of the consolidated balance sheets and revenues and expenses are translated at average rates of exchange for the period. The related translation gains (losses) are reflected in the accumulated other comprehensive income (loss) section of the consolidated statements of stockholders' equity. Foreign currency gains (losses) resulting from foreign currency transactions are included in selling, general and administrative expenses on the consolidated statements of operations and have not been material in all periods presented.

Recently Issued Accounting Standards

In September 2011, the Financial Accounting Standards Board ("FASB") issued guidance that revises the requirements around how entities test goodwill for impairment. The guidance allows companies to perform a qualitative assessment before calculating the fair value of the reporting unit. If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. The Company early adopted this guidance effective for its fiscal 2011 annual goodwill impairment test. The adoption of this guidance resulted in a change in how the Company performed its goodwill impairment assessment; however, it did not have a material impact on its consolidated financial statements.

In June 2011, the FASB issued guidance that revises the manner in which entities present comprehensive income in their financial statements. The guidance requires entities to report the components of comprehensive income in either a single, continuous statement or two separate but consecutive statements. In December 2011,

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the FASB issued guidance which defers certain requirements set forth in June 2011. These amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income in all periods presented. Both sets of guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is to be applied retrospectively. The adoption of this guidance will not have a material impact on the Company's consolidated financial statements, however, the Company expects the adoption to result in a change in how it presents the components of comprehensive income, which is currently presented within its consolidated statements of stockholders' equity.

In May 2011, the FASB issued guidance to amend the fair value measurement and disclosure requirements. The guidance requires the disclosure of quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion around the sensitivity of the measurements. The guidance is effective during interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. The adoption of this guidance will not have a material impact on the disclosures in the notes to the Company's consolidated financial statements.

NOTE 4—PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following (*in thousands*):

	January 29, 2011	January 28, 2012
Prepaid catalog	\$ 6,590	\$ 28,608
Vendor deposits	2,413	9,399
Prepaid expenses	9,327	8,923
Deferred tax assets	58	4,161
Other current assets	1,973	5,640
Total prepaid expenses and other current assets	<u>\$ 20,361</u>	<u>\$ 56,731</u>

NOTE 5—PROPERTY AND EQUIPMENT

Property and equipment consists of the following (*in thousands*):

	January 29, 2011	January 28, 2012
Leasehold improvements (1)	\$ 100,537	\$ 118,898
Land	2,388	2,388
Building	2,205	2,205
Furniture, fixtures and equipment	10,285	16,166
Machinery and equipment	675	4,823
Computer software	24,109	27,194
Equipment under capital leases (2)	12,309	13,918
Total property and equipment	152,508	185,592
Less—accumulated depreciation and amortization	(76,058)	(102,034)
Total property and equipment—net	<u>\$ 76,450</u>	<u>\$ 83,558</u>

(1) Leasehold improvements include construction in progress of \$4.1 million and \$9.1 million as of January 29, 2011, and January 28, 2012, respectively.

(2) Accumulated depreciation and amortization include accumulated amortization related to equipment under capital leases of \$11.2 million and \$8.5 million as of January 29, 2011, and January 28, 2012, respectively.

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The Company recorded depreciation expense of \$25.9 million, \$27.8 million, and \$26.2 million in fiscal 2009, fiscal 2010, and fiscal 2011, respectively.

NOTE 6—GOODWILL AND INTANGIBLE ASSETS

The following sets forth the goodwill and intangible assets as of January 29, 2011 (*dollar amounts in thousands*):

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Foreign Currency Translation</u>	<u>Net Book Value January 29, 2011</u>	<u>Useful Life</u>
Intangible assets subject to amortization:					
Core technologies	\$ 6,580	\$ (3,509)	\$ —	\$ 3,071	5 years
Fair value of leases					
Fair market write-up	13,910	(8,236)	48	5,722	(2)
Fair market write-down	(3,070)	1,361	—	(1,709)(1)	(2)
Total intangible assets subject to amortization	17,420	(10,384)	48	7,084	
Intangible assets not subject to amortization:					
Goodwill	122,285	—	318	122,603	
Trademarks	47,100	—	—	47,100	
Total intangible assets	<u>\$186,805</u>	<u>\$ (10,384)</u>	<u>\$ 366</u>	<u>\$ 176,787</u>	

- (1) The fair market write-down of leases is included in other long-term obligations on the consolidated balance sheets.
- (2) The fair value of each lease is amortized over the life of the respective lease. The longest lease for which a fair value adjustment was recorded has a termination date in January 2019.

The following sets forth the goodwill and intangible assets as of January 28, 2012 (*dollar amounts in thousands*):

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Foreign Currency Translation</u>	<u>Net Book Value January 28, 2012</u>	<u>Useful Life</u>
Intangible assets subject to amortization:					
Core technologies	\$ 6,580	\$ (4,825)	\$ —	\$ 1,755	5 years
Fair value of leases					
Fair market write-up	11,988	(8,365)	48	3,671	(2)
Fair market write-down	(2,591)	1,448	—	(1,143)(1)	(2)
Total intangible assets subject to amortization	15,977	(11,742)	48	4,283	
Intangible assets not subject to amortization:					
Goodwill	122,285	—	310	122,595	
Trademarks	47,100	—	—	47,100	
Total intangible assets	<u>\$185,362</u>	<u>\$ (11,742)</u>	<u>\$ 358</u>	<u>\$ 173,978</u>	

- (1) The fair market write-down of leases is included in other long-term obligations on the consolidated balance sheets.
- (2) The fair value of each lease is amortized over the life of the respective lease. The longest lease for which a fair value adjustment was recorded has a termination date in January 2019.

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Core technologies represents the fair market value of Company-developed technologies that had been fully depreciated at the time of the Acquisition. The fair value of leases reflects the Company's favorable and unfavorable positions of lease terms for its stores, distribution centers and corporate headquarters at the time of the Acquisition.

The Company recorded amortization expense related to intangible assets of \$17.1 million, \$3.4 million, and \$2.8 million in fiscal 2009, fiscal 2010, and fiscal 2011, respectively.

The following table sets forth the remaining amortization of the intangible assets based on a straight-line method of amortization over the respective useful lives as of January 28, 2012 (*in thousands*):

2012	\$ 2,219
2013	1,204
2014	690
2015	95
2016	56
Thereafter	19
Total amortization	<u>\$ 4,283</u>

NOTE 7—ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following (*in thousands*):

	January 29, 2011	January 28, 2012
Accounts payable	\$ 51,409	\$ 47,440
Accrued compensation	16,698	21,168
Accrued freight	5,925	8,896
Accrued occupancy	4,309	6,203
Accrued catalog	101	7,176
Accrued sales taxes	6,881	8,472
Accrued professional fees	1,557	2,494
Other accrued expenses	3,846	3,845
Total accounts payable and accrued expenses	<u>\$ 90,726</u>	<u>\$ 105,694</u>

Accounts payable included negative cash balances due to outstanding checks of \$6.0 million and \$12.4 million as of January 29, 2011, and January 28, 2012, respectively.

Other current liabilities consist of the following (*in thousands*):

	January 29, 2011	January 28, 2012
Unredeemed gift certificate and merchandise credit liability	\$ 16,240	\$ 20,742
Allowance for sales returns	3,403	3,181
Capital lease obligation—current	2,392	4,114
Other liabilities	2,965	2,824
Total other current liabilities	<u>\$ 25,000</u>	<u>\$ 30,861</u>

NOTE 8—LINE OF CREDIT AND TERM LOAN

In August 2011, the Company, along with its Canadian subsidiary, Restoration Hardware Canada, Inc., entered into a revolving line of credit agreement with Bank of America, N.A., as administrative agent, and

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certain other lenders. This credit agreement modified a previous facility in which the Company had a revolving line of credit for up to \$190.0 million. As a result of the modification, the unamortized deferred financing fees related to the previous revolving line of credit on the date of the modification of \$0.2 million will be amortized over the life of the new revolving line of credit, which has a maturity date of August 3, 2016. Under this amended credit agreement (which was further amended in January 2012 to incorporate a term loan facility), the Company has (i) a revolving line of credit available of up to \$317.5 million, of which \$10.0 million is available to Restoration Hardware Canada, Inc., and (ii) a \$15.0 million term loan with a maturity date of July 6, 2015.

Under the terms of the credit agreement, the Company may increase the amount of the revolving line of credit by up to an additional \$100 million provided that, among other things, the lenders agree to participate in the increased loan commitments under the credit facility, no default under the revolving line of credit then exists or would result from such increase and sufficient borrowing base collateral is available to support increased loan amounts.

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). The revolving line of credit is secured by substantially all of the Company'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 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, in the case of Canadian borrowings denominated in Canadian dollars or the U.S. Index Rate or LIBOR for Canadian borrowings denominated in U.S. dollars) plus an applicable margin rate, in each case. The weighted-average interest rate for the revolving line of credit was 2.8% as of January 28, 2012. The term loan bears interest at a rate of LIBOR plus 5.0%, and the interest rate for the term loan was 5.3% as of January 28, 2012.

As of January 28, 2012, \$107.5 million was outstanding under the revolving line of credit and the term loan was \$14.8 million, net of \$0.2 million unamortized debt issuance costs. As of January 28, 2012, the Company's undrawn borrowing availability under the credit facility was \$93.4 million. There were \$5.5 million and \$6.9 million in outstanding letters of credit as of January 29, 2011 and January 28, 2012, respectively.

The Company is required to repay the term loan in quarterly installments of \$1.25 million beginning July 2012 with the final payment in April 2015.

In fiscal 2011, the Company capitalized debt issuance costs of \$2.6 million and \$0.2 million related to the revolving line of credit and term loan, respectively.

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. 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 credit facility and (B) the domestic borrowing base. If the availability under the revolving line of credit is less than the foregoing amount, then the Company is required to maintain a consolidated fixed charge coverage ratio of at least one to one. As of January 28, 2012, the Company is in compliance with all covenants, and if the availability under the revolving line of credit were less than the amount described above, the Company would have been in compliance with the

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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 the Company 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.

NOTE 9—INCOME TAXES

The following is a summary of the income tax expense (benefit) (*in thousands*):

	Year Ended		
	January 30, 2010	January 29, 2011	January 28, 2012
Current			
Federal	\$ (226)	\$ 53	\$ —
State	172	837	331
Foreign	(190)	280	595
Total current tax expense (benefit)	(244)	1,170	926
Deferred			
Federal	92	135	(76)
State	(271)	(397)	223
Foreign	—	(223)	48
Total deferred tax benefit	(179)	(485)	195
Total income tax expense (benefit)	\$ (423)	\$ 685	\$ 1,121

A reconciliation of the federal statutory tax rate to the Company's effective tax rate is as follows:

	Year Ended		
	January 30, 2010	January 29, 2011	January 28, 2012
Provision at federal statutory tax rate	34.0%	34.0%	34.0%
State income taxes—net of federal tax impact	4.1	1.8	5.4
Foreign income	(1.1)	(2.9)	(2.0)
Net adjustments to tax accruals and other	8.2	(3.7)	4.7
Valuation allowance	(42.7)	(28.0)	(49.8)
Stock-based compensation	(0.8)	(10.5)	12.9
Effective tax rate	1.7%	(9.3)%	5.2%

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Significant components of the Company's deferred tax assets and liabilities are as follows (*in thousands*):

	January 29, 2011	January 28, 2012
Current deferred tax assets (liabilities)		
Accrued expense	\$ 6,587	\$ 9,970
State tax benefit	(579)	(1,370)
Inventory	10,033	11,121
Deferred revenue	6,081	12,213
Net operating loss carryforwards	—	27,166
Construction allowance	—	(1,037)
Prepaid expense and other	(3,643)	(12,729)
Current deferred tax assets	18,479	45,334
Valuation allowance	(18,421)	(41,173)
Net current deferred tax assets	58	4,161
Long-term deferred tax assets (liabilities)		
State tax benefit	(2,089)	(892)
Deferred lease credits	(11,213)	4,251
Property and equipment	38,831	(2,061)
Net operating loss carryforwards	14,795	7,525
U.S. impact of Canadian transfer pricing	3,762	3,760
Trademarks	(19,051)	(19,275)
Other	7,009	850
Long-term deferred tax assets (liabilities)	32,044	(5,842)
Valuation allowance	(49,897)	(16,311)
Net long-term deferred tax liabilities	(17,853)	(22,153)
Net deferred tax liabilities	<u>\$ (17,795)</u>	<u>\$ (17,992)</u>

A reconciliation of the valuation allowance is as follows (*in thousands*):

	Year Ended		
	January 30, 2010	January 29, 2011	January 28, 2012
Balance at beginning of fiscal year	\$ 54,221	\$ 65,087	\$ 68,318
Charged to expense	—	(236)	299
Net changes in deferred tax assets and liabilities	10,866	3,467	(11,133)
Balance at end of fiscal year	<u>\$ 65,087</u>	<u>\$ 68,318</u>	<u>\$ 57,484</u>

The Company's accounting for deferred tax consequences represents its best estimate of the likely future tax consequences of events that have been recognized in its financial statements or tax returns and their future probability. In assessing the need for a valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of the deferred tax asset. If, based on the weight of available evidence, it is more likely than not that the deferred tax assets will not be realized, the Company records a valuation allowance.

Due to the historical losses incurred, the Company has recorded a full valuation allowance against the U.S. net deferred tax assets, excluding deferred tax liabilities related to indefinite lived intangibles, as well as against the net deferred tax assets of Shanghai. If the Company achieves cumulative profitability, these deferred tax assets may be available to offset future income taxes.

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As of January 28, 2012, the Company had federal and state net operating loss carryovers of \$83.3 million and \$76.2 million, respectively. The federal and state net operating loss carryovers will expire between 2012 and 2031. Internal Revenue Code Section 382 and similar state rules place a limitation on the amount of taxable income which can be offset by net operating loss carryforwards after a change in ownership (generally greater than 50% change in ownership). The Company cannot give any assurances that it will not undergo an ownership change at a time when this limitation would have a significant effect. Due to these provisions, annual utilization of the net operating loss carryforwards are limited as a result of the Acquisition.

A reconciliation of the exposures related to unrecognized tax benefits is as follows (*in thousands*):

	Year Ended		
	January 30, 2010	January 29, 2011	January 28, 2012
Balance at beginning of fiscal year	\$ 2,866	\$ 8,261	\$ 9,015
Gross (decreases) increases—prior period tax positions	6,202	—	—
Gross increases (decreases)—current period tax positions	(485)	1,048	(14)
Consent for accounting method change	—	—	(6,496)
Lapses in statute of limitations	(322)	(294)	—
Balance at end of fiscal year	<u>\$ 8,261</u>	<u>\$ 9,015</u>	<u>\$ 2,505</u>

A significant portion of the Company's unrecognized tax benefits as of January 29, 2011 was related to an uncertain tax position for advanced payments for the sale of gift cards. The Company filed a request to change its accounting method for advanced payments for the sale of gift cards with the IRS in fiscal 2011 and, during the fourth quarter of fiscal 2011, the IRS approved the Company's request. This approval allowed the Company to increase its tax liability for the impact of the change over a four-year period beginning with its January 28, 2012 tax return. The Company reduced its balance of unrecognized tax benefits by \$6.5 million for the impact of the approval on this uncertain tax position.

As of both January 29, 2011, and January 28, 2012, \$2.5 million of the exposures related to unrecognized tax benefits would affect the effective tax rate if realized and are included in other long-term obligations on the consolidated balance sheets. These amounts are primarily associated with foreign tax exposures. The balance of amounts above represent exposures that would, if realized, reduce the amount of net operating losses that would ultimately be utilized. As of January 28, 2012, \$0.6 million of the exposures related to unrecognized tax benefits will decrease in the next 12 months due to the lapse of statute of limitations.

The Company accounts for interest and penalties related to exposures as a component of income tax expense. The Company has accrued \$1.1 million and \$1.3 million of interest associated with exposures as of January 29, 2011 and January 28, 2012, respectively.

This Company is subject to tax in the United States, Canada, Shanghai and Hong Kong. The Company could be subject to United States federal and state tax examinations for years 2001 and forward by virtue of net operating loss carryforwards available from those years. There are no United States tax examinations currently in progress. The Company may also be subject to audits in Canada for years 2003 and forward. Restoration Hardware Canada, Inc. is currently under audit by the Canada Revenue Agency for the years ended 2006 and 2007 and for the period ended June 16, 2008.

NOTE 10—PRO FORMA NET LOSS PER SHARE (UNAUDITED)

Restoration Hardware Holdings, Inc. (the "Issuer") was incorporated as a Delaware corporation on August 18, 2011, for the purpose of acquiring all of the stock of the Company. Prior to the completion of this offering, the Issuer will acquire all of the outstanding shares of capital stock of the Company. Outstanding units

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under Parent's equity compensation plan, referred to as the Team Resto Ownership Plan, will be converted in connection with this offering into common stock of the Issuer, and the vesting status of the Home Holdings units will carry over to the Issuer's common stock. These transactions are referred to as the "Reorganization."

Unaudited pro forma net income per share for the year ended January 28, 2012, has been computed to give effect to the Reorganization as if such events had been completed as of the beginning of the fiscal year and the share capital resulting therefrom was outstanding for the year ended January 28, 2012. In addition, shares issued in the initial public offering of common stock of the Issuer for proceeds of \$ will be used to repay a portion of the outstanding amounts under the Company's revolving line of credit and term loan, which were \$107.5 million and \$14.8 million, net of unamortized debt issuance costs of \$0.2 million, respectively, as of January 28, 2012. The issuance of the shares and the repayment of the revolving line of credit and term loan are assumed to have occurred as of the beginning of the fiscal year. The Company has assumed that the initial public offering price is \$, the midpoint in the estimated price range set forth on the cover of the prospectus included in the Issuer's Form S-1 Registration Statement.

Pro forma net income has been computed by taking net income and removing interest expense related to debt assumed to be repaid. The interest expense amount has not been adjusted to record the tax effect at the Company's estimated statutory tax rate of 40% as all deferred tax assets have a full valuation allowance as of January 28, 2012.

The following table summarizes pro forma net income and pro forma basic and diluted net income per share computations for the year ended January 28, 2012 (in thousands, except share and per share amounts):

Net income—as reported	\$20,341
Less—interest expense	_____
Pro forma net income	<u>\$</u>
Pro forma weighted-average shares outstanding after Reorganization	_____
Pro forma shares issued to repay revolving line of credit and term loan	_____
Pro forma shares for basic and diluted income per share	_____
Pro forma basic and diluted net income per share	<u>\$</u>

NOTE 11—STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with applicable guidance, which requires the Company to estimate the value of securities issued based upon an option-pricing model and recognize this estimated value as compensation expense over the vesting periods.

In connection with the Acquisition, Parent established the Team Resto Ownership Plan in fiscal 2009. Awards under the Team Resto Ownership Plan are granted by the Parent and are made up of the following:

- Time-based units—time-based units vest in annual installments, generally over a five-year graded vesting period.
- Performance-based units—performance-based units vest based on a return on equity investment to the Company's investors between either two times and three times such investment (the "2X—3X Performance-based Units") or three times and five times such investment (the "3X—5X Performance-based Units").

Under the terms of the Team Resto Ownership Plan, 2X—3X Performance-based Units will vest to the extent cumulative return on equity investment is greater than two times and up to and including three times the original invested capital amount, with proportional vesting in between. At a return on equity investment equal to

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three times the original invested capital amount, 100% of the 2X—3X Performance-based Units vest. In the case of 3X—5X Performance-based Units, these performance-based units will vest to the extent cumulative return on equity investment is greater than three and up to and including five times the original invested capital amount, with proportional vesting in between. In the case of these 3X—5X Performance-based Units, 100% of the units vest at cumulative return on equity investment equal to five times the original invested capital amount. Performance-based units that do not vest will be cancelled for no consideration.

Under the Team Resto Ownership Plan, vesting of performance-based units will occur upon the consummation of an initial public offering to the extent of achievement of the applicable cumulative return on equity investment as provided in the Team Resto Ownership Plan. Return on equity investment will be calculated based upon a return on investment to the Company's investors assuming that its investors had received the initial public offering price for their investments as a result of such offering.

All stock-based compensation expense associated with the grants of units by Parent to the Company's directors, executive officers and employees is recorded by the Company.

As of January 28, 2012, the total number of units issuable under the Team Resto Ownership Plan was 21,045,517. If all 21,045,517 units were issued and fully vested under their terms, such interests would represent 24.9% of all of the outstanding equity interests in Parent on a fully diluted basis. Awards of units reduce the number of units available for future issuance. Cancellations and forfeitures of units previously granted increase the number of units available for future issuance. The number of units available for future issuance under the Team Resto Ownership Plan as of January 28, 2012, was 1,416,009.

The Company estimates the fair value of each grant on the date of grant using a lattice model that incorporates a Monte Carlo Simulation (the "Monte Carlo method"), which includes the following assumptions:

Expected Equity Returns and Volatility—The Monte-Carlo method incorporates both expectations concerning equity returns in the future and an expected volatility in terms of the possible range of returns units based upon historical volatility data from a group of comparable companies prior to the valuation date and expectations of future volatility over a timeframe consistent with the expected life of the awards.

Expected Unit Life—The Monte-Carlo method analysis includes an estimate of the expected unit life from grant date which represents the period that the units are anticipated to be outstanding after initial grant until expiration or settlement based upon various factors including expectations concerning a potential liquidity event, the contractual terms of the equity based awards and vesting schedules.

Risk Free Interest Rate—The Monte-Carlo method incorporates an assumed risk-free interest rate which is based on the U.S. Treasury yield curve rates in effect at the time of the grant using the term most consistent with the expected life of the award.

Expected Dividend Yield—Dividend yield was estimated at zero as Parent does not anticipate making future distributions to equity holders.

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Time-Based Units

The following table presents the time-based unit activity in fiscal 2010 and fiscal 2011:

	Number Of Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In Years)
Outstanding—January 30, 2010	8,250,407	\$ 0.51	9.22
Granted	2,469,190	0.92	10.00
Forfeited	(918,526)	0.51	9.30
Outstanding—January 29, 2011	9,801,071	0.61	8.35
Granted	1,626,000	1.28	10.00
Cancelled	(570,426)	0.58	9.53
Forfeited	(567,925)	1.18	9.78
Outstanding—January 28, 2012	<u>10,288,720</u>	0.69	7.43

As of January 28, 2012, 4,072,751 time-based units were vested with a weighted average grant date fair value of \$0.57 and a remaining weighted average expected life of 7.35 years.

The fair value of each time-based unit granted in fiscal 2010 and fiscal 2011 was estimated on the date of grant using a Monte Carlo method with the following weighted average assumptions:

	Year Ended	
	January 29, 2011	January 28, 2012
Expected volatility	59%	56%
Expected life (years)	1.7	0.8
Risk-free interest rate	0.95%	0.19%
Dividend yield	—	—

During fiscal 2010 and fiscal 2011, the fair value of units vested was \$0.6 million and \$1.1 million, respectively. As of January 28, 2012, the total unrecognized compensation expense related to non-vested time-based units was \$2.9 million, which is expected to be recognized on a graded basis over a weighted average period of 2.05 years. No stock-based compensation cost has been capitalized in the accompanying consolidated financial statements.

The Company recorded stock-based compensation expense for time-based units of \$0.6 million, \$2.1 million, and \$1.8 million in fiscal 2009, fiscal 2010, and fiscal 2011, respectively, which is included in selling, general and administrative expenses on the consolidated statements of operations.

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Performance-Based Units

The following table presents the performance-based unit activity in fiscal 2010 and fiscal 2011:

	Number Of Units	Weighted Average Grant Date Fair Value
Outstanding—January 30, 2010	8,212,364	\$ 0.16
Granted	2,305,386	0.49
Forfeited	(1,095,366)	0.16
Outstanding—January 29, 2011	9,422,384	0.25
Granted	1,069,000	0.48
Cancelled	(762,609)	0.35
Forfeited	(607,000)	0.11
Outstanding—January 28, 2012	<u>9,121,775</u>	0.28

The fair value of each performance-based unit granted in fiscal 2010 and fiscal 2011 was estimated on the date of grant using a Monte Carlo method with the following weighted average assumptions:

	Year Ended	
	January 29, 2011	January 28, 2012
Expected volatility	59%	56%
Expected life (years)	1.7	0.8
Risk-free interest rate	0.95%	0.21%
Dividend yield	—	—

The Company recognizes expense associated with the units when it becomes probable that the performance condition will be met. Once it becomes probable that a participant 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. No performance-based awards are considered to have vested and, as such, no expense was recorded in fiscal 2009, fiscal 2010 or fiscal 2011. In the event of an initial public offering, all outstanding awards vest. As of January 28, 2012, the total unrecognized compensation expense related to non-vested performance-based units was \$2.5 million.

NOTE 12—EMPLOYEE BENEFIT PLANS

The Company has a 401(k) plan for its employees who meet certain service and age requirements. Participants may contribute up to 50% of their salaries limited to the maximum allowed by the Internal Revenue Service regulations. The Company, at its discretion, may contribute funds to the 401(k) plan. The Company made no contributions to the 401(k) plan during fiscal 2009, fiscal 2010, or fiscal 2011.

NOTE 13—RELATED PARTY TRANSACTIONS

Management Agreement

Pursuant to the Amended and Restated Management Services Agreement with certain affiliates of Catterton, Tower Three and Glenhill, such affiliated entities are to provide services to the Company for general management, consulting services and other strategic planning functions. The amount of the annual management fee payable to Catterton, Tower Three and Glenhill under the Amended and Restated Management Services Agreement is equal to 1.5% of Catterton's and Tower Three's invested capital in Parent and 1% of Glenhill's invested capital in Parent.

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The Company recorded management fees of \$3.9 million in selling, general and administrative expenses in fiscal 2009, which were paid directly by Parent and reflected as a capital contribution from Parent through additional paid-in capital.

The Company recorded management fees of \$3.9 million in selling, general and administrative expenses in fiscal 2010 and such management fees were paid by the Company as of January 29, 2011.

The Company recorded management fees of \$9.9 million in selling, general and administrative expenses in fiscal 2011, of which \$6.0 million was paid directly by Parent and reflected as a capital contribution from Parent through additional paid-in capital. The remaining \$3.9 million was paid by the Company as of January 28, 2012.

The Amended and Restated Management Services Agreement provides that the term of the agreement ends upon the consummation of an initial public offering, and that additional fees shall be payable upon termination in connection with an initial public offering. In connection with this offering, the Company plans to pay the additional fees upon termination in connection with an initial public offering to Catterton, Tower Three and Glenhill fees in the amount of \$, \$ and \$, respectively.

Equity Interest in Parent

Each of Mr. Friedman, the Company's Chairman and Co-Chief Executive Officer, Mr. Krevlin, a member of the Company's Board of Directors, and certain funds of Glenhill entered into separate stockholder voting agreements with the Company in connection with the First Amendment to Agreement and Plan of Merger. Mr. Krevlin has sole voting power and investment power with respect to shares beneficially owned by such funds of Glenhill. Pursuant to such stockholder voting agreements, Mr. Friedman, Mr. Krevlin and such funds agreed to vote for and support the Acquisition. In addition, immediately prior to the completion of the Acquisition, Mr. Friedman and Mr. Krevlin (through such funds of Glenhill) contributed approximately 1,000,000 and 3,632,533 shares, respectively, of the Company's common stock to Parent in exchange for equity interests in Parent pursuant to rollover agreements between the Company, Parent and each of Mr. Friedman and such funds of Glenhill.

Executive Loans with Parent

In December 2008, Mr. Friedman entered into a \$1.0 million loan with Parent in connection with the purchase of a 0.3% ownership interest in Parent. The full recourse loan initially bore interest at a rate of 8.0% per annum. If the interest was not paid in cash on December 31 of each year, such interest was deemed paid by capitalization and added to the principal amount of the loan. Principal and accrued interest was due the earlier of December 31, 2018, upon the sale of the Company or upon Mr. Friedman's termination of employment. In May 2010, the loan was amended and restated to, among other things, reduce the interest rate to 5.0% per annum, as of the date of the original \$1.0 million loan received in December 2008, modify the maturity date to December 31, 2015, and provide for an additional \$5.0 million loan from Parent in connection with the purchase of an additional 1.7% ownership interest in Parent.

In September 2011, Mr. Friedman repaid the loans owed to Parent, together with accrued interest thereon, through the reclassification by Parent of Mr. Friedman's Class A units and Class A-1 units in Parent into an equal number of Class A Prime units and Class A-1 Prime units in Parent, respectively. The Class A Prime units and Class A-1 Prime units, which are not subject to any future vesting, do not entitle Mr. Friedman to distributions from Parent until after certain amounts have been distributed to the holders of Class A units, commensurate with the amount of all previously outstanding principal and interest on the loans. On the date of such repayment, the total principal amount of the loans, including all accrued interest thereon, was \$6,559,877. No prior payments of principal or interest were made by Mr. Friedman under the loan agreements. The Company completed a valuation analysis regarding the reclassification of units which resulted in a \$6.4 million compensation charge included in selling, general and administrative expenses on the consolidated statements of operations for fiscal

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2011 and reflected as a capital contribution from Parent through additional paid-in capital. Such compensation charge was calculated as the total principal amount of the loans, including all accrued interest thereon, as of the repayment date, less the difference in fair value of the Class A units and Class A-1 units in Parent as compared to the Class A Prime units and Class A-1 Prime units in Parent.

In May 2010, Mr. Alberini, the Company's Co-Chief Executive Officer, entered into a \$4.0 million loan with Parent in connection with the purchase of a 1.4% ownership interest in Parent bearing interest at the rate of 5.0% per annum with a maturity date of ninety days from the original date of such note. The loan to Mr. Alberini was repaid in full on August 25, 2010.

In April 2011, Mr. Dunaj, the Company's Chief Operating Officer, entered into a \$600,000 loan with Parent. The full recourse loan bears interest at 5.0% per annum and is secured by Mr. Dunaj's Team Restoration Ownership Plan units. The loan, together with all interest accrued but unpaid, is due and payable on the first to occur of (i) December 31, 2015, (ii) ninety days following termination of employment, (iii) the date of any sale of the Company, (iv) the date of an initial public offering, (v) the date of any acceleration that might occur as a result of a defined default under the note, or (vi) demand for repayment by Parent.

In September 2011, Mr. Dunaj repaid the loan owed to Parent, together with accrued interest thereon, through the reclassification by Parent of Mr. Dunaj's Class B units issued under the Team Resto Ownership Plan into an equal number of Class B Prime units under the Team Resto Ownership Plan. The Class B Prime units are entitled to a lower distribution amount than Class B units, commensurate with the amount of all previously outstanding principal and interest on the loan. On the date of such repayment, the total principal amount of the loan, including all accrued interest thereon, was \$620,712. No prior payments of principal or interest were made by Mr. Dunaj under the loan agreement. On the date of such repayment, Mr. Dunaj surrendered 300,000 of his unvested Class B performance units under the Team Resto Ownership Plan. The Company undertook a valuation analysis regarding the reclassification of units which resulted in no compensation charge recorded in connection with the reclassification in the Company's consolidated financial statements for fiscal 2011 as it relates to vested awards and over the remaining vesting periods for currently unvested awards.

These loans are recorded by Parent and therefore are not included on the consolidated balance sheets of the Company.

NOTE 14—COMMITMENTS AND CONTINGENCIES

Leases

The Company leases certain property consisting of retail and outlet stores, corporate offices, distribution centers and equipment. Leases expire at various dates through 2027. The stores, distribution centers and corporate office leases generally provide that the Company assumes the maintenance and all or a portion of the property tax obligations on the leased property. Most store leases also provide for minimum annual rentals, with provisions for additional rent based on a percentage of sales and for payment of certain expenses.

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The aggregate future minimum rental payments under leases in effect as of January 28, 2012, are as follows (*in thousands*):

	Capital Leases	Operating Leases	Total
2012	\$ 4,445	\$ 54,397	\$ 58,842
2013	3,098	59,634	62,732
2014	1,462	49,805	51,267
2015	214	42,686	42,900
2016	42	38,978	39,020
Thereafter	—	232,689	232,689
Minimum lease commitments	9,261	\$478,189	\$ 487,450
Less—amount representing interest	(520)		
Present value of capital lease obligations	8,741		
Less—current capital lease obligations	(4,114)		
Long-term capital lease obligations	\$ 4,627		

The current capital lease obligations are included in other current liabilities on the consolidated balance sheets. The long-term capital lease obligations are included in other long-term obligations on the consolidated balance sheets.

Lease payments that depend on factors that are not measurable at the inception of the lease, such as future sales volume, are contingent rentals and are excluded from minimum lease payments and included in the determination of total rental expense when it is probable that the expense has been incurred and the amount is reasonably estimable. Future payments for insurance, real estate taxes and repair and maintenance to which the Company is obligated are excluded from minimum lease payments. Minimum and contingent rental expense under operating leases is as follows (*in thousands*):

	Year Ended		
	January 30, 2010	January 29, 2011	January 28, 2012
Operating leases			
Minimum rental expense	\$ 51,054	\$ 48,801	\$ 51,665
Contingent rental expense	268	900	1,456
Total operating leases	\$ 51,322	\$ 49,701	\$ 53,121

Commitments

The Company had no off balance sheet commitments as of January 28, 2012.

In the event of a subsequent sale of the Company, illiquid sale of the Company or an initial public offering, the Company would be required to make payments to Catterton, Tower Three and Glenhill pursuant to the terms of their management services agreement. The amount of such payments will be negotiated with Parent's Board of Directors at the time of such transaction.

In addition, certain former executives are entitled to cash payments up to \$2.2 million in the event of a subsequent sale of the Company, illiquid sale of the Company or initial public offering.

Contingencies

The Company is involved from time to time in various legal claims, actions and complaints arising in connection with its business. The outcome of matters the Company is involved in cannot be determined at this time and the results cannot be predicted with certainty.

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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.

NOTE 15—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 Co-Chief Executive Officers are 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 from the Company’s business lines. Non-furniture includes lighting, textiles, accessories and home décor. Net revenues in each category were as follows (*in thousands*):

	Year Ended		
	January 30, 2010	January 29, 2011	January 28, 2012
Furniture	\$ 221,117	\$ 339,173	\$ 477,730
Non-furniture	404,568	433,579	480,354
Total net revenues	<u>\$ 625,685</u>	<u>\$ 772,752</u>	<u>\$ 958,084</u>

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 fiscal 2009, fiscal 2010, or fiscal 2011.

NOTE 16—RETAIL STORE CLOSURES AND OFFICE RESTRUCTURING

Shanghai Office Restructuring

In April 2011, the Company restructured its Shanghai office location and terminated employees at that office, as well as terminated employees within the corporate headquarters in Corte Madera, CA. As a result, during fiscal 2011, the Company incurred \$1.6 million in restructuring related costs, including one-time employee termination benefits, contract termination fees, loss on disposal of capitalized property and equipment, and other associated costs, which are included in selling, general and administrative expenses on the consolidated statements of operations. The Company does not expect to incur additional costs associated with this office closure in future periods.

Retail Store Closures

In June and July 2011, the Company closed four retail store locations prior to their respective lease termination dates. As a result, during fiscal 2011, the Company incurred \$3.2 million in exit related costs, including contract termination fees, one-time employee termination benefits and other associated costs, which are included in selling, general and administrative expenses on the consolidated statements of operations. At January 28, 2012, the Company had remaining future liabilities existing under the lease agreements of \$1.5

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million which consisted of \$1.0 million in contract termination fees and broker commission related costs of \$0.5 million. The Company does not expect to incur additional costs associated with these retail store closures in future periods.

NOTE 17—SUBSEQUENT EVENTS

Management has evaluated all events and transactions that occurred after January 28, 2012, through April 26, 2012, which is the date the financial statements are available to be issued. No material subsequent events have occurred since January 28, 2012, that require recognition or disclosure in these consolidated financial statements, except the following:

Reorganization

Restoration Hardware Holdings, Inc. was formed on August 18, 2011, as a holding company for the purposes of facilitating an initial public offering of its common stock. It is expected that following the Reorganization, as defined in Note 10—Pro Forma Net Loss Per Share (Unaudited), the Company will become a direct, wholly owned subsidiary of Restoration Hardware Holdings, Inc. prior to the completion of the initial public offering.

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RESTORATION HARDWARE, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)
(Unaudited)

	January 28, 2012	April 28, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,511	\$ 10,205
Accounts receivable—net	11,759	17,591
Merchandise inventories	245,876	269,995
Prepaid expense and other current assets	56,731	69,986
Total current assets	322,877	367,777
Property and equipment—net	83,558	85,927
Goodwill	122,595	122,625
Trademarks	47,100	47,100
Other intangible assets—net	5,426	4,781
Other assets	5,253	4,849
Total assets	<u>\$ 586,809</u>	<u>\$ 633,059</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$ 105,694	\$ 128,447
Deferred revenue and customer deposits	25,419	32,539
Other current liabilities	30,861	28,821
Total current liabilities	161,974	189,807
Revolving line of credit	107,502	125,465
Term loan	14,798	14,798
Deferred rent and lease incentives	19,851	24,309
Deferred tax liabilities	22,153	22,151
Other long-term obligations	10,069	9,365
Total liabilities	<u>336,347</u>	<u>385,895</u>
Commitments and contingencies (See Note 11 to the unaudited condensed consolidated financial statements)	—	—
Stockholders' equity:		
Common stock, \$0.01 par value, 1,000 shares authorized, 100 shares issued and outstanding as of both January 28, 2012 and April 28, 2012	—	—
Additional paid-in capital	293,280	293,703
Accumulated other comprehensive income	1,150	1,193
Accumulated deficit	(43,968)	(47,732)
Total stockholders' equity	<u>250,462</u>	<u>247,164</u>
Total liabilities and stockholders' equity	<u>\$ 586,809</u>	<u>\$ 633,059</u>

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

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RESTORATION HARDWARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended	
	April 30, 2011	April 28, 2012
Net revenues	\$184,760	\$217,914
Cost of goods sold	<u>121,576</u>	<u>142,646</u>
Gross profit	63,184	75,268
Selling, general and administrative expenses	<u>68,816</u>	<u>77,401</u>
Loss from operations	(5,632)	(2,133)
Interest expense	<u>(899)</u>	<u>(1,575)</u>
Loss before income taxes	(6,531)	(3,708)
Income tax (benefit) expense	<u>(204)</u>	<u>56</u>
Net loss	<u>\$ (6,327)</u>	<u>\$ (3,764)</u>
Basic and diluted net loss per share	\$ (63,270)	\$ (37,640)
Shares used in computing basic and diluted net loss per share	100	100
Pro forma basic and diluted net loss per share		\$
Pro forma shares used in computing basic and diluted net loss per share		

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

RESTORATION HARDWARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In thousands)
(Unaudited)

	Three Months Ended	
	April 30,	April 28,
	2011	2012
Net loss	<u>\$ (6,327)</u>	<u>\$ (3,764)</u>
Foreign currency translation adjustment—net of tax	<u>310</u>	<u>43</u>
Total comprehensive loss	<u>\$ (6,017)</u>	<u>\$ (3,721)</u>

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

RESTORATION HARDWARE, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(Unaudited)

	Three Months Ended	
	April 30, 2011	April 28, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (6,327)	\$ (3,764)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,386	6,424
Loss on disposal of property and equipment	674	—
Stock-based compensation expense	498	423
Amortization of financing fees	48	147
Change in assets and liabilities:		
Accounts receivable	(4,707)	(5,831)
Merchandise inventories	(27,150)	(24,039)
Prepaid expense and other current assets	(17,164)	(13,233)
Other assets	(627)	217
Accounts payable and accrued expenses	19,123	20,815
Deferred revenue and customer deposits	5,053	7,120
Other current liabilities	2,478	(1,813)
Deferred rent and lease incentives	512	4,405
Other long-term obligations	74	163
Net cash used in operating activities	<u>(20,129)</u>	<u>(8,966)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(3,577)	(6,193)
Net cash used in investing activities	<u>(3,577)</u>	<u>(6,193)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Gross borrowings under line of credit	215,932	246,756
Gross repayments under line of credit	(193,983)	(228,793)
Payments on capital leases and other long-term obligations	(988)	(1,110)
Net cash provided by financing activities	<u>20,961</u>	<u>16,853</u>
Effects of foreign currency exchange rate translation	137	—
Net increase (decrease) in cash and cash equivalents	<u>(2,608)</u>	<u>1,694</u>
Cash and cash equivalents		
Beginning of period	13,364	8,511
End of period	<u>\$ 10,756</u>	<u>\$ 10,205</u>
Non-cash transactions:		
Property and equipment acquired under capital lease	\$ 5,949	\$ —
Property and equipment additions in accounts payable	\$ 1,380	\$ 1,915

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

RESTORATION HARDWARE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1—THE COMPANY

Nature of Business

Restoration Hardware, Inc., a Delaware corporation, together with its subsidiaries (collectively, the “Company”), is a luxury home furnishings retailer that offers a growing number of categories including furniture, lighting, textiles, bathware, décor, outdoor, garden, and baby and child products. These products are sold through the Company’s stores, catalogs and websites. As of April 28, 2012, the Company operated a total of 74 retail stores and 10 outlet stores in 29 states, the District of Columbia and Canada, and had sourcing operations in Shanghai and Hong Kong.

On June 16, 2008, the Company completed a merger with a wholly owned subsidiary (“Merger Sub”) of Home Holdings, LLC (“Parent”), a Delaware limited liability company, pursuant to which Merger Sub merged with and into the Company and the Company became a direct wholly owned subsidiary of Parent (the “Acquisition”). Parent is controlled by investment funds affiliated with Catterton Management Company, LLC (“Catterton”), Tower Three Partners LLC (“Tower Three”) and GJK Capital Advisors, LLC (“Glenhill”).

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared from the Company’s records and, in management’s opinion, include all adjustments (consisting of normal recurring adjustments) necessary to fairly state the Company’s financial position as of April 28, 2012, and the results of operations and changes of cash flows for the three months ended April 30, 2011, and April 28, 2012, which both consist of thirteen week periods.

The Company’s accounting policies are described in Note 3 to its audited consolidated financial statements for the fiscal year ended January 28, 2012 (“fiscal 2011”). Certain information and disclosures normally included in the notes to annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted for purposes of these interim condensed consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, including the notes thereto, for fiscal 2011. The Company’s current fiscal year ends on February 2, 2013 (“fiscal 2012”).

The results of operations for the three months ended April 28, 2012, presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

NOTE 2—RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (“FASB”) issued guidance that revises the manner in which entities present comprehensive income in their financial statements. The guidance requires entities to report the components of comprehensive income in either a single, continuous statement or two separate but consecutive statements. In December 2011, the FASB issued guidance which defers certain requirements set forth in June 2011. These amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income in all periods presented. Both sets of guidance are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and is to be applied retrospectively. The Company adopted this guidance on January 29, 2012 and such adoption only resulted in a change in how the Company presents the components of comprehensive income, which was previously presented within its consolidated statements of stockholders’ equity.

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In May 2011, the FASB issued guidance to amend the fair value measurement and disclosure requirements. The guidance requires the disclosure of quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion around the sensitivity of the measurements. The guidance is effective during interim and annual periods beginning after December 15, 2011 and is to be applied prospectively. The Company adopted this guidance on January 29, 2012 and adoption did not have a material impact on its condensed consolidated financial statement footnote disclosures.

NOTE 3—PROPERTY AND EQUIPMENT

Property and equipment consists of the following (*in thousands*):

	January 28, 2012	April 28, 2012
Leasehold improvements (1)	\$ 118,898	\$ 124,750
Land	2,388	2,388
Building	2,205	2,205
Furniture, fixtures and equipment	16,166	20,704
Machinery and equipment	4,823	4,825
Computer software	27,194	27,759
Equipment under capital leases (2)	13,918	11,350
Total property and equipment	185,592	193,981
Less—accumulated depreciation and amortization	(102,034)	(108,054)
Total property and equipment—net	<u>\$ 83,558</u>	<u>\$ 85,927</u>

- (1) Leasehold improvements include construction in progress of \$9.1 million and \$5.5 million as of January 28, 2012, and April 28, 2012, respectively.
(2) Accumulated depreciation and amortization include accumulated amortization related to equipment under capital leases of \$8.5 million and \$6.8 million as of January 28, 2012, and April 28, 2012, respectively.

The Company recorded depreciation expense of \$6.6 million and \$5.8 million in the three months ended April 30, 2011, and April 28, 2012, respectively.

NOTE 4—GOODWILL AND INTANGIBLE ASSETS

The following sets forth the goodwill and intangible assets as of January 28, 2012 (*dollar amounts in thousands*):

	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net Book Value	Useful Life
Intangible assets subject to amortization:					
Core technologies	\$ 6,580	\$ (4,825)	\$ —	\$ 1,755	5 years
Fair value of leases					
Fair market write-up	11,988	(8,365)	48	3,671	(2)
Fair market write-down	(2,591)	1,448	—	(1,143)(1)	(2)
Total intangible assets subject to amortization	15,977	(11,742)	48	4,283	
Intangible assets not subject to amortization:					
Goodwill	122,285	—	310	122,595	
Trademarks	47,100	—	—	47,100	
Total intangible assets	<u>\$ 185,362</u>	<u>\$ (11,742)</u>	<u>\$ 358</u>	<u>\$ 173,978</u>	

- (1) The fair market write-down of leases is included in other long-term obligations on the condensed consolidated balance sheets.

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- (2) The fair value of each lease is amortized over the life of the respective lease. The longest lease for which a fair value adjustment was recorded has a termination date in January 2019.

The following sets forth the goodwill and intangible assets as of April 28, 2012 (*dollar amounts in thousands*):

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Foreign Currency Translation</u>	<u>Net Book Value</u>	<u>Useful Life</u>
Intangible assets subject to amortization:					
Core technologies	\$ 6,580	\$ (5,154)	\$ —	\$ 1,426	5 years
Fair value of leases					
Fair market write-up	11,988	(8,683)	50	3,355	(2)
Fair market write-down	<u>(2,591)</u>	<u>1,536</u>	<u>—</u>	<u>(1,055)</u>	(2)
Total intangible assets subject to amortization	15,977	(12,301)	50	3,726	
Intangible assets not subject to amortization:					
Goodwill	122,285	—	340	122,625	
Trademarks	<u>47,100</u>	<u>—</u>	<u>—</u>	<u>47,100</u>	
Total intangible assets	<u>\$ 185,362</u>	<u>\$ (12,301)</u>	<u>\$ 390</u>	<u>\$173,451</u>	

- (1) The fair market write-down of leases is included in other long-term obligations on the condensed consolidated balance sheets.
(2) The fair value of each lease is amortized over the life of the respective lease. The longest lease for which a fair value adjustment was recorded has a termination date in January 2019.

Core technologies represents the fair market value of Company-developed technologies that had been fully depreciated at the time of the Acquisition. The fair value of leases reflects the Company's favorable and unfavorable positions of lease terms for its stores, distribution centers and corporate headquarters at the time of the Acquisition.

The Company recorded amortization expense related to intangible assets of \$0.8 million and \$0.6 million in the three months ended April 30, 2011, and April 28, 2012, respectively.

The following table sets forth the remaining amortization of the intangible assets based on a straight-line method of amortization over the respective useful lives as of April 28, 2012 (*in thousands*):

Remainder of 2012	\$1,660
2013	1,205
2014	690
2015	96
2016	56
Thereafter	<u>19</u>
Total amortization	<u>\$3,726</u>

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NOTE 5—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of the following (*in thousands*):

	January 28, 2012	April 28, 2012
Accounts payable	\$ 47,440	\$ 67,815
Accrued compensation	21,168	18,860
Accrued freight	8,896	7,028
Accrued occupancy	6,203	6,629
Accrued catalog	7,176	13,739
Accrued sales taxes	8,472	8,103
Accrued professional fees	2,494	2,691
Other accrued expenses	3,845	3,582
Total accounts payable and accrued expenses	<u>\$ 105,694</u>	<u>\$ 128,447</u>

Accounts payable included negative cash balances due to outstanding checks of \$12.4 million and \$14.7 million as of January 28, 2012, and April 28, 2012, respectively.

NOTE 6—LINE OF CREDIT AND TERM LOAN

In August 2011, the Company, along with its Canadian subsidiary, Restoration Hardware Canada, Inc., entered into a revolving line of credit agreement with Bank of America, N.A., as administrative agent, and certain other lenders. This credit agreement modified a previous facility in which the Company had a revolving line of credit for up to \$190.0 million. As a result of the modification, the unamortized deferred financing fees related to the previous revolving line of credit on the date of the modification of \$0.2 million will be amortized over the life of the new revolving line of credit, which has a maturity date of August 3, 2016. Under this amended credit agreement (which was further amended in January 2012 to incorporate a term loan facility), the Company has (i) a revolving line of credit available of up to \$317.5 million, of which \$10.0 million is available to Restoration Hardware Canada, Inc., and (ii) a \$15.0 million term loan with a maturity date of July 6, 2015.

Under the terms of the credit agreement, the Company may increase the amount of the revolving line of credit by up to an additional \$100 million provided that, among other things, the lenders agree to participate in the increased loan commitments under the credit facility, no default under the revolving line of credit then exists or would result from such increase and sufficient borrowing base collateral is available to support increased loan amounts.

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). The revolving line of credit is secured by substantially all of the Company'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 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, in the case of Canadian borrowings denominated in Canadian dollars or the U.S. Index Rate or LIBOR for Canadian borrowings denominated in U.S. dollars) plus an applicable margin rate, in each case. The weighted-average interest rate for the revolving line of credit was 2.8% as of April 28, 2012. The term loan bears interest at a rate of LIBOR plus 5.0%, and the interest rate for the term loan was 5.2% as of April 28, 2012.

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As of April 28, 2012, \$125.5 million was outstanding under the revolving line of credit and the term loan was \$14.8 million, net of \$0.2 million unamortized debt issuance costs. As of April 28, 2012, the Company's undrawn borrowing availability under the credit facility was \$96.3 million. There were \$6.9 million and \$8.6 million in outstanding letters of credit as of January 28, 2012, and April 28, 2012, respectively.

The Company is required to repay the term loan in quarterly installments of \$1.25 million beginning July 2012 with the final payment in April 2015.

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. 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 credit facility and (B) the domestic borrowing base. If the availability under the revolving line of credit is less than the foregoing amount, then the Company is required to maintain a consolidated fixed charge coverage ratio of at least one to one. As of April 28, 2012, the Company is in compliance with all covenants, and if the availability under the revolving line of credit were less than the amount described above, the Company 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 the Company 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.

NOTE 7—INCOME TAXES

As of January 28, 2012, and April 28, 2012, \$2.5 million and \$2.7 million, respectively, of the exposures related to unrecognized tax benefits would affect the effective tax rate if realized and are included in other long-term obligations on the condensed consolidated balance sheets. These amounts are primarily associated with foreign tax exposures that would, if realized, reduce the amount of net operating losses that would ultimately be utilized. As of April 28, 2012, \$0.6 million of the exposures related to unrecognized tax benefits are expected to decrease in the next 12 months due to the lapse of the statute of limitations.

Adjustments required upon adoption of accounting for uncertainty in income taxes related to deferred tax asset accounts were offset by the related valuation allowance. Future changes to the Company's assessment of the realizability of those deferred tax assets will impact the effective tax rate. The Company accounts for interest and penalties related to exposures as a component of income tax expense. The Company has accrued \$1.3 million and \$1.4 million of interest associated with exposures as of January 28, 2012, and April 28, 2012, respectively.

NOTE 8—PRO FORMA EQUITY AND NET LOSS PER SHARE

Restoration Hardware Holdings, Inc. (the "Issuer") was incorporated as a Delaware corporation on August 18, 2011, for the purpose of acquiring all of the stock of the Company. Prior to the completion of this offering, the Issuer will acquire all of the outstanding shares of capital stock of the Company. Outstanding units under Parent's equity compensation plan, referred to as the Team Resto Ownership Plan, will be converted in connection with this offering into common stock of the Issuer on a _____ for basis, and the vesting status of the Home Holdings units will carry over to the Issuer's common stock. These transactions are referred to as the "Reorganization."

Pro forma stockholders' equity as of April 28, 2012, has been computed to give effect to the Reorganization of the Company as if such events had been completed as of the beginning of the fiscal period.

Unaudited pro forma net loss per share for the three months ended April 28, 2012, has been computed to give effect to the Reorganization as if such events had been completed as of the beginning of the fiscal period

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and the share capital resulting therefrom was outstanding for the three months ended April 28, 2012. In addition, shares issued in the initial public offering of common stock of the Issuer for proceeds of \$ will be used to repay all of the outstanding amounts under the Company's revolving line of credit and term loan, which were \$125.5 million and \$14.8 million, net of unamortized debt issuance costs of \$0.2 million, respectively, as of April 28, 2012. The issuance of the shares and the repayment of the revolving line of credit and term loan are assumed to have occurred as of the beginning of the fiscal period. The Company has assumed that the initial public offering price is \$, the midpoint in the estimated price range set forth on the cover of the prospectus included in the Issuer's Form S-1 Registration Statement.

Pro forma net loss has been computed by taking net loss and removing interest expense related to debt assumed to be repaid. The interest expense amount has not been adjusted to record the tax effect at the Company's estimated statutory tax rate of 40% as all deferred tax assets have a full valuation allowance as of April 28, 2012.

The following table summarizes pro forma net loss and pro forma basic and diluted net loss per share computations for the three months ended April 28, 2012 (in thousands, except share and per share amounts):

Net loss—as reported	\$(3,764)
Less—interest expense	_____
Pro forma net loss	\$ _____
Pro forma weighted-average shares outstanding after Reorganization	
Pro forma shares issued to repay revolving line of credit and term loan	_____
Pro forma shares for basic and diluted loss per share	_____
Pro forma basic and diluted net loss per share	\$ _____

NOTE 9—STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with applicable guidance, which requires the Company to estimate the value of securities issued based upon an option-pricing model and recognize this estimated value as compensation expense over the vesting periods.

In connection with the Acquisition, Parent established the Team Resto Ownership Plan in fiscal 2009. Awards under the Team Resto Ownership Plan are granted by Parent and are made up of the following:

- Time-based units—time-based units vest in annual installments, generally over a five-year graded vesting period.
- Performance-based units—performance-based units vest based on a return on equity investment to the Company's investors between either two times and three times such investment (the "2X—3X Performance-based Units") or three times and five times such investment (the "3X—5X Performance-based Units").

Under the terms of the Team Resto Ownership Plan, 2X—3X Performance-based Units will vest to the extent cumulative return on equity investment is greater than two times and up to and including three times the original invested capital amount, with proportional vesting in between. At a return on equity investment equal to three times the original invested capital amount, 100% of the 2X—3X Performance-based Units vest. In the case of 3X—5X Performance-based Units, these performance-based units will vest to the extent cumulative return on equity investment is greater than three and up to and including five times the original invested capital amount, with proportional vesting in between. In the case of these 3X—5X Performance-based Units, 100% of the units vest at cumulative return on equity investment equal to five times the original invested capital amount. Performance-based units that do not vest will be cancelled for no consideration.

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Under the Team Resto Ownership Plan, vesting of performance-based units will occur upon the consummation of an initial public offering to the extent of achievement of the applicable cumulative return on equity investment as provided in the Team Resto Ownership Plan. Return on equity investment will be calculated based upon a return on investment to the Company's investors assuming that its investors had received the initial public offering price for their investments as a result of such offering.

All stock-based compensation expense associated with the grants of units by Parent to the Company's directors, executive officers and employees is recorded by the Company.

As of April 28, 2012, the total number of units issuable under the Team Resto Ownership Plan was 21,045,517. If all 21,045,517 units were issued and fully vested under their terms, such interests would represent 24.9% of all of the outstanding equity interests in Parent on a fully diluted basis. Awards of units reduce the number of units available for future issuance. Cancellations and forfeitures of units previously granted increase the number of units available for future issuance. The number of units available for future issuance under the Team Resto Ownership Plan as of April 28, 2012, was 1,427,384.

The Company estimates the fair value of each grant on the date of grant using a lattice model that incorporates a Monte Carlo Simulation (the "Monte Carlo method"), which includes the following assumptions:

Expected Equity Returns and Volatility—The Monte-Carlo method incorporates both expectations concerning equity returns in the future and an expected volatility in terms of the possible range of returns units based upon historical volatility data from a group of comparable companies prior to the valuation date and expectations of future volatility over a timeframe consistent with the expected life of the awards.

Expected Unit Life—The Monte-Carlo method analysis includes an estimate of the expected unit life from grant date which represents the period that the units are anticipated to be outstanding after initial grant until expiration or settlement based upon various factors including expectations concerning a potential liquidity event, the contractual terms of the equity based awards and vesting schedules.

Risk Free Interest Rate—The Monte-Carlo method incorporates an assumed risk-free interest rate which is based on the U.S. Treasury yield curve rates in effect at the time of the grant using the term most consistent with the expected life of the award.

Expected Dividend Yield—Dividend yield was estimated at zero as Parent does not anticipate making future distributions to equity holders.

Time-Based Units

The following table presents the time-based unit activity for the three months ended April 28, 2012:

	Number Of Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Life (In Years)
Outstanding—January 28, 2012	10,288,720	\$ 0.69	7.43
Granted	—	—	—
Cancelled	(33,000)	0.62	9.85
Forfeited	(6,375)	1.75	9.90
Outstanding—April 28, 2012	<u>10,249,345</u>	0.69	7.22

As of April 28, 2012, 3,881,588 time-based units were vested with a weighted average grant date fair value of \$0.58 and a remaining weighted average expected life of 7.70 years.

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During the three months ended April 28, 2012, the fair value of units vested was \$39,000. As of April 28, 2012, the total unrecognized compensation expense related to non-vested time-based units was \$2.4 million, which is expected to be recognized on a graded basis over a weighted average period of 2.17 years. No stock-based compensation cost has been capitalized in the accompanying condensed consolidated financial statements.

The Company recorded stock-based compensation expense for time-based units of \$0.5 million and \$0.4 million in the three months ended April 30, 2011, and April 28, 2012, respectively, which is included in selling, general and administrative expenses on the condensed consolidated statements of operations.

Performance-Based Units

The following table presents the performance-based unit activity for the three months ended April 28, 2012:

	Number Of Units	Weighted Average Grant Date Fair Value
Outstanding—January 28, 2012	9,121,775	\$ 0.28
Granted	—	—
Forfeited	(5,000)	0.89
Outstanding—April 28, 2012	<u>9,116,775</u>	0.28

The Company recognizes expense associated with the units when it becomes probable that the performance condition will be met. Once it becomes probable that a participant 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. No performance-based awards are considered to have vested and, as such, no expense was recorded in the three months ended April 30, 2011 or April 28, 2012. In the event of a public offering, all outstanding awards vest. As of April 28, 2012, the total unrecognized compensation expense related to non-vested performance-based units was \$2.5 million.

NOTE 10—RELATED PARTY TRANSACTIONS

Management Agreement

Pursuant to the Amended and Restated Management Service Agreement with certain affiliates of Catterton, Tower Three and Glenhill, such affiliates are to provide services to the Company for general management, consulting services and other strategic planning functions. The Company recorded management fees of \$1.0 million in selling, general and administrative expenses in each of the three months ended April 30, 2011, and April 28, 2012, and all such management fees were paid by the Company as of April 28, 2012.

Equity Interest in Parent

In connection with the Acquisition, each of Mr. Friedman, the Company's Chairman and Co-Chief Executive Officer, Mr. Krevlin, a member of the Company's Board of Directors, and certain funds of Glenhill entered into separate stockholder voting agreements with the Company in connection with the First Amendment to Agreement and Plan of Merger. Mr. Krevlin has sole voting power and investment power with respect to shares beneficially owned by such funds of Glenhill. Pursuant to such stockholder voting agreements, Mr. Friedman, Mr. Krevlin and such funds agreed to vote for and support the Acquisition. In addition, immediately prior to the completion of the Acquisition, Mr. Friedman and Mr. Krevlin (through such funds of Glenhill) contributed approximately 1,000,000 and 3,632,533 shares, respectively, of the Company's common stock to Parent in exchange for equity interests in Parent pursuant to rollover agreements between the Company, Parent and each of Mr. Friedman and such funds of Glenhill.

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NOTE 11—COMMITMENTS AND CONTINGENCIES

Commitments

The Company has no off balance sheet commitments as of April 28, 2012.

In the event of a subsequent sale of the Company, illiquid sale of the Company or an initial public offering, the Company would be required to make payments to Catterton, Tower Three and Glenhill pursuant to the terms of their management services agreement. The amount of such payments will be negotiated with Parent's Board of Directors at the time of such transaction.

In addition, certain former executives are entitled to cash payments up to \$2.2 million in the event of a subsequent sale of the Company, illiquid sale of the Company or an initial public offering.

Contingencies

The Company is involved from time to time in various legal claims, actions and complaints arising in connection with its business. The outcome of matters the Company is involved in cannot be determined at this time and the results cannot be predicted with certainty.

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.

NOTE 12 —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 Co-Chief Executive Officers are 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 from the Company's business lines. Non-furniture includes lighting, textiles, accessories and home décor. Net revenues in each category were as follows (*in thousands*):

	Three Months Ended	
	April 30, 2011	April 28, 2012
Furniture	\$ 91,459	\$ 113,677
Non-furniture	93,301	104,237
Total net revenues	\$ 184,760	\$ 217,914

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 April 30, 2011 or April 28, 2012.

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NOTE 13—RETAIL STORE CLOSURES AND OFFICE RESTRUCTURING

Shanghai Office Restructuring

In April 2011, the Company restructured its Shanghai office location and terminated employees at that office, as well as terminated employees within the corporate headquarters in Corte Madera, CA. As a result, during the three months ended April 30, 2011, the Company incurred \$1.7 million in restructuring related costs, including one-time employee termination benefits, contract termination fees, loss on disposal of capitalized property and equipment, and other associated costs, which are included in selling, general and administrative expenses on the condensed consolidated statements of operations. At April 28, 2012, the Company did not have any remaining future liabilities related to this office restructuring. The Company does not expect to incur additional costs associated with this office restructuring in future periods.

Retail Store Closures

In June and July 2011, the Company closed four retail store locations prior to their respective lease termination dates. As a result, during fiscal 2011, the Company incurred \$3.2 million in exit related costs, including contract termination fees, one-time employee termination benefits and other associated costs. During the three months ended April 28, 2012, the Company recorded an additional charge of \$0.6 million due to a change in estimate related to one retail store location closed during fiscal 2011, which is included in selling, general and administrative expenses on the condensed consolidated statements of operations. At April 28, 2012, the Company had remaining future liabilities existing under the lease agreements of \$1.8 million which consisted of \$1.3 million in contract termination fees and broker commission related costs of \$0.5 million. The Company does not expect to incur additional costs associated with these retail store closures in future periods.

NOTE 14—SUBSEQUENT EVENTS

Management has evaluated all events and transactions that occurred after April 28, 2012, through June 25, 2011, which is the date the financial statements are available to be issued. No material subsequent events have occurred since April 28, 2012, that require recognition or disclosure in these condensed consolidated financial statements, except the following:

Reorganization

Restoration Hardware Holdings, Inc. was formed on August 18, 2011, as a holding company for the purposes of facilitating an initial public offering of its common stock. It is expected that following the Reorganization, as defined in Note 8—Pro Forma Equity and Net Loss Per Share, the Company will become a direct, wholly owned subsidiary of Restoration Hardware Holdings, Inc. prior to the completion of the initial public offering.

Through and including _____, 2012 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

Shares

RESTORATION HARDWARE

Class A Common Stock

PROSPECTUS

BofA Merrill Lynch
Goldman, Sachs & Co.
Baird
William Blair
Piper Jaffray
Stifel Nicolaus Weisel

, 2012

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the costs and expenses, other than the underwriting discount, payable in connection with the sale and distribution of the securities being registered. All amounts are estimated except the SEC registration fee and the FINRA filing fee. Except as otherwise noted, all the expenses below will be paid by us.

	Amount to be paid
SEC Registration Fee	\$ 17,415
FINRA Filing Fee	15,500
Listing Fee	*
Legal Fees and Expenses	*
Accounting Fees and Expenses	*
Printing and Engraving Expenses	*
Blue Sky Fees and Expenses	*
Transfer Agent and Registrar Fees	*
Director and Officer Insurance	*
Miscellaneous Expenses	*
Total	\$ *

* To be filed by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law (the "DGCL") permits a corporation to include in its charter documents, and in agreements between the corporation and its directors and officers, provisions expanding the scope of indemnification beyond that specifically provided by the current law.

Our certificate of incorporation will provide that our directors will not be liable for monetary damages for breach of fiduciary duty.

Our bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by the DGCL. Our bylaws provide for the indemnification of officers and directors acting on our behalf if this person acted in good faith and in a manner reasonably believed to be in and not opposed to our best interest, and, with respect to any criminal action or proceeding, the indemnified party had no reason to believe his or her conduct was unlawful.

We intend to enter into indemnification agreements with each of our executive officers and directors, in addition to indemnification provided for in our charter documents, and we intend to enter into indemnification agreements with any new directors and executive officers in the future. The indemnification agreements will provide the executive officers and directors with contractual rights to indemnification, expense advancement and reimbursement, to the fullest extent permitted under the DGCL.

The underwriting agreement (Exhibit 1.1 hereto) provides for indemnification by the underwriters of us, and indemnification of the underwriters by us for certain liabilities, including liabilities arising under the Securities Act of 1933, as amended, in connection with matters specifically provided in writing by the underwriters for inclusion in the registration statement.

We will purchase and intend to maintain insurance on behalf of us and any person who is or was a director or officer against any loss arising from any claim asserted against him or her and incurred by him or her in that capacity, subject to certain exclusions and limits of the amount of coverage.

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Item 15. Recent Sales of Unregistered Securities

Set forth below is information regarding securities sold by Home Holdings, LLC (“Home Holdings”) within the past three fiscal years that were not registered under the Securities Act of 1933, as amended (the “Securities Act”). Also included is information relating to the section of the Securities Act, or rule of the SEC, under which exemption from registration was claimed.

- (1) In connection with the agreement and plan of merger described in the prospectus that is a part of this registration statement, Gary Friedman, our Chairman and Co-Chief Executive Officer, certain funds affiliated with Glenhill and certain funds affiliated with Palo Alto Investors, LLC entered into rollover agreements with Home Holdings pursuant to which they agreed to contribute, immediately prior to the effective time of the merger, a portion of his or its shares of Restoration Hardware, Inc.’s common stock in exchange for a pro rata equity interest in Home Holdings.
- (2) In December 2008, May 2010 and June 2010, as described in the prospectus that is a part of this registration statement, two of our officers entered into subscription agreements with Home Holdings whereby they purchased 215,269 Class A units, 2,006,952 Class A-1 units and 2,006,952 Class A-2 units at an aggregate purchase price of approximately \$10 million.
- (3) In May 2009, Gary Friedman, our Chairman and Co-Chief Executive Officer, was granted 7,183,441 Class B-1 units under the Home Holdings 2008 Team Resto Ownership Plan (the “Team Resto Ownership Plan”), and in June 2010, Carlos Alberini, our Co-Chief Executive Officer and a director, was granted 4,225,554 Class B-1 units and one Class B-2 unit under the Team Resto Ownership Plan. In addition to these grants to Mr. Friedman and Mr. Alberini, from May 2009 through April 18, 2012, 146 of our current and former employees, consultants, directors and members of our board were granted 16,125,476 Class B units under the Team Resto Ownership Plan.
- (4) In September 2011, as described in the prospectus that is a part of this Registration Statement, 1,215,269 Class A Units of Home Holdings held by Gary Friedman, our Chairman and Co-Chief Executive Officer, were reclassified into 1,215,269 Class A Prime units of Home Holdings, 1,118,064 Class A-1 units of Home Holdings held by Mr. Friedman were reclassified into 1,118,064 Class A-1 Prime units of Home Holdings and 1,810,000 Class B units held by Ken Dunaj, our Chief Operating Officer, were reclassified into 1,810,000 Class B Prime units of Home Holdings, in each case in connection with the repayment of loans owed to Home Holdings by Mr. Friedman or Mr. Dunaj, as applicable.

There were no underwriters employed in connection with any of the transactions set forth in Item 15. These transactions were made in reliance upon Section 4(2) of the Securities Act (or Rule 501 of Regulation D promulgated thereunder), or Rule 701 promulgated under Section 3(b) of the Securities Act, as transactions by an issuer not involving a public offering or pursuant to a compensatory benefit plan approved by the issuer’s board of directors. Each recipient of the securities in these transactions represented his, her or its intention to acquire the securities for investment only and not with a view to, or for resale in connection with, any distribution thereof. In each case, the recipient received adequate information about the issuer or had adequate access, through his, her or its relationship with Home Holdings, to information about Home Holdings. The sales of these securities were made without any general solicitation or advertising.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits

The exhibit index attached hereto is incorporated herein by reference.

(b) Financial Statement Schedules

Financial statement schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the financial statements or notes thereto.

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Item 17. Undertakings

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted as to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

- (1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus as filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.
- (2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities: the undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

- (i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424;
- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;
- (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and
- (iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

The undersigned registrant hereby further undertakes that:

If the registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration

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statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
1.1	Form of Underwriting Agreement.
3.1*	Form of Certificate of Incorporation of Restoration Hardware Holdings, Inc., to be in effect upon completion of this offering.
3.2*	Form of Bylaws of Restoration Hardware Holdings, Inc., to be in effect upon completion of this offering.
4.1*	Form of Restoration Hardware Holdings, Inc.'s Class A Common Stock Certificate.
5.1*	Opinion of Morrison & Foerster LLP.
10.1*†	Amended and Restated Compensation and Severance Agreement, effective as of February 1, 2010, by and between Restoration Hardware, Inc. and Gary Friedman.
10.2*†	Employment Agreement, entered into as of May 12, 2010, by and between Restoration Hardware, Inc. and Carlos Alberini.
10.3*†	Amended and Restated Offer Letter, between Restoration Hardware, Inc. and Ken Dunaj.
10.4*†	Form of Indemnification Agreement to be entered into by and between Restoration Hardware Holdings, Inc. and each of its directors.
10.5	First Amendment to Ninth Amended and Restated Credit Agreement dated as of January 6, 2012, by and among Restoration Hardware, Inc., as lead borrower, Restoration Hardware Canada, Inc., as Canadian borrower, the other borrowers party thereto, the guarantors party thereto, the lenders party thereto and Bank of America, N.A., as administrative agent and collateral agent.
10.6	Ninth Amended and Restated Credit Agreement dated as of August 3, 2011, by and among Restoration Hardware, Inc., as lead borrower, Restoration Hardware Canada, Inc., as Canadian borrower, the other borrowers party thereto, the guarantors party thereto, the lenders from time to time party thereto and Bank of America, N.A., as administrative agent and collateral agent.
10.7*†	Management Incentive Plan.
10.8*†	2012 Stock Incentive Plan and related documents.
10.9*†	2012 Equity Replacement Plan.
10.10†	Transition Agreement, entered into December 21, 2011, between Restoration Hardware, Inc. and James Stewart.
10.11*	Form of Stockholders Agreement to be entered into effective upon completion of this offering among Restoration Hardware Holdings, Inc., Home Holdings, LLC, Gary Friedman and Carlos Alberini.
10.12*	Form of Registration Rights to be entered into effective upon completion of this offering among Restoration Hardware Holdings, Inc., Home Holdings, LLC, CP Home Holdings, LLC, Tower Three Home, LLC, Gary Friedman and Carlos Alberini.
21.1	Subsidiary List.
23.1*	Consent of Counsel (included in exhibit 5.1).
23.2	Consent of PricewaterhouseCoopers LLP.
23.3	Consent of PricewaterhouseCoopers LLP.
24.1‡	Powers of Attorney (included on signature page).

* To be filed by amendment.

† Indicates a management contract or compensatory plan or arrangement.

‡ Previously filed.

RESTORATION HARDWARE HOLDINGS, INC.

(a Delaware corporation)

— Shares of Class A Common Stock

PURCHASE AGREEMENT

Dated: —

RESTORATION HARDWARE HOLDINGS, INC.

(a Delaware corporation)

— Shares of Class A Common Stock

PURCHASE AGREEMENT

Merrill Lynch, Pierce, Fenner & Smith
Incorporated
One Bryant Park
New York, New York 10036

Goldman, Sachs & Co.
200 West Street
New York, New York 10282

as Representatives of the several Underwriters

Ladies and Gentlemen:

Restoration Hardware Holdings, Inc., a Delaware corporation (the “Company,” which term as used herein includes its predecessors including, without limitation, Restoration Hardware, Inc., a Delaware corporation (“Restoration Hardware”)), and the persons, including Home Holdings, LLC, a Delaware limited liability company, named in Schedule B hereto, excluding the Company (collectively, the “Selling Stockholders”), confirm their respective agreements with Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) and Goldman, Sachs & Co. (“Goldman, Sachs”) and each of the other Underwriters named in Schedule A hereto (collectively, the “Underwriters,” which term shall also include any underwriter substituted as hereinafter provided in Section 10 hereof), for whom Merrill Lynch and Goldman, Sachs are acting as representatives (in such capacity, the “Representatives”), with respect to (i) the sale by the Company and the Selling Stockholders, acting severally and not jointly, and the purchase by the Underwriters, acting severally and not jointly, of the respective numbers of shares of Class A Common Stock, par value \$0.0001 per share, of the Company (“Class A Common Stock”) set forth in Schedules A and B hereto and (ii) the grant by the Selling Stockholders to the Underwriters, acting severally and not jointly, of the option described in Section 2(b) hereof to purchase all or any part of — additional shares of Class A Common Stock. The aforesaid— shares of Class A Common Stock (the “Initial Securities”) to be purchased by the Underwriters and all or any part of the — shares of Class A Common Stock subject to the option described in Section 2(b) hereof (the “Option Securities”) are herein called, collectively, the “Securities.” The shares of Class A Common Stock and the shares of Class B Common Stock, par value \$0.0001 per share, of the Company (“Class B Common Stock”) are herein called, collectively, the “Common Stock.”

The Company and the Selling Stockholders understand that the Underwriters propose to make a public offering of the Securities as soon as the Representatives deem advisable after this Agreement has been executed and delivered.

The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 (No. 333-176767), including the related preliminary prospectus or prospectuses, covering the registration of the sale of the Securities under the Securities Act of 1933, as amended (the "1933 Act"). Promptly after execution and delivery of this Agreement, the Company will prepare and file a prospectus in accordance with the provisions of Rule 430A ("Rule 430A") of the rules and regulations of the Commission under the 1933 Act (the "1933 Act Regulations") and Rule 424(b) ("Rule 424(b)") of the 1933 Act Regulations. The information included in such prospectus that was omitted from such registration statement at the time it became effective but that is deemed to be part of such registration statement at the time it became effective pursuant to Rule 430A(b) is herein called the "Rule 430A Information." Such registration statement, including the amendments thereto, the exhibits thereto and any schedules thereto, at the time it became effective, and including the Rule 430A Information, is herein called the "Registration Statement." Any registration statement filed pursuant to Rule 462(b) of the 1933 Act Regulations is herein called the "Rule 462(b) Registration Statement" and, after such filing, the term "Registration Statement" shall include the Rule 462(b) Registration Statement. Each prospectus used prior to the effectiveness of the Registration Statement, and each prospectus that omitted the Rule 430A Information that was used after such effectiveness and prior to the execution and delivery of this Agreement, is herein called a "preliminary prospectus." The final prospectus, in the form first furnished to the Underwriters for use in connection with the offering of the Securities, is herein called the "Prospectus." For purposes of this Agreement, all references to the Registration Statement, any preliminary prospectus, the Prospectus or any amendment or supplement to any of the foregoing shall be deemed to include the copy filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval system ("EDGAR").

As used in this Agreement:

"Applicable Time" means — [A.M./P.M.], New York City time, on — or such other time as agreed by the Company and Merrill Lynch.

"General Disclosure Package" means any Issuer General Use Free Writing Prospectuses issued at or prior to the Applicable Time, the preliminary prospectus that is included in the Registration Statement as of the Applicable Time and the information included on Schedule C-1 hereto, all considered together.

"Issuer Free Writing Prospectus" means any "issuer free writing prospectus," as defined in Rule 433 of the 1933 Act Regulations ("Rule 433"), including without limitation any "free writing prospectus" (as defined in Rule 405 of the 1933 Act Regulations ("Rule 405")) relating to the Securities that is (i) required to be filed with the Commission by the Company, (ii) a "road show that is a written communication" within the meaning of Rule 433(d)(8)(i), whether or not required to be filed with the Commission, or (iii) exempt from filing with the Commission pursuant to Rule 433(d)(5)(i) because it contains a description of the Securities or of the offering that does not reflect the final terms, in each case in the form filed or required to be filed with the Commission or, if not required to be filed, in the form retained in the Company's records pursuant to Rule 433(g).

"Issuer General Use Free Writing Prospectus" means any Issuer Free Writing Prospectus that is intended for general distribution to prospective investors (other than a "bona fide electronic road show," as defined in Rule 433 (the "Bona Fide Electronic Road Show")), as evidenced by its being specified in Schedule C-2 hereto.

"Issuer Limited Use Free Writing Prospectus" means any Issuer Free Writing Prospectus that is not an Issuer General Use Free Writing Prospectus.

Prior to the date hereof, the business of the Company has been conducted through Restoration Hardware and its wholly owned subsidiaries. In connection with the offering contemplated by this Agreement, the Company will enter into a series of reorganization transactions as described in the General Disclosure Package and the Prospectus (the "Reorganization"), pursuant to which the capital stock of Restoration Hardware will be contributed to the Company. The Reorganization will be consummated prior to the date hereof. Following the Reorganization and the consummation of the transactions contemplated by this Agreement as described in the General Disclosure Package and the Prospectus, the Company will be a holding company and will hold all of the outstanding capital stock of Restoration Hardware. For all purposes of this Agreement, the term "Company" shall be deemed to include Restoration Hardware as of the date of this Agreement and at all times prior to the Closing Time and any Date of Delivery.

SECTION 1. Representations and Warranties.

(a) Representations and Warranties by the Company. The Company represents and warrants to each Underwriter as of the date hereof, the Applicable Time, the Closing Time (as defined below) and any Date of Delivery (as defined below), and agrees with each Underwriter, as follows:

(i) Registration Statement and Prospectuses. Each of the Registration Statement and any amendment thereto has become effective under the 1933 Act. No stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto has been issued under the 1933 Act, no order preventing or suspending the use of any preliminary prospectus or the Prospectus has been issued and no proceedings for any of those purposes have been instituted or are pending or, to the Company's knowledge, contemplated. The Company has complied with each request (if any) from the Commission for additional information.

Each of the Registration Statement and any post-effective amendment thereto, at the time it became effective, complied in all material respects with the requirements of the 1933 Act and the 1933 Act Regulations. Each preliminary prospectus (including the prospectus filed as part of the Registration Statement as originally filed or as part of any amendment or supplement thereto), at the time it was filed with the Commission complied, and the Prospectus at the time it is filed with the Commission will comply, in all material respects with the 1933 Act and the 1933 Act Regulations. Each preliminary prospectus delivered to the Underwriters for use in connection with this offering and the Prospectus was or will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(ii) Accurate Disclosure. Neither the Registration Statement nor any post-effective amendment thereto, at its effective time, at the Closing Time or at any Date of Delivery, contained, contains or will contain an untrue statement of a material fact or omitted, omits or will omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. As of the Applicable Time, neither (A) the General Disclosure Package nor (B) any individual Issuer Limited Use Free Writing Prospectus, when considered together with the General Disclosure Package, included,

includes or will include an untrue statement of a material fact or omitted, omits or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. Neither the Prospectus nor any amendment or supplement thereto (including any prospectus wrapper), as of its issue date, at the time of any filing with the Commission pursuant to Rule 424(b), at the Closing Date or at any Date of Delivery, included, includes or will include an untrue statement of a material fact or omitted, omits or will omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

The representations and warranties in this subsection shall not apply to statements in or omissions from the Registration Statement (or any amendment thereto), the General Disclosure Package, any Issuer Free Writing Prospectus or the Prospectus (or any amendment or supplement thereto) made in reliance upon and in conformity with written information furnished to the Company (i) by any Underwriter through Merrill Lynch and Goldman, Sachs expressly for use therein or (ii) by the Selling Stockholders expressly for use therein. For purposes of this Agreement, the only information so furnished by any Underwriter shall be the information in the first paragraph under the heading “Underwriting–Commissions and Discounts,” the information in the second, third and fourth paragraphs under the heading “Underwriting–Price Stabilization, Short Positions and Penalty Bids” in the Prospectus and the information under the heading “Underwriting–Electronic Offer, Sale and Distribution of Shares” (collectively, the “Underwriter Information”). For purposes of the representations and warranties in this subsection, the only information so furnished by a Selling Stockholder shall be the information with respect to such Selling Stockholder under the heading “Prospectus Summary – Principal Equity Holders” and “Principal and Selling Stockholders” (collectively, the “Selling Stockholder Information”).

(iii) Issuer Free Writing Prospectuses. No Issuer Free Writing Prospectus conflicts or will conflict with the information contained in the Registration Statement or the Prospectus, and any preliminary or other prospectus deemed to be a part thereof that has not been superseded or modified. The Company has made available a Bona Fide Electronic Road Show in compliance with Rule 433(d)(8)(ii) such that no filing of any “road show” (as defined in Rule 433(h)) is required in connection with the offering of the Securities.

(iv) Company Not Ineligible Issuer. At the time of filing the Registration Statement and any post-effective amendment thereto, at the earliest time thereafter that the Company or another offering participant made a *bona fide* offer (within the meaning of Rule 164(h)(2) of the 1933 Act Regulations) of the Securities and at the date hereof, the Company was not and is not an “ineligible issuer,” as defined in Rule 405, without taking account of any determination by the Commission pursuant to Rule 405 that it is not necessary that the Company be considered an ineligible issuer.

(v) Independent Accountants. The accountants who certified the financial statements and supporting schedules included in the Registration Statement are independent public accountants as required by the 1933 Act, the 1933 Act Regulations and the Public Company Accounting Oversight Board.

(vi) Financial Statements; Non-GAAP Financial Measures. The financial statements included in the Registration Statement, the General Disclosure Package and the Prospectus, together with the related schedules and notes, present fairly in all material respects the financial position of the entities identified therein at the dates indicated and the statement of operations, stockholders’ equity and cash flows of Restoration Hardware and its consolidated subsidiaries for

the periods specified; said financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) applied on a consistent basis throughout the periods involved. The supporting schedules, if any, present fairly in all material respects in accordance with GAAP the information required to be stated therein. The selected financial data and the summary financial information included in the Registration Statement, the General Disclosure Package and the Prospectus present fairly in all material respects the information shown therein and have been compiled on a basis consistent with that of the audited financial statements included therein. The pro forma financial statements and the related notes thereto included in the Registration Statement, the General Disclosure Package and the Prospectus present fairly in all material respects the information shown therein, have been prepared in accordance with the Commission’s rules and guidelines with respect to pro forma financial statements and have been properly compiled on the bases described therein, and the assumptions used in the preparation thereof are reasonable and the adjustments used therein are appropriate to give effect to the transactions and circumstances referred to therein. Except as included therein, no historical or pro forma financial statements or supporting schedules are required to be included in the Registration Statement, the General Disclosure Package or the Prospectus under the 1933 Act or the 1933 Act Regulations. All disclosures contained in the Registration Statement, the General Disclosure Package or the Prospectus regarding “non-GAAP financial measures” (as such term is defined by the rules and regulations of the Commission) comply with Regulation G of the Securities Exchange Act of 1934, as amended (the “1934 Act”) and Item 10 of Regulation S-K of the 1933 Act, to the extent applicable.

(vii) No Material Adverse Change in Business. Except as otherwise stated therein, since the respective dates as of which information is given in the Registration Statement, the General Disclosure Package or the Prospectus, (A) there has been no material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business (a “Material Adverse Effect”), (B) there have been no transactions entered into by the Company or any of its subsidiaries, other than those in the ordinary course of business, which are material with respect to the Company and its subsidiaries considered as one enterprise, and (C) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its capital stock.

(viii) Good Standing of the Company. The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Delaware and has corporate power and authority to own, lease and operate its properties and to conduct its business as described in the General Disclosure Package and the Prospectus and to enter into and perform its obligations under this Agreement; and the Company is duly qualified as a foreign corporation to transact business and is in good standing in each other jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure so to qualify or to be in good standing would not reasonably be expected to result in a Material Adverse Effect.

(ix) Good Standing of Subsidiaries. Each “significant subsidiary” of the Company (as such term is defined in Rule 1-02 of Regulation S-X) (each, a “Subsidiary” and, collectively, the “Subsidiaries”) has been duly organized and is validly existing in good standing under the laws of the jurisdiction of its incorporation or organization, has corporate or similar power and authority to own, lease and operate its properties and to conduct its business as described in the General Disclosure Package and the Prospectus and is duly qualified to transact business and is in good standing in each jurisdiction in which such qualification is required, whether by reason of the ownership or leasing of property or the conduct of business, except where the failure to so

qualify or to be in good standing would not reasonably be expected to result in a Material Adverse Effect. Except as otherwise disclosed in the General Disclosure Package and the Prospectus, all of the issued and outstanding capital stock of each Subsidiary has been duly authorized and validly issued, is fully paid and nonassessable and is owned by the Company, directly or through subsidiaries, free and clear of any security interest, mortgage, pledge, lien, encumbrance, claim or equity. None of the outstanding shares of capital stock of any Subsidiary was issued in violation of the preemptive or similar rights of any securityholder of such Subsidiary. The only subsidiaries of the Company are (A) the subsidiaries listed on Exhibit 21 to the Registration Statement and (B) certain other subsidiaries which, considered in the aggregate as a single subsidiary, do not constitute a “significant subsidiary” as defined in Rule 1-02 of Regulation S-X.

(x) Capitalization. The authorized, issued and outstanding shares of capital stock of Restoration Hardware are as set forth in the General Disclosure Package and the Prospectus in the column entitled “Actual” under the caption “Capitalization” (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to reservations, agreements or equity incentive plans referred to in the General Disclosure Package and the Prospectus or pursuant to the exercise of convertible securities or options referred to in the General Disclosure Package and the Prospectus). Upon the consummation of the Reorganization, the Company will have an authorized capitalization as set forth in the General Disclosure Package and the Prospectus (except for subsequent issuances, if any, pursuant to this Agreement, pursuant to reservations, agreements or equity incentive plans referred to in the General Disclosure Package and the Prospectus or pursuant to the exercise of convertible securities or options referred to in the General Disclosure Package and the Prospectus). The outstanding shares of capital stock of the Company, including the Securities to be purchased by the Underwriters from the Selling Stockholders, have been duly authorized, validly issued, fully paid and are nonassessable. None of the outstanding shares of capital stock of the Company, including the Securities to be purchased by the Underwriters from the Selling Stockholders, was issued in violation of the preemptive or other similar rights of any securityholder of the Company.

(xi) Authorization of Agreement. This Agreement has been duly authorized, executed and delivered by the Company.

(xii) Authorization and Description of Securities. The Securities to be purchased by the Underwriters from the Company have been duly authorized for issuance and sale to the Underwriters pursuant to this Agreement and, when issued and delivered by the Company pursuant to this Agreement against payment of the consideration set forth herein, will be validly issued and fully paid and nonassessable; and the issuance of the Securities is not subject to the preemptive or other similar rights of any securityholder of the Company. The Common Stock conforms to all statements relating thereto contained in the General Disclosure Package and the Prospectus and such description conforms to the rights set forth in the instruments defining the same. No holder of Securities will be subject to personal liability by reason of being such a holder.

(xiii) Registration Rights. There are no persons with registration rights or other similar rights to have any securities registered for sale pursuant to the Registration Statement or otherwise registered for sale by the Company under the 1933 Act, other than those rights that have been disclosed in the General Disclosure Package and the Prospectus and have been waived or complied with.

(xiv) Absence of Violations, Defaults and Conflicts. Neither the Company nor any of its subsidiaries is (A) in violation of its charter, by-laws or similar organizational document, (B) in default in the performance or observance of any obligation, agreement, covenant or condition contained in any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which it or any of them may be bound or to which any of the properties or assets of the Company or any subsidiary is subject (collectively, "Agreements and Instruments"), except for such defaults that would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect, or (C) in violation of any law, statute, rule, regulation, judgment, order, writ or decree of any arbitrator, court, governmental body, regulatory body, administrative agency or other authority, body or agency having jurisdiction over the Company or any of its subsidiaries or any of their respective properties, assets or operations (each, a "Governmental Entity"), except for such violations that would not, singly or in the aggregate, result in a Material Adverse Effect. The execution, delivery and performance of this Agreement and the consummation of the transactions contemplated herein and in the General Disclosure Package and the Prospectus (including the Reorganization and the issuance and sale of the Securities and the use of the proceeds from the sale of the Securities as described therein under the caption "Use of Proceeds") and compliance by the Company with its obligations hereunder have been duly authorized by all necessary corporate action and do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default or Repayment Event (as defined below) under, or result in the creation or imposition of any lien, charge or encumbrance upon any properties or assets of the Company or any subsidiary pursuant to, the Agreements and Instruments (except for such conflicts, breaches, defaults or Repayment Events or liens, charges or encumbrances that would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect), nor will such action result in any violation of (A) the provisions of the charter, by-laws or similar organizational document of the Company or any of its subsidiaries, or (B) any applicable law, statute, rule, regulation, judgment, order, writ or decree of any Governmental Entity, except, in the case of clause (B) only, for such violations that would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect or for such violations that would not reasonably be expected to, singly or in the aggregate, have a material adverse effect on the Company's ability to consummate the transactions contemplated by this Agreement. As used herein, a "Repayment Event" means any event or condition which gives the holder of any note, debenture or other evidence of indebtedness (or any person acting on such holder's behalf) the right to require the repurchase, redemption or repayment of all or a portion of such indebtedness by the Company or any of its subsidiaries.

(xv) Absence of Labor Dispute. No labor dispute with the employees of the Company or any of its subsidiaries exists or, to the knowledge of the Company, is imminent, and the Company is not aware of any existing or imminent labor disturbance by the employees of any of its or any subsidiary's principal suppliers, manufacturers, customers or contractors, which, in either case, would reasonably be expected to result in a Material Adverse Effect.

(xvi) Absence of Proceedings. Except as disclosed in the General Disclosure Package and the Prospectus, there is no action, suit, proceeding, inquiry or investigation before or brought by any Governmental Entity now pending or, to the knowledge of the Company, threatened, against or affecting the Company or any of its subsidiaries, which would reasonably be expected to result in a Material Adverse Effect, or which would reasonably be expected to materially and adversely affect their respective properties or assets or the consummation of the transactions contemplated in this Agreement, including without limitation the Reorganization, or the performance by the Company of its obligations hereunder; and the aggregate of all pending legal or governmental proceedings to which the Company or any such subsidiary is a party or of which

any of their respective properties or assets is the subject which are not described in the General Disclosure Package and the Prospectus, including ordinary routine litigation incidental to the business, would not reasonably be expected to result in a Material Adverse Effect.

(xvii) Accuracy of Exhibits. There are no contracts or documents which are required to be described in the Registration Statement or to be filed as exhibits thereto which have not been so described and filed as required.

(xviii) Absence of Further Requirements. No filing with, or authorization, approval, consent, license, order, registration, qualification or decree of, any Governmental Entity is necessary or required for the performance by the Company of its obligations hereunder, in connection with the offering, issuance or sale of the Securities hereunder or the consummation of the transactions contemplated by this Agreement, including, but not limited to, the Reorganization, except (i) such as have been already obtained or as may be required under the 1933 Act, the 1933 Act Regulations, the rules of the [New York Stock Exchange] [NASDAQ Stock Market LLC] or state securities laws, (ii) the filing of an amended and restated certificate of incorporation of the Company (the "Restated Certificate of Incorporation") with the Secretary of State of the State of Delaware ("Delaware Secretary of State"), or (iii) the rules of the Financial Industry Regulatory Authority, Inc. ("FINRA").

(xix) Possession of Licenses and Permits. The Company and its subsidiaries possess such permits, licenses, approvals, consents and other authorizations (collectively, "Governmental Licenses") issued by the appropriate Governmental Entities necessary to conduct the business now operated by them, except where the failure so to possess would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect. The Company and its subsidiaries are in compliance with the terms and conditions of all Governmental Licenses, except where the failure so to comply would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect. All of the Governmental Licenses are valid and in full force and effect, except when the invalidity of such Governmental Licenses or the failure of such Governmental Licenses to be in full force and effect would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect. Neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any Governmental Licenses which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would reasonably be expected to result in a Material Adverse Effect.

(xx) Title to Property. The Company and its subsidiaries have good and marketable title to all real property owned by them and good title to all other properties owned by them, in each case, free and clear of all mortgages, pledges, liens, security interests, claims, restrictions or encumbrances of any kind except such as (A) are described in the General Disclosure Package and the Prospectus or (B) do not, singly or in the aggregate, materially affect the value of such property and do not materially interfere with the use made and proposed to be made of such property by the Company or any of its subsidiaries; and all of the leases and subleases material to the business of the Company and its subsidiaries, considered as one enterprise, and under which the Company or any of its subsidiaries holds properties described in the General Disclosure Package and the Prospectus, are in full force and effect, and neither the Company nor any such subsidiary has any notice of any material claim of any sort that has been asserted by anyone (i) adverse to the rights of the Company or any subsidiary under any of the leases or subleases mentioned above, or (ii) adversely affecting or contesting the rights of the Company or such subsidiary to the continued possession of the leased or subleased premises under any such lease or sublease.

(xxi) Possession of Intellectual Property. The Company and its subsidiaries own or possess, or can acquire on reasonable terms, adequate patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks, trade names or other intellectual property (collectively, "Intellectual Property") necessary to carry on the business now operated by them, except where the failure to own, possess or acquire such rights would not reasonably be expected to result in a Material Adverse Effect on the Company and its subsidiaries, taken as a whole. Neither the Company nor any of its subsidiaries has received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interest of the Company or any of its subsidiaries therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would result in a Material Adverse Effect.

(xxii) Environmental Laws. Except as described in the General Disclosure Package and the Prospectus or except as would not reasonably be expected to, singly or in the aggregate, result in a Material Adverse Effect, (A) neither the Company nor any of its subsidiaries is in violation of any applicable federal, state, local or foreign statute, law, rule, regulation, ordinance, code, policy or rule of common law or any judicial or administrative interpretation thereof, including any judicial or administrative order, consent, decree or judgment, relating to pollution or protection of human health, the environment (including, without limitation, ambient air, surface water, groundwater, land surface or subsurface strata) or wildlife, including, without limitation, laws and regulations relating to the release into the environment or threatened release into the environment of chemicals, pollutants, contaminants, wastes, toxic substances, hazardous substances, petroleum or petroleum products, asbestos-containing materials or mold (collectively, "Hazardous Materials") or to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials (collectively, "Environmental Laws"), (B) the Company and its subsidiaries have all permits, authorizations and approvals required for their respective operations as currently conducted under any applicable Environmental Laws and are each in compliance with their requirements, (C) there are no pending or, to the knowledge of the Company, threatened, administrative, regulatory or judicial actions, suits, demands, demand letters, claims, liens, notices of noncompliance or violation, investigation or proceedings relating to any Environmental Law against the Company or any of its subsidiaries and (D) to the knowledge of the Company, there are no events or circumstances that would reasonably be expected to form the basis of an order for clean-up or remediation, or an action, suit or proceeding by any private party or Governmental Entity, against or affecting the Company or any of its subsidiaries relating to Hazardous Materials or any Environmental Laws.

(xxiii) Accounting Controls and Disclosure Controls. The Company and each of its subsidiaries maintain a system of internal control over financial reporting (as defined under Rule 13-a15 and 15d-15 under the rules and regulations of the Commission under the 1934 Act (the "1934 Act Regulations")) and a system of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Except as described in the General Disclosure Package and the Prospectus, since the end of the Company's most recent audited fiscal year, there has been (1) no material weakness in the Company's

internal control over financial reporting (whether or not remediated) and (2) no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. The Company and each of its subsidiaries have established and maintain a system of disclosure controls and procedures (as defined in Rule 13a-15 and Rule 15d-15 under the 1934 Act Regulations) that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the 1934 Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to the Company's management, including its principal executive officer or officers and principal financial officer or officers, as appropriate, to allow timely decisions regarding disclosure.

(xxiv) Compliance with the Sarbanes-Oxley Act. The Company has taken all necessary actions to ensure that, upon the effectiveness of the Registration Statement, it will be in compliance in all material respects with all provisions of the Sarbanes-Oxley Act of 2002 and all rules and regulations promulgated thereunder or implementing the provisions thereof (the "Sarbanes-Oxley Act") that are then in effect and with which the Company is required to comply as of the effectiveness of the Registration Statement, and is actively taking steps to ensure that it will be in compliance with other provisions of the Sarbanes-Oxley Act which will become applicable to the Company after the effectiveness of the Registration Statement.

(xxv) Payment of Taxes. All United States federal income tax returns of the Company and its subsidiaries required by law to be filed have been filed and all taxes shown by such returns or otherwise assessed, which are due and payable, have been paid, except assessments against which appeals have been or will be promptly taken and as to which adequate reserves have been provided. The Company and its subsidiaries have filed all other tax returns that are required to have been filed by them pursuant to applicable foreign, state, local or other law except insofar as the failure to file such returns would not reasonably be expected to result in a Material Adverse Effect, and has paid all taxes due pursuant to such returns or pursuant to any assessment received by the Company and its subsidiaries, except for such taxes, if any, as are being contested in good faith and as to which adequate reserves have been established by the Company. The charges, accruals and reserves on the books of the Company in respect of any income and corporation tax liability for any years not finally determined are adequate to meet any assessments or re-assessments for additional income tax for any years not finally determined, except to the extent of any inadequacy that would not reasonably be expected to result in a Material Adverse Effect.

(xxvi) Insurance. The Company and its subsidiaries carry or are entitled to the benefits of insurance, with financially sound and reputable insurers, in such amounts and covering such risks as is generally maintained by companies engaged in the same or similar business of a similar size and similarly situated to the Company and its subsidiaries, and all such insurance is in full force and effect. The Company has no reason to believe that it or any of its subsidiaries will not be able (A) to renew its existing insurance coverage as and when such policies expire or (B) to obtain comparable coverage from similar institutions as may be necessary or appropriate to conduct its business as now conducted and at a cost that would not reasonably be expected to result in a Material Adverse Change. Neither of the Company nor any of its subsidiaries has been denied within the last five years any insurance coverage which it has sought or for which it has applied.

(xxvii) Investment Company Act. The Company is not required, and upon the issuance and sale of the Securities as herein contemplated and the application of the net proceeds therefrom as described in the General Disclosure Package and the Prospectus will not be required,

to register as an “investment company” under the Investment Company Act of 1940, as amended (the “1940 Act”).

(xxviii) Absence of Manipulation. Neither the Company nor any affiliate of the Company has taken, nor will the Company or any affiliate take, directly or indirectly, any action which is designed, or would be expected, to cause or result in, or which has constituted, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(xxix) Foreign Corrupt Practices Act. None of the Company, any of its subsidiaries or, to the knowledge of the Company, any director, officer, agent, employee, affiliate or other person acting on behalf of the Company or any of its subsidiaries is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the “FCPA”), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any “foreign official” (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA and the Company and, to the knowledge of the Company, its affiliates have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

(xxx) Money Laundering Laws. The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any Governmental Entity (collectively, the “Money Laundering Laws”); and no action, suit or proceeding by or before any Governmental Entity involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the best knowledge of the Company, threatened.

(xxxi) OFAC. None of the Company, any of its subsidiaries or, to the knowledge of the Company, any director, officer, agent, employee, affiliate or other person acting on behalf of the Company or any of its subsidiaries is currently the subject of any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department (“OFAC”); and the Company will not directly or indirectly use the proceeds of the sale of the Securities, or lend, contribute or otherwise make available such proceeds to any of its subsidiaries, joint venture partners or other person, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(xxxii) Lending Relationship. Except as disclosed in the General Disclosure Package and the Prospectus, the Company (i) does not have any material lending or other relationship with any bank or lending affiliate of any Underwriter and (ii) does not intend to use any of the proceeds from the sale of the Securities to repay any outstanding debt owed to any affiliate of any Underwriter.

(xxxiii) Statistical and Market-Related Data. Any statistical and market-related data included in the General Disclosure Package or the Prospectus are based on or derived from

sources that the Company believes, after reasonable inquiry, to be reliable and accurate and, to the extent required, the Company has obtained the written consent to the use of such data from such sources.

(b) *Representations and Warranties by the Selling Stockholders.* Each Selling Stockholder, severally and not jointly, represents and warrants to each Underwriter as of the date hereof, as of the Applicable Time, as of the Closing Time and, if such Selling Stockholder is selling Option Securities on a Date of Delivery, as of each such Date of Delivery, and agrees with each Underwriter, as follows:

(i) *Accurate Disclosure.* Neither the General Disclosure Package nor the Prospectus or any amendments or supplements thereto includes any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the preceding clause applies only to the extent that any statements in or omissions from the General Disclosure Package and the Prospectus, or any amendments or supplements (including any Canadian wrap) thereto are made in reliance upon and in conformity with the Selling Stockholder Information of such Selling Stockholder. Such Selling Stockholder is not prompted to sell the Securities to be sold by such Selling Stockholder hereunder by any information concerning the Company or any subsidiary of the Company which is not set forth in the General Disclosure Package or the Prospectus.

(ii) *Authorization of this Agreement.* This Agreement has been duly authorized, executed and delivered by or on behalf of such Selling Stockholder.

(iii) *Authorization of Power of Attorney and Custody Agreement.* The Power of Attorney and Custody Agreement, in the form heretofore furnished to the Representatives (the "Power of Attorney and Custody Agreement"), has been duly authorized, executed and delivered by such Selling Stockholder and assuming due authorization, execution and delivery by each other party thereto is the valid and binding agreement of such Selling Stockholder.

(iv) *Noncontravention.* The execution and delivery of this Agreement and the Power of Attorney and Custody Agreement and the sale and delivery of the Securities to be sold by such Selling Stockholder and the consummation of the transactions contemplated herein and compliance by such Selling Stockholder with its obligations hereunder do not and will not, whether with or without the giving of notice or passage of time or both, conflict with or constitute a breach of, or default under, or result in the creation or imposition of any tax, lien, charge or

encumbrance upon the Securities to be sold by such Selling Stockholder or any property or assets of such Selling Stockholder pursuant to any contract, indenture, mortgage, deed of trust, loan or credit agreement, note, license, lease or other agreement or instrument to which such Selling Stockholder is a party or by which such Selling Stockholder may be bound, or to which any of the property or assets of such Selling Stockholder is subject (except for such conflicts, breaches, defaults, taxes, liens, charges or encumbrances that would not reasonably be expected to, singly or in the aggregate, have a material adverse effect on such Selling Stockholder's ability to consummate the transactions contemplated by this Agreement), nor will such action result in any violation of the provisions of (A) the limited liability company agreement or the certificate of formation or other organizational instrument of such Selling Stockholder, if applicable, or (B) any applicable treaty, law, statute, rule, regulation, judgment, order, writ or decree of any government, government instrumentality or court, domestic or foreign, having jurisdiction over such Selling Stockholder or any of its properties (except, in the case of clause (B) only, for such violations that would not reasonably be expected to, singly or in the aggregate, have a material adverse effect on such Selling Stockholder's ability to consummate the transactions contemplated by this Agreement).

(v) Valid Title. Such Selling Stockholder has, and at the Closing Time and at each Date of Delivery, if any, will have, valid title to the Securities to be sold by such Selling Stockholder free and clear of all security interests, claims, liens, equities or other encumbrances and the legal right and power, and all authorization and approval required by law, to enter into this Agreement and the Power of Attorney and Custody Agreement and to sell, transfer and deliver the Securities to be sold by such Selling Stockholder or a valid security entitlement in respect of such Securities.

(vi) Delivery of Securities. Upon payment of the purchase price for the Securities to be sold by such Selling Stockholder pursuant to this Agreement, delivery of such Securities, as directed by the Underwriters, to Cede & Co. ("Cede") or such other nominee as may be designated by The Depository Trust Company ("DTC"), registration of such Securities in the name of Cede or such other nominee, and the crediting of such Securities on the books of DTC to securities accounts (within the meaning of Section 8-501(a) of the UCC) of the Underwriters (assuming that neither DTC nor any such Underwriter has notice of any "adverse claim," within the meaning of Section 8-105 of the Uniform Commercial Code then in effect in the State of New York ("UCC"), to such Securities), (A) under Section 8-501 of the UCC, the Underwriters will acquire a valid "security entitlement" in respect of such Securities and (B) no action (whether framed in conversion, replevin, constructive trust, equitable lien, or other theory) based on any "adverse claim," within the meaning of Section 8-102 of the UCC, to such Securities may be asserted against the Underwriters with respect to such security entitlement; for purposes of this representation, such Selling Stockholder may assume that when such payment, delivery and crediting occur, (I) such Securities will have been registered in the name of Cede or another nominee designated by DTC, in each case on the Company's share registry in accordance with its certificate of incorporation, bylaws and applicable law, (II) DTC will be registered as a "clearing corporation," within the meaning of Section 8-102 of the UCC, (III) appropriate entries to the accounts of the several Underwriters on the records of DTC will have been made pursuant to the UCC, (IV) to the extent DTC, or any other securities intermediary which acts as "clearing corporation" with respect to the Securities, maintains any "financial asset" (as defined in Section 8-102(a)(9) of the UCC in a clearing corporation pursuant to Section 8-111 of the UCC, the rules of such clearing corporation may affect the rights of DTC or such securities intermediaries and the ownership interest of the Underwriters, (V) claims of creditors of DTC or any other securities intermediary or clearing corporation may be given priority to the extent set forth in Section 8-511(b) and 8-511(c) of the UCC and (VI) if at any time DTC or other securities

intermediary does not have sufficient Securities to satisfy claims of all of its entitlement holders with respect thereto then all holders will share pro rata in the Securities then held by DTC or such securities intermediary.

(vii) Absence of Manipulation. Such Selling Stockholder has not taken, and will not take, directly or indirectly, any action which is designed to or which has constituted or would be expected to cause or result in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(viii) Absence of Further Requirements. No filing with, or consent, approval, authorization, order, registration, qualification or decree of any arbitrator, court, governmental body, regulatory body, administrative agency or other authority, body or agency, domestic or foreign, is necessary or required for the performance by such Selling Stockholder of its obligations hereunder or in the Power of Attorney and Custody Agreement, or in connection with the sale and delivery of the Securities hereunder or the consummation of the transactions contemplated by this Agreement, including but not limited to, the Reorganization, except (i) such as have been already obtained or as may be required under the 1933 Act, the 1933 Act Regulations, the rules of the [New York Stock Exchange] [NASDAQ Stock Market LLC], or state securities laws, (ii) the filing of the Restated Certificate of Incorporation with the Delaware Secretary of State, or (iii) the rules of FINRA.

(ix) No Registration or Other Similar Rights. Such Selling Stockholder does not have any registration or other similar rights to have any equity or debt securities registered for sale by the Company under the Registration Statement or included in the offering contemplated by this Agreement, other than those rights that have been disclosed in the General Disclosure Package and the Prospectus and have been waived or complied with.

(x) No Free Writing Prospectuses. Such Selling Stockholder has not prepared or had prepared on its behalf or used or referred to, any "free writing prospectus" (as defined in Rule 405), and has not distributed any written materials in connection with the offer or sale of the Securities.

(xi) No Association with FINRA. Neither such Selling Stockholder nor any of its affiliates directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with any member firm of FINRA or is a person associated with a member (within the meaning of the FINRA By-Laws) of FINRA.

(c) Officer's Certificates. Any certificate signed by any officer of the Company or any of its subsidiaries delivered to the Representatives or to counsel for the Underwriters shall be deemed a representation and warranty by the Company to each Underwriter as to the matters covered thereby; and any certificate signed by or on behalf of the Selling Stockholders as such and delivered to the Representatives or to counsel for the Underwriters pursuant to the terms of this Agreement shall be deemed a representation and warranty by such Selling Stockholder to the Underwriters as to the matters covered thereby.

SECTION 2. Sale and Delivery to Underwriters: Closing

(a) Initial Securities. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company and each Selling Stockholder, severally and not jointly, agree to sell to each Underwriter, severally and not jointly, and each Underwriter, severally and not jointly, agrees to purchase from the Company and each Selling Stockholder, at the price

per share set forth in Schedule A, that proportion of the number of Initial Securities set forth in Schedule B opposite the name of the Company or such Selling Stockholder, as the case may be, which the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter, plus any additional number of Initial Securities which such Underwriter may become obligated to purchase pursuant to the provisions of Section 10 hereof, bears to the total number of Initial Securities, subject, in each case, to such adjustments among the Underwriters as Merrill Lynch in its sole discretion shall make to eliminate any sales or purchases of fractional shares.

(b) *Option Securities.* In addition, on the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Selling Stockholders hereby, acting severally and not jointly, grant an option to the Underwriters, severally and not jointly, to purchase up to an additional — shares of Class A Common Stock, in accordance with the allocations among the Selling Stockholders as set forth in Schedule B, at the price per share set forth in Schedule A, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities. The option hereby granted will expire 30 days after the date hereof and may be exercised in whole or in part from time to time upon notice by the Representatives to the Selling Stockholders setting forth the number of Option Securities as to which the several Underwriters are then exercising the option and the time and date of payment and delivery for such Option Securities. Any such time and date of delivery (a “Date of Delivery”) shall be determined by the Representatives, but shall not be (if other than the Closing Time (as hereinafter defined)) earlier than three full business days nor later than seven full business days after the exercise of said option, nor in any event prior to the Closing Time. If the option is exercised as to all or any portion of the Option Securities, each of the Underwriters, acting severally and not jointly, will purchase that proportion of the total number of Option Securities then being purchased which the number of Initial Securities set forth in Schedule A opposite the name of such Underwriter bears to the total number of Initial Securities, subject, in each case, to such adjustments as Merrill Lynch in its sole discretion shall make to eliminate any sales or purchases of fractional shares.

(c) *Payment.* Payment of the purchase price for, and delivery of certificates for, the Initial Securities shall be made at the offices of Sidley Austin LLP, 555 California Street, San Francisco, California 94104, or at such other place as shall be agreed upon by the Representatives and the Company and the Selling Stockholders, at 9:00 A.M. (New York City time) on the third (fourth, if the pricing occurs after 4:30 P.M. (New York City time) on any given day) business day after the date hereof (unless postponed in accordance with the provisions of Section 10), or such other time not later than ten business days after such date as shall be agreed upon by the Representatives, the Company and the Selling Stockholders (such time and date of payment and delivery being herein called “Closing Time”).

In addition, in the event that any or all of the Option Securities are purchased by the Underwriters, payment of the purchase price for, and delivery of certificates for, such Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Representatives and the Company and the Selling Stockholders, on each Date of Delivery as specified in the notice from the Representatives to the Company and the Selling Stockholders.

Payment shall be made to the Company and the Selling Stockholders by wire transfer of immediately available funds to bank accounts designated by the Company and the Custodian pursuant to each Selling Stockholders’ Power of Attorney and Custody Agreement, as the case may be, against delivery to the Representatives for the respective accounts of the Underwriters of certificates for the Securities to be purchased by them. As used in this Agreement, the term “Custodian” shall have the meaning ascribed thereto in each Power of Attorney and Custody Agreement. It is understood that each Underwriter has authorized the Representatives, for its account, to accept delivery of, receipt for, and make payment of the purchase price for, the Initial Securities and the Option Securities, if any, which it

has agreed to purchase. Merrill Lynch, individually and not as representative of the Underwriters, may (but shall not be obligated to) make payment of the purchase price for the Initial Securities or the Option Securities, if any, to be purchased by any Underwriter whose funds have not been received by the Closing Time or the relevant Date of Delivery, as the case may be, but such payment shall not relieve such Underwriter from its obligations hereunder.

(d) *Denominations; Registration.* The Initial Securities and the Option Securities, if any, shall be in such denominations and registered in such names as the Representatives may request in writing at least one full business day before the Closing Time or the relevant Date of Delivery, as the case may be.

(e) *Appointment of Qualified Independent Underwriter.* The Company and the Selling Stockholders hereby confirm their engagement of Goldman, Sachs as, and Goldman, Sachs hereby confirms its agreement with the Company and the Selling Stockholders to render services as, a “qualified independent underwriter” within the meaning of FINRA Rule 5121 (“Rule 5121”) with respect to the offering and sale of the Securities. Goldman, Sachs, solely in its capacity as qualified independent underwriter and not otherwise, is referred to herein as the “QIU.” As compensation for the services of the QIU hereunder, the Company agrees to pay the QIU \$10,000 on the Closing Date.

SECTION 3. Covenants of the Company and the Selling Stockholders. The Company and the Selling Stockholders (severally and not jointly) covenant with each Underwriter as follows:

(a) *Compliance with Securities Regulations and Commission Requests.* The Company, subject to Section 3(b), will comply with the requirements of Rule 430A, and will notify the Representatives promptly, and confirm the notice in writing, (i) when any post-effective amendment to the Registration Statement shall become effective or any amendment or supplement to the Prospectus shall have been filed, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information, (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or any post-effective amendment or of any order preventing or suspending the use of any preliminary prospectus or the Prospectus, or of the suspension of the qualification of the Securities for offering or sale in any jurisdiction, or of the initiation or threatening of any proceedings for any of such purposes or of any examination pursuant to Section 8(e) of the 1933 Act concerning the Registration Statement and (v) if the Company becomes the subject of a proceeding under Section 8A of the 1933 Act in connection with the offering of the Securities. The Company will effect all filings required under Rule 424(b), in the manner and within the time period required by Rule 424(b) (without reliance on Rule 424(b)(8)), and will take such steps as it deems necessary to ascertain promptly whether the form of prospectus transmitted for filing under Rule 424(b) was received for filing by the Commission and, in the event that it was not, it will promptly file such prospectus. The Company will use its reasonable best efforts to prevent the issuance of any stop order, prevention or suspension and, if any such order is issued, to obtain the lifting thereof as soon as practicable.

(b) *Continued Compliance with Securities Laws.* The Company will comply with the 1933 Act and the 1933 Act Regulations so as to permit the completion of the distribution of the Securities as contemplated in this Agreement and in the General Disclosure Package and the Prospectus. If at any time when a prospectus relating to the Securities is (or, but for the exception afforded by Rule 172 of the 1933 Act Regulations (“Rule 172”), would be) required by the 1933 Act to be delivered in connection with sales of the Securities, any event shall occur or condition shall exist as a result of which it is necessary, in the opinion of counsel for the Underwriters or for the Company, to (i) amend the Registration Statement in order that the Registration Statement will not include an untrue statement of a material fact or omit to

state a material fact required to be stated therein or necessary to make the statements therein not misleading, (ii) amend or supplement the General Disclosure Package or the Prospectus in order that the General Disclosure Package or the Prospectus, as the case may be, will not include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein not misleading in the light of the circumstances existing at the time it is delivered to a purchaser or (iii) amend the Registration Statement or amend or supplement the General Disclosure Package or the Prospectus, as the case may be, in order to comply with the requirements of the 1933 Act or the 1933 Act Regulations, the Company will promptly (A) give the Representatives notice of such event, (B) prepare any amendment or supplement as may be necessary to correct such statement or omission or to make the Registration Statement, the General Disclosure Package or the Prospectus comply with such requirements and, a reasonable amount of time prior to any proposed filing or use, furnish the Representatives with copies of any such amendment or supplement and (C) file with the Commission any such amendment or supplement; provided that the Company shall not file or use any such amendment or supplement to which the Representatives or counsel for the Underwriters shall reasonably object. The Company will furnish to the Underwriters such number of copies of such amendment or supplement as the Underwriters may reasonably request. The Company will give the Representatives notice of its intention to make any filings pursuant to the 1934 Act or 1934 Act Regulations from the Applicable Time to the Closing Time and will furnish the Representatives with copies of any such documents a reasonable amount of time prior to such proposed filing, as the case may be, and will not file or use any such document to which the Representatives or counsel for the Underwriters shall reasonably object (other than a document that the Company believes in good faith, based on advice of counsel, it is required by law to file).

(c) *Delivery of Registration Statements.* The Company has furnished or will deliver to the Representatives and counsel for the Underwriters, without charge, conformed copies of the Registration Statement as originally filed and of each amendment thereto (including exhibits filed therewith) and signed copies of all consents and certificates of experts, and will also deliver to the Representatives upon request, without charge, a conformed copy of the Registration Statement as originally filed and each amendment thereto (without exhibits) for each of the Underwriters. The copies of the Registration Statement and of each amendment thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(d) *Delivery of Prospectuses.* The Company has delivered to each Underwriter, without charge, as many copies of each preliminary prospectus as such Underwriter reasonably requested, and the Company hereby consents to the use of such copies for purposes permitted by the 1933 Act. The Company will furnish to each Underwriter, without charge, during the period when a prospectus relating to the Securities is (or, but for the exception afforded by Rule 172, would be) required to be delivered under the 1933 Act, such number of copies of the Prospectus (as amended or supplemented) as such Underwriter may reasonably request. The Prospectus and any amendments or supplements thereto furnished to the Underwriters will be identical to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T.

(e) *Blue Sky Qualifications.* The Company will use its reasonable best efforts, in cooperation with the Underwriters, to qualify the Securities for offering and sale under the applicable securities laws of such states and other jurisdictions (domestic or foreign) as the Representatives may designate and to maintain such qualifications in effect so long as required to complete the distribution of the Securities; provided, however, that the Company shall not be obligated to file any general consent or otherwise subject itself to service of process or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject.

(f) *Rule 158.* The Company will timely file such reports pursuant to the 1934 Act as are necessary in order to make generally available to its securityholders as soon as practicable an earnings statement for the purposes of, and to provide to the Underwriters the benefits contemplated by, the last paragraph of Section 11(a) of the 1933 Act.

(g) *Use of Proceeds.* The Company will use the net proceeds received by it from the sale of the Securities in the manner specified in the General Disclosure Package and the Prospectus under “Use of Proceeds.”

(h) *Listing.* The Company will use its best efforts to effect and maintain the listing of the Class A Common Stock (including the Securities) on the New York Stock Exchange [Nasdaq Global [Select] Market].

(i) *Restriction on Sale of Securities.* During a period of 180 days from the date of the Prospectus, the Company will not, without the prior written consent of Merrill Lynch and Goldman, Sachs, (i) directly or indirectly, offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise dispose of or transfer any shares of Common Stock or any securities convertible into or exercisable or exchangeable for or repayable with Common Stock or file any registration statement under the 1933 Act with respect to any of the foregoing or (ii) enter into any swap or any other agreement or any transaction that transfers, in whole or in part, directly or indirectly, the economic consequence of ownership of the Common Stock, whether any such swap or transaction described in clause (i) or (ii) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise. The foregoing sentence shall not apply to (A) the Securities to be sold hereunder, (B) any shares of Common Stock issued by the Company upon the exercise of an option or the conversion of a security outstanding on the date hereof and referred to in the General Disclosure Package and the Prospectus, (C) any shares of Common Stock issued, options to purchase Common Stock or other awards issued pursuant to equity incentive plans of the Company referred to in the General Disclosure Package and the Prospectus, (D) any shares of Class A Common Stock issued in connection with any mergers or acquisitions, joint ventures or strategic alliances with another company in an aggregate amount not to exceed 5% of the number of shares of Class A Common Stock issued and outstanding immediately following completion of the issuance of the Securities (provided that the recipient of such shares of Class A Common Stock agrees to be bound in writing by an agreement of the same duration and terms as set forth in this Section 3(i)), or (E) any registration statement on Form S-8 under the 1933 Act with respect to the foregoing clause (C). Notwithstanding the foregoing, if (1) during the last 17 days of the 180-day restricted period the Company issues an earnings release or material news or a material event relating to the Company occurs or (2) prior to the expiration of the 180-day restricted period, the Company announces that it will issue an earnings release or becomes aware that material news or a material event will occur during the 16-day period beginning on the last day of the 180-day restricted period, the restrictions imposed in this Section 3(i) shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the occurrence of the material news or material event.

(j) *Reporting Requirements.* The Company, during the period when a Prospectus relating to the Securities is (or, but for the exception afforded by Rule 172, would be) required to be delivered under the 1933 Act, will file all documents required to be filed with the Commission pursuant to the 1934 Act within the time periods required by the 1934 Act and the 1934 Act Regulations. Additionally, the Company shall report the use of proceeds from the issuance of the Shares as may be required under Rule 463 under the 1933 Act.

(k) *Issuer Free Writing Prospectuses.* The Company and each Selling Stockholder agrees that, unless it obtains the prior written consent of the Representatives, it will not make any offer relating to the Securities that would constitute an Issuer Free Writing Prospectus or that would otherwise constitute a “free writing prospectus,” or a portion thereof, required to be filed by the Company with the Commission, or in the case of each Selling Stockholder, whether or not required to be filed with the Commission, or retained by the Company under Rule 433; provided that the Representatives will be deemed to have consented to the Issuer Free Writing Prospectuses listed on Schedule C-2 hereto and any “road show that is a written communication” within the meaning of Rule 433(d)(8)(i) that has been reviewed by the Representatives. The Company and each Selling Stockholder (severally and not jointly) represents that it has treated or agrees that it will treat each such free writing prospectus consented to, or deemed consented to, by the Representatives as an “issuer free writing prospectus,” as defined in Rule 433, and that it has complied and will comply with the applicable requirements of Rule 433 with respect thereto, including timely filing with the Commission where required, legending and record keeping. If at any time following issuance of an Issuer Free Writing Prospectus there occurred or occurs an event or development as a result of which such Issuer Free Writing Prospectus conflicted or would conflict with the information contained in the Registration Statement or included or would include an untrue statement of a material fact or omitted or would omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at that subsequent time, not misleading, the Company will promptly notify the Representatives and will promptly amend or supplement, at its own expense, such Issuer Free Writing Prospectus to eliminate or correct such conflict, untrue statement or omission. Each Underwriter represents and agrees that, without the prior consent of the Company, which consent shall not be unreasonably withheld, it has not made and will not make any offer relating to the Securities that would constitute a “free writing prospectus” required to be filed by the Company with the Commission or retained by the Company under Rule 433; provided that the Company will be deemed to have consented to the Issuer Free Writing Prospectuses listed on Schedule C-2 hereto and any “road show that is a written communication” within the meaning of Rule 433(d)(8)(i) that has been reviewed by the Company.

(l) *Release or Waiver.* If Merrill Lynch and Goldman Sachs, in their sole discretion, agree to release or waive the restrictions set forth in the lock-up agreements described in Section 5(k) hereof for an officer or director of the Company and provide the Company with notice of the impending release or waiver at least two business days before the effective date of the release or waiver, the Company agrees to announce the impending release or waiver by a press release through a major news service at least two business days before the effective date of the release or waiver.

SECTION 4. Payment of Expenses

(a) *Expenses.* The Company will pay or cause to be paid all expenses incident to the performance of their obligations under this Agreement, including (i) the preparation, printing and filing of the Registration Statement (including financial statements and exhibits) as originally filed and each amendment thereto, (ii) the preparation, printing and delivery to the Underwriters of copies of each preliminary prospectus, each Issuer Free Writing Prospectus and the Prospectus and any amendments or supplements thereto and any costs associated with electronic delivery of any of the foregoing by the Underwriters to investors, (iii) the preparation, issuance and delivery of the certificates for the Securities to the Underwriters, if any, including any stock or other transfer taxes and any stamp or other duties payable upon the sale, issuance or delivery of the Securities to the Underwriters, (iv) the fees and disbursements of the Company's counsel, accountants and other advisors and counsel to the Selling Stockholders, (v) the qualification of the Securities under securities laws in accordance with the provisions of Section 3(e) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey and any supplement thereto and the reasonable fees and disbursements of special Canadian counsel for the Underwriters in connection with the preparation of any Canadian wrap (such counsel fees and disbursements of Canadian counsel not to exceed \$10,000), (vi) the fees and expenses of any transfer agent or registrar for the Securities, (vii) the costs and expenses of the Company relating to investor presentations on any "road show" undertaken in connection with the marketing of the Securities, including without limitation, expenses associated with the production of road show slides and graphics, reasonable and documented fees and expenses of any consultants engaged with the consent of the Company in connection with the road show presentations, travel and lodging expenses of the representatives and officers of the Company and any such consultants, and fifty percent (50%) of the cost of aircraft and other transportation chartered in connection with the road show, (viii) the filing fees incident to, and the reasonable fees and disbursements of counsel to the Underwriters in connection with, the review by FINRA of the terms of the sale of the Securities (such counsel fees and disbursements in an amount not to exceed \$20,000), (ix) the fees and expenses incurred in connection with the listing of the Securities on the [New York Stock Exchange] [Nasdaq Global [Select] Market], (x) the costs and expenses (including, without limitation, any damages or other amounts payable in connection with legal or contractual liability) associated with the reforming of any contracts for sale of the Securities made by the Underwriters caused by a breach of the representation contained in the third sentence of Section 1(a)(ii), and (xi) the reasonable fees and expenses of the QIU.

(b) *Expenses of the Selling Stockholders.* Each of the Selling Stockholders, severally and not jointly, will pay all expenses incident to the performance of their respective obligations under, and the consummation of the transactions contemplated by, this Agreement, including (i) any stamp and other duties and stock and other transfer taxes, if any, payable upon the sale of the Securities by such Selling Stockholder to the Underwriters and their transfer between the Underwriters pursuant to an agreement between such Underwriters, and (ii) any fees and disbursements of its counsel and other advisors that are not paid by the Company.

(c) *Termination of Agreement.* If this Agreement is terminated by the Representatives in accordance with the provisions of Section 5, Section 9(a)(i) or (iii), Section 10 or Section 11 hereof, the Company shall reimburse the Underwriters (or, in the case of Section 10, solely the non-defaulting

Underwriters) for all of their reasonable and documented out-of-pocket expenses, including the reasonable fees and disbursements of counsel for the Underwriters.

(d) *Allocation of Expenses.* The provisions of this Section shall not affect any agreement that the Company and the Selling Stockholders may make for the sharing of such costs and expenses.

SECTION 5. Conditions of Underwriters' Obligations. The obligations of the several Underwriters hereunder are subject to the accuracy of the representations and warranties of the Company and the Selling Stockholders contained herein or in certificates of any officer of the Company or any of its subsidiaries or on behalf of the Selling Stockholders delivered pursuant to the provisions hereof, to the performance by the Company and the Selling Stockholders of their respective covenants and other obligations hereunder, and to the following further conditions:

(a) *Effectiveness of Registration Statement; Rule 430A Information.* The Registration Statement, including any Rule 462(b) Registration Statement, has become effective and at Closing Time no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto has been issued under the 1933 Act, no order preventing or suspending the use of any preliminary prospectus or the Prospectus has been issued and no proceedings for any of those purposes have been instituted or are pending or, to the Company's knowledge, contemplated; and the Company has complied with each request (if any) from the Commission for additional information. A prospectus containing the Rule 430A Information shall have been filed with the Commission in the manner and within the time frame required by Rule 424(b) without reliance on Rule 424(b)(8) or a post-effective amendment providing such information shall have been filed with, and declared effective by, the Commission in accordance with the requirements of Rule 430A.

(b) *Opinion of Counsel for Company.* At the Closing Time, the Representatives shall have received the favorable opinion and negative assurance letter, dated as of the Closing Time, of Morrison & Foerster LLP, counsel for the Company, in form and substance satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letters for each of the other Underwriters to the effect set forth in Exhibit A hereto and to such further effect as counsel to the Underwriters may reasonably request.

(c) *Opinion of Counsel for the Selling Stockholders.* At the Closing Time, the Representatives shall have received the favorable opinion, dated as of the Closing Time, of (i) Gibson Dunn & Crutcher LLP on behalf of Home Holdings, LLC and each of the other Selling Stockholders if any represented by such law firm as identified in Schedule B hereto, and (ii) of the respective other counsel if any for each of the other Selling Stockholders identified in Schedule B hereto, in each case in form and substance satisfactory to counsel for the Underwriters, together with signed or reproduced copies of such letters for each of the other Underwriters to the effect set forth in Exhibit B hereto and to such further effect as counsel to the Underwriters may reasonably request.

(d) *Opinion of Counsel for Underwriters.* At the Closing Time, the Representatives shall have received the favorable opinion, dated the Closing Time, of Sidley Austin LLP, counsel for the Underwriters, together with signed or reproduced copies of such letter for each of the other Underwriters with respect to the Securities to be sold by the Company pursuant to this Agreement, this Agreement, the Registration Statement, any Rule 462(b) Registration Statement, the General Disclosure Package and the Prospectus and any amendments or supplements thereto, and other related matters as the Representatives may require. In giving such opinion such counsel may rely, as to all matters governed by the laws of jurisdictions other than the law of the State of New York, the General Corporation Law of the State of Delaware and the federal securities laws of the United States, upon the opinions of counsel satisfactory to the Representatives. Such counsel may also state that, insofar as such opinion involves factual matters,

they have relied, to the extent they deem proper, upon certificates of officers and other representatives of the Company and its subsidiaries and certificates of public officials.

(e) *Officers' Certificate.* At the Closing Time, there shall not have been, since the date hereof or since the respective dates as of which information is given in the General Disclosure Package or the Prospectus, any material adverse change in the condition, financial or otherwise, or in the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise, whether or not arising in the ordinary course of business, and the Representatives shall have received a certificate of the Chief Executive Officer or the President of the Company and of the chief financial or chief accounting officer of the Company, dated the Closing Time, to the effect that (i) there has been no such material adverse change, (ii) the representations and warranties of the Company in this Agreement are true and correct in all respects with the same force and effect as though expressly made at and as of the Closing Time, (iii) the Company has complied with all agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Closing Time, and (iv) no stop order suspending the effectiveness of the Registration Statement under the 1933 Act has been issued, no order preventing or suspending the use of any preliminary prospectus or the Prospectus has been issued and no proceedings for any of those purposes have been instituted or are pending or, to their knowledge, threatened by the Commission.

(f) *Certificate of Selling Stockholders.* At the Closing Time, the Representatives shall have received a certificate of the Managing Member, the Chief Executive Officer or an Attorney-in-Fact, on behalf of each Selling Stockholder selling Initial Securities, dated the Closing Time, to the effect that (i) the representations and warranties of each Selling Stockholder in this Agreement are true and correct in all respects with the same force and effect as though expressly made at and as of the Closing Time and (ii) each Selling Stockholder has complied with all agreements and all conditions on its part to be performed under this Agreement at or prior to the Closing Time.

(g) *Accountant's Comfort Letter.* At the time of the execution of this Agreement, the Representatives shall have received (i) from PricewaterhouseCoopers LLP ("PricewaterhouseCoopers") a letter, dated such date, in form and substance satisfactory to the Representatives, together with signed or reproduced copies of such letter for each of the other Underwriters containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement, the General Disclosure Package and the Prospectus, and (ii) from the Chief Financial Officer of the Company, a certificate, dated such date, in form and substance satisfactory to the Representatives, together with signed or reproduced copies of such certificate for each of the other Underwriters with respect to financial information and other financial data which were not covered by the letter of PricewaterhouseCoopers referred to in clause (i) of this paragraph.

(h) *Bring-down Comfort Letter.* At the Closing Time, the Representatives shall have received from PricewaterhouseCoopers a letter and from the Chief Financial Officer of the Company a certificate, dated as of the Closing Time, to the effect that they reaffirm the statements made in their respective letter and certificate furnished pursuant to subsection (g) of this Section, except that the specified date referred to therein shall be a date not more than three business days prior to the Closing Time.

(i) *Approval of Listing.* At the Closing Time, the Securities shall have been approved for listing on the [New York Stock Exchange] [Nasdaq Global [Select] Market], subject only to official notice of issuance.

(j) *No Objection*. Prior to or on the date of this Agreement, FINRA has confirmed that it has not raised any objection with respect to the fairness and reasonableness of the underwriting terms and arrangements relating to the offering of the Securities.

(k) *Lock-up Agreements*. At the date of this Agreement, the Representatives shall have received an agreement substantially in the form of Exhibit C hereto signed by the persons listed on Schedule D hereto.

(l) *Restated Certificate of Incorporation*. Prior to the date of this Agreement, the Company shall have filed the Restated Certificate of Incorporation with the Delaware Secretary of State and the Company shall have provided the Representatives with a confirmation of such filing from the Delaware Secretary of State.

(m) *Conditions to Purchase of Option Securities*. In the event that the Underwriters exercise their option provided in Section 2(b) hereof to purchase all or any portion of the Option Securities, the representations and warranties of the Company and the Selling Stockholders contained herein and the statements in any certificates furnished by the Company, any of its subsidiaries and the Selling Stockholders hereunder shall be true and correct as of each Date of Delivery and, at the relevant Date of Delivery, the Representatives shall have received:

(i) Officers' Certificate. A certificate, dated such Date of Delivery, of the Chief Executive Officer, the President or a Vice President of the Company and of the chief financial or chief accounting officer of the Company confirming that the certificate delivered at the Closing Time pursuant to Section 5(e) hereof remains true and correct as of such Date of Delivery.

(ii) Certificate of Selling Stockholders. A certificate, dated such Date of Delivery, of the Managing Member, the Chief Executive Officer or an Attorney-in-Fact, on behalf of each Selling Stockholder selling Option Securities confirming that the certificate delivered at Closing Time pursuant to Section 5(f) hereof remains true and correct as of such Date of Delivery.

(iii) Opinion of Counsel for Company. If requested by the Representatives, the favorable opinion and negative assurance letter of Morrison & Foerster LLP, counsel for the Company, in form and substance satisfactory to counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(b) hereof.

(iv) Opinion of Counsel for the Selling Stockholders. If requested by the Representatives, the favorable opinion of each counsel for each of the Selling Stockholders identified in Schedule B hereto, in form and substance satisfactory to counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(c) hereof.

(v) Opinion of Counsel for Underwriters. If requested by the Representatives, the favorable opinion of Sidley Austin LLP, counsel for the Underwriters, dated such Date of Delivery, relating to the Option Securities to be purchased on such Date of Delivery and otherwise to the same effect as the opinion required by Section 5(d) hereof.

(vi) Bring-down Comfort Letter. If requested by the Representatives, a letter from PricewaterhouseCoopers and a certificate from the Chief Financial Officer of the Company, each in form and substance satisfactory to the Representatives and dated such Date of Delivery,

substantially in the same form and substance as their respective letter and certificate to the Representatives pursuant to Section 5(g) hereof, except that the “specified date” in each letter and certificate furnished pursuant to this paragraph shall be a date not more than three business days prior to such Date of Delivery.

(n) *Additional Documents.* At the Closing Time and at each Date of Delivery (if any) counsel for the Underwriters shall have been furnished with such documents and opinions as they may require for the purpose of enabling them to pass upon the issuance and sale of the Securities as herein contemplated, or in order to evidence the accuracy of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company and the Selling Stockholders in connection with the issuance and sale of the Securities as herein contemplated shall be satisfactory in form and substance to the Representatives and counsel for the Underwriters.

(o) *Termination of Agreement.* If any condition specified in this Section shall not have been fulfilled when and as required to be fulfilled, this Agreement, or, in the case of any condition to the purchase of Option Securities on a Date of Delivery which is after the Closing Time, the obligations of the several Underwriters to purchase the relevant Option Securities, may be terminated by the Representatives by notice to the Company and the Selling Stockholders at any time at or prior to Closing Time or such Date of Delivery, as the case may be, and such termination shall be without liability of any party to any other party except as provided in Section 4 and except that Sections 1, 6, 7, 8, 15 and 16 shall survive any such termination and remain in full force and effect.

SECTION 6. Indemnification.

(a) *Indemnification of Underwriters.* The Company and Restoration Hardware, jointly and severally, agree to indemnify and hold harmless each Underwriter, its affiliates (as such term is defined in Rule 501(b) under the 1933 Act (each, an “Affiliate”)), its selling agents and each person, if any, who controls any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact included (A) in any preliminary prospectus, any Issuer Free Writing Prospectus, the General Disclosure Package or the Prospectus (or any amendment or supplement thereto), or (B) in any materials or information provided to investors by, or with the approval of, the Company or Restoration Hardware in connection with the marketing of the offering of the Securities (“Marketing Materials”), including any road show or investor presentations made to investors by the Company or Restoration Hardware (whether in person or electronically), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 6(e) below) any such settlement is

effected with the written consent of the Company, Restoration Hardware and the Selling Stockholders;

(iii) against any and all expense whatsoever, as incurred (including the reasonable fees and disbursements of counsel chosen by Merrill Lynch and Goldman, Sachs), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under clause (i) or (ii) above;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising out of any untrue statement or omission or alleged untrue statement or omission made in the Registration Statement (or any amendment thereto), including the Rule 430A Information, the General Disclosure Package or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with the Underwriter Information.

(b) *Indemnification of Underwriters by Selling Stockholders.* Each Selling Stockholder agrees, severally and not jointly, to indemnify and hold harmless each Underwriter, its Affiliates and selling agents and each person, if any, who controls any Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act to the extent and in the manner set forth in clauses (a)(i), (ii) and (iii) above and in Section 6(f); provided that each Selling Stockholder shall be liable only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission has been made in the Registration Statement, any preliminary prospectus, the General Disclosure Package, the Prospectus (or any amendment or supplement thereto) or any Issuer Free Writing Prospectus in reliance upon and in conformity with the Selling Stockholder Information provided by such Selling Stockholder; provided, further, that the liability under this subsection of such Selling Stockholder shall be limited to an amount equal to the aggregate gross proceeds after deducting underwriting commissions and discounts, but before deducting expenses, to the Selling Stockholders from the sale of Securities sold by the Selling Stockholders hereunder.

(c) *Indemnification of Company, Directors and Officers and Selling Stockholders.* Each Underwriter severally agrees to indemnify and hold harmless the Company, its directors, each of its officers who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act, and each Selling Stockholder and each person, if any, who controls any Selling Stockholder within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, as incurred, but only with respect to untrue statements or omissions, or alleged untrue statements or omissions, made in the Registration Statement (or any amendment thereto), including the Rule 430A Information, the General Disclosure Package or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with the Underwriter Information.

(d) *Actions against Parties; Notification.* Each indemnified party shall give notice as promptly as reasonably practicable to each indemnifying party of any action commenced against it in respect of which indemnity may be sought hereunder, but failure to so notify an indemnifying party shall not relieve such indemnifying party from any liability hereunder to the extent it is not materially prejudiced as a result thereof and in any event shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of parties indemnified pursuant to Section 6(a) and 6(b) above, counsel to the Underwriters and the other indemnified parties referred to therein shall be selected by Merrill Lynch and Goldman, Sachs, and, in the case of parties indemnified

pursuant to Section 6(c) above, counsel to the Company and the other indemnified parties referred to therein shall be selected by the Company and Restoration Hardware and counsel to the Selling Stockholders and the other indemnified parties referred to therein shall be selected by the Selling Stockholders. An indemnifying party may participate at its own expense in the defense of any such action; provided, however, that counsel to the indemnifying party shall not (except with the consent of the indemnified party) also be counsel to the indemnified party. In no event shall the indemnifying parties be liable for fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for the Underwriters and the other indemnified parties referred to in Section 6(a) and 6(b), the fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for the Selling Stockholders and the other indemnified parties referred to in Section 6(c) and the fees and expenses of more than one counsel (in addition to any local counsel) separate from their own counsel for the Company and the other indemnified parties referred to in Section 6(c); provided, that, if indemnity is sought pursuant to Section 6(f), then, in addition to the fees and expenses of such counsel for the indemnified parties, the indemnifying party shall be liable for the reasonable fees and expenses of not more than one counsel (in addition to any local counsel) separate from its own counsel and that of the other indemnified parties for the QIU in its capacity as a "qualified independent underwriter" and all persons, if any, who control the QIU within the meaning of Section 15 of the 1933 Act or Section 20 of 1934 Act in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances if, in the reasonable judgment of the QIU, there may exist a conflict of interest between the QIU and the other indemnified parties. Any such separate counsel for the QIU and such control persons of the QIU shall be designated in writing by the QIU. No indemnifying party shall, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever in respect of which indemnification or contribution could be sought under this Section 6 or Section 7 hereof (whether or not the indemnified parties are actual or potential parties thereto), unless such settlement, compromise or consent (i) includes an unconditional release of each indemnified party from all liability arising out of such litigation, investigation, proceeding or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act by or on behalf of any indemnified party.

(e) *Settlement without Consent if Failure to Reimburse.* If at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 6(a)(ii) effected without its written consent if (i) such settlement is entered into more than 45 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 30 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request prior to the date of such settlement.

(f) *Indemnification of QIU.* In addition to and without limitation of the Company's and Restoration Hardware's obligations to indemnify Goldman, Sachs as an Underwriter, the Company and Restoration Hardware, jointly and severally, also agree to indemnify and hold harmless the QIU, its Affiliates and selling agents and each person, if any, who controls the QIU within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), including the Rule 430A Information, or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue

statement or alleged untrue statement of a material fact included (A) in any preliminary prospectus, any Issuer Free Writing Prospectus, the General Disclosure Package or the Prospectus (or any amendment or supplement thereto), or (B) in any Marketing Materials, including any road show or investor presentations made to investors by the Company or Restoration Hardware (whether in person or electronically), or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(ii) against any and all loss, liability, claim, damage and expense whatsoever, as incurred, to the extent of the aggregate amount paid in settlement of any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission; provided that (subject to Section 6(e) above) any such settlement is effected with the written consent of the Company and Restoration Hardware;

(iii) against any and all expense whatsoever, as incurred (including the fees and disbursements of counsel chosen by Goldman, Sachs), reasonably incurred in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above; as incurred, incurred as a result of the QIU's participation as a "qualified independent underwriter" within the meaning of Rule 5121 in connection with the offering of the Securities;

provided, however, that this indemnity agreement shall not apply to any loss, liability, claim, damage or expense to the extent arising from the gross negligence or bad faith of Goldman, Sachs in performing the services as QIU.

(g) *Other Agreements with Respect to Indemnification* The provisions of this Section shall not affect any agreement among the Company and the Selling Stockholders with respect to indemnification.

SECTION 7. Contribution. If the indemnification provided for in Section 6 hereof is for any reason unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, Restoration Hardware and the Selling Stockholders, on the one hand, and the Underwriters, on the other hand, from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, Restoration Hardware and the Selling Stockholders, on the one hand, and of the Underwriters, on the other hand, in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company, Restoration Hardware and the Selling Stockholders, on the one hand, and the Underwriters, on the other hand, in connection with the offering of the Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Securities pursuant to this Agreement (before deducting expenses) received by the Company, Restoration Hardware and the Selling Stockholders, on the one hand, and the total underwriting discount received by the Underwriters, on the other hand, in each case as

set forth on the cover of the Prospectus, bear to the aggregate initial public offering price of the Securities as set forth on the cover of the Prospectus.

The relative fault of the Company, Restoration Hardware and the Selling Stockholders, on the one hand, and the Underwriters, on the other hand, shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, Restoration Hardware or the Selling Stockholders or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, Restoration Hardware, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by an indemnified party and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

Notwithstanding the provisions of this Section 7, (i) no Underwriter shall be required to contribute any amount in excess of the underwriting commissions received by such such Underwriter in connection with the Securities underwritten by it and distributed to the public, and (ii) each Selling Stockholders shall not be required to contribute any amount in excess of the amount by which the aggregate net proceeds after deducting underwriting commissions and discounts, but before deducting expenses to such Selling Stockholder from the sale of Securities sold by such Selling Stockholder hereunder exceeds the amount of any damages which such Selling Stockholder has otherwise been required to pay by reason of any such untrue or alleged untrue statement or omission or alleged omission.

If the indemnification provided for in Section 6(f) hereof is for any reason unavailable to or insufficient to hold harmless Goldman, Sachs, in its capacity as QIU, in respect of any losses, liabilities, claims, damages or expenses referred to therein, then each indemnifying party shall contribute to the aggregate amount of such losses, liabilities, claims, damages and expenses incurred by such indemnified party, as incurred, (i) in such proportion as is appropriate to reflect the relative benefits received by the Company, Restoration Hardware and the Selling Stockholders, on the one hand, and Goldman, Sachs, in its capacity as QIU, on the other hand, from the offering of the Securities pursuant to this Agreement or (ii) if the allocation provided by clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company, Restoration Hardware and the Selling Stockholders, on the one hand, and of Goldman, Sachs, in its capacity as QIU, on the other hand, in connection with the statements or omissions which resulted in such losses, liabilities, claims, damages or expenses, as well as any other relevant equitable considerations.

The relative benefits received by the Company, Restoration Hardware and the Selling Stockholders, on the one hand, and Goldman, Sachs, in its capacity as QIU, on the other hand, in connection with the offering of the Securities pursuant to this Agreement shall be deemed to be in the same respective proportions as the total net proceeds from the offering of the Securities pursuant to this Agreement (before deducting expenses) received by the Company, Restoration Hardware and the Selling Stockholders, as set forth on the cover of the Prospectus, on the one hand, bears to the fee payable to the QIU pursuant to Section 2(e), on the other hand.

The relative fault of the Company, Restoration Hardware and the Selling Stockholders, on the one hand, and Goldman, Sachs, in its capacity as QIU, on the other hand, shall be determined by reference to, among other things, whether any such untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company, Restoration Hardware or the Selling Stockholders or by Goldman, Sachs, in its capacity as QIU and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

The Company, Restoration Hardware, the Selling Stockholders and the QIU agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this Section 7. The aggregate amount of losses, liabilities, claims, damages and expenses incurred by Goldman, Sachs, in its capacity as QIU and referred to above in this Section 7 shall be deemed to include any legal or other expenses reasonably incurred by the QIU in investigating, preparing or defending against any litigation, or any investigation or proceeding by any governmental agency or body, commenced or threatened, or any claim whatsoever based upon any such untrue or alleged untrue statement or omission or alleged omission.

No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

For purposes of this Section 7, each person, if any, who controls an Underwriter within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and each Underwriter's Affiliates and selling agents shall have the same rights to contribution as such Underwriter, each person, if any, who controls the QIU within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act and each QIU's Affiliates and selling agents shall have the same rights to contribution as such QIU, and each director of the Company, each director of Restoration Hardware, each officer of the Company who signed the Registration Statement, and each person, if any, who controls the Company, Restoration Hardware or any Selling Stockholder within the meaning of Section 15 of the 1933 Act or Section 20 of the 1934 Act shall have the same rights to contribution as the Company, Restoration Hardware or such Selling Stockholder, as the case may be. The Underwriters' respective obligations to contribute pursuant to this Section 7 are several in proportion to the number of Initial Securities set forth opposite their respective names in Schedule A hereto and not joint.

The provisions of this Section 7 shall not affect any agreement among the Company and the Selling Stockholders with respect to contribution.

SECTION 8. Representations, Warranties and Agreements to Survive All representations, warranties and agreements contained in this Agreement or in certificates of officers of the Company or any of its subsidiaries or the Selling Stockholders submitted pursuant hereto, shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of any Underwriter or its Affiliates or selling agents, any person controlling any Underwriter, its officers or directors, any person controlling the Company or any person controlling any Selling Stockholder and (ii) delivery of and payment for the Securities.

SECTION 9. Termination of Agreement

(a) *Termination*. The Representatives, in their absolute discretion, may terminate this Agreement, by notice to the Company and the Selling Stockholders, at any time at or prior to the Closing Time (i) if there has been, in the judgment of the Representatives, since the time of execution of this

Agreement or since the respective dates as of which information is given in the General Disclosure Package or the Prospectus, any Material Adverse Effect, or (ii) if there has occurred any material adverse change in the financial markets in the United States or the international financial markets, any outbreak of hostilities or escalation thereof or other calamity or crisis or any change or development involving a prospective change in national or international political, financial or economic conditions, in each case the effect of which is such as to make it, in the judgment of the Representatives, impracticable or inadvisable to proceed with the completion of the offering or to enforce contracts for the sale of the Securities, or (iii) if trading in any securities of the Company has been suspended or materially limited by the Commission or the [New York Stock Exchange] [Nasdaq Global [Select] Market], or (iv) if trading generally on the NYSE Amex Equities or the New York Stock Exchange or in the Nasdaq Global Market has been suspended or materially limited, or minimum or maximum prices for trading have been fixed, or maximum ranges for prices have been required, by any of said exchanges or by order of the Commission, FINRA or any other governmental authority, or (v) a material disruption has occurred in commercial banking or securities settlement or clearance services in the United States or with respect to Clearstream or Euroclear systems in Europe, or (vi) if a banking moratorium has been declared by either Federal or New York authorities.

(b) *Liabilities.* If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 4 hereof, and provided further that Sections 1, 6, 7, 8, 15 and 16 shall survive such termination and remain in full force and effect.

SECTION 10. Default by One or More of the Underwriters. If one or more of the Underwriters shall fail at Closing Time or a Date of Delivery to purchase the Securities which it or they are obligated to purchase under this Agreement (the "Defaulted Securities"), the Representatives shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Defaulted Securities in such amounts as may be agreed upon and upon the terms herein set forth; if, however, the Representatives shall not have completed such arrangements within such 24-hour period, then:

(i) if the number of Defaulted Securities does not exceed 10% of the number of Securities to be purchased on such date, each of the non-defaulting Underwriters shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective underwriting obligations hereunder bear to the underwriting obligations of all non-defaulting Underwriters, or

(ii) if the number of Defaulted Securities exceeds 10% of the number of Securities to be purchased on such date, this Agreement or, with respect to any Date of Delivery which occurs after the Closing Time, the obligation of the Underwriters to purchase, and the Selling Stockholders to sell, the Option Securities to be purchased and sold on such Date of Delivery shall terminate without liability on the part of any non-defaulting Underwriter.

No action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of its default.

In the event of any such default which does not result in a termination of this Agreement or, in the case of a Date of Delivery which is after the Closing Time, which does not result in a termination of the obligation of the Underwriters to purchase and the Selling Stockholders to sell the relevant Option Securities, as the case may be, either the (i) Representatives or (ii) the Company and any Selling Stockholder shall have the right to postpone Closing Time or the relevant Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required changes in the Registration

Statement, the General Disclosure Package or the Prospectus or in any other documents or arrangements. As used herein, the term "Underwriter" includes any person substituted for an Underwriter under this Section 10.

SECTION 11. Default by one or more of the Selling Stockholders or the Company. (a) If a Selling Stockholder shall fail at the Closing Time or at a Date of Delivery, as the case may be, to sell and deliver the number of Securities which such Selling Stockholder or Selling Stockholders are obligated to sell hereunder, and the remaining Selling Stockholders do not exercise the right hereby granted to increase, pro rata or otherwise, the number of Securities to be sold by them hereunder to the total number to be sold by all Selling Stockholders as set forth in Schedule B hereto, then the Underwriters may, at option of the Representatives, by notice from the Representatives to the Company and the non-defaulting Selling Stockholders, either (i) terminate this Agreement without any liability on the fault of any non-defaulting party except that the provisions of Sections 1, 4, 6, 7, 8, 15 and 16 shall remain in full force and effect or (ii) elect to purchase the Securities which the non-defaulting Selling Stockholders and the Company have agreed to sell hereunder. No action taken pursuant to this Section 11 shall relieve any Selling Stockholder so defaulting from liability, if any, in respect of such default.

In the event of a default by any Selling Stockholder as referred to in this Section 11, each of the Representatives, the Company and the non-defaulting Selling Stockholders shall have the right to postpone the Closing Time or the Date of Delivery, as the case may be, for a period not exceeding seven days in order to effect any required change in the Registration Statement, the General Disclosure Package or the Prospectus or in any other documents or arrangements.

(b) If the Company shall fail at the Closing Time to sell the number of Securities that it is obligated to sell hereunder, then this Agreement shall terminate without any liability on the part of any nondefaulting party; provided, however, that the provisions of Sections 1, 4, 6, 7, 8, 15 and 16 shall remain in full force and effect. No action taken pursuant to this Section shall relieve the Company from liability, if any, in respect of such default.

SECTION 12. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given if mailed or transmitted by any standard form of telecommunication. Notices to the Underwriters shall be directed to Merrill Lynch at One Bryant Park, New York, New York 10036, attention of Syndicate Department, with a copy to ECM Legal and to Goldman, Sachs at 200 West Street, New York, New York 10282, attention of Registration Department;; notices to the Company shall be directed to it at —, attention of —; and notices to the Selling Stockholders shall be directed to —, attention of —.

SECTION 13. No Advisory or Fiduciary Relationship. Each of the Company and each Selling Stockholder, severally and not jointly, acknowledges and agrees that (a) the purchase and sale of the Securities pursuant to this Agreement, including the determination of the initial public offering price of the Securities and any related discounts and commissions, is an arm's-length commercial transaction between the Company and the Selling Stockholders, on the one hand, and the several Underwriters, on the other hand, (b) in connection with the offering of the Securities and the process leading thereto, each Underwriter is and has been acting solely as a principal and is not the agent or fiduciary of the Company, any of its subsidiaries or any Selling Stockholder, or its respective limited liability company members, managers, creditors, employees or any other party, (c) no Underwriter has assumed or will assume an advisory or fiduciary responsibility in favor of the Company or any Selling Stockholder with respect to the offering of the Securities or the process leading thereto (irrespective of whether such Underwriter has advised or is currently advising the Company, any of its subsidiaries or any Selling Stockholder on other matters) and no Underwriter has any obligation to the Company or the Selling Stockholders with respect to the offering of the Securities except the obligations expressly set forth in this Agreement, (d) the

Underwriters and their respective affiliates may be engaged in a broad range of transactions that involve interests that differ from those of each of the Company and each Selling Stockholder, and (e) the Underwriters have not provided any legal, accounting, regulatory or tax advice with respect to the offering of the Securities and the Company and each of the Selling Stockholders has consulted its own respective legal, accounting, regulatory and tax advisors to the extent it deemed appropriate.

SECTION 14. Parties. This Agreement shall each inure to the benefit of and be binding upon the Underwriters, the Company and the Selling Stockholders and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the Underwriters, the Company and the Selling Stockholders and their respective successors and the controlling persons and officers and directors referred to in Sections 6 and 7 and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained. This Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the Underwriters, the Company and the Selling Stockholders and their respective successors, and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Securities from any Underwriter shall be deemed to be a successor by reason merely of such purchase.

SECTION 15. Trial by Jury. The Company (on its behalf and, to the extent permitted by applicable law, on behalf of its stockholders and affiliates), each of the Selling Stockholders and each of the Underwriters hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

SECTION 16. GOVERNING LAW. THIS AGREEMENT AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF, THE STATE OF NEW YORK WITHOUT REGARD TO ITS CHOICE OF LAW PROVISIONS.

SECTION 17. TIME. TIME SHALL BE OF THE ESSENCE OF THIS AGREEMENT. EXCEPT AS OTHERWISE SET FORTH HEREIN, SPECIFIED TIMES OF DAY REFER TO NEW YORK CITY TIME.

SECTION 18. USA Patriot Act. In accordance with the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), the Underwriters are required to obtain, verify and record information that identifies their respective clients, including the Company and the Selling Stockholders, which information may include the name and address of their respective clients, as well as other information that will allow the Underwriters to properly identify their respective clients.

SECTION 19. Partial Unenforceability. The invalidity or unenforceability of any Section, paragraph or provision of this Agreement shall not affect the validity or enforceability of any other Section, paragraph or provision hereof. If any Section, paragraph or provision of this Agreement is for any reason determined to be invalid or unenforceable, there shall be deemed to be made such minor changes (and only such minor changes) as are necessary to make it valid and enforceable.

SECTION 20. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same Agreement.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company, Restoration Hardware, Home Holdings, LLC and the Attorney-in-Fact for the Selling Stockholders a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement among the Underwriters, the Company, Restoration Hardware, Home Holdings, LLC and the Selling Stockholders in accordance with its terms.

Very truly yours,

RESTORATION HARDWARE HOLDINGS, INC.

By _____
Name:
Title:

RESTORATION HARDWARE, INC.

By _____
Name:
Title:

HOME HOLDINGS, LLC

By _____
Name:
Title:

The Selling Stockholders named in Schedule B hereto

By _____
Name:
As Attorney-in-Fact acting on behalf of the Selling Stockholders
named in Schedule B hereto

CONFIRMED AND ACCEPTED,
as of the date first above written:

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

GOLDMAN, SACHS & CO.

By: MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By _____
Authorized Signatory

By: GOLDMAN, SACHS & CO.

By _____
Authorized Signatory

For themselves and as Representatives of the other Underwriters named in Schedule A hereto.

SCHEDULE A

The initial public offering price per share for the Securities shall be \$—.

The purchase price per share for the Securities to be paid by the several Underwriters shall be \$—, being an amount equal to the initial public offering price set forth above less \$— per share, subject to adjustment in accordance with Section 2(b) for dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities.

Name of Underwriter	Number of Initial Securities
Merrill Lynch, Pierce, Fenner & Smith Incorporated	
Goldman, Sachs & Co.	
Total	—

Sch A-1

SCHEDULE B

	<u>Number of Initial Securities to be Sold</u>	<u>Maximum Number of Option Securities to Be Sold</u>
RESTORATION HARDWARE HOLDINGS, INC.		
THE SELLING STOCKHOLDERS		
HOME HOLDINGS, LLC		
[NAME OF SELLING STOCKHOLDER](a)		
[NAME OF SELLING STOCKHOLDER](b)		
Total		

- (a) This Selling Stockholder is represented by [Name and Address of Counsel] and has appointed [Names of Attorneys in Fact (not less than two)], and each of them, as the Attorneys in Fact for such Selling Stockholder.
- (b) This Selling Stockholder is represented by [Name and Address of Counsel] and has appointed [Names of Attorneys in Fact (not less than two)], and each of them, as the Attorneys in Fact for such Selling Stockholder.

SCHEDULE C-1

Pricing Terms

1. The Company and the Selling Stockholders are selling — shares of Class A Common Stock.
2. The Selling Stockholders have granted an option to the Underwriters, severally and not jointly, to purchase up to an additional— shares of Class A Common Stock.
3. The initial public offering price per share for the Securities shall be \$—.

Sch C - 1

SCHEDULE C-2

Free Writing Prospectuses

Sch C - 2

SCHEDULE D

List of Persons and Entities Subject to Lock-up

Sch D - 1

FORM OF OPINION OF COMPANY'S COUNSEL
TO BE DELIVERED PURSUANT TO SECTION 5(b)

FORM OF OPINION OF COUNSEL FOR THE SELLING STOCKHOLDERS
TO BE DELIVERED PURSUANT TO SECTION 5(c)

B-1

FIRST AMENDMENT TO NINTH AMENDED AND RESTATED CREDIT AGREEMENT

FIRST AMENDMENT TO NINTH AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") dated as of January 6, 2012 between

RESTORATION HARDWARE, INC., a Delaware corporation, as a Domestic Borrower and the Lead Borrower (the "Lead Borrower");

the Other Domestic Borrowers party hereto (together with the Lead Borrower, the "Domestic Borrowers");

RESTORATION HARDWARE CANADA, INC., a British Columbia company, as the Canadian Borrower (the "Canadian Borrower", and together with the Domestic Borrowers, collectively, the "Borrowers");

the Guarantors party hereto;

the Lenders party hereto; and

BANK OF AMERICA, N.A., as Administrative Agent and Collateral Agent (in such capacities, the "Agent");

in consideration of the mutual covenants herein contained and benefits to be derived herefrom.

W I T N E S S E T H:

WHEREAS, the Borrowers, certain of the Lenders, and the Agent, among others, have entered into a certain Ninth Amended and Restated Credit Agreement dated as of August 3, 2011 (the "Credit Agreement"); and

WHEREAS, the Domestic Borrowers have requested that the Term Lender establish a term loan facility under the Credit Agreement in the amount of \$15,000,000; and

WHEREAS, the parties to the Credit Agreement desire to modify certain other provisions of the Credit Agreement as provided herein.

NOW THEREFORE, in consideration of the mutual promises and agreements herein contained, the parties hereto hereby agree as follows:

1. Incorporation of Terms and Conditions of Credit Agreement. All of the terms and conditions of the Credit Agreement (including, without limitation, all definitions set forth therein) are specifically incorporated herein by reference. All capitalized terms not otherwise defined herein shall have the same meaning as in the Credit Agreement, as applicable.

2. Representations and Warranties. Each Loan Party hereby represents and warrants that as of the First Amendment Effective Date, (i) no Default or Event of Default exists under the Credit Agreement or under any other Loan Document, and (ii) all representations and warranties contained in the Credit Agreement and in the other Loan Documents are true and correct except (x) to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and (y) in the case of any representation and warranty qualified by materiality, they are true and correct in all respects.
3. Ratification of Loan Documents. The Credit Agreement, as hereby amended, and all other Loan Documents, are hereby ratified and re-affirmed in all respects and shall continue in full force and effect.
4. Amendment to Credit Agreement.
 - a. Composite Credit Agreement. The Credit Agreement (other than the Schedules and Exhibits thereto) is hereby amended in its entirety to reflect the modifications identified in the document annexed hereto as Annex A.
 - b. Amendment to Exhibit F. Exhibit F (Form of Borrowing Base Certificate) to the Credit Agreement is hereby deleted in its entirety and replaced with Exhibit F attached to this Amendment.
 - c. Amendment to Schedules to the Credit Agreement.
 - i. The Credit Agreement is hereby amended by adding Schedule 1.01 (Registered Trade Names) attached to this Amendment to the Credit Agreement.
 - ii. Schedule 2.01 (Commitments and Applicable Percentages) to the Credit Agreement is hereby deleted in its entirety and replaced with Schedule 2.01 attached to this Amendment.
5. Conditions to Effectiveness. This Amendment shall not be effective until each of the following conditions precedent has been fulfilled to the satisfaction of the Agent:
 - a. This Amendment shall have been duly executed and delivered by the Loan Parties and the Required Lenders. The Agent shall have received a fully executed original hereof.
 - b. All action on the part of the Loan Parties necessary for the valid execution, delivery and performance by the Loan Parties of this Amendment shall have been duly and effectively taken.

-
- c. The Loan Parties shall have paid the fees to the Term Lender set forth in the Fee Letter of even date herewith.
 - d. The Agent shall have received (i) reasonable and customary opinions of counsel to the Loan Parties (including appropriate local counsel), and (ii) such customary corporate resolutions, certificates and other customary corporate documents as the Agent shall reasonably request.
 - e. After giving effect to this Amendment, no Default or Event of Default shall have occurred and be continuing.
6. Binding Effect. The terms and provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their heirs, representatives, successors and assigns.
 7. Expenses. The Loan Parties shall reimburse the Agent and the Term Lender for all reasonable out-of-pocket costs and expenses, including, reasonable attorneys' fees of one primary counsel and necessary local counsel, in connection with or relating to this Amendment.
 8. Multiple Counterparts. This Amendment may be executed in multiple counterparts, each of which shall constitute an original and together which shall constitute but one and the same instrument.
 9. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF, BUT INCLUDING SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered by each of the parties hereto as a sealed instrument as of the date first above written.

DOMESTIC BORROWERS:

RESTORATION HARDWARE, INC., as Lead Borrower and as a Domestic Borrower

By: /s/ James G. Stewart

Name: James G. Stewart

Title: Senior Vice President, Finance and Principal Accounting Officer

CANADIAN BORROWER:

RESTORATION HARDWARE CANADA, INC., as Canadian Borrower

By: /s/ James G. Stewart

Name: James G. Stewart

Title: Senior Vice President, Finance and Principal Accounting Officer

BANK OF AMERICA, N.A., as Agent

By: /s/ Mark D. Twomey

Name: Mark D. Twomey

Title: SVP - Director

BANK OF AMERICA, N.A., as a Tranche A Lender, an Incremental Lender, a Term Lender, L/C Issuer and Swing Line Lender

By: /s/ Mark D. Twomey

Name: Mark D. Twomey

Title: SVP - Director

**BANK OF AMERICA, N.A. (ACTING THROUGH ITS
CANADA BRANCH)**, as a Canadian Lender and L/C Issuer

By: /s/ Medina Sales de Andrade

Name: Medina Sales de Andrade

Title: Vice President

WELLS FARGO BANK, NATIONAL ASSOCIATION, as a
Tranche A Lender and L/C Issuer

By: /s/ Adam B. Davis

Name: Adam B. Davis

Title: Vice President

UNION BANK, N.A., as a Tranche A Lender

By: /s/ Terry L. Rocha

Name: Terry L. Rocha

Title: Vice President

UNION BANK, CANADA BRANCH, as a Canadian Lender

By: /s/ Anne Collins

Name: Anne Collins

Title: Vice President

CIT BANK, as a Tranche A Lender

By: /s/ Benjamin Haslam

Name: Benjamin Haslam

Title: Authorized Signatory

Annex A

Ninth Amended and Restated Credit Agreement

[See Attached]

NINTH AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of August 3, 2011

among

RESTORATION HARDWARE, INC.,

as the Lead Borrower

For

The Borrowers Named Herein

The Guarantors Named Herein

BANK OF AMERICA, N.A.

as Administrative Agent and Collateral Agent

and

The Other Lenders Party Hereto

WELLS FARGO CAPITAL FINANCE, LLC,

as Syndication Agent

U.S. BANK, NATIONAL ASSOCIATION,

as Documentation Agent

MERRILL, LYNCH, PIERCE, FENNER & SMITH INCORPORATED,

as Sole Lead Arranger and Sole Bookrunner

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B	Swing Line Loan Notice
C-1	Tranche A Note
C-2	Incremental Note
C-3	Canadian Note
C-4	Swing Line Note
D	Compliance Certificate
E	Assignment and Assumption
F	Borrowing Base Certificate
G	Credit Card Notification

NINTH AMENDED AND RESTATED CREDIT AGREEMENT

This NINTH AMENDED AND RESTATED CREDIT AGREEMENT ("Agreement") is entered into as of August 3, 2011, among **RESTORATION HARDWARE, INC.**, a Delaware corporation, as a Domestic Borrower and the Lead Borrower (as hereinafter defined); the Other Domestic Borrowers (as hereinafter defined); **RESTORATION HARDWARE CANADA, INC.**, a British Columbia company, as the Canadian Borrower; the Guarantors; each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), **BANK OF AMERICA, N.A.**, as Administrative Agent and Collateral Agent; **WELLS FARGO CAPITAL FINANCE, LLC**, as Syndication Agent; and **U.S. BANK, NATIONAL ASSOCIATION**, as Documentation Agent.

WITNESSETH:

WHEREAS, the Borrowers have requested that the Domestic Lenders make available to the Domestic Borrowers a revolving credit facility (including a letter of credit sub-facility) in an initial maximum amount not to exceed \$300,000,000, and a first in, last out revolving credit facility in a maximum principal amount not to exceed \$17,500,000, the proceeds of which, in each case, shall be used by the Domestic Borrowers for purposes permitted under, and otherwise in accordance with and subject to the terms of, this Agreement;

WHEREAS, the Borrowers have requested that the Canadian Lenders make available to the Canadian Borrower a revolving credit sub-facility in the maximum principal amount of \$10,000,000, the proceeds of which shall be used by the Canadian Borrower for purposes permitted under, and otherwise in accordance with and subject to the terms of, this Agreement;

WHEREAS, the Borrowers have requested that the Term Lender make available to the Domestic Borrowers a term loan facility in a maximum principal amount not to exceed \$15,000,000, the proceeds of which shall be used by the Domestic Borrowers for purposes permitted under, and otherwise in accordance with and subject to the terms of, this Agreement;

WHEREAS, prior to the date of this Agreement, the Lead Borrower, on the one hand, and Bank of America, N.A., as Agent thereunder, and the lenders party thereto, on the other hand, previously entered into an Eighth Amended and Restated Loan and Security Agreement dated as of June 19, 2006 (as amended and in effect, the "Existing Credit Agreement"), pursuant to which the lenders party thereto provided the Lead Borrower, among others, with certain financial accommodations;

WHEREAS, in accordance with Section 11.10 of the Existing Credit Agreement, the Borrowers, the Lenders, and the Agent desire to amend and restate the Existing Credit Agreement as provided herein and in the Security Agreement.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in this Agreement, and for good and valuable consideration, the receipt of which is hereby acknowledged, the undersigned hereby agree that the Existing Credit Agreement shall be amended and restated in its entirety to read as set forth herein and in the Security Agreement (it being agreed that neither this Agreement nor the Security Agreement shall be deemed to evidence or result in a novation or repayment and reborrowing of the Obligations under the Existing Credit Agreement):

ARTICLE I DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

“Accelerated Borrowing Base Delivery Event” means either (i) the occurrence and continuance of any Event of Default, or (ii) the failure of the Borrowers to maintain Domestic Availability at least equal to the greater of (x) fifteen percent (15%) of the Loan Cap, or (y) \$20,000,000. For purposes of this Agreement, the occurrence of an Accelerated Borrowing Base Delivery Event shall be deemed continuing (i) so long as such Event of Default has not been waived, and/or (ii) if the Accelerated Borrowing Base Delivery Event arises as a result of the Borrowers’ failure to achieve Domestic Availability as required hereunder, until Domestic Availability has exceeded the greater of (x) fifteen percent (15%) of Loan Cap, or (y) \$20,000,000 for sixty (60) consecutive calendar days, in which case an Accelerated Borrowing Base Delivery Event shall no longer be deemed to be continuing for purposes of this Agreement. The termination of an Accelerated Borrowing Base Delivery Event as provided herein shall in no way limit, waive or delay the occurrence of a subsequent Accelerated Borrowing Base Delivery Event in the event that the conditions set forth in this definition again arise.

“ACH” means automated clearing house transfers.

“Accommodation Payment” as defined in Section 10.23(d).

“Account” means “accounts” as defined in the UCC or the PPSA, as applicable, and also means a right to payment of a monetary obligation, whether or not earned by performance, (a) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (b) for services rendered or to be rendered, or (c) arising out of the use of a credit or charge card or information contained on or for use with the card.

“Acquisition” means, with respect to any Person, any transaction that constitutes, or is part of a group of transactions which are part of a common plan for, (a) a purchase of a Controlling interest in the Equity Interests of any other Person, (b) a purchase or other acquisition of all or substantially all of the assets or properties of, another Person or of any business unit of another Person, (c) any merger, amalgamation or consolidation of such Person with any other Person or (d) any other transaction or series of transactions resulting in the acquisition of all or substantially all of the assets or Store locations of any Person.

“Act” shall have the meaning provided in Section 10.17.

“Additional Commitment Lender” shall have the meaning provided in Section 2.15.

“Adjusted LIBOR Rate” means, with respect to any LIBOR Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of one percent (1%)) equal to the LIBOR Rate for such Interest Period multiplied by the Statutory Reserve Rate. The Adjusted LIBOR Rate will be adjusted automatically as to all LIBOR Borrowings then outstanding as of the effective date of any change in the Statutory Reserve Rate.

“Adjustment Date” means the first day after the end of each Fiscal Quarter.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Agent.

“Affiliate” means, with respect to any Person, (i) another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified, (ii) any director, officer, managing member, partner, trustee, or beneficiary of that Person, (iii) any other Person directly or indirectly holding 20% or more of any class of the Equity Interests of that Person, and (iv) any other Person 20% or more of any class of whose Equity Interests is held directly or indirectly by that Person.

“Agent” means collectively, the Administrative Agent and the Collateral Agent, and individually means either of them, as applicable.

“Agent Parties” shall have the meaning specified in Section 10.02(c).

“Agent’s Office” means the Agent’s address and, as appropriate, account as set forth on Schedule 10.02, or such other address or account as any Agent may from time to time notify the Lead Borrower and the Lenders.

“Aggregate Commitments” means the aggregate of the Canadian Commitments, the Domestic Commitments and the outstanding amount of the Term Loan. As of the First Amendment Effective Date, the Aggregate Commitments are \$332,500,000.

“Agreement” means this Credit Agreement.

“Allocable Amount” has the meaning specified in Section 10.22(d).

“AML Legislation” has the meaning specified in Section 10.19.

“Applicable Lenders” means the Required Lenders, the Required Supermajority Lenders, all affected Lenders, or all Lenders, as the context may require.

“Applicable Margin” means:

(a) From and after the Effective Date until the first Adjustment Date occurring on February 1, 2012, the percentages set forth in Level II of the pricing grid below; and

(b) On and after the first Adjustment Date occurring on February 1, 2012 and on each Adjustment Date thereafter, the percentages set forth in the following pricing grid based upon the average daily Domestic Availability during the Fiscal Quarter ended immediately preceding such Adjustment Date; provided, however, that in the event that the Consolidated Fixed Charge Coverage Ratio, as calculated twelve (12) months following the Effective Date on a trailing twelve month basis, is greater than 1.50:1.00, then each percentage set forth in the

pricing grid set forth below automatically shall be reduced by 0.25%; provided further if any Borrowing Base Certificate is at any time restated or otherwise revised (including as a result of an audit), or if the information set forth in any Borrowing Base Certificate otherwise proves to be false or incorrect, in each case, in a way that affects such average daily Domestic Availability such that the Applicable Margin would have been higher than was otherwise in effect during any period, without constituting a waiver of any Default or Event of Default arising as a result thereof, interest due under this Agreement shall be immediately recalculated at such higher rate for any applicable periods and shall be due and payable on demand.

<u>Level</u>	<u>Average Daily Domestic Availability for the immediately preceding Fiscal Quarter</u>	<u>Base Rate Margin, U.S. Index Rate Margin and Canadian Prime Rate Margin for Tranche A Loans</u>	<u>Base Rate Margin for Incremental Loans</u>	<u>LIBOR Margin and BA Rate Margin for Tranche A Loans</u>	<u>LIBOR Margin for Incremental Loans</u>
I	Less than 30% of the Loan Cap	1.50%	3.00%	2.50%	4.00%
II	Equal to or greater than 30% of the Loan Cap but less than or equal to 60% of the Loan Cap	1.25%	2.75%	2.25%	3.75%
III	Greater than 60% of the Loan Cap	1.00%	2.50%	2.00%	3.50%

“Applicable Percentage” means, with respect to (a) any Tranche A Lender at any time, the percentage (carried out to the ninth decimal place) of the Tranche A Commitments represented by such Domestic Lender’s Domestic Commitment at such time, (b) any Incremental Lender at any time, the percentage (carried out to the ninth decimal place) of the Incremental Commitments represented by such Incremental Lender’s Incremental Commitment at such time, (c) any Canadian Lender at any time, the percentage (carried out to the ninth decimal place) of the Canadian Total Commitments represented by such Canadian Lender’s Canadian Commitment at such time, (d) the Term Lender at any time, the percentage (carried out to the ninth decimal place) of the Term Loan held by the Term Lender at such time and (e) any Lender at any time, the percentage (carried out to the ninth decimal place) of the Aggregate Commitments represented by such Lender’s Commitment or outstanding portion of the Term Loan at such time. If the Tranche A Commitments, Incremental Commitments and/or Canadian

Commitments of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 2.06 or Section 8.02 or if the Aggregate Commitments have expired, then the Applicable Percentage of each Lender shall be determined based on the Applicable Percentage of such Lender most recently in effect, giving effect to any subsequent assignments. The initial Applicable Percentage of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

“Applicable Rate” means, at any time of calculation, (a) with respect to Commercial Letters of Credit, a per annum rate equal to fifty percent (50%) of the Applicable Margin for Revolving Loans which are LIBOR Rate Loans, and (b) with respect to Standby Letters of Credit, a per annum rate equal to the Applicable Margin for Revolving Loans which are LIBOR Rate Loans.

“Appraised Value” means (a) with respect to Eligible Inventory, the appraised orderly liquidation value, net of costs and expenses to be incurred in connection with any such liquidation, which value is expressed as a percentage of Cost of Eligible Inventory as set forth in the inventory stock ledger of the Lead Borrower, which value shall be determined from time to time by the most recent appraisal undertaken by an independent appraiser engaged by the Agent, (b) with respect to Eligible Real Estate, the fair market value of Eligible Real Estate as set forth in the most recent appraisal of Eligible Real Estate as determined from time to time by an independent appraiser engaged by the Agent, which appraisal shall assume, among other things, a marketing time of not greater than twelve (12) months or less than three (3) months; provided that the Appraised Value of Eligible Real Estate shall in no event exceed the maximum amount of the Obligations at any time specified to be secured by a Mortgage thereon, or (c) with respect to Registered Trade Names, the appraised value, net of costs and expenses to be incurred in connection with any such liquidation, which value shall be determined from time to time by the most recent appraisal undertaken by an independent appraiser engaged by the Agent.

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender (c) an entity or an Affiliate of an entity that administers or manages a Lender, or (d) the same investment advisor or an advisor under common control with such Lender, Affiliate or advisor, as applicable.

“Arranger” means Merrill Lynch, Pierce, Fenner & Smith Incorporated, in its capacity as sole lead arranger and sole book manager.

“Assignee Group” means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 10.06(b)), and accepted by the Agent, in substantially the form of Exhibit E or any other form approved by the Agent.

“Attributable Indebtedness” means, on any date, (a) in respect of any Capital Lease Obligation of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease or similar payments under the relevant lease or other applicable agreement or instrument that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease, agreement or instrument were accounted for as a capital lease.

“Audited Financial Statements” means the audited consolidated balance sheet of the Lead Borrower and its Subsidiaries for the fiscal year ended January 29, 2011, and the related consolidated statements of income or operations, Shareholders’ Equity and cash flows for such fiscal year of the Lead Borrower and its Subsidiaries, including the notes thereto.

“Auto-Extension Letter of Credit” shall have the meaning specified in Section 2.03(b)(iii).

“Availability Period” means the period from and including the Effective Date to the earliest of (a) the Maturity Date, (b) the date of termination of the Aggregate Commitments pursuant to Section 2.06, and (c) the date of termination of the commitment of each Revolving Lender to make Revolving Loans and of the obligation of the L/C Issuer to make L/C Credit Extensions pursuant to Section 8.02.

“Availability Reserves” means, without duplication of any other Reserves or items that are otherwise addressed or excluded through eligibility criteria, such reserves as the Agent from time to time determines in its reasonable discretion, acting in good faith, as being appropriate (a) to reflect the impediments to the Agent’s ability to realize upon the Collateral, (b) to reflect claims and liabilities that the Agent determines may need to be satisfied in connection with the realization upon the Collateral, (c) to reflect criteria, events, conditions, contingencies or risks which the Agent believes in good faith could adversely affect any component of the Canadian Borrowing Base or the Domestic Borrowing Base, or (d) to reflect that a Default or an Event of Default then exists. Without limiting the generality of the foregoing, Availability Reserves may include, in the Agent’s reasonable discretion, acting in good faith (but are not limited to) reserves based on: (i) rent; (ii) customs duties, and other costs to release Inventory which is being imported into the United States or Canada; (iii) outstanding Taxes and other governmental charges, including, without limitation, ad valorem, real estate, personal property, sales, claims of the PBGC and similar Governmental Authorities and other Taxes which may have priority over the interests of the Agent in the Collateral; (iv) salaries, wages and benefits due to employees of any Borrower, (v) Customer Credit Liabilities, (vi) customer deposits, (viii) reserves for reasonably anticipated changes in the Appraised Value of Eligible Inventory between appraisals, (viii) warehousemen’s or bailee’s charges and other Permitted Encumbrances which may have priority over the interests of the Agent in the Collateral, (ix) the Agent’s estimate of Canadian Priority Payable Reserves; (x) Cash Management Reserves, (xi) Bank Products Reserves, (xii) Realty Reserves, and (xiii) royalties payable in respect of licensed merchandise.

“BA Equivalent Loan” means any Canadian Loan in CD\$ bearing interest at a rate determined by reference to the BA Rate in accordance with the provisions of Article II.

“BA Equivalent Borrowing” means any Borrowing comprised of BA Equivalent Loans.

“BA Rate” means, for the Interest Period applicable to a BA Equivalent Loan, the rate of interest per annum equal to the annual rates applicable to CD\$ bankers’ acceptances having an identical or comparable term as the proposed BA Equivalent Loan displayed and identified as such on the display referred to as the “CDOR Page” (or any display substituted therefor) of Reuter Monitor Money Rates Service as at approximately 10:00 A.M. (Toronto time) on such day (or, if such day is not a Business Day, as of 10:00 A.M. (Toronto time) on the immediately preceding Business Day), plus five (5) basis points; provided that if such rates do not appear on the CDOR Page at such time on such date, the rate for such date will be the annual discount rate (rounded upward to the nearest whole multiple of 1/100 of 1%) as of 10:00 A.M. on such day at which a Canadian chartered bank listed on Schedule 1 of the Bank Act (Canada) as selected by the Agent is then offering to purchase CD\$ bankers’ acceptances accepted by it having such specified term (or a term as closely as possible comparable to such specified term), plus five (5) basis points.

“Bank of America” means Bank of America, N.A. and its successors.

“Bank of America-Canada Branch” means Bank of America, N.A. (acting through its Canada branch), a banking corporation carrying on business under the Bank Act (Canada).

“Bank of Canada Overnight Rate” means, on any date of determination, the rate of interest charged by the Bank of Canada on one-day Canadian dollar loans to financial institutions, for such date.

“Bank Products” means any services or facilities provided to any Loan Party by the Agent, any Lender, or any of their respective Affiliates or branches, including, without limitation, on account of (a) Swap Contracts, (b) purchase cards, and (c) supply chain finance services (including, without limitation, trade payable services and supplier accounts receivable purchases), but excluding Cash Management Services.

“Bank Product Reserves” means such reserves as the Agent from time to time determines in its reasonable discretion, acting in good faith, as being appropriate to reflect the liabilities and obligations of the Loan Parties with respect to Bank Products then provided or outstanding.

“Banker’s Acceptance” means a time draft or bill of exchange or other deferred payment obligation relating to a Commercial Letter of Credit which has been accepted by the Issuing Lender.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of (a) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate”; (b) the Federal Funds Rate for such day, plus 0.50%; and (c) the LIBOR Rate for a 30 day interest period as determined on such day, plus 1.0%. The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in Bank of America’s prime rate, the Federal Funds Rate or the LIBOR Rate, respectively, shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

“BIA” means *the Bankruptcy and Insolvency Act* (Canada).

“Blocked Account” means each DDA subject to a Blocked Account Agreement.

“Blocked Account Agreement” means with respect to an account established by a Loan Party, an agreement, in form and substance satisfactory to the Agent, establishing control (as defined in the UCC) of such account by the Agent and whereby the bank maintaining such account agrees, upon the occurrence and during the continuance of a Cash Dominion Event, to comply only with the instructions originated by the Agent, without the further consent of any Loan Party.

“Blocked Account Bank” means each bank with whom deposit accounts are maintained in which any funds of any of the Loan Parties from one or more DDAs are concentrated and with whom a Blocked Account Agreement has been, or is required to be, executed in accordance with the terms hereof.

“Borrower Materials” has the meaning specified in Section 6.02.

“Borrowers” means, individually and collectively, the Lead Borrower, the Other Domestic Borrowers, the Canadian Borrower, and any other Person who subsequently becomes a Borrower hereunder.

“Borrowing” means a Canadian Borrowing or a Domestic Borrowing, as applicable, or a Swing Line Borrowing, or the borrowing of the Term Loan, as the context may require.

“Borrowing Base Certificate” means a certificate substantially in the form of Exhibit F hereto (with such changes therein as may be required by the Agent to reflect the components of and reserves against the Domestic Borrowing Base, the Term Loan Borrowing Base and the Canadian Borrowing Base as provided for hereunder from time to time), executed and certified as accurate and complete by a Responsible Officer of the Lead Borrower which shall include appropriate exhibits, schedules, supporting documentation, and additional reports as reasonably requested by the Agent.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Agent’s Office is located and, if such day relates to any LIBOR Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank market and provided further that when used in connection with any Loan by a Canadian Lender, the term “Business Day” shall also exclude any day on which banks are authorized or required by law to be closed in Toronto, Ontario, or Vancouver, British Columbia, Canada.

“Canadian Availability” means, as of any date of determination thereof, the result, if a positive number, of the Equivalent CD\$ Amount of:

(a) the Canadian Loan Cap

minus

(b) the Canadian Total Outstandings on such date.

“Canadian Borrower” means Restoration Hardware Canada, Inc., a company incorporated under the laws of British Columbia.

“Canadian Borrowing” means a borrowing consisting of simultaneous Canadian Loans of the same Type and, in the case of BA Equivalent Loans or LIBOR Rate Loans, having the same Interest Period made by each of the Canadian Lenders pursuant to Article II.

“Canadian Borrowing Base” means, at any time of calculation, an amount equal to the Equivalent CD\$ Amount of:

(a) the face amount of Eligible Credit Card Receivables of the Canadian Borrower, net of Receivables Reserves, multiplied by 90%;

plus

(b) the product of (i) 90% multiplied by (ii) the Appraised Value of Eligible Inventory of the Canadian Borrower, net of Inventory Reserves, multiplied by (iii) the Cost of Eligible Inventory of the Canadian Borrower;

minus

(c) without duplication of any Receivables Reserves or Inventory Reserves, the amount of all Availability Reserves then applicable to the Canadian Loan Parties.

“Canadian Commitments” means, as to each Canadian Lender, its obligation to (a) make Canadian Loans to the Canadian Borrower pursuant to Article II and (b) purchase participations in Canadian L/C Obligations, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Canadian Lender’s name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Canadian Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

“Canadian Concentration Account” has the meaning provided in Section 6.12(b).

“Canadian Credit Extensions” shall mean the making of a Canadian Loan to the Canadian Borrower or any Canadian L/C Credit Extensions.

“Canadian Credit Party” or “Canadian Credit Parties” means (a) individually, (i) each Canadian Lender and each of its Affiliates and branches to whom any Canadian Liabilities are owed, (ii) the Agent, (iii) each L/C Issuer with respect to Canadian Letters of Credit, (iv) the Arranger, (v) each beneficiary of each indemnification obligation undertaken by any Canadian Loan Party under any Loan Document, (vi) any other Person to whom Canadian Liabilities under this Agreement and other Loan Documents are owing, and (vii) the successors and assigns of each of the foregoing, and (b) collectively, all of the foregoing.

“Canadian Dollars” and “CD\$” refer to lawful money of Canada.

“Canadian Lenders” means Bank of America-Canada Branch and any other Person having Canadian Commitments from time to time or at any time, each of which is a Canadian Qualified Lender unless otherwise permitted in this Agreement.

“Canadian Letter of Credit” means each Letter of Credit issued hereunder for the account of the Canadian Borrower.

“Canadian L/C Credit Extension” means, with respect to any Canadian Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

“Canadian Letter of Credit Sublimit” means an amount equal to \$10,000,000. The Canadian Letter of Credit Sublimit is part of, and not in addition to, the Canadian Total Commitments. A permanent reduction of the Canadian Total Commitments shall require a corresponding reduction in the Canadian Letter of Credit Sublimit; provided, however, that if the Canadian Total Commitments are reduced to an amount less than the Canadian Letter of Credit Sublimit, then the Canadian Letter of Credit Sublimit shall be reduced to an amount equal to (or, at Canadian Borrower’s option, less than) the Canadian Total Commitments.

“Canadian Liabilities” means (a) all advances to, and debts (including principal, interest, fees, costs, and expenses), liabilities, obligations, covenants, indemnities, and duties of, any Canadian Loan Party arising under any Loan Document or otherwise with respect to any Canadian Loan or Canadian Letter of Credit (including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral therefor), whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest, fees, costs, expenses and indemnities that accrue after the commencement by or against any Canadian Loan Party or any Affiliate or branch thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding, and (b) any Other Canadian Liabilities.

“Canadian Loan” means an extension of credit by a Canadian Lender to the Canadian Borrower (to the extent based on Canadian Availability) under Article II.

“Canadian Loan Cap” means, at any time of determination, the lesser of (a) the Canadian Total Commitments and (b) the Canadian Borrowing Base.

“Canadian Loan Notice” means a notice of (a) a Canadian Borrowing, (b) a Conversion of Canadian Loans from one Type to the other, or (c) a continuation of BA Equivalent Loans or LIBOR Rate Loans of the Canadian Borrower, pursuant to Section 2.02(b), which, if in writing, shall be substantially in the form of Exhibit A-2.

“Canadian Loan Parties” means, collectively, the Canadian Borrower and each Canadian Subsidiary that is or becomes a guarantor of the Canadian Liabilities. “Canadian Loan Party” means any one of such Persons.

“Canadian Note” means a promissory note made by the Canadian Borrower in favor of a Canadian Lender evidencing Canadian Loans made by such Canadian Lender, substantially in the form of Exhibit C-3.

“Canadian Overadvance” means a Canadian Credit Extension to the extent that, immediately after its having been made, Canadian Availability is less than zero.

“Canadian Pension Plan” means any pension plan that is subject to *the Pension Benefits Act* (Ontario) or similar legislation of another Canadian province or territory and *the Income Tax Act* (Canada) or other tax statute or regulation in Canada and that is either (a) maintained or sponsored by any Canadian Loan Party or any Canadian Subsidiary for employees or former employees, or (b) maintained pursuant to a collective bargaining agreement, or other arrangement under which more than one employer makes contributions and to which any Canadian Loan Party or any Canadian Subsidiary is making or accruing an obligation to make contributions or has made or accrued such contributions.

“Canadian Prime Rate” means, for any day, the greatest of (i) the fluctuating rate of interest per annum equal to the rate of interest in effect for such day as publicly announced from time to time by Bank of America-Canada Branch as its reference rate of interest for loans made in CD\$ and designated as its “prime” rate being a rate set by Bank of America-Canada Branch based upon various factors, including Bank of America-Canada Branch’s costs and desired return, general economic conditions and other factors and is used as a reference point for pricing some loans, provided that in the event that the Bank of America-Canada Branch (including any successor or assignor) does not at any time publicly announce a prime rate, such rate shall be the “prime rate” publicly announced by a Schedule 1 chartered bank in Canada selected by the Agent, (ii) the Bank of Canada Overnight Rate, plus 0.50%, and (iii) the BA Rate for a one month Interest Period as determined on such day, plus 1.0%. Any change in the prime rate announced by the Bank of America-Canada Branch shall take effect at the opening of business on the day specified in the public announcement of such change. Each interest rate based on the Canadian Prime Rate hereunder, shall be adjusted simultaneously with any change in the Canadian Prime Rate.

“Canadian Prime Rate Loan” means a Canadian Loan in CD\$ that bears interest based on the Canadian Prime Rate.

“Canadian Priority Payable Reserves” means, at any time, without duplication, the obligations, liabilities and indebtedness at such time which have, or could in any proceeding have, a trust, deemed trust, constructive trust, right of garnishment, right of distress, charge or statutory Lien imposed to provide for payment or Liens ranking or capable of ranking senior to or pari passu with Liens securing the Canadian Liabilities on any of the Collateral under federal, provincial, state, county, territorial, municipal, or local law including, to the extent that there is such a trust, statutory Liens or Liens in respect of the specified item that has or is capable of having such rank, claims for unremitted and accelerated rents, utilities, taxes (including sales taxes, value added taxes, amounts deducted or withheld or not paid and remitted when due under *the Income Tax Act* (Canada), excise taxes, goods and services taxes (“GST”) and harmonized sales taxes (“HST”) payable pursuant to Part IX of *the Excise Tax Act* (Canada) or similar taxes under provincial or territorial law), the claims of a labourer or worker (whether full-time or part-time) who is owed wages (including any amounts protected by *the Wage Earner Protection Program Act* (Canada) or secured by Section 81.3 or 81.4 of the BIA), salaries, commissions, disbursements, compensation or other amounts (such as union dues payable on behalf of employees) by the Canadian Loan Parties, vacation pay, severance pay, employee source deductions, workers’ compensation obligations, government royalties or pension fund obligations (including claims in respect of, and all amounts currently or past due and not contributed, remitted or paid to, or pursuant to, any Canadian Pension Plan, *the Pension Benefits Act* (Ontario) or any similar law, together with the aggregate value, determined in accordance with GAAP, of all Eligible Inventory which may be or may become subject to a right of a supplier to recover possession thereof or to exercise rights of revendication with respect thereto under any federal, provincial, state, county, municipal, territorial or local law, including Eligible Inventory subject to a right of a supplier to repossess goods pursuant to Section 81.1 of the BIA or the Civil Code of Québec.

“Canadian Qualified Lender” means a financial institution that is listed on Schedule I, II or III of *the Bank Act* (Canada), has received an approval to have a financial establishment in Canada pursuant to Section 522.21 of *the Bank Act* (Canada) or is not a foreign bank for purposes of *the Bank Act* (Canada), and if such financial institution is not resident in Canada and is not deemed to be resident in Canada for purposes of *the Income Tax Act* (Canada), then such financial institution deals at arm’s length with each Canadian Credit Party for purposes of *the Income Tax Act* (Canada).

“Canadian Security Documents” means (a) the General Security Agreement dated as of the Effective Date among the respective Canadian Loan Parties and the Agent for the benefit of the Canadian Credit Parties and (b) each other security agreement or other instrument or document executed and delivered by any Canadian Loan Party to the Agent pursuant to this Agreement or any other Loan Document granting a Lien on assets of any Canadian Loan Party for the benefit of the Canadian Credit Parties, as security for the Canadian Liabilities.

“Canadian Subsidiary” means any Subsidiary that is organized under the laws of Canada or any province or territory thereof.

“Canadian Total Commitments” means the aggregate of the Canadian Commitments of all Canadian Lenders. On the Effective Date, the Canadian Total Commitments are \$10,000,000.

“Canadian Total Outstandings” as of any day, shall be equal to the sum of (a) the principal balance of all Canadian Loans then outstanding, and (b) the then amount of the Canadian L/C Credit Extensions.

“Capital Expenditures” means, with respect to any Person for any period, all expenditures made (whether made in the form of cash or other property) or costs incurred for the acquisition or improvement of fixed or capital assets of such Person (excluding normal replacements and maintenance which are

properly charged to current operations), in each case that are (or should be) set forth as capital expenditures in a Consolidated statement of cash flows of such Person for such period, in each case prepared in accordance with GAAP.

“Capital Lease Obligations” means, with respect to any Person for any period, the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as liabilities on a balance sheet of such Person under GAAP and the amount of which obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Cash Collateral Account” means a non-interest bearing account established by one or more of the Domestic Loan Parties with Bank of America, and in the name of the Agent (or as the Agent shall otherwise direct) and under the sole and exclusive dominion and control of the Agent, and, in the case of the Canadian Borrower, a non-interest bearing account established by the Canadian Borrower with the Agent at Bank of America-Canada branch under the sole and exclusive dominion and control of the Agent, in each case in which deposits are required to be made in accordance with Section 2.03(g) or 8.02(c).

“Cash Collateralize” has the meaning specified in Section 2.03(g). Derivatives of such term have corresponding meanings.

“Cash Dominion Event” means either (i) the occurrence and continuance of any Event of Default, or (ii) the failure (after the Effective Date) of the Borrowers to maintain Domestic Availability of at least the greater of (x) \$20,000,000 and (y) fifteen percent (15%) of the Loan Cap. For purposes of this Agreement, the occurrence of a Cash Dominion Event shall be deemed continuing (i) so long as such Event of Default has not been waived by the Required Lenders, and (ii) if the Cash Dominion Event arises as a result of the Borrowers’ failure to achieve Domestic Availability as required hereunder, until the first day on which Domestic Availability shall have exceeded the greater of (1) \$20,000,000 and (2) fifteen percent (15%) of the Loan Cap for thirty (30) consecutive days, in which case a Cash Dominion Event shall no longer be deemed to be continuing for purposes of this Agreement; *provided that* a Cash Dominion Event shall be deemed continuing (even if an Event of Default is no longer continuing and Domestic Availability exceeds the required amount for thirty (30) consecutive days) at all times during any Fiscal Year after a Cash Dominion Event has occurred and been discontinued on three (3) occasions in such Fiscal Year. The termination of a Cash Dominion Event as provided herein shall in no way limit, waive or delay the occurrence of a subsequent Cash Dominion Event in the event that the conditions set forth in this definition again arise.

“Cash Management Reserves” means such reserves as the Agent, from time to time, determines in its discretion as being appropriate to reflect the reasonably anticipated liabilities and obligations of the Loan Parties with respect to Cash Management Services then provided or outstanding.

“Cash Management Services” means any cash management services provided to any Loan Party by the Agent or any Lender or any of their respective Affiliates, including, without limitation (a) ACH transactions, (b) controlled disbursement services, treasury, depository, overdraft, and electronic funds transfer services, (c) credit card processing services, and (d) credit or debit cards.

“CERCLA” means the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 9601 et seq.

“CERCLIS” means the Comprehensive Environmental Response, Compensation, and Liability Information System maintained by the United States Environmental Protection Agency.

“CFC” means a Person that is a controlled foreign corporation under Section 957 of the Code.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority, provided however, for purposes of this Agreement, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, guidelines or directives in connection therewith, and (ii) all rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or Canadian regulatory authorities, in each case pursuant to Basel III, shall be deemed to have gone into effect and been adopted after the Effective Date.

“Change of Control” means an event or series of events after the Effective Date by which:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time (such right, an “option right”), directly or indirectly, of 40% or more of the Equity Interests of the Lead Borrower entitled to vote for members of the board of directors or equivalent governing body of the Lead Borrower on a fully-diluted basis (and taking into account all such Equity Interests that such “person” or “group” has the right to acquire pursuant to any option right) other than any Permitted Holder (provided that, for the avoidance of doubt, any transaction part of or incidental to an Initial Public Offering or Secondary Offering, including the acquisition of Equity Interests by the underwriters in connection therewith, shall be deemed not violative of this clause (a) or any other provision of this Agreement so long as no new group or person shall thereby acquire, directly or indirectly, 30% or more of the Equity Interests of the Lead Borrower, except as otherwise permitted by this clause (a)); or

(b) during any period of 12 consecutive months, a majority of the members of the board of directors or other equivalent governing body of the Lead Borrower cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above and this clause (iii) constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (excluding, in the case of both clause (ii) and clause (iii), any individual whose initial nomination for, or assumption of office as, a member of that board or equivalent governing body occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the board of directors); provided that, for the avoidance of doubt, any individual nominated on behalf of any Permitted Holder shall not be deemed violative of this clause (b); or

(c) the Lead Borrower fails at any time to own, directly or indirectly, 100% of the Equity Interests of each other Loan Party free and clear of all Liens (other than Permitted Encumbrances), except where such failure is as a result of a transaction permitted by the Loan Documents.

“Code” means the Internal Revenue Code of 1986, and the regulations promulgated thereunder, as amended and in effect.

“Collateral” means any and all “Collateral” or “Mortgaged Property” as defined in any applicable Security Document and all other property on which a Lien is granted or purported to be granted in favor of the Agent under the terms of the Security Documents.

“Collateral Access Agreement” means an agreement reasonably satisfactory in form and substance to the Agent executed by (a) a bailee or other Person in possession of Collateral, or (b) any landlord of Real Estate leased by any Loan Party, in each case, except as otherwise agreed by the Agent, pursuant to which such Person (i) acknowledges the Agent’s Lien on the Collateral, (ii) releases or subordinates such Person’s Liens on the Collateral held by such Person or located on such Real Estate, (iii) provides the Agent with access to the Collateral held by such bailee or other Person or located in or on such Real Estate, (iv) as to any landlord, provides the Agent with a reasonable time to sell and dispose of the Collateral from such Real Estate, and (v) makes such other agreements with the Agent as the Agent may reasonably require.

“Commercial Letter of Credit” means any letter of credit or similar instrument (including, without limitation, Bankers’ Acceptances) issued for the purpose of providing the primary payment mechanism in connection with the purchase of any materials, goods or services by a Loan Party in the ordinary course of business of such Loan Party.

“Commitment” means, as to each Lender, the Canadian Commitment, the Tranche A Commitment, the Incremental Commitment and the Term Loan Commitment of such Lender hereunder.

“Commitment Fee Percentage” means 0.375% per annum.

“Compliance Certificate” means a certificate substantially in the form of Exhibit D.

“Consent” means actual consent given by a Lender from whom such consent is sought.

“Consolidated” means, when used to modify a financial term, test, statement, or report of a Person, the application or preparation of such term, test, statement or report (as applicable) based upon the consolidation, in accordance with GAAP, of the financial condition or operating results of such Person and its Subsidiaries.

“Consolidated EBITDA” means, at any date of determination, an amount equal to Consolidated Net Income, plus (a) the following to the extent deducted in calculating such Consolidated Net Income: (i) Consolidated Interest Charges, (ii) the provision for federal, state, provincial, municipal, local and foreign income Taxes, (iii) depreciation and amortization expense, (iv) other non-recurring expenses reducing such Consolidated Net Income which do not represent a cash item in such period or any future period (in each case of or by Lead Borrower and its Subsidiaries for such Measurement Period) and (v) non-cash compensation charges resulting from the application of FAS 123R or any comparable or successor accounting provision, minus (b) the following to the extent included in calculating such Consolidated Net Income: (i) Federal, state, local and foreign income tax credits and (ii) all non-cash items increasing such Consolidated Net Income, all as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Fixed Charge Coverage Ratio” means, at any date of determination, the ratio of (a) (i) Consolidated EBITDA minus (ii) Capital Expenditures made during such period (net of (x) amounts of cash received during such period from landlords for tenant improvements relating to the Loan Parties’ leased store locations and (y) Capitalized Lease Obligations), minus (iii) the aggregate amount of Federal, state, local and foreign income taxes paid in cash during such period (but not less than zero) to (b) the sum of (i) Debt Service Charges plus (ii) the aggregate amount of all Restricted Payments made to Persons other than the Loan Parties plus (iii) for purposes of calculating compliance with the Payment Condition and the RP Conditions only, all mandatory and optional prepayments of Indebtedness, in each case, of or by the Lead Borrower and its Subsidiaries for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Funded Indebtedness” means, as of any date of determination, the sum of (a) the outstanding principal amount of all obligations, whether current or long-term, for borrowed money (including the Obligations) and all obligations evidenced by bonds, debentures, notes, loan agreements or other similar instruments, (b) all purchase money Indebtedness, (c) all direct obligations arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments, (d) all obligations in respect of the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business), (e) all Attributable Indebtedness, (f) without duplication, all Guarantees with respect to outstanding Indebtedness of the types specified in clauses (a) through (e) above of Persons other than the Lead Borrower and its Subsidiaries, and (g) all Indebtedness of the types referred to in clauses (a) through (f) above of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which the Lead Borrower or any of its Subsidiaries is a general partner or joint venturer, unless such Indebtedness is expressly made non-recourse to the Lead Borrower or such Subsidiary; provided that, notwithstanding the foregoing, Consolidated Funded Indebtedness shall not include any equipment or real estate leases presently classified as operating leases under GAAP (regardless of any change in treatment thereof under GAAP) or real estate leases regardless of whether classified as operating or capital leases.

“Consolidated Interest Charges” means, for any Measurement Period, (a) the sum of (i) all interest, premium payments, debt discount, fees, charges and related expenses in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing and net costs under Swap Contracts, but excluding any non-cash or deferred interest financing costs, and (ii) the portion of rent expense with respect to such period under Capital Lease Obligations that is treated as interest in accordance with GAAP minus (b) the sum of (i) interest income during such period (excluding any portion of interest income representing accruals of amounts received in a previous period) and (ii) net gains under Swap Contracts, in each case of or by the Lead Borrower and its Subsidiaries for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Leverage Ratio” means, for any period of calculation, the ratio of (a) Consolidated Funded Indebtedness to (b) Consolidated EBITDA.

“Consolidated Net Income” means, as of any date of determination, the net income (or loss) of the Lead Borrower and its Subsidiaries for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP, provided, however, that there shall be excluded (a) extraordinary gains and extraordinary losses for such Measurement Period, (b) the income

(or loss) of the Lead Borrower and its Subsidiaries during such Measurement Period from any Subsidiary in which any Person other than the Lead Borrower or any of its Subsidiaries has a joint interest (which interest of the Lead Borrower or any of its Subsidiaries does not cause the net income of such Subsidiary to be consolidated into the net income of the Lead Borrower or any of its Subsidiaries under GAAP), except to the extent of the amount of cash dividends or other distributions actually paid in cash to the Lead Borrower and its Subsidiaries during such Measurement Period, (c) the income (or loss) of a Subsidiary of the Lead Borrower during such Measurement Period and accrued prior to the date it becomes a Subsidiary of the Lead Borrower or is merged into, amalgamated or consolidated with the Lead Borrower or any of its Subsidiaries, and (d) the income of any Subsidiary of the Lead Borrower to the extent that the declaration or payment of dividends or similar distributions by that Subsidiary of that income is not at the time permitted by operation of the terms of its Organization Documents or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Subsidiary, except that the Lead Borrower's equity in any net loss of any such Subsidiary for such Measurement Period shall be included in determining Consolidated Net Income.

"Contractual Obligation" means, as to any Person, any material provision of any material agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Convert", "Conversion" and "Converted" each refers to a conversion of Loans of one Type into Loans of another Type.

"Cost" means the lower of cost or market value of Inventory, as such calculated cost is determined from invoices received by the Borrowers, the Borrowers' purchase journals or the Borrowers' stock ledger, based upon the Borrowers' accounting practices in effect on the Effective Date. "Cost" does not include inventory capitalization costs or other non-purchase price charges (such as freight) used in the Borrowers' calculation of cost of goods sold.

"Covenant Compliance Event" means that Domestic Availability at any time is less than the greater of (x) 10% of the Loan Cap and (y) \$17,500,000. For purposes hereof, the occurrence of a Covenant Compliance Event shall be deemed continuing until Domestic Availability has exceeded the greater of (x) 10% of the Loan Cap and (y) \$17,500,000 for thirty (30) consecutive days, in which case a Covenant Compliance Event shall no longer be deemed to be continuing for purposes of this Agreement. The termination of a Covenant Compliance as provided herein shall in no way limit, waive or delay the occurrence of a subsequent Covenant Compliance Event in the event that the conditions set forth in this definition again arise.

"Credit Card Notifications" means notifications substantially in the form attached hereto as Exhibit G.

"Credit Card Receivables" means each "account" (as defined in the UCC or the PPSA, as applicable) together with all income, payments and proceeds thereof, owed by a major credit or debit card issuer (including, but not limited to, Visa, MasterCard and American Express and such other issuers approved by the Agent to a Loan Party resulting from charges by a customer of a Loan Party on credit or debit cards issued by such issuer in connection with the sale of goods by a Loan Party, or services performed by a Loan Party, in each case in the ordinary course of its business.

“Credit Extensions” mean the Canadian Credit Extensions, the Domestic Credit Extensions, and the making of the Term Loan to the Domestic Borrowers, as applicable.

“Credit Party” or “Credit Parties” means the Canadian Credit Parties and the Domestic Credit Parties.

“Credit Party Expenses” means (a) all reasonable out-of-pocket expenses incurred by the Agent, the Arranger and their respective Affiliates or branches, in connection with this Agreement and the other Loan Documents, including without limitation (i) the reasonable fees, charges and disbursements of (A) counsel for the Agent and the Arranger, (B) outside consultants for the Agent, (C) appraisers, (D) commercial finance examiners, and (E) environmental site assessments, (ii) in connection with (A) the syndication of the credit facilities provided for herein, (B) the preparation, negotiation, administration, execution and delivery of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (C) the enforcement or protection of their rights in connection with this Agreement or the Loan Documents or efforts to preserve, protect, collect, or enforce the Collateral or in connection with any proceeding under any Debtor Relief Laws, or (D) any workout or restructuring or, or negotiations in respect of any Obligations, and (b) with respect to the L/C Issuer, and its Affiliates, all reasonable out-of-pocket expenses incurred in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder; and (c) all reasonable out-of-pocket expenses incurred by the Credit Parties who are not the Agent, the Arranger, the L/C Issuer or any Affiliate of any of them, after the occurrence and during the continuance of an Event of Default, provided that such Credit Parties shall be entitled to reimbursement for no more than one counsel representing all such Credit Parties (absent a conflict of interest in which case the Credit Parties may engage and be reimbursed for additional counsel).

“Currency Due” as defined in Section 10.22.

“Customer Credit Liabilities” means at any time, the aggregate remaining value at such time of (a) outstanding gift certificates and gift cards of the Borrowers entitling the holder thereof to use all or a portion of the certificate or gift card to pay all or a portion of the purchase price for any Inventory, and (b) outstanding merchandise credits of the Borrowers.

“Customs Broker/Carrier Agreement” means an agreement in form and substance satisfactory to the Agent among a Loan Party, a customs broker, freight forwarder, consolidator, or carrier, and the Agent, in which the customs broker, freight forwarder, consolidator, or carrier acknowledges that it has control over and holds the documents evidencing ownership of the subject Inventory for the benefit of the Agent and agrees, upon notice from the Agent, to hold and dispose of the subject Inventory solely as directed by the Agent.

“DDA” means each checking, savings or other demand deposit account maintained by any of the Loan Parties. All funds in each DDA shall be conclusively presumed to be Collateral and proceeds of Collateral and the Agent and the Lenders shall have no duty to inquire as to the source of the amounts on deposit in any DDA.

“Debt Service Charges” means for any Measurement Period, the sum of (a) Consolidated Interest Charges paid or required to be paid for such Measurement Period, plus (b) scheduled principal payments made or required to be made on account of Indebtedness (excluding the Obligations and any Synthetic Lease Obligations but including, without limitation, Capital Lease Obligations) for such Measurement Period, in each case determined on a Consolidated basis in accordance with GAAP.

“Debtor Relief Laws” means (i) the Bankruptcy Code of the United States, (ii) the BIA, (iii) the *Companies’ Creditors Arrangement Act* (Canada) and (iv) the *Winding-up and Restructuring Act* (Canada), and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States, Canada or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means, with respect to any Obligation, a rate per annum equal to the rate of interest (including the Applicable Margin) in effect from time to time with respect thereto (if any), plus 2.00% per annum.

“Defaulting Lender” means, subject to Section 9.16, any Lender that, as determined by the Agent, (a) has failed to fund any portion of the Loans, participations in L/C Obligations or participations in Swing Line Loans required to be funded by it hereunder within one (1) Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Agent or any other Lender any other amount required to be paid by it hereunder within one (1) Business Day of the date when due, (c) has notified any Loan Party, the Agent or other Lender that it does not intend to comply with its funding obligations or has made a public statement to that effect with respect to its funding obligations hereunder or under other agreements in which it commits to extend credit, or (d) has, or has a direct or indirect parent company that has, (i) become the subject of an insolvency proceeding, (ii) had a receiver, interim receiver, monitor, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or a custodian appointed for it, or (iii) taken any action in furtherance of, or indicated its consent to, approval of or acquiescence in any such proceeding or appointment; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority.

“Determination Date” shall mean the date upon which each of the following has occurred:

- (a) the Canadian Commitments, Tranche A Commitments and/or the Incremental Commitments have been terminated by the Required Lenders; and
- (b) the Obligations and/or the Canadian Liabilities have been declared to be due and payable (or have become automatically due and payable) and have not been paid in accordance with the terms of this Agreement.

“Disposition” or “Dispose” means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction and), whether in one transaction or in a series of transactions, by any Person of any property (including, without limitation, any Equity Interests held by such Person), or the granting of any option or other right to do any of the foregoing, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

“Disqualified Stock” means any Equity Interest that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, (a) matures or is mandatorily redeemable in cash, pursuant to a sinking fund obligation or otherwise, or (b) is redeemable in cash at the option of the holder thereof, in whole or in part, in each case, on or prior to the date that is 91 days after the Maturity Date. The

amount of Disqualified Stock deemed to be outstanding at any time for purposes of this Agreement will be the maximum amount that the Lead Borrower and its Subsidiaries may become obligated to pay in cash upon the occurrence of any of the foregoing events at any such time, plus accrued and unpaid dividends.

“Documentation Agent” means U.S. Bank, National Association.

“Dollars” and “\$” mean lawful money of the United States.

“Domestic Availability” means, as of any date of determination thereof, the result, if a positive number, of:

(a) the Loan Cap

minus

(b) the Domestic Total Outstandings on such date.

“Domestic Borrowers” means the Lead Borrower and the Other Domestic Borrowers.

“Domestic Borrowing” means a borrowing consisting of simultaneous Domestic Loans of the same Type and, in the case of LIBOR Rate Loans, having the same Interest Period made by each of the Domestic Lenders pursuant to Section 2.01(a).

“Domestic Borrowing Base” means the sum of the Tranche A Borrowing Base and Incremental Availability.

“Domestic Commitments” means, collectively, the Tranche A Commitments and the Incremental Commitments.

“Domestic Commitment Percentage” means the Applicable Percentages of the Domestic Lenders.

“Domestic Credit Extensions” shall mean the making of a Domestic Loan to the Domestic Borrowers or any Domestic L/C Credit Extensions.

“Domestic Credit Party” and “Domestic Credit Parties” means (a) individually, (i) each Lender and its Affiliates to whom any Obligations are owed, (ii) the Agent, (iii) each L/C Issuer, (iv) the Arranger, (v) each beneficiary of each indemnification obligation undertaken by any Loan Party under any Loan Document, (vi) any other Person to whom Obligations under this Agreement and other Loan Documents are owing, and (vii) the successors and assigns of each of the foregoing, and (b) collectively, all of the foregoing.

“Domestic Lenders” means the Tranche A Lenders and the Incremental Lenders.

“Domestic L/C Credit Extension” means, with respect to any Domestic Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

“Domestic Letter of Credit” means each Letter of Credit issued hereunder for the account of the Domestic Borrowers.

“Domestic Letter of Credit Sublimit” means an amount equal to \$50,000,000. The Domestic Letter of Credit Sublimit is part of, and not in addition to, the Tranche A Commitments. A permanent reduction of the Tranche A Commitments shall not require a corresponding pro rata reduction in the Domestic Letter of Credit Sublimit; provided, however, that if the Tranche A Commitments are reduced to an amount less than the Domestic Letter of Credit Sublimit, then the Domestic Letter of Credit Sublimit shall be reduced to an amount equal to (or, at the Lead Borrower’s option, less than) the Tranche A Commitments.

“Domestic Loan” means a Tranche A Loan or an Incremental Loan.

“Domestic Loan Notice” means a notice of (a) a Domestic Borrowing, (b) a Conversion of Domestic Loans from one Type to the other, or (c) a continuation of LIBOR Rate Loans, pursuant to Section 2.02(b), which, if in writing, shall be substantially in the form of Exhibit A-1.

“Domestic Loan Parties” means, collectively, the Domestic Borrowers and each Subsidiary of the Lead Borrower that is or becomes a guarantor of the Obligations. “Domestic Loan Party” means any one of such Persons.

“Domestic Note” means a Tranche A Note or an Incremental Note.

“Domestic Obligations” means all Obligations other than Canadian Liabilities.

“Domestic Overadvance” means a Domestic Credit Extension to the extent that, immediately after its having been made, Domestic Availability is less than zero.

“Domestic Subsidiary” means any Subsidiary that is organized under the laws of the United States of America, any State thereof or the District of Columbia (excluding, for the avoidance of doubt, any Subsidiary organized under the laws of Puerto Rico or any other territory).

“Domestic Total Commitments” means the sum of the Tranche A Commitments and the Incremental Commitments outstanding at any time. On the Effective Date, the Domestic Total Commitments are \$317,500,000.

“Domestic Total Outstandings” as of any day, shall be equal to the sum of (a) the principal balance of all Domestic Loans then outstanding, and (b) the then amount of the Domestic L/C Credit Extensions.

“Effective Date” means the first date all the conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 10.01.

“Effective Date Guaranty” means the Guaranty executed by the Domestic Borrowers in favor of the Canadian Credit Parties as of the Effective Date.

“Eligible Assignee” means (a) a Credit Party or any of its Affiliates or branches; (b) a bank, insurance company, or company engaged in the business of making commercial loans, which Person, together with its Affiliates and branches, has a combined capital and surplus in excess of \$250,000,000; (c) an Approved Fund; (d) any Person to whom a Credit Party assigns its rights and obligations under this Agreement as part of an assignment and transfer of such Credit Party’s rights in and to a material portion of such Credit Party’s portfolio of asset based credit facilities, and (e) any other Person (other than a natural person) approved by (i) the Agent, the L/C Issuer and the Swing Line Lender, and (ii) unless an Event of Default has occurred and is continuing, the Lead Borrower (each such approval not to be unreasonably withheld or delayed); provided that notwithstanding the foregoing, “Eligible Assignee” shall not include a Loan Party or any of the Loan Parties’ Affiliates or Subsidiaries or any Permitted Holder or any Defaulting Lender; and provided further that unless an Event of Default has occurred and is continuing, only Canadian Qualified Lenders shall be Eligible Assignees with respect to any assignment of the Canadian Liabilities.

“Eligible Credit Card Receivables” means at the time of any determination thereof, each Credit Card Receivable that satisfies the following criteria at the time of creation and continues to meet the same at the time of such determination: such Credit Card Receivable (i) has been earned by performance and represents the bona fide amounts due to a Loan Party from a credit card payment processor and/or credit card issuer, and in each case originated in the ordinary course of business of such Loan Party, (ii) is not of a type described in any of clauses (a) through (j) below, and (iii) indicates no Person other than a Loan Party as payee or remittance party. In determining the amount of any Eligible Credit Card Receivable, the face amount of the applicable account shall be reduced by, without duplication, to the extent not reflected in such face amount, (x) the amount of all accrued and actual discounts, claims, credits or credits pending, promotional program allowances, price adjustments, finance charges or other allowances (including any amount that a Loan Party may be obligated to rebate to a customer, a credit card payment processor, or credit card issuer pursuant to the terms of any agreement or understanding (written or oral)) and (y) the aggregate amount of all cash received in respect of such account but not yet applied by the Loan Parties to reduce the amount of such Credit Card Receivable. Except as otherwise agreed by the Agent, any Credit Card Receivable included within any of the following categories shall not constitute an Eligible Credit Card Receivable:

- (a) Credit Card Receivables which do not constitute an “account” (as defined in the UCC or, if applicable, the PPSA);
- (b) Credit Card Receivables that have been outstanding for more than five (5) Business Days from the date of sale;
- (c) Credit Card Receivables (i) that are not subject to a perfected first-priority (subject to Permitted Encumbrances having priority by operation of Law) Lien in favor of the Agent, or (ii) with respect to which a Loan Party does not have good, valid and marketable title thereto, free and clear of any Lien (other than Permitted Encumbrances);
- (d) Credit Card Receivables which are disputed, are with recourse, or with respect to which a claim, counterclaim, offset or chargeback has been asserted (to the extent of such claim, counterclaim, offset or chargeback);
- (e) Credit Card Receivables as to which the processor has the right under certain circumstances to require a Loan Party to repurchase the Accounts from such credit card processor;
- (f) Credit Card Receivables due from an issuer or payment processor of the applicable credit card which is the subject of any bankruptcy or insolvency proceedings;
- (g) Credit Card Receivables which are not a valid, legally enforceable obligation of the applicable issuer with respect thereto;
- (h) Credit Card Receivables which do not conform to all representations, warranties or other provisions in the Loan Documents relating to Credit Card Receivables;

(i) Credit Card Receivables which are evidenced by “chattel paper” or an “instrument” of any kind unless such “chattel paper” or “instrument” is in the possession of the Agent, and to the extent necessary or appropriate, endorsed to the Agent; or

(j) Credit Card Receivables which the Agent determines in its reasonable discretion, acting in good faith, to be uncertain of collection or which do not meet such other reasonable eligibility criteria for Credit Card Receivables as the Agent may determine.

“Eligible In-Transit Inventory” means, as of any date of determination thereof, without duplication of other Eligible Inventory, In-Transit Inventory:

(a) which has been shipped from a foreign location for receipt by a Loan Party, but which has not yet been delivered to such Loan Party, which In-Transit Inventory has been in transit for forty-five (45) days or less from the date of shipment of such Inventory;

(b) for which the purchase order is in the name of a Loan Party and title and risk of loss has passed to such Loan Party;

(c) for which a document of title reasonably acceptable to the Agent has been issued, and in each case as to which the Agent has control (as defined in the UCC or the PPSA, as applicable) over, or been assigned or taken delivery of, the documents of title which evidence ownership of the subject Inventory (such as, if requested by the Agent, by the delivery of a Customs Broker/Carrier Agreement);

(d) which is insured to the reasonable satisfaction of the Agent (including, without limitation, if applicable, marine cargo insurance);

(e) for which payment of the purchase price has been made by a Loan Party or the purchase price is supported by a Commercial Letter of Credit; and

(f) which satisfies the conditions set forth in clause (iii) of the definition of Eligible Inventory;

provided that the Agent may, in its discretion, exclude any particular Inventory from the definition of “Eligible In-Transit Inventory” in the event the Agent reasonably determines, acting in good faith, that such Inventory is subject to any Person’s right of reclamation, repudiation, stoppage in transit or any event has occurred or is reasonably anticipated by the Agent to arise which may otherwise adversely impact the ability of the Agent to realize upon such Inventory.

“Eligible Inventory” means, as of the date of determination thereof, without duplication, (i) Eligible In-Transit Inventory, provided that Eligible In-Transit Inventory shall not constitute more than twenty percent (20%) of the Eligible Inventory at any time, (ii) Eligible Letters of Credit, and (iii) items of Inventory of a Loan Party that are finished goods, merchantable and readily saleable to the public in the ordinary course of a Loan Party’s business deemed by the Agent in its reasonable discretion, acting in good faith, to be eligible for inclusion in the calculation of the Tranche A Borrowing Base, Incremental Availability or the Canadian Borrowing Base, in each case, except as otherwise agreed by the Agent, which (A) complies with each of the representations and warranties respecting Inventory made by the Loan Parties in the Loan Documents, and (B) is not excluded as ineligible by virtue of one or more of the criteria set forth below. Except as otherwise agreed by the Agent, in its reasonable discretion, acting in good faith, the following items of Inventory shall not be included in Eligible Inventory:

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- (a) Inventory that is not solely owned by a Loan Party or a Loan Party does not have good and valid title thereto;
 - (b) Inventory that is leased by or is on consignment to a Loan Party or which is consigned by a Loan Party to a Person which is not a Loan Party;
 - (c) Inventory (other than Eligible In-Transit Inventory) that is not located in the United States of America (excluding territories or possessions of the United States) or Canada at a location that is owned or leased by a Loan Party, except (i) Inventory in transit between such owned or leased locations, or (ii) to the extent that the Loan Parties have furnished the Agent with (A) any UCC financing statements, PPSA financing statements or other documents that the Agent may determine to be necessary to perfect its Lien on such Inventory at such location, and (B) a Collateral Access Agreement executed by the Person owning any such location on terms reasonably acceptable to the Agent;
 - (d) Inventory that is located in a distribution center leased by a Loan Party unless the applicable lessor has delivered to the Agent a Collateral Access Agreement;
 - (e) Inventory that is comprised of goods which (i) are damaged, defective, "seconds," or otherwise unmerchantable, (ii) are to be returned to the vendor, (iii) are obsolete or are custom items, work-in-process, raw materials, or that constitute samples, spare parts, promotional, marketing, labels, bags and other packaging and shipping materials or supplies used or consumed in a Loan Party's business, (iv) are seasonal in nature and which have been packed away for sale in the subsequent season, (v) not in compliance with all standards imposed by any Governmental Authority having regulatory authority over such Inventory, its use or sale, or (vi) are bill and hold goods;
 - (f) Inventory that is not subject to a perfected first-priority (subject to Permitted Encumbrances having priority by operation of Law) Lien in favor of the Agent;
 - (g) Inventory that is not insured in compliance with the provisions of Section 5.10 hereof;
 - (h) Inventory that has been sold but not yet delivered;
 - (i) Inventory that is subject to any licensing, patent, royalty, trademark, trade name or copyright agreement with any third party from which any Loan Party or any of its Subsidiaries has received written notice of a dispute in respect of any such agreement and as a result of such dispute, such Inventory is not saleable in the Agent's reasonable judgment; or
 - (j) Inventory acquired in a Permitted Acquisition or which is not of the type usually sold in the ordinary course of the Loan Parties' business, unless and until the Agent has completed or received (A) an appraisal of such Inventory from appraisers satisfactory to the Agent and establishes Inventory Reserves (if applicable) therefor, and otherwise agrees that such Inventory shall be deemed Eligible Inventory, and (B) such other due diligence as the Agent may require, all of the results of the foregoing to be reasonably satisfactory to the Agent.

"Eligible Letter of Credit" means, as of any date of determination thereof, a Commercial Letter of Credit which supports the purchase of Inventory, (a) which Inventory does not constitute Eligible In-Transit Inventory and for which no documents of title have then been issued; (b) which Inventory otherwise would constitute Eligible Inventory when purchased, (c) which Commercial Letter of Credit

has an expiry within sixty (60) days of the date of initial issuance of such Commercial Letter of Credit, (d) which Commercial Letter of Credit provides that it may be drawn only after the Inventory is completed and after a document of title reasonably acceptable to the Agent has been issued for such Inventory reflecting a Borrower or the Agent as consignee of such Inventory, and (e) which will constitute Eligible In-Transit Inventory upon satisfaction of the requirements of clause (d) hereof.

“Eligible Real Estate” means the Real Estate of the Lead Borrower located at 188 Henry Adams Street, San Francisco, California, and other Real Estate of the Loan Parties acceptable to the Agent in its reasonable discretion, acting in good faith, and which, except as otherwise agreed by the Agent, in its discretion, satisfies all of the following conditions:

(a) A Loan Party owns such Real Estate in fee simple absolute;

(b) The Agent shall have received evidence that all actions that the Agent may reasonably deem necessary or appropriate in order to create valid first and subsisting Liens (subject only to Permitted Encumbrances (other than Encumbrances securing Indebtedness) which have priority over the Lien of the Agent by operation of Law) on the property described in the Mortgages has been taken.

(c) The Agent shall have received an appraisal (based upon Appraised Value) of such Real Estate complying with the requirements of FIRREA by a third party appraiser reasonably acceptable to the Agent and otherwise in form and substance reasonably satisfactory to the Agent; and

(d) The Real Estate Eligibility Requirements have been satisfied.

“Environmental Compliance Reserve” means, with respect to Eligible Real Estate, any reserve which the Agent, from time to time in its reasonable discretion, acting in good faith, establishes for estimable amounts that are reasonably likely to be expended by any of the Loan Parties in order for such Loan Party and its operations and property (a) to comply with any notice from a Governmental Authority asserting non-compliance with Environmental Laws, or (b) to correct any such non-compliance with Environmental Laws or to provide for any Environmental Liability.

“Environmental Laws” means any and all federal, state, provincial, municipal, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

“Environmental Liability” means any liability, obligation, damage, loss, claim, action, suit, judgment, order, fine, penalty, fee, expense, or cost, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of any Borrower, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal or presence of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equipment” has the meaning set forth in the UCC or the PPSA, as applicable.

“Equity Interests” means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

“Equivalent CD\$ Amount” means, on any date, the rate at which Canadian Dollars may be exchanged into Dollars, determined by reference to the Bank of America-Canada Branch noon rate as published on the Reuters Screen BOFC on the immediately preceding Business Day. In the event that such rate does not appear on such Reuters page, “Equivalent CD\$ Amount” shall mean, on any date, the amount of Dollars into which an amount of Canadian Dollars may be converted or the amount of Canadian Dollars into which an amount of Dollars may be converted, in either case, at, in the case of the Canadian Loan Parties, the Agent’s spot buying rate in Toronto as at approximately 12:00 noon (Toronto time) on such date and, in the case of a Domestic Borrower, the Agent’s spot buying rate in New York as at approximately 12:00 noon (New York City time) on the immediately preceding Business Day.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Lead Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Lead Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Lead Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any material liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Event of Default” has the meaning specified in Section 8.01.

“Excluded Taxes” means, with respect to the Agent, any Lender, the L/C Issuer or any other recipient of any payment to be made by or on account of any obligation of the Loan Parties hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located, (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which any Loan Party is located, (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Lead Borrower under Section 10.13 and other than a Canadian Lender), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a

new Lending Office) or is attributable to such Foreign Lender's failure or inability (other than as a result of a Change in Law) to comply with Section 3.01(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Loan Parties with respect to such withholding tax pursuant to Section 3.01(a), (d) in the case of a Canadian Lender (other than the original Canadian Lenders hereunder), any withholding tax that is imposed on amounts payable to such Canadian Lender at the time such Canadian Lender becomes a party to this Agreement (or designates a new Lending Office) or is attributable to such Canadian Lender's failure or inability (other than as a result of a Change in Law) to comply with Section 3.01(e), except to the extent that such Canadian Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Canadian Borrower with respect to such withholding tax pursuant to Section 3.01(a), (e) any U.S. federal, state or local backup withholding tax, and (f) any U.S. federal withholding tax imposed under FATCA.

"Executive Order" has the meaning set forth in Section 10.18.

"Existing Credit Agreement" has the meaning given such term in the recitals hereto.

"Existing Letters of Credit" means all Letters of Credit (as defined in the Existing Credit Agreement) outstanding under the Existing Credit Agreement on the Effective Date.

"Facility Guaranty" means the Guaranty made by the Guarantors in favor of the Agent and the applicable Credit Parties, in form reasonably satisfactory to the Agent.

"FATCA" means current Section 1471 through 1474 of the Code or any amended version or successor provision that is substantively similar and, in each case, any regulations promulgated thereunder and any interpretation and other guidance issued in connection therewith.

"Federal Funds Rate" means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Agent.

"Fee Letter" means the letter agreement, dated June 10, 2011, among the Lead Borrower, the Agent and the Arranger.

"FIRREA" means the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended from time to time.

"First Amendment" means the First Amendment to this Agreement among the parties hereto.

"First Amendment Effective Date" means the date on which the conditions to effectiveness set forth in Section 5 of the First Amendment have been satisfied.

"Fiscal Month" means any fiscal month of any Fiscal Year, which month shall generally end on the last Saturday of each calendar month in accordance with the fiscal accounting calendar of the Loan Parties.

“Fiscal Quarter” means any fiscal quarter of any Fiscal Year, which quarters shall generally end on the last Saturday of each April, July, October and January of such Fiscal Year in accordance with the fiscal accounting calendar of the Loan Parties.

“Fiscal Year” means any period of twelve consecutive months ending on the last Saturday in January of any calendar year.

“Foreign Asset Control Regulations” has the meaning set forth in Section 10.18.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Lead Borrower is resident for tax purposes. For purposes of this definition, the United States, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“FRB” means the Board of Governors of the Federal Reserve System of the United States.

“Fronting Exposure” means, at any time there is a Defaulting Lender, (a) with respect to any L/C Issuer, such Defaulting Lender’s Applicable Percentage of the outstanding L/C Obligations in respect of such L/C Issuer other than such L/C Obligations as to which such Defaulting Lender’s participation obligation has been reallocated to other Revolving Lenders or Cash Collateralized in accordance with the terms hereof, and (b) with respect to the Swing Line Lender, such Defaulting Lender’s Applicable Percentage of Swing Line Loans other than Swing Line Loans as to which such Defaulting Lender’s participation obligation has been reallocated to other Revolving Lenders or Cash Collateralized in accordance with the terms hereof.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“GAAP” means, subject to Section 1.03(b), generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means the government of the United States, Canada or any other nation, or of any political subdivision thereof, whether state, provincial, municipal or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Guarantee” means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such

Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term "Guarantee" as a verb has a corresponding meaning.

"Guarantor" means (i) the Domestic Loan Parties under the Effective Date Guaranty and (ii) each Subsidiary of the Lead Borrower (other than any CFC which is not a Canadian Subsidiary) that is required to execute and deliver a Facility Guaranty pursuant to Section 6.11.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants regulated pursuant to any Environmental Law, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes.

"Honor Date" has the meaning specified in Section 2.03(c)(i).

"Increase Effective Date" shall have the meaning provided therefor in Section 2.15(d).

"Incremental Availability" means, at any time of calculation, an amount equal to the product of (i) 10% *multiplied by* (ii) the Appraised Value of Eligible Inventory of the Domestic Borrowers, net of Inventory Reserves, *multiplied by* (iii) the Cost of Eligible Inventory of the Domestic Borrowers.

"Incremental Commitments" means, as to each Incremental Lender, its obligation to make Incremental Loans to the Domestic Borrowers pursuant to Article II, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Incremental Lender's name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Incremental Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement. On the Effective Date, the aggregate Incremental Commitments equal \$17,500,000.

"Incremental Lenders" means Lenders having Incremental Commitments from time to time or at any time.

"Incremental Loan" means an extension of credit by an Incremental Lender to a Domestic Borrower (to the extent based on Incremental Availability) under Article II.

"Incremental Loan Cap" means, at any time of determination, the lesser of (a) the Incremental Commitments, and (b) Incremental Availability.

"Incremental Note" means a promissory note made by the Domestic Borrowers in favor of an Incremental Lender evidencing Incremental Loans made by such Incremental Lender, substantially in the form of Exhibit C-2.

"Indebtedness" means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

(a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(b) the maximum amount of all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers' acceptances, bank guaranties, surety bonds and similar instruments;

(c) net obligations of such Person under any Swap Contract;

(d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business and, in each case, not past due for more than 60 days);

(e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) all Attributable Indebtedness of such Person;

(g) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Equity Interest in such Person or any other Person (including, without limitation, Disqualified Stock), or any warrant, right or option to acquire such Equity Interest, in each case, prior to the Maturity Date, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; and

(h) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Indemnitees" has the meaning specified in Section 10.04(b).

"Information" has the meaning specified in Section 10.07.

"Intellectual Property" means all present and future: trade secrets, know-how and other proprietary information; trademarks, trademark applications, internet domain names, service marks, trade dress, trade names, business names, designs, logos, slogans (and all translations, adaptations, derivations and combinations of the foregoing) indicia and other source and/or business identifiers, and all registrations or applications for registrations which have heretofore been or may hereafter be issued thereon throughout the world; copyrights and copyright applications; (including copyrights for computer programs) and all tangible and intangible property embodying the copyrights, unpatented inventions (whether or not patentable); patents and patent applications; industrial design applications and registered industrial designs; license agreements related to any of the foregoing and income therefrom; books, records, writings, computer tapes or disks, flow diagrams, specification sheets, computer software, source codes, object codes, executable code, data, databases and other physical manifestations, embodiments or incorporations of any of the foregoing; all other intellectual property; and all common law and other rights throughout the world in and to all of the foregoing.

“Interest Payment Date” means, (a) as to any LIBOR Rate Loan or BA Equivalent Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date or the Term Loan Maturity Date, as applicable; provided, however, that if any Interest Period for a LIBOR Rate Loan or BA Equivalent Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan (including a Swing Line Loan), Canadian Prime Rate Loan or U.S. Index Rate Loan, the first Business Day of each month and the Maturity Date or the Term Loan Maturity Date, as applicable.

“Interest Period” means, as to each LIBOR Rate Loan or BA Equivalent Loan, the period commencing on the date such LIBOR Rate Loan or BA Equivalent Loan is disbursed or Converted to or continued as a LIBOR Rate Loan or BA Equivalent Loan and ending on the date one, two, three or six months thereafter, as selected by the Lead Borrower or the Canadian Borrower, as applicable, in its Domestic Loan Notice or Canadian Loan Notice, as applicable; provided that:

(i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period;

(iii) no Interest Period shall extend beyond the Maturity Date or the Term Loan Maturity Date, as applicable; and

(iv) notwithstanding the provisions of clause (iii), no Interest Period shall have a duration of less than one (1) month, and if any Interest Period applicable to a LIBOR Borrowing or a BA Equivalent Borrowing would be for a shorter period, such Interest Period shall not be available hereunder.

For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent Conversion or continuation of such Borrowing.

“Internal Control Event” means a material weakness in, or fraud that involves management or other employees who have a significant role in, the Lead Borrower’s and/or its Subsidiaries’ internal controls over financial reporting.

“In-Transit Inventory” means Inventory of a Loan Party which is in the possession of a common carrier and is in transit from a foreign vendor of a Loan Party from a location outside of the continental United States or Canada to a location of a Loan Party that is within the continental United States or Canada.

“Inventory” has the meaning given that term in the UCC or the PPSA, as applicable, and shall also include, without limitation, all: (a) goods which (i) are leased by a Person as lessor, (ii) are held by a Person for sale or lease or to be furnished under a contract of service, (iii) are furnished by a Person under

a contract of service, or (iv) consist of raw materials, work in process, or materials used or consumed in a business; (b) goods of said description in transit; (c) goods of said description which are returned, repossessed or rejected; and (d) packaging, advertising, and shipping materials related to any of the foregoing.

“Inventory Reserves” means such reserves as may be established from time to time by the Agent in its reasonable discretion, acting in good faith, with respect to the determination of the saleability, at retail, of the Eligible Inventory, which reflect such other factors as affect the market value of the Eligible Inventory or which reflect claims and liabilities that the Agent reasonably determines, acting in good faith, will need to be satisfied in connection with the realization upon the Inventory. Without limiting the generality of the foregoing, Inventory Reserves may, in the Agent’s reasonable discretion, acting in good faith, include (but are not limited to) reserves based on:

- (a) Obsolescence;
- (b) Seasonality;
- (c) Shrink;
- (d) Imbalance;
- (e) Change in Inventory character;
- (f) Change in Inventory composition;
- (g) Change in Inventory mix;
- (h) Mark-downs (both permanent and point of sale);
- (i) Retail mark-ons and mark-ups inconsistent with prior period practice and performance, industry standards, current business plans or advertising calendar and planned advertising events; and
- (j) Out-of-date and/or expired Inventory.

“Investment” means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of Equity Interests of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or interest in, another Person, or (c) any Acquisition, or (d) any other investment of money or capital. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“Initial Public Offering” means a sale in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended (the “Act”) of shares of the common stock of the Lead Borrower or an Affiliate as a result of which offering and any subsequent registration of the common stock under Section 12 of the Exchange Act of 1934, as amended (the “Exchange Act”), the registrant in such offering is required to file periodic reports with the SEC under Section 12 or Section 15(d) of the Exchange Act.

“IRS” means the United States Internal Revenue Service.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

“Issuer Documents” means with respect to any Letter of Credit, the Letter Credit Application, and any other document, agreement and instrument entered into by any Borrower (or any Subsidiary) relating to any such Letter of Credit.

“Joinder Agreement” means an agreement, in form satisfactory to the Agent pursuant to which, among other things, a Person becomes a party to, and bound by the terms of, this Agreement and/or the other Loan Documents in the same capacity and to the same extent as either a Borrower or a Guarantor, as the Agent may determine.

“Judgment Currency” as defined in Section 10.22.

“Law” or “Laws” means each international, foreign, federal, state, provincial, municipal and local statute, treaty, rule, guideline, regulation, ordinance, code and administrative or judicial precedent or authority, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and each applicable administrative order, directed duty, request, license, authorization and permit of, and agreement with, any Governmental Authority, in each case whether or not having the force of law.

“L/C Advance” means, with respect to each L/C Lender, such L/C Lender’s funding of its participation in any L/C Borrowing in accordance with its Applicable Percentage.

“L/C Borrowing” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Canadian Borrowing or a Domestic Borrowing, as applicable.

“L/C Credit Extension” means the Domestic L/C Credit Extensions and the Canadian L/C Credit Extensions, as applicable.

“L/C Issuer” means, (a) with respect to Domestic Letters of Credit, Bank of America and, with respect to Canadian Letters of Credit, Bank of America-Canada Branch, or any successor issuer of Letters of Credit hereunder (which successor may only be a Revolving Lender selected by the Agent in its discretion), and (b) any other Revolving Lender reasonably acceptable to the Agent and the Lead Borrower. The L/C Issuer may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates or branches of the L/C Issuer, in which case the term “L/C Issuer” shall include any such Affiliate or branch with respect to Letters of Credit issued by such Affiliate or branch.

“L/C Lenders” means the Tranche A Lenders and the Canadian Lenders, as applicable.

“L/C Obligations” means, as at any date of determination, the aggregate undrawn amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For purposes of computing the amounts available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of any Rule under the ISP or any Article of UCP 600, such Letter of Credit shall be deemed to be “outstanding” in the amount so remaining available to be drawn.

“Lead Borrower” means Restoration Hardware, Inc., a Delaware corporation.

“Lease” means any agreement, whether written or oral, no matter how styled or structured, pursuant to which a Loan Party is entitled to the use or occupancy of any real property for any period of time.

“Lender” means the Domestic Lenders, the Canadian Lenders and, as the context requires, includes the Swing Line Lender and the Term Lender.

“Lending Office” means, as to any Lender, the office or offices of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Lead Borrower and the Agent.

“Letter of Credit” means each Banker’s Acceptance, each Standby Letter of Credit and each Commercial Letter of Credit issued hereunder, and shall include the Existing Letters of Credit.

“Letter of Credit Application” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the L/C Issuer.

“Letter of Credit Expiration Date” means the day that is seven days prior to the Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

“Letter of Credit Fee” has the meaning specified in Section 2.03(i).

“Letter of Credit Sublimit” means the Canadian Letter of Credit Sublimit and the Domestic Letter of Credit Sublimit, as applicable.

“LIBOR Borrowing” means a Borrowing comprised of LIBOR Rate Loans.

“LIBOR Rate” means for any Interest Period with respect to a LIBOR Rate Loan, the rate per annum equal to the British Bankers Association LIBOR Rate (“BBA LIBOR”), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the “LIBOR Rate” for such Interest Period shall be the rate per annum determined by the Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the LIBOR Rate Loan being made, continued or Converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America’s London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

“LIBOR Rate Loan” means a Loan that bears interest at a rate based on the Adjusted LIBOR Rate.

“Lien” means (a) any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory, constructive, deemed or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale, Capital Lease Obligation, Synthetic Lease Obligation, or other title retention agreement, any easement, servitude, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing) and (b) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Liquidation” means the exercise by the Agent of those rights and remedies accorded to the Agent under the Loan Documents and applicable Laws as a creditor of the Loan Parties with respect to the realization on the Collateral, including (after the occurrence and during the continuation of an Event of Default) the conduct by the Loan Parties acting with the consent of the Agent, of any public, private or “going-out-of-business”, “store closing” or other similar sale or any other disposition of the Collateral for the purpose of liquidating the Collateral. Derivations of the word “Liquidation” (such as “Liquidate”) are used with like meaning in this Agreement.

“Liquidation Percentage” means, for any Revolving Lender, a fraction, the numerator of which is the sum of such Revolving Lender’s Domestic Commitments and Canadian Commitment on the Determination Date and the denominator of which is all Domestic Commitments and Canadian Commitments of all Revolving Lenders on the Determination Date.

“Loan” means (i) an extension of credit by a Revolving Lender to a Borrower under Article II in the form of a Canadian Loan or a Domestic Loan (including a Swing Line Loan) or (ii) an extension of credit by the Term Lender to the Domestic Borrowers under Article II in the form of the Term Loan, as applicable.

“Loan Account” has the meaning assigned to such term in Section 2.11(a).

“Loan Cap” means, at any time of determination, the lesser of (a) the Domestic Commitments or (b) the Domestic Borrowing Base.

“Loan Documents” means this Agreement, each Note, each Issuer Document, the Fee Letter, all Borrowing Base Certificates, the Blocked Account Agreements, the Credit Card Notifications, the Security Documents, the Facility Guaranty, the Effective Date Guaranty, and any other instrument or agreement now or hereafter executed and delivered by any Loan Party in connection herewith, each as amended and in effect from time to time.

“Loan Parties” means, collectively, the Canadian Loan Parties and the Domestic Loan Parties.

“Material Adverse Effect” means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent) or condition (financial or otherwise) of any Loan Party or the Lead Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; or (c) a material impairment of the rights and remedies of the Agent or the Lenders under any Loan Document or a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party. In determining whether any individual event would result in a Material Adverse Effect, notwithstanding that such event in and of itself does not have such effect, a Material Adverse Effect shall be deemed to have occurred if the cumulative effect of such event and all other then existing events would result in a Material Adverse Effect.

“Material Contract” means, with respect to any Person, each contract to which such Person is a party that such Person would be required to file with the SEC were such Person a publicly reporting company.

“Material Indebtedness” means Indebtedness (other than the Obligations) of the Loan Parties in an aggregate principal amount exceeding \$3,000,000. For purposes of determining the amount of Material Indebtedness at any time, (a) the amount of the obligations in respect of any Swap Contract at such time shall be calculated at the Swap Termination Value thereof, (b) undrawn committed or available amounts shall be included, and (c) all amounts owing to all creditors under any combined or syndicated credit arrangement shall be included.

“Material Subsidiary” means any Subsidiary that (a) owns at least one percent (1.00%), or, together with all other Subsidiaries which are not Material Subsidiaries, five percent (5.00%) of the Consolidated assets of Lead Borrower, (b) generates at least one percent (1.00%), or, together with all other Subsidiaries which are not Material Subsidiaries, five percent (5.00%) of the Consolidated Net Income, (c) is the owner of Equity Interests of any Subsidiary described in either of the foregoing clauses (a) and (b), or (d) owns assets of the type included in the Domestic Borrowing Base, Canadian Borrowing Base or Term Loan Borrowing Base.

“Maturity Date” means August 3, 2016.

“Maximum Rate” has the meaning provided therefor in Section 10.09.

“Measurement Period” means, at any date of determination, the most recently completed twelve Fiscal Months of the Lead Borrower.

“Moody’s” means Moody’s Investors Service, Inc. and any successor thereto.

“Mortgages” means each and every fee mortgage or deed of trust, security agreement and assignment by the Loan Party owning or holding the leasehold interest in the Real Estate encumbered thereby in favor of the Agent.

“Mortgage Policy” has the meaning specified in the definition of Real Estate Eligibility Requirements.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Lead Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Net Proceeds” means, with respect to any Disposition by any Loan Party, or a casualty or condemnation of property of any Loan Party, the excess, if any, of (i) the sum of cash and cash equivalents received in connection with such transaction (including any cash or cash equivalents received by way of deferred payment pursuant to, or by monetization of, a note receivable or otherwise, but only as and when so received) over (ii) the sum of (A) the principal amount of any Indebtedness that is secured by a Permitted Encumbrance, senior to the Agent’s Lien, on the applicable asset and which Indebtedness is required to be repaid (or to establish an escrow for the future repayment thereof) in connection with such Disposition (other than Indebtedness under the Loan Documents), (B) the reasonable and customary out-of-pocket expenses incurred by such Loan Party in connection with such transaction (including, without limitation, appraisals, and brokerage, legal, title and tax expenses and commissions) paid by any Loan Party to third parties (other than Affiliates).

“Non-Consenting Lender” has the meaning provided therefor in Section 10.01.

“Non-Extension Notice Date” has the meaning specified in Section 2.03(b)(iii).

“Note” means (a) a Canadian Note, (b) a Tranche A Note, (c) an Incremental Note, and (d) the Swing Line Note, as each may be amended, supplemented or modified from time to time.

“NPL” means the National Priorities List under CERCLA.

“Obligations” means (a) all advances to, and debts (including principal, interest, fees, costs, and expenses), liabilities, obligations, covenants, indemnities, and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit (including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral therefor), whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest, fees, costs, expenses and indemnities that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest, fees costs, expenses and indemnities are allowed claims in such proceeding, and (b) any Other Liabilities. Without limiting the foregoing, the term “Obligations” includes all Canadian Liabilities.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity, and (d) in each case, all shareholder or other equity holder agreements, voting trusts and similar arrangements to which such Person is a party or which is applicable to its Equity Interests and all other arrangements relating to the Control or management of such Person.

“Other Canadian Liabilities” means any obligation of the Canadian Loan Parties on account of (a) any Cash Management Services furnished to any of the Canadian Loan Parties or any of their Subsidiaries and/or (b) any Bank Product furnished to any of the Canadian Loan Parties and/or any of their Subsidiaries.

“Other Domestic Borrowers” means each Domestic Subsidiary of the Lead Borrower that is not a Guarantor.

“Other Domestic Liabilities” means any obligation of the Domestic Loan Parties on account of (a) any Cash Management Services furnished to any of the Domestic Loan Parties or any of their Subsidiaries and/or (b) any Bank Product furnished to any of the Domestic Loan Parties and/or any of their Subsidiaries.

“Other Liabilities” means, collectively, Other Domestic Liabilities and Other Canadian Liabilities.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document, excluding, however, any such amounts imposed as a result of an assignment by a Lender of its Loan or Commitment.

“Outstanding Amount” means (i) with respect to Loans and Swing Line Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Loans and Swing Line Loans, as the case may be, occurring on such date; and (ii) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements by the Borrowers of Unreimbursed Amounts.

“Participant” has the meaning specified in Section 10.06(d).

“Participation Register” has the meaning provided therefor in Section 10.06(d).

“Payment Conditions” means, with respect to any specified transaction or payment, that, (a) no Default or Event of Default exists on the date of such transaction or payment or would arise as a result of entering into such transaction or the making of such payment, (b) after giving effect to such transaction or payment, the Pro Forma Availability Condition has been satisfied, (c) the Consolidated Fixed Charge Coverage Ratio, calculated on a trailing twelve month basis after giving pro forma effect to any specified transaction or payment, is equal to or greater than 1.0:1.0, and (d) prior thereto, the Loan Parties shall have delivered to the U.S. Agent evidence of satisfaction of the conditions contained in the foregoing clauses (b) and (c) on a basis (including, without limitation, giving due consideration to results for prior periods) reasonably satisfactory to the U.S. Agent.

“PBGC” means the Pension Benefit Guaranty Corporation.

“PCAOB” means the Public Company Accounting Oversight Board.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Lead Borrower or any ERISA Affiliate or to which the Lead Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“Permitted Acquisition” means an Acquisition in which all of the following conditions are satisfied:

(a) such Acquisition shall have been approved by the Board of Directors of the Person (or similar governing body if such Person is not a corporation) which is the subject of such Acquisition and such Person shall not have announced that it will oppose such Acquisition or shall not have commenced any action which alleges that such Acquisition shall violate applicable Law;

(b) the Lead Borrower shall have furnished the Agent with fifteen (15) days’ prior written notice of such intended Acquisition and shall have furnished the Agent with a current draft of the Acquisition Documents (and final copies thereof as and when executed), a summary of any due diligence undertaken by the Loan Parties in connection with such Acquisition, appropriate financial statements of the Person which is the subject of such Acquisition, pro forma projected financial statements for the twelve (12) month period following such Acquisition after giving effect to such Acquisition (including balance sheets, cash flows and income statements by month for the acquired Person, individually, and on a Consolidated basis with all Loan Parties), and such other information as the Agent may have reasonably requested no later than fifteen (15) days prior to such Acquisition, all of which shall be in form reasonably satisfactory to the Agent;

(c) if proceeds of the Credit Extensions are being used to directly or indirectly finance all or any portion of such Acquisition and the Acquisition is an Acquisition of Equity Interests, the legal structure of the Acquisition shall be acceptable to the Agent in its reasonable discretion;

(d) all necessary legal and regulatory approvals with respect to such Acquisition shall have been obtained;

(e) after giving effect to the Acquisition, if the Acquisition is an Acquisition of Equity Interests, a Loan Party shall acquire and own, directly or indirectly, a majority of the Equity Interests in the Person being acquired and shall Control a majority of any voting interests or shall otherwise Control the governance of the Person being acquired;

(f) any assets acquired shall be utilized in, and if the Acquisition involves a merger, amalgamation, consolidation or acquisition of Equity Interests, the Person which is the subject of such Acquisition shall be engaged in, a business otherwise permitted to be engaged in by a Borrower pursuant to Section 7.09;

(g) if the Person which is the subject of such Acquisition will be maintained as a Subsidiary of a Loan Party, the requirements of Section 6.11 shall have been fulfilled with respect to such Subsidiary; and

(h) the Loan Parties shall have satisfied the Payment Conditions.

“Permitted Disposition” means any of the following:

(a) Dispositions of inventory in the ordinary course of business and Dispositions of cash to pay obligations of the Loan Parties in the ordinary course of business and not prohibited to be incurred hereunder;

(b) arm’s length bulk sales or other dispositions of the Inventory of a Loan Party not in the ordinary course of business in connection with Permitted Store Closings, at arm’s length;

(c) non-exclusive licenses of Intellectual Property of a Loan Party or any of its Subsidiaries in the ordinary course of business;

(d) licenses for the conduct of licensed departments within the Loan Parties’ Stores in the ordinary course of business; provided that, if requested by the Agent, the Agent shall have entered into an intercreditor agreement with the Person operating such licensed department on terms and conditions reasonably satisfactory to the Agent;

(e) Dispositions of Equipment in the ordinary course of business that is substantially worn, damaged, obsolete or, in the judgment of a Loan Party, no longer useful or necessary in its business or that of any Subsidiary and, in the case of any Equipment material to such Person’s business or operating, is replaced with similar property having at least equivalent value;

(f) Dispositions among the Loan Parties or by any Subsidiary to a Loan Party;

(g) Dispositions by any Subsidiary which is not a Loan Party to another Subsidiary that is not a Loan Party;

(h) sales of Real Estate of any Loan Party (or sales of any Equity Interests in any Person or Persons created to hold such Real Estate), including sale-leaseback transactions involving any such Real Estate pursuant to leases on market terms, as long as (A) such sale is made for fair market value, (B) with respect to any Eligible Real Estate, the Net Proceeds paid in cash are in an amount at least equal to the amount calculated pursuant to clause (c) of the definition of "Tranche A Borrowing Base" for such Eligible Real Estate, (C) in the case of any sale-leaseback transaction, the Agents shall have received from each such purchaser or transferee a Collateral Access Agreement and (D) no Default or Event of Default then exists or would arise therefrom; and

(i) transactions expressly permitted under Section 7.01, 7.02, 7.04, 7.06 or 7.07, in each case to the extent constituting a Disposition.

"Permitted Encumbrances" means:

(a) Liens imposed by law for Taxes that are not yet due or are being contested in compliance with Section 6.04;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by applicable Laws, arising in the ordinary course of business and securing obligations that are not overdue by more than thirty (30) days or are being contested in compliance with Section 6.04;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations, other than any Lien imposed by ERISA or any applicable Laws relating to a Canadian Pension Plan;

(d) deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(e) Liens in respect of judgments that would not constitute an Event of Default under Section 8.01(h);

(f) easements, servitudes, covenants, conditions, restrictions, building code laws, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or materially interfere with the ordinary conduct of business of a Loan Party and such other minor title defects or survey matters that are disclosed by current surveys that, in each case, do not materially interfere with the current use of the real property;

(g) Liens existing on the Effective Date and listed on Schedule 7.01 and any Permitted Refinancings thereof;

(h) Liens on fixed or capital assets acquired by any Loan Party which are permitted under clause (c) of the definition of Permitted Indebtedness so long as (i) such Liens and the Indebtedness secured thereby are incurred prior to or within ninety (90) days after such acquisition, (ii) the Indebtedness secured thereby does not exceed the cost of acquisition of such fixed or capital assets and (iii) such Liens shall not extend to any property or assets of the Loan Parties other than such fixed or capital assets and the products and proceeds thereof and books and records related thereto;

(i) Liens in favor of the Agent or others securing the Obligations;

(j) landlords' and lessors' Liens in respect of rent not in default;

(k) possessory Liens in favor of brokers and dealers arising in connection with the acquisition or disposition of Investments owned as of the Effective Date and Permitted Investments, provided that such liens (a) attach only to such Investments and (b) secure only obligations incurred in the ordinary course and arising in connection with the acquisition or disposition of such Investments and not any obligation in connection with margin financing;

(l) (i) Liens arising solely by virtue of any statutory or common law provisions relating to banker's liens, liens in favor of securities intermediaries, rights of setoff or similar rights and remedies as to deposit accounts or securities accounts or other funds maintained with depository institutions or securities intermediaries and

(ii) consensual Liens in favor of the applicable financial institution or broker on such accounts, and all funds or investment property credited thereto, solely to the extent arising pursuant to such financial institution's or broker's standard terms and conditions of account and securing only obligations with respect to such accounts owing to such financial institution or broker under such standard terms and conditions;

(m) Liens arising from precautionary UCC or PPSA filings regarding "true" operating leases or the consignment of goods to a Loan Party;

(n) voluntary Liens on property (other than property of the type included in the Canadian Borrowing Base, the Term Loan Borrowing Base or the Domestic Borrowing Base) in existence at the time such property is acquired or on such property of a Subsidiary of a Loan Party in existence at the time such Subsidiary is acquired; provided, that such Liens are not incurred in connection with or in anticipation of such acquisition and do not attach to any other assets of any Loan Party or any Subsidiary;

(o) Liens in favor of customs and revenues authorities imposed by applicable Laws arising in the ordinary course of business in connection with the importation of goods and securing obligations (i) that are not overdue by more than thirty (30) days, or (ii) that are being contested in compliance with Section 6.04;

(p) Liens referred to in Schedule B of the Mortgage Policies insuring the Mortgages; and

(q) Liens in favor of any holder of Indebtedness permitted pursuant to clause (j) of the definition of Permitted Indebtedness; provided that the Person holding such Liens shall have entered into an intercreditor and subordination agreement reasonably acceptable to the Agent.

"Permitted Holder" means a Person or group consisting of one or more of (a) Catterton Partners Management Company, (b) Tower Three Partners LLC and (c) any of the respective Affiliates of either Catterton Partners Management Company or Tower Three Partners LLC.

“Permitted Indebtedness” means each of the following:

- (a) Indebtedness outstanding on the Effective Date and listed on Schedule 7.03 and any Permitted Refinancing thereof;
- (b) Indebtedness consisting of Permitted Investments described in clause (g) of the definition thereof;
- (c) purchase money Indebtedness of any Loan Party to finance the acquisition of any real or personal property consisting solely of fixed or capital assets, including Capital Lease Obligations, and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to or within ninety (90) days after the acquisition thereof, and Permitted Refinancings thereof, provided, however, that the aggregate principal amount of Indebtedness permitted by this clause (c) shall not exceed \$50,000,000 at any time outstanding (excluding any current and future Capital Lease Obligations in respect of real estate leases), and further provided that, if requested by the Agent, the Loan Parties shall use commercially reasonable efforts to cause the holders of such Indebtedness to enter into a use and access agreement on terms reasonably satisfactory to the Agent;
- (d) Indebtedness incurred for the construction or acquisition or improvement of, or to finance or to refinance, any Real Estate owned by any Loan Party (including therein any Indebtedness incurred in connection with sale-leaseback transactions permitted hereunder and any Synthetic Lease Obligations), provided that, (A) with respect to any Eligible Real Estate, the Net Proceeds (with respect to any sale-leaseback transaction) or the net proceeds of any other Indebtedness, as applicable, paid in cash are in an amount at least equal to the amount calculated pursuant to clause (c) of the definition of “Tranche A Borrowing Base”, and (B) the Loan Parties shall use commercially reasonable efforts to cause the holders of such Indebtedness and the lessors under any sale-leaseback transaction to enter into a Collateral Access Agreement on terms reasonably satisfactory to the Agent;
- (e) contingent liabilities under surety bonds or similar instruments incurred in the ordinary course of business in connection with the construction or improvement of Stores;
- (f) obligations (contingent or otherwise) of any Loan Party or any Subsidiary thereof existing or arising under any Swap Contract, provided that such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with fluctuations in interest rates or foreign exchange rates, and not for purposes of speculation or taking a “market view;”
- (g) Indebtedness in connection with any Permitted Acquisition (i) with respect to the deferred purchase price therefor, provided that such Indebtedness does not require the payment in cash of principal (other than in respect of working capital adjustments) prior to the Maturity Date, has a final maturity which extends beyond the Maturity Date, and is subordinated to the Obligations on terms reasonably acceptable to the Agent or (ii) consisting of any earn out or other payment of contingent consideration tied to the post-closing performance of the acquired Person, business, asset or property, to the extent that the payment of the full amount of such earn out or other consideration was permissible at the date of the closing of such Permitted Acquisition;
- (h) Indebtedness of any Person that becomes a Subsidiary of a Loan Party in a Permitted Acquisition, which Indebtedness is existing at the time such Person becomes a Subsidiary of a Loan Party (other than Indebtedness incurred solely in contemplation of such Person’s becoming a Subsidiary of a Loan Party);

(i) the Obligations;

(j) Indebtedness not otherwise specifically described herein in an aggregate principal amount not to exceed \$100,000,000 at any time outstanding; provided that the weighted average life to maturity of such Indebtedness shall be at least six months following the Maturity Date and the documentation governing such Indebtedness shall otherwise be in form and substance reasonably satisfactory to the Agent; and provided further that if such Indebtedness is secured by a Lien, such Lien constitutes a Permitted Encumbrance permitted pursuant to clause (q) of the definition thereof; and

(k) Other unsecured Indebtedness not otherwise specifically described herein; provided that the weighted average life to maturity of such Indebtedness shall be at least six months following the Maturity Date.

“Permitted Investments” means each of the following:

(a) readily marketable obligations issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof having maturities of not more than 360 days from the date of acquisition thereof; provided that the full faith and credit of the United States of America is pledged in support thereof;

(b) commercial paper issued by any Person organized under the laws of any state of the United States of America and rated at least “Prime-1” (or the then equivalent grade) by Moody’s or at least “A-1” (or the then equivalent grade) by S&P, in each case with maturities of not more than 180 days from the date of acquisition thereof;

(c) time deposits with, or insured certificates of deposit or bankers’ acceptances of, any commercial bank that (i) (A) is a Lender or (B) is organized under the laws of the United States of America, any state thereof or the District of Columbia or is the principal banking subsidiary of a bank holding company organized under the laws of the United States of America, any state thereof or the District of Columbia, and is a member of the Federal Reserve System, (ii) issues (or the parent of which issues) commercial paper rated as described in clause (c) of this definition and (iii) has combined capital and surplus of at least \$1,000,000,000, in each case with maturities of not more than 180 days from the date of acquisition thereof;

(d) Fully collateralized repurchase agreements with a term of not more than thirty (30) days for securities described in clause (a) above (without regard to the limitation on maturity contained in such clause) and entered into with a financial institution satisfying the criteria described in clause (c) above or with any primary dealer and having a market value at the time that such repurchase agreement is entered into of not less than 100% of the repurchase obligation of such counterparty entity with whom such repurchase agreement has been entered into;

(e) Investments, classified in accordance with GAAP as current assets of the Loan Parties, in any money market fund, mutual fund, or other investment companies that are registered under the Investment Company Act of 1940, as amended, which are administered by financial institutions that have the highest rating obtainable from either Moody’s or S&P, and which invest solely in one or more of the types of securities described in clauses (a) through (d) above;

(f) Investments existing on the Effective Date, and set forth on Schedule 7.02, but not any increase in the amount thereof or any other modification of the terms thereof;

(g) (i) Investments by any Loan Party and its Subsidiaries in their respective Subsidiaries outstanding on the Effective Date, (ii) additional Investments by any Loan Party and its Subsidiaries in Loan Parties, (iii) Investments by non-Loan Party Subsidiaries in other non-Loan Party Subsidiaries, (iv) up to \$7,000,000 (at any time outstanding) of Investments after the Effective Date in Subsidiaries incorporated or formed under the laws of France, the United Kingdom or any political subdivision thereof, and (v) Investments after the Effective Date by any Loan Party in non-Loan Party Subsidiaries in an amount not to exceed \$5,000,000 (at any time outstanding), or any greater amount if the Payment Conditions are satisfied;

(h) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(i) Guarantees constituting Permitted Indebtedness;

(j) so long as no Default or Event of Default has occurred and is continuing or would result from such Investment, Investments by any Loan Party in Swap Contracts permitted hereunder;

(k) Investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(l) advances to officers, directors and employees of the Loan Parties and Subsidiaries in the ordinary course of business in an amount not to exceed \$500,000 to any individual at any time or in an aggregate amount not to exceed \$2,500,000 at any time outstanding, for travel, entertainment, relocation and analogous ordinary business purposes;

(m) Investments constituting Permitted Acquisitions; and

(n) Other Investments not otherwise specifically described herein and not exceeding \$5,000,000 in the aggregate at any time outstanding;

provided, however, that notwithstanding the foregoing, (i) after the occurrence and during the continuance of a Cash Dominion Event, no additional Investments specified in clauses (a) through (e) and clause (p) or any reinvestment or rollover of any Investments specified in clauses (a) through (e) and clause (p) and outstanding prior to the occurrence and continuation of a Cash Dominion Event shall be permitted unless otherwise permitted pursuant to Section 2.05(h) or (i) hereof, as applicable, and (ii) such Investments shall be pledged to the Agent as additional collateral for the Obligations pursuant to such agreements as may be reasonably requested by the Agent.

“Permitted Overadvance” means an Overadvance made by the Agent, in its discretion, which:

(a) Is made to maintain, protect or preserve the Collateral and/or the Credit Parties’ rights under the Loan Documents or which is otherwise for the benefit of the Credit Parties; or

(b) Is made to enhance the likelihood of, or to maximize the amount of, repayment of any Obligation;

(c) Is made to pay any other amount chargeable to any Loan Party hereunder; and

(d) Together with all other Permitted Overadvances then outstanding, shall not (i) exceed ten percent (10%) of the combined Canadian Borrowing Base and Domestic Borrowing Base at any time or (ii) unless a Liquidation is occurring, remain outstanding for more than forty-five (45) consecutive Business Days, unless in each case, the Required Lenders otherwise agree;

provided however, that the foregoing shall not (i) modify or abrogate any of the provisions of Section 2.03 regarding the Tranche A Lenders' and the Canadian Lenders' obligations with respect to Letters of Credit or Section 2.04 regarding the Tranche A Lenders' obligations with respect to Swing Line Loans, or (ii) result in any claim or liability against the Agent (regardless of the amount of any Overadvance) for Unintentional Overadvances, and such Unintentional Overadvances shall not reduce the amount of Permitted Overadvances allowed hereunder, and further provided that in no event shall the Agent make an Overadvance, if after giving effect thereto, the principal amount of the Credit Extensions would exceed the Aggregate Commitments (excluding the outstanding amount of the Term Loan) (as in effect prior to any termination of the Commitments pursuant to Section 2.06 hereof).

"Permitted Refinancing" means, with respect to any Person, any Indebtedness issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund (collectively, to "Refinance"), the Indebtedness being Refinanced (or previous refinancings thereof constituting a Permitted Refinancing); provided, that (a) the principal amount (or accreted value, if applicable) of such Permitted Refinancing does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness so Refinanced (plus unpaid accrued interest and premiums thereon and underwriting discounts, defeasance costs, fees, commissions and expenses), (b) the weighted average life to maturity of such Permitted Refinancing is greater than or equal to the weighted average life to maturity of the Indebtedness being Refinanced (c) such Permitted Refinancing shall not require any scheduled principal payments due prior to the Maturity Date in excess of the scheduled principal payments due prior to such Maturity Date for the Indebtedness being Refinanced, (d) if the Indebtedness being Refinanced is subordinated in right of payment to the Obligations under this Agreement, such Permitted Refinancing shall be subordinated in right of payment to such Obligations on terms at least as favorable to the Credit Parties as those contained in the documentation governing the Indebtedness being Refinanced (e) no Permitted Refinancing shall have direct or indirect Loan Party or Subsidiary obligors who were not also obligors of the Indebtedness being Refinanced, or greater guarantees or security from Loan Parties or Subsidiaries, than the Indebtedness being Refinanced, and (f) such Permitted Refinancing shall be otherwise on terms, taken as a whole, not materially less favorable to the Loan Parties than those contained in the documentation governing the Indebtedness being Refinanced.

"Permitted Store Closings" means (a) Store closures and related Inventory dispositions which do not exceed in any Fiscal Year of the Lead Borrower and its Subsidiaries, ten (10%) percent of the number of the Loan Parties' Stores as of the beginning of such Fiscal Year (net of new Store openings), provided that, subject to clause (b) below, the Loan Parties may close any Stores the leases of which have expired in accordance with their terms and which have not been renewed or extended; and (b) the related Inventory is either (i) moved to a distribution center or another retail location of the Loan Parties for future sale in the ordinary course of business, or (ii) disposed of on-site by the applicable Loan Party, provided that all sales of Inventory in connection with Store closings (in a single transaction or series of related transactions) that exceed ten (10%) percent of the number of the Loan Parties' Stores as of the beginning of such Fiscal Year (net of new Store openings) shall be disposed of in accordance with liquidation agreements and with professional liquidators reasonably acceptable to the Agent, and provided further that all Net Proceeds received in connection with such Permitted Store Closings and related Dispositions of Inventory shall be applied to the Obligations in accordance with Section 2.05 hereto.

“Person” means any natural person, corporation, limited or unlimited liability company, trust, joint venture, association, company, partnership, limited partnership, Governmental Authority or other entity.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Lead Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

“Platform” has the meaning specified in Section 6.02.

“PPSA” means the *Personal Property Security Act* (Ontario) and the regulations thereunder, as from time to time in effect; provided, however, if attachment, perfection or priority of the Agent’s security interest in or the Agent’s Lien on any Collateral are governed by the personal property security laws of any jurisdiction other than Ontario (including Quebec), PPSA shall mean those personal property security laws in such other jurisdiction, including the *Civil Code of Quebec*, for the purposes of the provisions hereof relating to such attachment, perfection or priority and for the definitions related to such provisions.

“Prepayment Event” means:

(a) Any Disposition (including pursuant to a sale and leaseback transaction) of any property or asset of a Loan Party (other than any Permitted Disposition described in clauses (a) or (f) of the definition thereof); or

(b) Any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of (and payments in lieu thereof), any property or asset of a Loan Party, unless (i) the proceeds therefrom are required to be paid to the holder of a Lien on such property or asset having priority over the Lien of the Agent or (ii) prior to the occurrence of a Cash Dominion Event, the proceeds therefrom are deposited into a segregated account and utilized for purposes of replacing or repairing the assets in respect of which such proceeds, awards or payments were received within 180 days of the occurrence of the damage to or loss of the assets being repaired or replaced.

“Pro Forma Availability Condition” shall mean, for any date of calculation (a) with respect to any transaction or payment subject to the Payment Conditions, the Pro Forma Excess Availability following, and after giving effect to, such transaction or payment, will be greater than the greater of (i) \$20,000,000 and (ii) fifteen percent (15%) of the Loan Cap, and (b) with respect to any Restricted Payment subject to the RP Conditions, the Pro Forma Excess Availability following, and after giving effect to, such transaction or payment, will be greater than the greater of (i) \$22,500,000 and (ii) fifteen percent (15%) of the Loan Cap.

“Pro Forma Excess Availability” shall mean, for any date of calculation, after giving pro forma effect to the transaction or payment or Restricted Payment then to be consummated, Domestic Availability on the date of such transaction or payment and on a projected basis as of the end of each Fiscal Month during any subsequent projected twelve (12) Fiscal Months.

“Proceeds of Crime Act” means the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*(Canada), as amended from time to time, and including all regulations thereunder.

“Public Lender” has the meaning specified in Section 6.02.

“Real Estate” means all Leases and all land, together with the buildings, structures, parking areas, and other improvements thereon, now or hereafter owned by any Loan Party, including all easements, rights-of-way, and similar rights relating thereto and all leases, tenancies, and occupancies thereof.

“Real Estate Eligibility Requirements: means collectively, each of the following:

(a) The applicable Loan Party has executed and delivered to the Agent a Mortgage with respect to any Real Estate intended, by such Loan Party, to be included in Eligible Real Estate;

(b) Such Real Estate is used by a Loan Party for offices or as a Store or distribution center;

(c) As to any particular property, the Loan Party is in compliance in all material respects with the representations, warranties and covenants set forth in the Mortgage relating to such Real Estate;

(d) The Agent shall have received fully paid American Land Title Association Lender’s Extended Coverage title insurance policies or marked-up title insurance commitments having the effect of a policy of title insurance) (the “Mortgage Policies”) in form and substance, with the endorsements reasonably required by the Agent (to the extent available at commercially reasonable rates) and in amounts reasonably acceptable to the Agent, issued, coinsured and reinsured (to the extent required by the Agent) by title insurers reasonably acceptable to the Agent, insuring the Mortgages to be valid first and subsisting Liens on the property described therein, free and clear of all defects (including, but not limited to, mechanics’ and materialmen’s Liens) and encumbrances, excepting only Permitted Encumbrances having priority over the Lien of the Agent under Law;

(e) The Agent shall have received American Land Title Association/American Congress on Surveying and Mapping form surveys, for which all necessary fees (where applicable) have been paid, certified to the Agent and the issuer of the Mortgage Policies in a manner reasonably satisfactory to the Agent by a land surveyor duly registered and licensed in the states in which the property described in such surveys is located and reasonably acceptable to the Agent, showing all buildings and other improvements, the location of any easements, parking spaces, rights of way, building set-back lines and other dimensional regulations and the absence of encroachments, either by such improvements or on to such property, and other defects, other than encroachments and other defects reasonably acceptable to the Agent;

(f) (i) The Agent shall have received a Phase I Environmental Site Assessment in accordance with ASTM Standard E1527-05, in form and substance reasonably satisfactory to the Agent, from an environmental consulting firm reasonably acceptable to the Agent, which report shall identify recognized environmental conditions and shall to the extent possible quantify any related costs and liabilities, associated with such conditions and the Agent shall be satisfied with the nature and amount of any such matters, and (ii) if requested by the Agent after receipt of a Phase I Environmental Site Assessment, such further environmental assessments or reports to the extent such further assessments or reports are recommended in the Phase I Environmental Site Assessment;

(g) The applicable Loan Party shall have delivered to the Agent evidence of flood insurance naming the Agent as mortgagee as required by the National Flood Insurance Program as set forth in the Flood Disaster Protection Act of 1973, as amended and in effect, which shall be reasonably satisfactory in form and substance to the Agent; and

(h) The applicable Loan Party shall have delivered such other information and documents as may be reasonably requested by the Agent, including, without limitation, such as may be necessary to comply with FIRREA.

“Realty Reserves” means such reserves as the Agent from time to time determines in the Agent’s reasonable discretion, acting in good faith, as being appropriate to reflect the impediments to the Agent’s ability to realize upon any Eligible Real Estate or to reflect claims and liabilities that the Agent determines will need to be satisfied in connection with the realization upon any Eligible Real Estate. Without limiting the generality of the foregoing, Realty Reserves may include (but are not limited to)

(i) Environmental Compliance Reserves, (ii) reserves for (A) municipal taxes and assessments, (B) repairs and (C) remediation of title defects, and (iii) reserves for Indebtedness secured by Liens on Eligible Real Estate having priority over the Lien of the Agent.

“Register” has the meaning specified in Section 10.06(c).

“Registered Public Accounting Firm” has the meaning specified by the Securities Laws and shall be independent of the Lead Borrower and its Subsidiaries as prescribed by the Securities Laws.

“Registered Trade Names” means the tradenames and brands of the Domestic Borrowers which have been or may hereafter be registered with the United States Patent and Trademark Office, including, without limitation, those set forth on Schedule 1.01 hereto.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person’s Affiliates.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

“Reports” has the meaning provided in Section 9.12(b).

“Request for Credit Extension” means (a) with respect to a Borrowing, Conversion or continuation of Loans, a Domestic Loan Notice or a Canadian Loan Notice, as applicable, (b) with respect to an L/C Credit Extension, a Letter of Credit Application, and (c) with respect to a Swing Line Loan, a Swing Line Loan Notice.

“Required Lenders” means, as of any date of determination, Lenders holding more than 50% of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.02, Lenders holding in the aggregate more than 50% of the Total Outstandings (with the aggregate amount of each Lender’s risk participation and funded participation in L/C Obligations and Swing Line Loans being deemed “held” by such Lender for purposes of this definition); provided that the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

“Required Supermajority Lenders” means, as of any date of determination, Lenders holding more than 66.67% of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.02, Lenders holding in the aggregate more than 66.67% of the Total Outstandings (with the aggregate amount of each Lender’s risk participation and funded participation in L/C Obligations and Swing Line Loans being deemed “held” by such Lender for purposes of this definition); provided that the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Supermajority Lenders.

“Reserves” means all Inventory Reserves, Availability Reserves, Realty Reserves and Term Loan Reserves. The Agent or the Term Lender, as applicable, shall have the right, at any time and from time to time after the Effective Date in its discretion to establish, modify or eliminate Reserves.

“Responsible Officer” means any chief financial officer or the chief executive officer, chief operating officer, chief administrative officer, president, treasurer or assistant treasurer of a Loan Party or any of the other individuals designated in writing to the Agent by an existing Responsible Officer of a Loan Party as an authorized signatory of any certificate or other document to be delivered hereunder. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other Equity Interest of any Person, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, defeasance, acquisition, cancellation or termination of any such capital stock or other Equity Interest, or on account of any return of capital to such Person’s stockholders, partners or members (or the equivalent of any thereof), or any option, warrant or other right to acquire any such dividend or other distribution or payment. Without limiting the foregoing, “Restricted Payments” with respect to any Person shall also include all payments made by such Person with any proceeds of a dissolution or liquidation of such Person.

“Revolving Lender” means the Domestic Lenders and the Canadian Lenders and, as the context requires, includes the Swing Line Lender.

“Revolving Loan” means Loans other than the Term Loan.

“RP Conditions” means, at the time of determination with respect to any proposed Restricted Payment, that (a) no Default or Event of Default then exists or would arise as a result of the making of such Restricted Payment, (b) after giving effect to such Restricted Payment, the Pro Forma Availability Condition has been satisfied and the Consolidated Fixed Charge Coverage Ratio, calculated on a trailing twelve month basis after giving pro forma effect to such Restricted Payment, is equal to or greater than 1.1:1.0. Prior to undertaking any Restricted Payment which is subject to the Restricted Payment Conditions, the Loan Parties shall deliver to the Agent evidence of satisfaction of the conditions contained in clause (b) above on a basis (including, without limitation, giving due consideration to results for prior periods) reasonably satisfactory to the Agent.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto.

“Sarbanes-Oxley” means the Sarbanes-Oxley Act of 2002.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions or any foreign Governmental Authority exercising similar functions.

“Secondary Offering” means a sale of common stock that occurs subsequent to an Initial Public Offering where such sale is registered under the Securities Act.

“Securities Laws” means the Securities Act of 1933, the Securities Exchange Act of 1934, Sarbanes-Oxley, and the applicable accounting and auditing principles, rules, standards and practices promulgated, approved or incorporated by the SEC or the PCAOB or any similar foreign applicable Laws.

“Security Agreement” means the Amended and Restated Security Agreement dated as of the Effective Date among the Domestic Loan Parties and the Agent.

“Security Documents” means the Security Agreement, the Blocked Account Agreements, the Mortgages, the Canadian Security Documents, the Credit Card Notifications, and each other security agreement or other instrument or document executed and delivered to the Agent pursuant to this Agreement or any other Loan Document granting a Lien to secure any of the Obligations.

“Settlement Date” has the meaning provided in Section 2.14(a).

“Shareholders’ Equity” means, as of any date of determination, consolidated shareholders’ equity of the Lead Borrower and its Subsidiaries as of that date determined in accordance with GAAP.

“Shrink” means Inventory which has been lost, misplaced, stolen, or is otherwise unaccounted for.

“Solvent” and “Solvency” means, with respect to any Person on a particular date, that on such date (a) at fair valuation, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair saleable value of the properties and assets of such Person is not less than the amount that would be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person’s ability to pay as such debts mature, and (e) such Person is not engaged in a business or a transaction, and is not about to engage in a business or transaction, for which such Person’s properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. The amount of all guarantees at any time shall be computed as the amount that, in light of all the facts and circumstances existing at the time, can reasonably be expected to become an actual or matured liability.

“Spot Rate” means the exchange rate, as determined by the Agent, that is applicable to conversion of one currency into another currency, which is (a) the exchange rate reported by Bloomberg (or other commercially available source designated by the Agent) as of the end of the preceding business day in the financial market for the first currency; or (b) if such report is unavailable for any reason, the spot rate for the purchase of the first currency with the second currency as in effect during the preceding business day in the Agent’s principal foreign exchange trading office for the first currency.

“Standby Letter of Credit” means any Letter of Credit that is not a Commercial Letter of Credit and that (a) is used in lieu or in support of performance guaranties or performance, surety or similar bonds (excluding appeal bonds) arising in the ordinary course of business, (b) is used in lieu or in support of stay or appeal bonds, (c) supports the payment of insurance premiums for reasonably necessary casualty insurance carried by any of the Loan Parties, or (d) supports payment or performance for identified purchases or exchanges of products or services in the ordinary course of business.

“Stated Amount” means at any time the maximum amount for which a Letter of Credit may be honored.

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the FRB to which the Agent is subject with respect to the Adjusted LIBOR Rate, for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. LIBOR Rate Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Store” means any retail store (which may include any real property, fixtures, equipment, inventory and other property related thereto) operated, or to be operated, by any Loan Party.

“Subordinated Indebtedness” means Indebtedness which is expressly subordinated in right of payment to the prior payment in full of the Obligations and which is in form and on terms approved in writing by the Agent.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited or unlimited liability company or other business entity of which a majority of the Equity Interests having ordinary voting power for the election of directors or other governing body are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of a Loan Party.

“Substantial Liquidation” shall mean either (a) the Liquidation of substantially all of the Collateral, or (b) the sale or other disposition of substantially all of the Collateral by the Loan Parties.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate or branch of a Lender).

“Swing Line Borrowing” means a borrowing of a Swing Line Loan pursuant to Section 2.04.

“Swing Line Lender” means Bank of America in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

“Swing Line Loan” has the meaning specified in Section 2.04(a).

“Swing Line Loan Notice” means a notice of a Swing Line Borrowing pursuant to Section 2.04(b), which, if in writing, shall be substantially in the form of Exhibit B.

“Swing Line Note” means the promissory note of the Borrowers substantially in the form of Exhibit C-4, payable to the order of the Swing Line Lender, evidencing the Swing Line Loans made by the Swing Line Lender.

“Swing Line Sublimit” means an amount equal to the lesser of (a) \$30,000,000 and (b) the Tranche A Commitments. The Swing Line Sublimit is part of, and not in addition to, the Tranche A Commitments.

“Syndication Agent” means Wells Fargo Capital Finance, LLC.

“Synthetic Lease Obligation” means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property (including sale and leaseback transactions), in each case, creating obligations that do not appear on the balance sheet of such Person but which, upon the application of any Debtor Relief Laws to such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Term Lender” means, collectively, the Persons identified on Schedule 2.01 hereto as having a Term Loan Commitment, and each assignee that becomes a party to this Agreement with respect to the Term Loan as provided in Section 10.06.

“Term Loan” means the loans made by the Term Lender pursuant to Section 2.01(b).

“Term Loan Applicable Margin” means the percentages set forth in the pricing grid below:

Term Loan Applicable Margin for LIBOR Rate Loans	Term Loan Applicable Margin for Base Rate Loans
5.00%	4.00%

“Term Loan Borrowing Base” means, at any time of calculation, an amount equal to (a) the product of (i) thirty (30%) percent multiplied by (ii) the Appraised Value of the Registered Trade Names, minus (b) Term Loan Reserves established by the Term Lender from time to time.

“Term Loan Commitment” means with respect to the Term Lender, the commitment of the Term Lender hereunder set forth as its Term Loan Commitment opposite its name on Schedule 2.01 hereto. As of the First Amendment Effective Date, the aggregate amount of the Term Loan Commitments is \$15,000,000.

“Term Loan Maturity Date” means July 6, 2015.

“Term Loan Reserves” means such reserves as may be established from time to time by the Term Lender in its reasonable discretion, acting in good faith, with respect to the Registered Trade Names, which reflect such factors as affect the value of the Registered Trade Names or which reflect claims and liabilities that the Term Lender reasonably determines, acting in good faith, will need to be satisfied in connection with the realization upon the Registered Trade Names.

“Termination Date” means the earliest to occur of (i) the Maturity Date, (ii) the date on which the maturity of the Obligations is accelerated (or deemed accelerated) and the Commitments are irrevocably terminated (or deemed terminated) in accordance with Article VIII, or (iii) the termination of the Commitments in accordance with the provisions of Section 2.06 hereof.

“Termination Event” means (a) the whole or partial withdrawal of the Canadian Borrower or any Canadian Subsidiary from a Canadian Pension Plan during a plan year; or (b) the filing of a notice to terminate in whole or in part of a Canadian Pension Plan; or (c) the institution of proceedings by any Governmental Authority to terminate in whole or in part or have a trustee appointed to administer a Canadian Pension Plan.

“Total Availability” means the sum of the Tranche A Borrowing Base, the Canadian Borrowing Base and Incremental Availability.

“Total Outstandings” means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

“Total Revolving Outstandings” means the aggregate Canadian Total Outstandings and Domestic Total Outstandings.

“Trading with the Enemy Act” has the meaning set forth in Section 10.18.

“Tranche A Borrowing Base” means, at any time of calculation, an amount equal to:

(a) the face amount of Eligible Credit Card Receivables of the Domestic Borrowers, net of Receivables Reserves multiplied by 90%;

plus

(b) the product of (i) 90% *multiplied by* (ii) the Appraised Value of Eligible Inventory of the Domestic Borrowers, net of Inventory Reserves, *multiplied by* (iii) the Cost of Eligible Inventory of the Domestic Borrowers;

plus

(c) the lesser of (i) \$10,000,000 and (ii) 50% multiplied by the Appraised Value of Eligible Real Estate;

minus

(d) without duplication of any Receivables Reserves or Inventory Reserves, the amount of all Availability Reserves then applicable to the Domestic Loan Parties.

“Tranche A Commitments” means, as to each Tranche A Lender, its obligation to (a) make Tranche A Loans to the Domestic Borrowers pursuant to Article II and (b) purchase participations in Domestic L/C Obligations and in Swing Line Loans, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Tranche A Lender’s name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Tranche A Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement. On the Effective Date, the aggregate Tranche A Commitments equal \$300,000,000.

“Tranche A Lenders” means Lenders having Tranche A Commitments from time to time or at any time.

“Tranche A Loan” means an extension of credit by a Tranche A Lender to a Domestic Borrower (to the extent based on Tranche A Availability) under Article II.

“Tranche A Loan Cap” means, at any time of determination, the lesser of (a) the Tranche A Commitments minus the then Canadian Total Outstandings, and (b) the Tranche A Borrowing Base.

“Tranche A Note” means a promissory note made by the Domestic Borrowers in favor of a Tranche A Lender evidencing Tranche A Loans made by such Tranche A Lender, substantially in the form of Exhibit C-1.

“Type” means, with respect to any Loan or Borrowing, whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBOR Rate, the BA Rate, the Base Rate, the Canadian Prime Rate or the U.S. Index Rate.

“UCC” or “Uniform Commercial Code” means the Uniform Commercial Code as in effect from time to time in the State of New York; provided, however, that if a term is defined in Article 9 of the Uniform Commercial Code differently than in another Article thereof, the term shall have the meaning set forth in Article 9; provided further that, if by reason of mandatory provisions of law, perfection, or the effect of perfection or non-perfection, of a security interest in any Collateral or the availability of any remedy hereunder is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, “Uniform Commercial Code” means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection or availability of such remedy, as the case may be.

“UCP 600” means the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce and dated as of July 1, 2007 (or such later version thereof as may be in effect at the time of issuance).

“UFCA” has the meaning specified in Section 10.22(d).

“UFTA” has the meaning specified in Section 10.22(d).

“Unfunded Pension Liability” means the excess of a Pension Plan’s benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan’s assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

“Unintentional Overadvance” means an Overadvance which, to the Agent’s knowledge, did not constitute an Overadvance when made but which has become an Overadvance resulting from changed circumstances beyond the control of the Credit Parties, including, without limitation, a reduction in the Appraised Value of property or assets included in the Canadian Borrowing Base or the Domestic Borrowing Base or misrepresentation by the Loan Parties.

“United States” and “U.S.” mean the United States of America.

“Unreimbursed Amount” has the meaning specified in Section 2.03(c)(i).

“U.S. Concentration Account” has the meaning provided in Section 6.12(b).

“U.S. Index Rate” means for any day a fluctuating rate per annum equal to the highest of (a) the fluctuating rate of interest per annum equal to the rate of interest in effect for such day as publicly announced from time to time by Bank of America-Canada Branch as its “base rate”, being its reference rate of interest for loans made in Dollars; (b) the Federal Funds Rate for such day, plus 0.50%; and (c) the LIBOR Rate for a 30 day interest period as determined on such day, plus 1.0%.

“U.S. Index Rate Loan” means a Canadian Loan made in Dollars that bears interest based on the U.S. Index Rate.

1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (iii) the words “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and

Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including,” the words “to” and “until” each mean “to but excluding,” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

(d) Any reference herein or in any other Loan Document to the satisfaction, repayment, or payment in full of the Obligations shall mean the repayment in Dollars or Canadian Dollars, as applicable, in full in cash or immediately available funds (or, in the case of contingent reimbursement obligations with respect to Letters of Credit and Bank Products (other than Swap Contracts), providing Cash Collateralization) of all of the Obligations (including the payment of any termination amount then applicable (or which would or could become applicable as a result of the repayment of the other Obligations) under Swap Contracts) other than (i) unasserted contingent indemnification Obligations, (ii) any Obligations relating to Bank Products (other than Swap Contracts) that, at such time, are allowed by the applicable Bank Product provider to remain outstanding without being required to be repaid or Cash Collateralized, and (iii) any Obligations relating to Swap Contracts that, at such time, are allowed by the applicable provider of such Swap Contracts to remain outstanding without being required to be repaid.

1.03 Accounting Terms

(a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Lead Borrower or the Required Lenders shall so request, the Agent, the Lenders and the Lead Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Lead Borrower shall provide to the Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

(c) Transition from GAAP Accounting to IFRS Standards If the Loan Parties shall elect as of the end of any financial reporting period to prepare their financial statements in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board (“IFRS”), rather than GAAP, then, following delivery to the Agent of a completed Compliance Certificate attaching the information required to be delivered for such financial reporting period, the parties hereto shall use their best efforts to amend (in a manner mutually satisfactory to Lenders and Loan Parties) the thresholds or methods of calculation required by Section 7.16 (including any definitions or components applicable thereto) such that compliance therewith is neither more nor less burdensome (as determined by the Required Lenders in their sole discretion) to Loan Parties as a result of such conversion to IFRS and, thereafter, all references in the Loan Documents to GAAP shall be deemed references to IFRS.

1.04 Rounding. Any financial ratios required to be maintained by the Loan Parties pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Pacific time (daylight or standard, as applicable).

1.06 Letter of Credit Amounts. Unless otherwise specified, all references herein to the amount of a Letter of Credit at any time shall be deemed to be the Stated Amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms of any Issuer Documents related thereto, provides for one or more automatic increases in the Stated Amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum Stated Amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum Stated Amount is in effect at such time.

ARTICLE II THE COMMITMENTS AND CREDIT EXTENSIONS

2.01 Domestic Loans and Canadian Loans; Term Loan.

(a) Subject to the terms and conditions set forth herein, each Revolving Lender severally agrees as follows:

(i) Each Tranche A Lender severally agrees to make Tranche A Loans to the Domestic Borrowers from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the lesser of (x) the amount of such Lender’s Tranche A Commitment, or (y) such Lender’s Applicable Percentage of the Tranche A Borrowing Base;

(ii) Each Incremental Lender severally agrees to make Incremental Loans to the Domestic Borrowers from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the lesser of (x) the amount of such Lender’s Incremental Commitment, or (y) such Lender’s Applicable Percentage of Incremental Availability;

(iii) Each Canadian Lender severally agrees to make Canadian Loans to the Canadian Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the lesser of (x) the amount of such Lender's Canadian Commitment, or (y) such Lender's Applicable Percentage of the Canadian Borrowing Base;

provided that, with respect to the foregoing, (i) after giving effect to any Borrowing, the Total Revolving Outstandings shall not exceed the Loan Cap, (ii) after giving effect to any Borrowing, the aggregate Outstanding Amount of the Revolving Loans of any Revolving Lender, plus such Revolving Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Revolving Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment, (iii) after giving effect to any Borrowing of Tranche A Loans, the aggregate Outstanding Amount of all Tranche A Loans plus all L/C Obligations relating to the Domestic Borrowers shall not exceed the Tranche A Loan Cap, (iv) after giving effect to any Borrowing of Incremental Loans, the aggregate Outstanding Amount of all Incremental Loans shall not exceed the Incremental Loan Cap, (v) after giving effect to any Canadian Borrowing, the aggregate Outstanding Amount of Canadian Total Outstandings shall not exceed Canadian Availability, (vi) after giving effect to any Tranche A Loan, the aggregate Outstanding Amount of the Tranche A Loans of any Tranche A Lender, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations relating to the Domestic Borrowers, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans, shall not exceed such Tranche A Lender's Tranche A Commitment, (vii) after giving effect to any Incremental Loan, the aggregate Outstanding Amount of the Incremental Loans of any Incremental Lender shall not exceed such Incremental Lender's Incremental Commitment, (viii) after giving effect to any Canadian Loan, the aggregate Outstanding Amount of the Canadian Loans of any Canadian Lender, plus such Canadian Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations with respect to the Canadian Borrower, shall not exceed such Canadian Lender's Canadian Commitment, (ix) the Outstanding Amount of all L/C Obligations owed by the Domestic Borrowers shall not at any time exceed the Domestic Letter of Credit Sublimit, and (x) the Outstanding Amount of all L/C Obligations owed by the Canadian Borrower shall not at any time exceed the Canadian Letter of Credit Sublimit. Within the limits of each Revolving Lender's Commitment, and subject to the other terms and conditions hereof, the Borrowers may borrow under this Section 2.01(a), prepay under Section 2.05, and reborrow under this Section 2.01(a). Revolving Loans may be Base Rate Loans, Canadian Prime Rate Loans, LIBOR Rate Loans, BA Equivalent Loans or U.S. Index Rate Loans, as further provided herein.

(b) Term Loan. Each Term Lender, severally and not jointly, agrees upon the terms and subject to the conditions set forth herein, on the First Amendment Effective Date, to make its pro rata portion of the Term Loan to the Domestic Borrowers in a single drawing based upon such Term Lender's Term Loan Commitment. The aggregate outstanding principal amount of the Term Loan shall not at any time exceed the lesser of (i) \$15,000,000 less any scheduled payments or mandatory prepayments made on account of the Term Loan, and (ii) the Term Loan Borrowing Base, as then in effect. The Term Loan Commitments shall terminate upon the making of the Term Loan on the First Amendment Effective Date. Any portion of the Term Loan that is repaid may not be reborrowed. The Term Loan by the Term Lender shall be made as either a Base Rate Loan or a LIBOR Rate Loan as the Lead Borrower may request subject to and in accordance with Section 2.02.

2.02 Borrowings, Conversions and Continuations of Loans.

(a) Domestic Loans (other than Swing Line Loans) and the outstanding portion of the Term Loan shall be either Base Rate Loans or LIBOR Rate Loans as the Lead Borrower may request subject to and in accordance with this Section 2.02. Canadian Loans shall be either Canadian Prime Rate Loans or BA Equivalent Loans (if made in Canadian Dollars) or LIBOR Rate Loans or U.S. Index Rate Loans (if made in Dollars) as the Canadian Borrower may request subject to and in accordance with this Section 2.02. All Swing Line Loans shall be only Base Rate Loans. Subject to the other provisions of this Section 2.02, Borrowings of more than one Type may be incurred at the same time.

(b) Each Borrowing, each Conversion of Loans from one Type to the other, and each continuation of LIBOR Rate Loans and BA Equivalent Loans shall be made upon the Lead Borrower's or Canadian Borrower's, as applicable, irrevocable notice to the Agent, which may be given by telephone. Each such notice must be received by the Agent not later than 11:00 a.m. (i) three Business Days prior to the requested date of any Borrowing of, Conversion to or continuation of LIBOR Rate Loans or BA Equivalent Loans or of any Conversion of LIBOR Rate Loans to Base Rate Loans or U.S. Index Rate Loans or of BA Equivalent Loans to Canadian Prime Rate Loans, as applicable, and (ii) one Business Day prior to the requested date of any Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans. Each telephonic notice by the Lead Borrower or the Canadian Borrower, as applicable, pursuant to this Section 2.02(b) must be confirmed promptly by delivery to the Agent of a written Domestic Loan Notice or Canadian Loan Notice, as applicable, appropriately completed and signed by a Responsible Officer of the Lead Borrower or the Canadian Borrower, as applicable. Each Borrowing of, Conversion to or continuation of LIBOR Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof, and each Borrowing of, Conversion to or continuation of BA Equivalent Loans shall be in a principal amount of CDS\$5,000,000 or a whole multiple of CDS\$1,000,000 in excess thereof. Except as provided in Sections 2.03(c) and 2.04(c), each Borrowing of or Conversion to Base Rate Loans, Canadian Prime Rate Loans, or U.S. Index Rate Loans, as applicable, shall be in such minimum amounts as the Agent may require. Each Domestic Loan Notice (whether telephonic or written) shall specify (i) whether the Lead Borrower is requesting a Domestic Borrowing, a Conversion of Domestic Loans (or the outstanding portion of the Term Loan) from one Type to the other, or a continuation of LIBOR Rate Loans, (ii) whether the Lead Borrower is requesting a Borrowing of Tranche A Loans or Incremental Loans, (iii) the requested date of the Domestic Borrowing, Conversion or continuation, as the case may be (which shall be a Business Day), (iv) the principal amount of Domestic Loans to be borrowed, Converted or continued, (v) the Type of Domestic Loans to be borrowed or to which existing Domestic Loans or the outstanding portion of the Term Loan are to be Converted, and (vi) if applicable, the duration of the Interest Period with respect thereto. If the Lead Borrower fails to specify a Type of Domestic Loan in a Domestic Loan Notice or if the Lead Borrower fails to give a timely notice requesting a Conversion or continuation, then the applicable Domestic Loans or the outstanding portion of the Term Loan, as applicable, shall be made as, or Converted to, Base Rate Loans. Any such automatic Conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable LIBOR Rate Loans. If the Lead Borrower requests a Borrowing of, Conversion to, or continuation of LIBOR Rate Loans in any such Domestic Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month. Notwithstanding anything to the contrary herein, a Swing Line Loan may not be Converted to a LIBOR Rate Loan. Notwithstanding the foregoing or anything else to the contrary herein, the Lead Borrower shall not request, and the Tranche A Lenders shall be under no obligation to fund, any Tranche A Loans unless the Domestic Borrowers have borrowed the full amount of the Incremental Loan Cap. Each Canadian Loan Notice (whether telephonic or written) shall specify (i) whether the Canadian Borrower is requesting a Canadian Borrowing, a Conversion of Canadian Loans from one Type to the other, or a continuation of BA Equivalent Loans or LIBOR Rate Loans, (ii) the requested date of the Canadian Borrowing, Conversion or continuation, as the case may be (which shall be a Business Day),

(iii) the principal amount of Canadian Loans to be borrowed, Converted or continued, (iv) the Type of Canadian Loans to be borrowed or to which existing Canadian Loans are to be Converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Canadian Borrower fails to specify a Type of Canadian Loan in a Canadian Loan Notice or if the Canadian Borrower fails to give a timely notice requesting a Conversion or continuation, then the applicable Canadian Loans shall be made as, or Converted to, Canadian Prime Rate Loans or U.S. Index Rate Loans, as applicable. Any such automatic Conversion to Canadian Prime Rate Loans or U.S. Index Rate Loans, as applicable, shall be effective as of the last day of the Interest Period then in effect with respect to the applicable BA Equivalent Loans or LIBOR Rate Loans, as applicable. If the Canadian Borrower requests a Borrowing of, Conversion to, or continuation of BA Equivalent Loans or LIBOR Rate Loans in any such Canadian Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(c) Following receipt of a Domestic Loan Notice, the Agent shall promptly notify each Domestic Lender of the amount of its Applicable Percentage of the applicable Domestic Loans, and if no timely notice of a Conversion or continuation is provided by the Lead Borrower, the Agent shall notify each Domestic Lender of the details of any automatic Conversion to Base Rate Loans described in Section 2.02(b). Following receipt of a Canadian Loan Notice, the Agent shall promptly notify each Canadian Lender of the amount of its Applicable Percentage of the applicable Canadian Loans, and if no timely notice of a Conversion or continuation is provided by the Canadian Borrower, the Agent shall notify each Canadian Lender of the details of any automatic Conversion to Canadian Prime Rate Loans or U.S. Index Rate Loans, as applicable, described in Section 2.02(b). In the case of a Borrowing, each Revolving Lender shall make the amount of its Revolving Loan available to the Agent in immediately available funds at the Agent's Office, not later than 1:00 p.m. on the Business Day specified in the applicable Domestic Loan Notice or Canadian Loan Notice. Upon satisfaction of the applicable conditions set forth in Section 4.02 (and, if such Borrowing is the initial Credit Extension, Section 4.01), the Agent shall use reasonable efforts to make all funds so received available to the applicable Borrowers in like funds by no later than 4:00 p.m. on the day of receipt by the Agent either by (i) crediting the account of the Lead Borrower or the Canadian Borrower, as applicable, on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Agent by the Lead Borrower or the Canadian Borrower, as applicable; provided, however, that if, on the date the Domestic Loan Notice or Canadian Loan Notice, as applicable, with respect to such Borrowing is given by the Lead Borrower or the Canadian Borrower, as applicable, there are L/C Borrowings outstanding with respect to the Domestic Borrowers or the Canadian Borrower, as applicable, then the proceeds of such Borrowing, first, shall be applied to the payment in full of any such L/C Borrowings, and second, shall be made available to the applicable Borrowers as provided above.

(d) Notwithstanding anything to the contrary herein contained, all Revolving Loans to the Domestic Borrowers shall be Incremental Loans until the outstanding principal amount of such Incremental Loans equals the Incremental Loan Cap. If any Incremental Loan is prepaid in part pursuant to Section 2.05, any Revolving Loans to the Domestic Borrowers thereafter requested shall be Incremental Loans until the outstanding principal amount of Incremental Loans outstanding equals the Incremental Loan Cap.

(e) The Agent (as regards the Canadian Borrower, acting through the Bank of America-Canada Branch), without the request of the Lead Borrower or the Canadian Borrower, as applicable, may advance any interest, fee, service charge (including direct wire fees), expenses, or other payment to which any Credit Party is entitled from the Loan Parties pursuant hereto or any other Loan Document and may charge the same to the Loan Account notwithstanding that an Overadvance may result thereby. The Agent shall advise the Lead Borrower or the Canadian Borrower, as applicable, of

any such advance or charge promptly after the making thereof. Such action on the part of the Agent shall not constitute a waiver of the Agent's rights and the Borrowers' obligations under Section 2.05(d). Any amount which is added to the principal balance of the Loan Account as provided in this Section 2.02(e) shall bear interest at the interest rate then and thereafter applicable to Base Rate Loans with respect to the Domestic Borrowers and Canadian Prime Rate Loans with respect to the Canadian Borrower.

(f) Except as otherwise provided herein, a LIBOR Rate Loan or a BA Equivalent Loan may be continued or Converted only on the last day of an Interest Period for such LIBOR Rate Loan or BA Equivalent Loan, as applicable. During the existence of a Default or an Event of Default, no Loans may be requested as, Converted to or continued as LIBOR Rate Loans or BA Equivalent Loans without the Consent of the Required Lenders.

(g) The Agent shall promptly notify the Lead Borrower or the Canadian Borrower, as applicable, and the applicable Lenders of the interest rate applicable to any Interest Period for LIBOR Rate Loans or BA Equivalent Loans, as applicable, upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Agent shall notify the Lead Borrower, the Domestic Lenders and the Term Lender of any change in Bank of America's prime rate used in determining the Base Rate promptly following the public announcement of such change. At any time that Canadian Prime Rate Loans or U.S. Index Rate Loans are outstanding, the Agent shall notify the Canadian Borrower and the Canadian Lenders of any change in Bank of America-Canada Branch's prime rate or base rate used in determining the Canadian Prime Rate or the U.S. Index Rate, as applicable, promptly following the public announcement of such change.

(h) After giving effect to all Borrowings, all Conversions of Loans from one Type to the other, and all continuations of Loans as the same Type, there shall not be more than eight (8) Interest Periods in effect with respect to LIBOR Rate Loans or two (2) Interest Periods in effect with respect to BA Equivalent Loans.

(i) The Agent, the Revolving Lenders, the Swing Line Lender and the L/C Issuer shall have no obligation to make any Revolving Loan or to provide any Letter of Credit if an Overadvance would result. The Agent may (as regards the Canadian Borrower, acting through the Bank of America-Canada Branch), in its discretion, make Permitted Overadvances without the consent of the Borrowers, the Revolving Lenders, the Swing Line Lender and the L/C Issuer and the Borrowers and each Revolving Lender and L/C Issuer shall be bound thereby. Any Permitted Overadvance that is a Domestic Loan may constitute a Swing Line Loan. A Permitted Overadvance is for the account of the Borrowers and shall constitute a Base Rate Loan or a Canadian Prime Rate Loan, as applicable, and an Obligation and shall be repaid by the Borrowers in accordance with the provisions of Section 2.05(d). The making of any such Permitted Overadvance on any one occasion shall not obligate the Agent or any Revolving Lender to make or permit any Permitted Overadvance on any other occasion or to permit such Permitted Overadvances to remain outstanding. The making by the Agent of a Permitted Overadvance shall not modify or abrogate any of the provisions of Section 2.03 regarding the Tranche A Lenders' and the Canadian Lenders' obligations to purchase participations with respect to Letter of Credits or of Section 2.04 regarding the Tranche A Lenders' obligations to purchase participations with respect to Swing Line Loans. The Agent shall not have any liability for, and no Loan Party or Credit Party shall have the right to, or shall, bring any claim of any kind whatsoever against the Agent with respect to Unintentional Overadvances regardless of the amount of any such Overadvance(s).

2.03 Letters of Credit.

(a) The Letter of Credit Commitment

(i) Subject to the terms and conditions set forth herein, (A) the L/C Issuer agrees, in reliance upon the agreements of the Tranche A Lenders and the Canadian Lenders set forth in this Section 2.03, (1) from time to time on any Business Day during the period from the Effective Date until the Letter of Credit Expiration Date, to issue Letters of Credit for the account of the Borrowers, and to amend or extend Letters of Credit previously issued by it, in accordance with Section 2.03(b) below, and (2) to honor drawings under the Letters of Credit; (B) the Tranche A Lenders severally agree to participate in Domestic Letters of Credit issued for the account of the Domestic Borrowers and any drawings thereunder; provided that after giving effect to any Domestic L/C Credit Extension with respect to any Domestic Letter of Credit, (w) the Total Revolving Outstandings shall not exceed the Loan Cap, (x) the aggregate Outstanding Amount of the Tranche A Loans plus the Outstanding Amount of all L/C Obligations owing by the Domestic Borrowers shall not exceed the Tranche A Loan Cap, (y) the aggregate Outstanding Amount of the Domestic Loans of any Tranche A Lender, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans shall not exceed such Tranche A Lender's Domestic Commitment, and (z) the Outstanding Amount of the L/C Obligations owed by the Domestic Borrowers shall not exceed the Domestic Letter of Credit Sublimit; and (C) the Canadian Lenders severally agree to participate in Canadian Letters of Credit issued for the account of the Canadian Borrower and any drawings thereunder; provided that after giving effect to any Canadian L/C Credit Extension with respect to any Canadian Letter of Credit, (w) the Total Revolving Outstandings shall not exceed the Loan Cap, (x) the aggregate Outstanding Amount of the Canadian Loans plus the Outstanding Amount of all L/C Obligations owing by the Canadian Borrower shall not exceed Canadian Availability, (y) the aggregate Outstanding Amount of the Canadian Loans of any Canadian Lender, plus such Canadian Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, shall not exceed such Canadian Lender's Canadian Commitment, and (z) the Outstanding Amount of the L/C Obligations owed by the Canadian Borrower shall not exceed the Canadian Letter of Credit Sublimit. Each request by the Lead Borrower or the Canadian Borrower, as applicable, for the issuance or amendment of a Domestic Letter of Credit or a Canadian Letter of Credit, as applicable, shall be deemed to be a representation by the Domestic Borrowers or the Canadian Borrower, as applicable, that the Domestic L/C Credit Extension or Canadian L/C Credit Extension, as applicable, so requested complies with the conditions set forth in the provisos to the two preceding sentences, as applicable. Within the foregoing limits, and subject to the terms and conditions hereof, the Borrowers' ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrowers may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed. Any L/C Issuer (other than Bank of America or any of its Affiliates) shall notify the Agent in writing on each Business Day of all Letters of Credit issued on the prior Business Day by such L/C Issuer, provided that (A) until the Agent advises any such L/C Issuer that the provisions of Section 4.02 are not satisfied, or (B) the aggregate amount of the Letters of Credit issued in any such week exceeds such amount as shall be agreed by the Agent and the L/C Issuer, such L/C Issuer shall be required to so notify the Agent in writing only once each week of the Letters of Credit issued by such L/C Issuer during the immediately preceding week as well as the daily amounts outstanding for the prior week, such notice to be furnished on such day of the week as the Agent and such L/C Issuer may agree. All Existing Letters of Credit shall be deemed to have been issued pursuant hereto, and from and after the Effective Date shall be subject to and governed by the terms and conditions hereof.

(ii) The L/C Issuer shall not issue any Letter of Credit, if:

(A) subject to Section 2.03(b)(iii), the expiry date of such requested Standby Letter of Credit would occur more than twelve months after the date of issuance or last extension, unless the Required Lenders have approved such expiry date; or

(B) subject to Section 2.03(b)(iii), the expiry date of such requested Commercial Letter of Credit would occur more than 120 days after the date of issuance or last extension, unless the Required Lenders have approved such expiry date; or

(C) the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless either such Letter of Credit is Cash Collateralized on or prior to the date of issuance of such Letter of Credit (or such later date as to which the Agent may agree) or all the L/C Lenders have approved such expiry date.

(iii) The L/C Issuer shall not issue any Letter of Credit without the prior consent of the Agent, if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the L/C Issuer from issuing such Letter of Credit, or any Law applicable to the L/C Issuer or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the L/C Issuer shall prohibit, or request that the L/C Issuer refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the L/C Issuer with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the L/C Issuer is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon the L/C Issuer any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which the L/C Issuer in good faith deems material to it;

(B) the issuance of such Letter of Credit would violate one or more policies of the L/C Issuer applicable to letters of credit generally;

(C) such Letter of Credit is to be denominated in a currency other than Dollars or Canadian Dollars, ~~provided~~ that if the L/C Issuer, in its discretion, issues a Letter of Credit denominated in a currency other than Dollars or Canadian Dollars, all reimbursements by the applicable Borrowers of the honoring of any drawing under such Letter of Credit shall be paid in the currency in which such Letter of Credit was denominated;

(D) such Letter of Credit contains any provisions for automatic reinstatement of the Stated Amount after any drawing thereunder; or

(E) a default of any L/C Lender's obligations to fund under Section 2.03(e) exists or any L/C Lender is at such time a Defaulting Lender hereunder, unless the L/C Issuer has entered into satisfactory arrangements with the Borrowers or such L/C Lender to eliminate the L/C Issuer's risk with respect to such L/C Lender.

(iv) The L/C Issuer shall not amend any Letter of Credit if the L/C Issuer would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof or if the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(v) The L/C Issuer shall act on behalf of the L/C Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and the L/C Issuer shall have all of the benefits and immunities (A) provided to the Agent in Article IX with respect to any acts taken or omissions suffered by the L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and Issuer Documents pertaining to such Letters of Credit as fully as if the terms "Agent", as used in Article IX included the L/C Issuer with respect to such acts or omissions, and (B) as additionally provided herein with respect to the L/C Issuer.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Lead Borrower or the Canadian Borrower, as applicable, delivered to the L/C Issuer (with a copy to the Agent) in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of the Lead Borrower or the Canadian Borrower, as applicable. Such Letter of Credit Application must be received by the L/C Issuer and the Agent not later than 11:00 a.m. at least two Business Days (or such other date and time as the Agent and the L/C Issuer may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the L/C Issuer may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the L/C Issuer may require. Additionally, the Lead Borrower or the Canadian Borrower, as applicable, shall furnish to the L/C Issuer and the Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the L/C Issuer or the Agent may require.

(ii) Promptly after receipt of any Letter of Credit Application, the L/C Issuer will confirm with the Agent (by telephone or in writing) that the Agent has received a copy of such Letter of Credit Application from the Lead Borrower or the Canadian Borrower, as applicable, and, if not, the L/C Issuer will provide the Agent with a copy thereof. Unless the L/C Issuer has received written notice from any L/C Lender, the Agent or any Loan Party, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article IV shall not then be satisfied or unless the L/C Issuer would not be permitted, or would have no obligation, at such time to issue such Letter of Credit under the terms hereof (by reason of the provisions of clause (ii) or (iii) of Section 2.03(a) or otherwise), then, subject to the terms and conditions hereof, the L/C Issuer shall, on the requested date, issue a Letter of Credit for the account of the applicable Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the L/C Issuer's usual and customary business practices. Immediately upon the issuance or amendment of each Domestic Letter of Credit, each Tranche A Lender shall be deemed to (without any further action), and hereby irrevocably and unconditionally agrees to, purchase from the L/C Issuer, without recourse or warranty, a risk participation in such Domestic Letter of Credit in an amount equal to the product of such Tranche A Lender's Applicable Percentage times the Stated Amount of such Domestic Letter of Credit. Upon any change in the Tranche A Commitments under this Agreement, it is hereby agreed that with respect to all L/C Obligations owing by the Domestic Borrowers, there shall be an automatic adjustment to the participations hereby created to reflect the new Applicable Percentages of the assigning and assignee Tranche A Lenders. Immediately upon the issuance or amendment of each Canadian Letter of Credit, each Canadian Lender shall be deemed to (without any further action), and

hereby irrevocably and unconditionally agrees to, purchase from the L/C Issuer, without recourse or warranty, a risk participation in such Canadian Letter of Credit in an amount equal to the product of such Canadian Lender's Applicable Percentage times the Stated Amount of such Canadian Letter of Credit. Upon any change in the Canadian Commitments under this Agreement, it is hereby agreed that with respect to all L/C Obligations owing by the Canadian Borrower, there shall be an automatic adjustment to the participations hereby created to reflect the new Applicable Percentages of the assigning and assignee Canadian Lenders.

(iii) If the Lead Borrower or the Canadian Borrower, as applicable, so requests in any applicable Letter of Credit Application, the L/C Issuer may, in its sole and absolute discretion, agree to issue a Standby Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit the L/C Issuer to prevent any such extension at least once in each twelve-month period (commencing with the date of issuance of such Standby Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Standby Letter of Credit is issued. Unless otherwise directed by the L/C Issuer, the Lead Borrower or the Canadian Borrower, as applicable, shall not be required to make a specific request to the L/C Issuer for any such extension. Once an Auto-Extension Letter of Credit has been issued, the applicable L/C Lenders shall be deemed to have authorized (but may not require) the L/C Issuer to permit the extension of such Standby Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the L/C Issuer shall not permit any such extension if (A) the L/C Issuer has determined that it would not be permitted, or would have no obligation, at such time to issue such Standby Letter of Credit in its revised form (as extended) under the terms hereof (by reason of the provisions of clause (ii) or (iii) of Section 2.03(a) or otherwise), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is five Business Days before the Non-Extension Notice Date (1) from the Agent that the Required Lenders have elected not to permit such extension or (2) from the Agent, any Lender or the Lead Borrower or the Canadian Borrower, as applicable that one or more of the applicable conditions specified in Section 4.02 is not then satisfied, and in each such case directing the L/C Issuer not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the L/C Issuer will also deliver to the Lead Borrower or the Canadian Borrower, as applicable, and the Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the L/C Issuer shall notify the Lead Borrower or the Canadian Borrower, as applicable, and the Agent thereof not less than two (2) Business Days prior to the Honor Date (as defined below; provided, however, that any failure to give or delay in giving such notice shall not relieve the Domestic Borrowers or the Canadian Borrower, as applicable, of their obligation to reimburse the L/C Issuer and the applicable L/C Lenders with respect to any such payment. On the date of any payment by the L/C Issuer under a Letter of Credit (each such date, an "Honor Date"), the Domestic Borrowers or the Canadian Borrower, as applicable, shall be deemed to have requested a Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans, as applicable, to be disbursed on the Honor Date in an amount equal to the amount of such payment, but subject to the amount of the unutilized portion of the Tranche A Loan Cap or Canadian Availability, as applicable, and the conditions set forth in Section 4.02 (other than the delivery of a Domestic Loan Notice or Canadian Loan Notice, as applicable). In the event that such Borrowing cannot be made pursuant to the terms hereof, then not later than 11:00 a.m. on the Honor Date, the Domestic Borrowers or the Canadian

Borrower, as applicable, shall reimburse the L/C Issuer through the Agent in an amount equal to the amount of such drawing. If the Domestic Borrowers or the Canadian Borrower, as applicable, fail(s) to so reimburse the L/C Issuer by such time, the Agent shall promptly notify each applicable L/C Lender of the Honor Date, the amount of the unreimbursed drawing (the “Unreimbursed Amount”), and the amount of such L/C Lender’s Applicable Percentage thereof. Any notice given by the L/C Issuer or the Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each applicable L/C Lender shall upon any notice from the Agent pursuant to Section 2.03(c)(i) make funds available to such Agent for the account of the L/C Issuer at the Agent’s Office in an amount equal to its Applicable Percentage of the Unreimbursed Amount not later than 1:00 p.m. on the Business Day specified in such notice by the Agent, whereupon, subject to the provisions of Section 2.03(c)(iii), each applicable L/C Lender that so makes funds available shall be deemed to have made a Base Rate Loan, a Canadian Prime Rate Loan or a U.S. Index Rate Loan, as applicable, to the Domestic Borrowers or the Canadian Borrower, as applicable, in such amount. The Agent shall remit the funds so received to the L/C Issuer.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans, as applicable, because the conditions set forth in Section 4.02 cannot be satisfied or for any other reason, the Domestic Borrowers or the Canadian Borrower, as applicable, shall be deemed to have incurred from the L/C Issuer an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each L/C Lender’s payment to the Agent for the account of the L/C Issuer pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such L/C Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until each applicable L/C Lender funds its Revolving Loan or L/C Advance pursuant to this Section 2.03(c) to reimburse the L/C Issuer for any amount drawn under any Letter of Credit, interest in respect of such L/C Lender’s Applicable Percentage of such amount shall be solely for the account of the L/C Issuer.

(v) Each L/C Lender’s obligation to make Revolving Loans or L/C Advances to reimburse the L/C Issuer for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such L/C Lender may have against the L/C Issuer, any Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default or Event of Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each L/C Lender’s obligation to make Revolving Loans pursuant to this Section 2.03(c) is subject to the conditions set forth in Section 4.02 (other than delivery by the Lead Borrower of a Domestic Loan Notice or the Canadian Borrower of a Canadian Loan Notice, as applicable). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrowers to reimburse the L/C Issuer for the amount of any payment made by the L/C Issuer under any Letter of Credit, together with interest as provided herein.

(vi) If any L/C Lender fails to make available to the Agent for the account of the L/C Issuer any amount required to be paid by such L/C Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii), the L/C Issuer shall be entitled to recover from such L/C Lender (acting through the Agent), on demand, such amount with interest thereon for the

period from the date such payment is required to the date on which such payment is immediately available to the L/C Issuer at a rate per annum equal to the greater of the Federal Funds Rate or the Bank of Canada Overnight Rate, as applicable, and a rate determined by the L/C Issuer in accordance with banking industry rules on interbank compensation plus any administrative, processing or similar fees customarily charged by the L/C Issuer in connection with the foregoing. If such L/C Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such L/C Lender's Revolving Loan included in the relevant Borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of the L/C Issuer submitted to any L/C Lender (through the Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after the L/C Issuer has made a payment under any Letter of Credit and has received from any L/C Lender its L/C Advance in respect of such payment in accordance with Section 2.03(c), if the Agent receives for the account of the L/C Issuer any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the applicable Borrowers or otherwise, including proceeds of cash collateral applied thereto by the Agent pursuant to Section 2.03(g)), the Agent will distribute to such L/C Lender its Applicable Percentage thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such L/C Lender's L/C Advance was outstanding) in the same funds as those received by the Agent.

(ii) If any payment received by the Agent for the account of the L/C Issuer pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 10.05 (including pursuant to any settlement entered into by the L/C Issuer in its discretion), each applicable L/C Lender shall pay to the Agent for the account of the L/C Issuer its Applicable Percentage thereof on demand of the Agent, plus interest thereon from the date of such demand to the date such amount is returned by such L/C Lender, at a rate per annum equal to the Federal Funds Rate or the Bank of America-Canada Overnight Rate, as applicable, from time to time in effect. The obligations of the L/C Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Obligations Absolute. The obligation of the Borrowers to reimburse the L/C Issuer for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrowers or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the L/C Issuer or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the L/C Issuer under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the L/C Issuer under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law;

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrowers or any of their Subsidiaries; or

(vi) the fact that any Default or Event of Default shall have occurred and be continuing.

The Lead Borrower or the Canadian Borrower, as applicable, shall promptly examine a copy of each Domestic Letter of Credit or Canadian Letter of Credit, as applicable, and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Lead Borrower's or the Canadian Borrower's, as applicable, instructions or other irregularity, the Lead Borrower or the Canadian Borrower, as applicable, will immediately notify the L/C Issuer. The Borrowers shall be conclusively deemed to have waived any such claim against the L/C Issuer and its correspondents unless such notice is given as aforesaid.

(f) Role of L/C Issuer. Each L/C Lender and the Borrowers agree that, in paying any drawing under a Letter of Credit, the L/C Issuer shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the L/C Issuer, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of the L/C Issuer shall be liable to any L/C Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the L/C Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; (iii) any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit or any error in interpretation of technical terms; or (iv) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Issuer Document. The Borrowers hereby assume all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrowers' pursuing such rights and remedies as they may have against the beneficiary or transferee at law or under any other agreement. None of the L/C Issuer, the Agent, any of their respective Related Parties nor any correspondent, participant, or assignee of the L/C Issuer shall be liable or responsible to the Loan Parties for any of the matters described in clauses (i) through (iv) above, or for any action, neglect or omission under or in connection with any Letter of Credit or Issuer Documents, including, without limitation, the issuance or amendment of any Letter of Credit, the failure to issue or amend any Letter of Credit, or the honoring or dishonoring of any demand under any Letter of Credit, and such action or neglect or omission will be binding upon the Borrowers; provided that, anything in such clauses to the contrary notwithstanding, the Borrowers may have a claim against the L/C Issuer, and the L/C Issuer may be liable to the Borrowers, to the extent, but only to the extent, of any direct, as opposed to punitive, consequential or exemplary, damages suffered by the Borrowers which the Borrowers prove were caused by the L/C Issuer's willful misconduct or gross negligence. In furtherance and not in limitation of the foregoing, the L/C Issuer may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary (or the L/C Issuer may refuse to accept and make payment upon such documents if such documents are not in

strict compliance with the terms of such Letter of Credit and may disregard any requirement in a Letter of Credit that notice of dishonor be given in a particular manner and any requirement that presentation be made at a particular place or by a particular time of day), and the L/C Issuer shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason. The L/C Issuer shall not be responsible for the wording of any Letter of Credit (including, without limitation, any drawing conditions or any terms or conditions that are ineffective, ambiguous, inconsistent, unduly complicated or reasonably impossible to satisfy), notwithstanding any assistance the L/C Issuer may provide to the Borrowers with drafting or recommending text for any Letter of Credit Application or with the structuring of any transaction related to any Letter of Credit, and the Borrowers hereby acknowledge and agree that any such assistance will not constitute legal or other advice by the L/C Issuer or any representation or warranty by the L/C Issuer that any such wording or such Letter of Credit will be effective. Without limiting the foregoing, the L/C Issuer may, as it deems appropriate, modify or alter and use in any Letter of Credit the terminology contained on the Letter of Credit Application for such Letter of Credit.

(g) Cash Collateral. Upon the request of the Agent if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Domestic Borrowers or the Canadian Borrower, as applicable, shall, in each case, immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations owing by the Domestic Borrowers or the Canadian Borrower, as applicable. Sections 2.05 and 8.02(c) set forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03, Section 2.05 and Section 8.02(c), "Cash Collateralize" means to pledge and deposit with or deliver to the Agent for the benefit of the L/C Issuer and the Tranche A Lenders or the Canadian Lenders, as applicable, as collateral for the L/C Obligations, cash or deposit account balances in an amount equal to (i) with respect to the Domestic Borrowers, 103% of the Outstanding Amount of all L/C Obligations on account of Domestic L/C Credit Extensions, and (ii) with respect to the Canadian Borrower, 103% of the Outstanding Amount of all L/C Obligations on account of Canadian L/C Credit Extensions, in each case pursuant to documentation in form and substance satisfactory to the Agent and the L/C Issuer (which documents are hereby Consented to by the L/C Lenders). The Domestic Borrowers hereby grant to the Agent a Lien on all such cash, deposit accounts and all balances therein and all proceeds of the foregoing owned by the Domestic Borrowers to secure all Obligations, and the Canadian Borrower hereby grants to the Agent a Lien on all such cash, deposit accounts and all balances therein and all proceeds of the foregoing owned by the Canadian Borrower to secure all Canadian Liabilities. Such cash collateral shall be maintained in blocked, non-interest bearing deposit accounts at Bank of America. If at any time the Agent determines that any funds held as cash collateral are subject to any right or claim of any Person other than the Agent or that the total amount of such funds (i) held on behalf of the Domestic Letters of Credit is less than the aggregate Outstanding Amount of all L/C Obligations owing with respect to the Domestic L/C Credit Extensions, or (ii) held on behalf of the Canadian Letters of Credit is less than the aggregate Outstanding Amount of all L/C Obligations owing with respect to the Canadian L/C Credit Extensions, as applicable, the Domestic Borrowers or the Canadian Borrower, as applicable, will, forthwith upon demand by the Agent pay to the Agent as additional funds to be deposited as cash collateral, an amount equal to the excess of (x) such aggregate Outstanding Amount over (y) the total amount of funds, if any, then held as cash collateral that the Agent determines to be free and clear of any such right and claim. Upon the drawing of any Domestic Letter of Credit for which funds are on deposit as cash collateral, such funds shall be applied to reimburse the L/C Issuer and, to the extent not so applied, shall thereafter be applied to satisfy other Obligations. Upon the drawing of any Canadian Letter of Credit for which funds are on deposit as cash collateral, such funds shall be applied to reimburse the L/C Issuer and, to the extent not so applied, shall thereafter be applied to satisfy other Canadian Liabilities.

(h) Applicability of ISP and UCP. Unless otherwise expressly agreed by the L/C Issuer and the Lead Borrower or the Canadian Borrower, as applicable, when a Letter of Credit is issued (including any such agreement applicable to an Existing Letter of Credit), (i) the rules of the ISP shall apply to each Standby Letter of Credit, and (ii) the rules of the UCP shall apply to each Commercial Letter of Credit.

(i) Letter of Credit Fees. The Domestic Borrowers or the Canadian Borrower, as applicable, shall pay to the Agent for the account of each Tranche A Lender or Canadian Lender, as applicable, in accordance with its Applicable Percentage a Letter of Credit fee (the "Letter of Credit Fee") for each Letter of Credit equal to the Applicable Rate times the daily Stated Amount under each such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit). For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of the Letter of Credit shall be determined in accordance with Section 1.06. Letter of Credit Fees shall be (i) due and payable on the tenth Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand, and (ii) computed on a quarterly basis in arrears. Notwithstanding anything to the contrary contained herein, while any Event of Default exists, all Letter of Credit Fees shall accrue at the Default Rate as provided in Section 2.08(b) hereof.

(j) Fronting Fee and Documentary and Processing Charges Payable to L/C Issuer. The Domestic Borrowers or the Canadian Borrower, as applicable, shall pay directly to the L/C Issuer for its own account a fronting fee (i) with respect to each Commercial Letter of Credit, at a rate equal to 0.125% per annum, computed on the amount of such Letter of Credit, and payable upon the issuance or amendment thereof, and (ii) with respect to each Standby Letter of Credit, at a rate equal to 0.125% per annum, computed on the daily amount available to be drawn under such Letter of Credit and on a quarterly basis in arrears. Such fronting fees shall be due and payable on the tenth Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of the Letter of Credit shall be determined in accordance with Section 1.06. In addition, the Domestic Borrowers or the Canadian Borrower, as applicable, shall pay directly to the L/C Issuer for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(k) Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

2.04 Swing Line Loans.

(a) The Swing Line. Subject to the terms and conditions set forth herein, the Swing Line Lender may, in its discretion, in reliance upon the agreements of the other Tranche A Lenders set forth in this Section 2.04, make loans (each such loan, a "Swing Line Loan") to the Domestic Borrowers from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of the Swing Line Sublimit, notwithstanding the fact that such Swing Line Loans, when aggregated with the Applicable Percentage of the Outstanding Amount of Tranche A Loans and L/C Obligations of the Tranche A Lender acting as Swing Line Lender, may exceed the amount of such Lender's Tranche A Commitment; provided, however, that after giving effect to any Swing Line Loan, (i) the Total Revolving Outstandings shall not exceed Loan Cap, (ii) the aggregate Outstanding Amount of the Tranche A Loans, plus the Outstanding Amount of all L/C Obligations owing by the Domestic Borrowers, plus the Outstanding Amount of all Swing Line Loans shall not exceed the

Tranche A Loan Cap, and (iii) the aggregate Outstanding Amount of the Tranche A Loans of any Tranche A Lender at such time, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations at such time, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans at such time shall not exceed such Tranche A Lender's Commitment, and provided, further, that the Domestic Borrowers shall not use the proceeds of any Swing Line Loan to refinance any outstanding Swing Line Loan, and provided further that the Swing Line Lender may refuse, and such refusal shall not be deemed an abuse of the Swing Line Lender's discretion to make Swing Line Loans as provided herein, to make any Swing Line Loan at any time when any Tranche A Lender is at such time a Defaulting Lender hereunder, unless the Swing Line Lender has entered into satisfactory arrangements with the Lead Borrower or such Tranche A Lender to eliminate the Swing Line Lender's risk with respect to such Tranche A Lender. Within the foregoing limits, and subject to the other terms and conditions hereof, the Domestic Borrowers may borrow under this Section 2.04, prepay under Section 2.05, and reborrow under this Section 2.04. Each Swing Line Loan shall bear interest only at a rate based on the Base Rate. Immediately upon the making of a Swing Line Loan, each Tranche A Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Swing Line Lender a risk participation in such Swing Line Loan in an amount equal to the product of such Tranche A Lender's Applicable Percentage *multiplied by* the amount of such Swing Line Loan. The Swing Line Lender shall have all of the benefits and immunities (A) provided to the Agent in Article IX with respect to any acts taken or omissions suffered by the Swing Line Lender in connection with Swing Line Loans made by it or proposed to be made by it as if the term "Agent" as used in Article IX included the Swing Line Lender with respect to such acts or omissions, and (B) as additionally provided herein with respect to the Swing Line Lender.

(b) Borrowing Procedures. Each Swing Line Borrowing may, in the Swing Line Lender's discretion, be made upon the Lead Borrower's irrevocable notice to the Swing Line Lender and the Agent, which may be given by telephone. Each such notice must be received by the Swing Line Lender and the Agent not later than 11:00 a.m. on the requested borrowing date, and shall specify (i) the amount to be borrowed, which shall be a minimum of \$100,000, and (ii) the requested borrowing date, which shall be a Business Day. Each such telephonic notice must be confirmed promptly by delivery to the Swing Line Lender and the Agent of a written Swing Line Loan Notice, appropriately completed and signed by a Responsible Officer of the Lead Borrower. Promptly after receipt by the Swing Line Lender of any telephonic Swing Line Loan Notice, the Swing Line Lender will confirm with the Agent (by telephone or in writing) that the Agent has also received such Swing Line Loan Notice and, if not, the Swing Line Lender will notify the Agent (by telephone or in writing) of the contents thereof. Unless the Swing Line Lender has received notice (by telephone or in writing) from the Agent at the request of the Required Lenders prior to 2:00 p.m. on the date of the proposed Swing Line Borrowing (A) directing the Swing Line Lender not to make such Swing Line Loan as a result of the limitations set forth in the proviso to the first sentence of Section 2.04(a), or (B) that one or more of the applicable conditions specified in Article IV is not then satisfied, then, subject to the terms and conditions hereof, the Swing Line Lender may, not later than 4:00 p.m. on the borrowing date specified in such Swing Line Loan Notice, make the amount of its Swing Line Loan available to the Domestic Borrowers either by (i) crediting the account of the Lead Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Swing Line Lender by the Lead Borrower; provided, however, that if, on the date of the proposed Swing Line Loan, there are L/C Borrowings outstanding with respect to the Domestic Borrowers, then the proceeds of such Borrowing, first, shall be applied to the payment in full of any such L/C Borrowings, and second, shall be made available to the Domestic Borrowers as provided above.

(c) Refinancing of Swing Line Loans.

(i) The Swing Line Lender at any time in its sole and absolute discretion may request, on behalf of the Domestic Borrowers (which hereby irrevocably authorize the Swing Line Lender to so request on their behalf), that each Tranche A Lender make a Base Rate Loan in an amount equal to such Tranche A Lender's Applicable Percentage of the amount of Swing Line Loans then outstanding. Such request shall be made in writing (which written request shall be deemed to be a Domestic Loan Notice for purposes hereof) and in accordance with the requirements of Section 2.02, without regard to the minimum and multiples specified therein for the principal amount of Base Rate Loans, but subject to the unutilized portion of the Tranche A Loan Cap and the conditions set forth in Section 4.02. The Swing Line Lender shall furnish the Lead Borrower with a copy of the applicable Domestic Loan Notice promptly after delivering such notice to the Agent. Each Tranche A Lender shall make an amount equal to its Applicable Percentage of the amount specified in such Domestic Loan Notice available to the Agent in immediately available funds for the account of the Swing Line Lender at the Agent's Office not later than 1:00 p.m. on the day specified in such Domestic Loan Notice, whereupon, subject to Section 2.04(c)(ii), each Tranche A Lender that so makes funds available shall be deemed to have made a Base Rate Loan to the Domestic Borrowers in such amount. The Agent shall remit the funds so received to the Swing Line Lender.

(ii) If for any reason any Swing Line Loan cannot be refinanced by such a Borrowing in accordance with Section 2.04(c)(i), the request for Base Rate Loans submitted by the Swing Line Lender as set forth herein shall be deemed to be a request by the Swing Line Lender that each of the Tranche A Lenders fund its risk participation in the relevant Swing Line Loan and each Tranche A Lender's payment to the Agent for the account of the Swing Line Lender pursuant to Section 2.04(c)(i) shall be deemed payment in respect of such participation.

(iii) If any Tranche A Lender fails to make available to the Agent for the account of the Swing Line Lender any amount required to be paid by such Tranche A Lender pursuant to the foregoing provisions of this Section 2.04(c) by the time specified in Section 2.04(c)(i), the Swing Line Lender shall be entitled to recover from such Tranche A Lender (acting through the Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Swing Line Lender in accordance with banking industry rules on interbank compensation plus any administrative, processing or similar fees customarily charged by the Swing Line Lender in connection with the foregoing. If such Tranche A Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Tranche A Lender's Tranche A Loan included in the relevant Borrowing or funded participation in the relevant Swing Line Loan, as the case may be. A certificate of the Swing Line Lender submitted to any Tranche A Lender (through the Agent) with respect to any amounts owing under this clause (iii) shall be conclusive absent manifest error.

(iv) Each Tranche A Lender's obligation to make Tranche A Loans or to purchase and fund risk participations in Swing Line Loans pursuant to this Section 2.04(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Tranche A Lender may have against the Swing Line Lender, the Borrowers or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default or an Event of Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Tranche A Lender's obligation to make Tranche A Loans pursuant to this Section 2.04(c) is subject to the conditions set forth in Section 4.02. No such funding of risk participations shall relieve or otherwise impair the obligation of the Domestic Borrowers to repay Swing Line Loans, together with interest as provided herein.

(d) Repayment of Participations.

(i) At any time after any Tranche A Lender has purchased and funded a risk participation in a Swing Line Loan, if the Swing Line Lender receives any payment on account of such Swing Line Loan, the Swing Line Lender will distribute to such Tranche A Lender its Applicable Percentage of such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Tranche A Lender's risk participation was funded) in the same funds as those received by the Swing Line Lender.

(ii) If any payment received by the Swing Line Lender in respect of principal or interest on any Swing Line Loan is required to be returned by the Swing Line Lender under any of the circumstances described in Section 10.05 (including pursuant to any settlement entered into by the Swing Line Lender in its discretion), each Tranche A Lender shall pay to the Swing Line Lender its Applicable Percentage thereof on demand of the Agent, plus interest thereon from the date of such demand to the date such amount is returned, at a rate per annum equal to the Federal Funds Rate. The Agent will make such demand upon the request of the Swing Line Lender. The obligations of the Tranche A Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Interest for Account of Swing Line Lender. The Swing Line Lender shall be responsible for invoicing the Domestic Borrowers for interest on the Swing Line Loans. Until each Tranche A Lender funds its Base Rate Loan or risk participation pursuant to this Section 2.04 to refinance such Tranche A Lender's Applicable Percentage of any Swing Line Loan, interest in respect of such Applicable Percentage shall be solely for the account of the Swing Line Lender.

(f) Payments Directly to Swing Line Lender. The Domestic Borrowers shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Swing Line Lender.

2.05 Prepayments; Payments of Term Loan.

(a) The Borrowers may, upon irrevocable notice from the Lead Borrower or the Canadian Borrower, as applicable, to the Agent, at any time or from time to time voluntarily prepay Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Agent not later than 11:00 a.m. (A) three Business Days prior to any date of prepayment of LIBOR Rate Loans or BA Equivalent Loans and (B) on the date of prepayment of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans; (ii) any prepayment of LIBOR Rate Loans or BA Equivalent Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof; (iii) any prepayment of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding; and (iv) no portion of the Term Loan may be prepaid unless the Payment Conditions have been satisfied. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid and, if LIBOR Rate Loans or BA Equivalent Loans, the Interest Period(s) of such Loans. The Agent will promptly notify each Domestic Lender, Term Lender or Canadian Lender, as applicable, of its receipt of each such notice, and of the amount of such Lender's Applicable Percentage of such prepayment. If such notice is given by the Lead Borrower or the Canadian Borrower, as applicable, the Domestic Borrowers or the Canadian Borrower, as applicable, shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a LIBOR Rate Loan or a BA Equivalent Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05. Each such prepayment shall be applied to the Domestic Loans, the Term Loan or Canadian Loans, as applicable, of the Lenders in accordance with their respective Applicable Percentages.

(b) The Domestic Borrowers may, upon irrevocable notice from the Lead Borrower to the Swing Line Lender (with a copy to the Agent), at any time or from time to time, voluntarily prepay Swing Line Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Swing Line Lender and the Agent not later than 1:00 p.m. on the date of the prepayment, and (ii) any such prepayment shall be in a minimum principal amount of \$100,000. Each such notice shall specify the date and amount of such prepayment. If such notice is given by the Lead Borrower, the Domestic Borrowers shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein.

(c) Notwithstanding the provisions of Section 2.05(a) which generally permit voluntary prepayments of the Domestic Loans, only if all Tranche A Loans are repaid in full may the Domestic Borrowers prepay amounts owed with respect to the Incremental Loans, provided, however, that any such prepayment shall not reduce or terminate the Incremental Commitments.

(d) If for any reason the Total Revolving Outstandings at any time exceed (i) the lesser of the Aggregate Commitments (excluding the outstanding amount of the Term Loan) or (ii) Total Availability, each as then in effect, the Borrowers shall immediately prepay the Revolving Loans and L/C Borrowings and Cash Collateralize the L/C Obligations (other than L/C Borrowings) in an aggregate amount equal to such excess; provided, however, that the Borrowers shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.05(d) unless after the prepayment in full of the Revolving Loans, the Total Revolving Outstandings exceed Total Availability as then in effect. In addition, (i) if at any time the amount of the Canadian Total Outstandings exceeds Canadian Availability, the Canadian Borrower will immediately prepay the Canadian Loans and L/C Borrowings relating to Canadian Letters of Credit and Cash Collateralize the L/C Obligations relating to Canadian Letters of Credit (other than L/C Borrowings) in an aggregate amount equal to such excess; provided, however, that the Canadian Borrower shall not be required to Cash Collateralize the L/C Obligations relating to Canadian Letters of Credit pursuant to this Section 2.05(d) unless after the prepayment in full of the Canadian Loans the Canadian Total Outstandings exceed Canadian Availability as then in effect, (ii) if at any time the amount of the Tranche A Loans plus the Domestic L/C Credit Extensions exceeds the Tranche A Loan Cap, the Domestic Borrowers will immediately prepay the Tranche A Loans and L/C Borrowings relating to Domestic Letters of Credit and Cash Collateralize the L/C Obligations relating to Domestic Letters of Credit (other than L/C Borrowings) in an aggregate amount equal to such excess; provided, however, that the Domestic Borrowers shall not be required to Cash Collateralize the L/C Obligations relating to Domestic Letters of Credit pursuant to this Section 2.05(d) unless after the prepayment in full of the Tranche A Loans the Domestic L/C Credit Extensions exceed the Tranche A Loan Cap as then in effect, (iii) if at any time the amount of the Incremental Loans exceeds the Incremental Loan Cap, then an Availability Reserve shall be deemed to be immediately established under the Tranche A Borrowing Base in an amount equal to such excess, and (iv) if at any time the outstanding amount of the Term Loan exceeds the Term Loan Borrowing Base, the Domestic Borrowers will prepay the Term Loan in an amount equal to such excess within fifteen (15) days after receipt by the Lead Borrower of written notice of such deficiency.

(e) The Borrowers shall prepay the Loans and Cash Collateralize the L/C Obligations to the extent required pursuant to the provisions of Section 6.12 hereof.

(f) The Borrowers shall prepay the Loans and Cash Collateralize the L/C Obligations, irrespective of whether a Cash Dominion Event has occurred and is continuing, in an amount equal to the Net Proceeds received by a Loan Party on account of a Prepayment Event.

(g) Commencing on July 31, 2012, and on the date which is every three months thereafter, irrespective of whether the Payment Conditions have been met, the Domestic Borrowers shall repay the principal amount of the Term Loan in twelve (12) equal installments of \$1,250,000 each. In addition, upon any Disposition of any Registered Trade Names, irrespective of whether the Payment Conditions have been met, the Domestic Borrowers shall prepay the Term Loan in the inverse order of maturity, in an amount equal to the Net Proceeds received by the Domestic Borrowers on account of such Disposition; provided that any such prepayment of the Term Loan shall not reduce the scheduled payments of the Term Loan provided for pursuant to the first sentence of this Section 2.05(g).

(h) Prepayments made by the Domestic Borrowers pursuant to Section 2.05(d), (e) and (f) above, first, shall be applied ratably to the L/C Borrowings relating to Domestic Letters of Credit and the Swing Line Loans, second, shall be applied ratably to the outstanding Tranche A Loans, third, shall be used to Cash Collateralize the remaining L/C Obligations with respect to Domestic Letters of Credit (except that with respect to Section 2.05(e) and (f), such Cash Collateralization shall be required only if an Event of Default is then continuing), fourth, shall be applied ratably to the outstanding Incremental Loans, fifth, shall be applied ratably to the L/C Borrowings relating to Canadian Letters of Credit, sixth, shall be applied ratably to the outstanding Canadian Loans, seventh, shall be used to Cash Collateralize the remaining L/C Obligations with respect to Canadian Letters of Credit (except that with respect to Section 2.05(e) and (f), such Cash Collateralization shall be required only if an Event of Default is then continuing), eighth, shall be applied ratably to any amounts then due under the Term Loan, and ninth, the amount remaining, if any, after the prepayment in full of all L/C Borrowings, Swing Line Loans and Loans outstanding at such time and the Cash Collateralization of the remaining L/C Obligations (to the extent required hereunder) in full may be retained by the Borrowers for use in the ordinary course of its business. Upon the drawing of any Letter of Credit that has been Cash Collateralized, the funds held as Cash Collateral shall be applied (without any further action by or notice to or from the Borrowers or any other Loan Party) to reimburse the L/C Issuer or the L/C Lenders, as applicable.

(i) Prepayments made by the Canadian Borrower pursuant to Section 2.05(d), (e) and (f) above, first, shall be applied ratably to the L/C Borrowings relating to Canadian Letters of Credit, second, shall be applied ratably to the outstanding Canadian Loans, third, shall be used to Cash Collateralize the remaining L/C Obligations with respect to Canadian Letters of Credit (except that with respect to Section 2.05(e) and (f), such Cash Collateralization shall be required only if an Event of Default is then continuing) and fourth, the amount remaining, if any, after the prepayment in full of all L/C Borrowings relating to Canadian Letters of Credit and Canadian Loans outstanding at such time and the Cash Collateralization of the remaining L/C Obligations relating to Canadian Letters of Credit (to the extent required hereunder) in full may be retained by the Canadian Borrower for use in the ordinary course of its business. Upon the drawing of any Canadian Letter of Credit that has been Cash Collateralized, the funds held as Cash Collateral shall be applied (without any further action by or notice to or from the Canadian Borrower or any other Loan Party) to reimburse the L/C Issuer or the Canadian Lenders, as applicable.

2.06 Termination or Reduction of Commitments.

(a) The Domestic Borrowers may, upon irrevocable notice from the Lead Borrower to the Agent, terminate the Tranche A Commitments, the Domestic Letter of Credit Sublimit or the Swing Line Sublimit or from time to time permanently reduce the Tranche A Commitments, the Domestic Letter of Credit Sublimit or the Swing Line Sublimit; provided that (i) any such notice shall be received by the Agent not later than 11:00 a.m. five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$10,000,000 or any whole multiple of \$1,000,000 in excess thereof, (iii) the Domestic Borrowers shall not terminate or reduce (A) the Tranche

A Commitments if, after giving effect thereto and to any concurrent prepayments hereunder, the Outstanding Amount of the sum of Tranche A Loans, L/C Obligations with respect to Domestic Letters of Credit and Swing Line Loans would exceed the Tranche A Commitments, (B) the Domestic Letter of Credit Sublimit if, after giving effect thereto, the Outstanding Amount of L/C Obligations with respect to Domestic Letters of Credit not fully Cash Collateralized hereunder would exceed the Domestic Letter of Credit Sublimit, and (C) the Swing Line Sublimit if, after giving effect thereto, and to any concurrent payments hereunder, the Outstanding Amount of Swing Line Loans hereunder would exceed the Swing Line Sublimit. If, after giving effect to any reduction of the Tranche A Commitments, the Domestic Letter of Credit Sublimit or the Swing Line Sublimit exceeds the amount of the remaining Tranche A Commitments, such Domestic Letter of Credit Sublimit or Swing Line Sublimit shall be automatically reduced by the amount of such excess.

(b) The Domestic Borrowers may, upon irrevocable notice from the Lead Borrower to the Agent, terminate the Incremental Commitments; provided that after giving pro forma effect to such termination and to any concurrent prepayments hereunder, the Payment Conditions have been satisfied. Any amount of the Incremental Loans so repaid may not be re-borrowed and any portion of the Incremental Commitments which are reduced or terminated may not be reinstated.

(c) The Canadian Borrower may, upon irrevocable notice from the Canadian Borrower to the Agent, terminate the Canadian Commitments or the Canadian Letter of Credit Sublimit or from time to time permanently reduce the Canadian Commitments or the Canadian Letter of Credit Sublimit; provided that (i) any such notice shall be received by the Agent not later than 11:00 a.m. five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$1,000,000 or any whole multiple of \$500,000 in excess thereof, (iii) the Canadian Borrower shall not terminate or reduce (A) the Canadian Commitments if, after giving effect thereto and to any concurrent prepayments hereunder, the Canadian Total Outstandings would exceed the Canadian Commitments or (B) the Canadian Letter of Credit Sublimit if, after giving effect thereto, the Outstanding Amount of L/C Obligations with respect to Canadian Letters of Credit not fully Cash Collateralized hereunder would exceed the Canadian Letter of Credit Sublimit. If, after giving effect to any reduction of the Canadian Commitments, the Canadian Letter of Credit Sublimit exceeds the amount of the remaining Canadian Commitments, such Canadian Letter of Credit Sublimit shall be automatically reduced by the amount of such excess. Any amount of the Canadian Loans so repaid may not be re-borrowed and any portion of the Canadian Commitments which are reduced or terminated may not be reinstated.

(d) The Agent will promptly notify the Tranche A Lenders, the Incremental Lenders or the Canadian Lenders, as applicable, of any termination or reduction of the Domestic Letter of Credit Sublimit, Canadian Letter of Credit Sublimit, Swing Line Sublimit or any Commitments under this Section 2.06. Upon any reduction of any Commitments, the Commitment of each Lender shall be reduced by such Lender's Applicable Percentage of such reduction amount. All fees (including, without limitation, commitment fees, and Letter of Credit Fees) and interest in respect of the Commitments accrued until the effective date of any termination of such Commitments shall be paid on the effective date of such termination.

2.07 Repayment of Loans.

(a) The Domestic Borrowers shall repay to the Domestic Lenders on the Termination Date the Domestic Total Outstandings on such date. The Canadian Borrower shall repay to the Canadian Lenders on the Termination Date the Canadian Total Outstandings on such date.

(b) To the extent not previously paid, the Domestic Borrowers shall repay the outstanding balance of the Swing Line Loans on the Termination Date.

(c) To the extent not previously paid, the Domestic Borrowers shall repay the outstanding balance of the Term Loan on the earlier of the Term Loan Maturity Date and the Termination Date.

2.08 Interest.

(a) Subject to the provisions of Section 2.08(b) below, (i) each LIBOR Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Adjusted LIBOR Rate for such Interest Period plus the Applicable Margin or the Term Loan Applicable Margin, as applicable; (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Margin or the Term Loan Applicable Margin, as applicable; (iii) each BA Equivalent Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the BA Rate for such Interest Period plus the Applicable Margin; (iv) each Canadian Prime Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Canadian Prime Rate plus the Applicable Margin; (v) each U.S. Index Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the U.S. Index Rate plus the Applicable Margin; and (vi) each Swing Line Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Margin.

(b)(i) If any Event of Default exists, then the Agent may, and upon the request of the Required Lenders shall, notify the Lead Borrower that all outstanding Obligations shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate and thereafter such Obligations shall bear interest at the Default Rate to the fullest extent permitted by Law.

(ii) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.09 Fees. In addition to certain fees described in Sections 2.03(i) and (j):

(a) Commitment Fee. The Domestic Borrowers shall pay to the Agent for the account of each Tranche A Lender in accordance with its Applicable Percentage, a commitment fee equal to the Commitment Fee Percentage *multiplied by* the actual daily amount by which the Tranche A Commitments exceed the sum of the Tranche A Loans, the L/C Obligations with respect to Domestic Letters of Credit and the outstanding Swing Line Loans. In addition, the Domestic Borrowers shall pay to the Agent for the account of each Incremental Lender in accordance with its Applicable Percentage, a commitment fee equal to the Commitment Fee Percentage *multiplied by* the actual daily amount by which the Incremental Commitments exceed the Outstanding Amount of the Incremental Loans. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article IV is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Effective Date, and on the last day of the Availability Period.

(b) Other Fees. The Borrowers shall pay to the Arranger and the Agent for their own respective accounts fees in the amounts and at the times specified in the Fee Letter. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.10 Computation of Interest and Fees.

(a) All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America's "prime rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All computations of interest for BA Equivalent Loans and for Canadian Prime Rate Loans when the Canadian Prime Rate is determined by Bank of America-Canada Branch's "prime rate" and for U.S. Index Rate Loans when the U.S. Index Rate is determined pursuant to clause (a) thereof shall be made on the basis of a year of 365 days. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed. Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a), bear interest for one day. Each determination by the Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

(b) For the purposes of the *Interest Act (Canada)*, (i) whenever any interest or fees under this Agreement or any other Loan Document is calculated using a rate based on a year of 360 days, the rate determined pursuant to such calculation, when expressed as an annual rate, is equivalent to (x) the applicable rate, (y) multiplied by the actual number of days in the calendar year in which the period for which such interest is payable (or compounded) ends, and (z) divided by 360, (ii) the principle of deemed reinvestment of interest does not apply to any interest calculation under this Agreement, and (iii) the rates of interest stipulated in this Agreement are intended to be nominal rates and not effective rates or yields.

2.11 Evidence of Debt.

(a) The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by the Agent (the "Loan Account") in the ordinary course of business. In addition, each Lender may record in such Lender's internal records, an appropriate notation evidencing the date and amount of each Loan from such Lender, each payment and prepayment of principal of any such Loan, and each payment of interest, fees and other amounts due in connection with the Obligations due to such Lender. The accounts or records maintained by the Agent and each Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by the Lenders to the Borrowers and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrowers hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Agent in respect of such matters, the accounts and records of the Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Agent, the Borrowers shall execute and deliver to such Lender (through the Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto. Upon receipt of an affidavit of a Lender as to the loss, theft, destruction or mutilation of such Lender's Note and upon cancellation of such Note, the Borrowers will issue, in lieu thereof, a replacement Note in favor of such Lender, in the same principal amount thereof and otherwise of like tenor.

(b) In addition to the accounts and records referred to in Section 2.11(a), each L/C Lender and the Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such L/C Lender of participations in Letters of Credit and Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Agent and the accounts and records of any L/C Lender in respect of such matters, the accounts and records of the Agent shall control in the absence of manifest error.

2.12 Payments Generally; Agent's Clawback.

(a) General. All payments to be made by the Borrowers shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrowers hereunder shall be made to the Agent for the account of the respective Lenders to which such payment is owed, at the Agent's Office in Dollars or Canadian Dollars, as applicable, and in immediately available funds not later than 2:00 p.m. on the date specified herein. All payments in respect of Base Rate Loans, U.S. Index Rate Loans and LIBOR Rate Loans shall be made in Dollars, and all payments in respect of Canadian Prime Rate Loans and BA Equivalent Loans shall be made in Canadian Dollars. The Agent will promptly distribute to each Lender its Applicable Percentage (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Agent after 2:00 p.m. shall, at the option of the Agent, be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment (other than with respect to payment of a LIBOR Loan or a BA Equivalent Loan) to be made by the Borrowers shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Agent. Unless the Agent shall have received notice from a Lender prior to the proposed date of any Borrowing of LIBOR Rate Loans or BA Equivalent Loans (or in the case of any Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans, prior to 12:00 noon on the date of such Borrowing) that such Lender will not make available to the Agent such Lender's share of such Borrowing, the Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 (or in the case of a Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans, that such Lender has made such share available in accordance with and at the time required by Section 2.02) and may, in reliance upon such assumption, make available to the Borrowers a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Agent, then the applicable Lender and the applicable Borrowers severally agree to pay to the Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the applicable Borrowers to but excluding the date of payment to the Agent at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate or the Bank of America-Canada Overnight Rate, as applicable, and a rate determined by the Agent in accordance with banking industry rules on interbank compensation plus any administrative processing or similar fees customarily charged by the Agent in connection with the foregoing, (B) in the case of a payment to be made by the Domestic Borrowers, the interest rate applicable to Base Rate Loans, and (C) in the case of a payment to be made by the Canadian Borrower, the interest rate applicable to Canadian Prime Rate Loans. If the Borrowers and such Lender shall pay such interest to the Agent for the same or an overlapping period, the Agent shall promptly remit to the Borrowers the amount of such interest paid by the Borrowers for such period. If such Lender pays its share of the applicable Borrowing to the Agent, then the amount so paid shall constitute such Lender's Revolving Loan included in such Borrowing. Any payment by the Borrowers shall be without prejudice to any claim the Borrowers may have against a Lender that shall have failed to make such payment to the Agent.

(ii) Payments by Borrowers; Presumptions by Agent. Unless the Agent shall have received notice from the Lead Borrower or the Canadian Borrower, as applicable, prior to the time at which any payment is due to the Agent for the account of the Lenders or the L/C Issuer hereunder that the applicable Borrowers will not make such payment, the Agent may assume that the Borrowers have made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the applicable Lenders or the L/C Issuer, as the case may be, the amount due. In such event, if the Borrowers have not in fact made such payment, then each of the applicable Lenders or the L/C Issuer, as the case may be, severally agrees to repay to the Agent forthwith on demand the amount so distributed to such Lender or the L/C Issuer, in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Agent at the greater of the Federal Funds Rate or the Bank of Canada Overnight Rate, as applicable, and a rate determined by the Agent in accordance with banking industry rules on interbank compensation.

A notice of the Agent to any Lender or the Lead Borrower or the Canadian Borrower, as applicable, with respect to any amount owing under this Section 2.12(b) shall be conclusive, absent manifest error.

(c) Failure to Satisfy Conditions Precedent. If any Lender makes available to the Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to the applicable Borrowers by the Agent because the conditions to the applicable Credit Extension set forth in Article IV are not satisfied or waived in accordance with the terms hereof (subject to the provisions of the last paragraph of Section 4.02 hereof), the Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several. The obligations of the Tranche A Lenders hereunder to make Tranche A Loans, to fund participations in Domestic Letters of Credit and Swing Line Loans and to make payments hereunder are several and not joint. The obligations of the Incremental Lenders hereunder to make Incremental Loans are several and not joint. The obligations of the Canadian Lenders hereunder to make Canadian Loans and to fund participations in Canadian Letters of Credit and to make payments hereunder are several and not joint. The obligations of the Term Lenders hereunder to make the Term Loan and to make payments hereunder are several and not joint. The failure of any Lender to make any Loan, to fund any such participation or to make any payment hereunder on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan, to purchase its participation or to make its payment hereunder.

(e) Funding Source. Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.13 Sharing of Payments by Lenders. If any Credit Party shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of, interest on, or other amounts with respect to, any of the Obligations resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Obligations greater than its pro rata share thereof as provided herein (including as in contravention of the priorities of payment set forth in Section 8.03), then the Credit Party receiving such greater proportion shall (a) notify the Agent of such fact, and (b) purchase (for cash at face value) participations in the Obligations or the Canadian Liabilities, as applicable, of the other applicable Credit Parties, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the applicable Credit Parties ratably and in the priorities set forth in Section 8.03, provided that:

(i) if any such participations or subparticipations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations or subparticipations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) the provisions of this Section shall not be construed to apply to (x) any payment made by the Loan Parties pursuant to and in accordance with the express terms of this Agreement or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or subparticipations in L/C Obligations or Swing Line Loans to any assignee or participant, other than to the Borrowers or any Subsidiary thereof (as to which the provisions of this Section shall apply).

Each Loan Party consents to the foregoing and agrees, to the extent it may effectively do so under Law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Loan Party rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Loan Party in the amount of such participation.

2.14 Settlement Amongst Revolving Lenders

(a) The amount of each Revolving Lender's Applicable Percentage of outstanding Revolving Loans (including outstanding Swing Line Loans), shall be computed weekly (or more frequently in the Agent's discretion) and shall be adjusted upward or downward based on all Revolving Loans (including Swing Line Loans) and repayments of Revolving Loans (including Swingline Loans) received by the Agent as of 3:00 p.m. on the first Business Day (such date, the "Settlement Date") following the end of the period specified by the Agent.

(b) The Agent shall deliver to each of the applicable Revolving Lenders promptly after a Settlement Date a summary statement of the amount of outstanding Revolving Loans and Swing Line Loans (if applicable) for the period and the amount of repayments received for the period. As reflected on the summary statement, (i) the Agent shall transfer to each applicable Revolving Lender its Applicable Percentage of repayments, and (ii) each Revolving Lender shall transfer to the Agent (as provided below) or the Agent shall transfer to each Revolving Lender, such amounts as are necessary to ensure that, after giving effect to all such transfers, the amount of Revolving Loans made by each Revolving Lender shall be equal to such Revolving Lender's Applicable Percentage of all Revolving Loans outstanding as of such Settlement Date. If the summary statement requires transfers to be made to the Agent by the Revolving Lenders and is received prior to 1:00 p.m. on a Business Day, such transfers shall be made in immediately available funds no later than 3:00 p.m. that day; and, if received after 1:00 p.m., then no later than 3:00 p.m. on the next Business Day. The obligation of each Revolving Lender to transfer such funds is irrevocable, unconditional and without recourse to or warranty by the Agent. If and to the extent any Revolving Lender shall not have so made its transfer to the Agent such Revolving Lender agrees to pay to the Agent forthwith on demand such amount, together with interest thereon, for each day from such date until the date such amount is paid to the Agent equal to the greater of the Federal Funds Rate or the Bank of Canada Overnight Rate, as applicable, and a rate determined by the Agent in accordance with banking industry rules on interbank compensation plus any administrative, processing, or similar fees customarily charged by the Agent in connection with the foregoing.

2.15 Increase in Commitments.

(a) Request for Increase. Provided no Default or Event of Default then exists or would arise therefrom, upon notice to the Agent (which shall promptly notify the Tranche A Lenders), the Lead Borrower may from time to time request an increase in the Tranche A Commitments by an amount

(for all such requests) not exceeding \$100,000,000; provided that (i) any such request for an increase shall be in a minimum amount of \$25,000,000, and (ii) the Lead Borrower may make a maximum of four (4) such requests. At the time of sending such notice, the Lead Borrower (in consultation with the Agent) shall specify the time period within which each Tranche A Lender is requested to respond (which shall in no event be less than ten Business Days from the date of delivery of such notice to the Tranche A Lenders).

(b) Lender Elections to Increase. Each Tranche A Lender shall notify the Agent within such time period whether or not it agrees to increase its Tranche A Commitment and, if so, whether by an amount equal to, greater than, or less than its Applicable Percentage of such requested increase. Any Tranche A Lender not responding within such time period shall be deemed to have declined to increase its Tranche A Commitment.

(c) Notification by Agent; Additional Lenders. The Agent shall notify the Lead Borrower and each Tranche A Lender of the Tranche A Lenders' responses to each request made hereunder. To achieve the full amount of a requested increase and subject to the approval of the Agent, the L/C Issuer and the Swing Line Lender (which approvals shall not be unreasonably withheld), to the extent that the existing Tranche A Lenders decline to increase their Tranche A Commitments, or decline to increase their Tranche A Commitments to the amount requested by the Lead Borrower, the Arranger, in consultation with the Lead Borrower, will use its reasonable efforts to arrange for other Eligible Assignees to become a Tranche A Lender hereunder and to issue commitments in an amount equal to the amount of the increase in the Tranche A Commitments requested by the Lead Borrower and not accepted by the existing Tranche A Lenders (and the Lead Borrower may also invite additional Eligible Assignees to become Tranche A Lenders) (collectively, the "Additional Commitment Lenders"), *provided, however*, that without the consent of the Agent, at no time shall the Tranche A Commitment of any Additional Commitment Lender be less than \$5,000,000.

(d) Effective Date and Allocations. If the Tranche A Commitments are increased in accordance with this Section, the Agent, in consultation with the Lead Borrower, shall determine the effective date (the "Increase Effective Date") and the final allocation of such increase. The Agent shall promptly notify the Lead Borrower and the Tranche A Lenders of the final allocation of such increase and the Increase Effective Date and on the Increase Effective Date (i) the Tranche A Commitments under, and for all purposes of, this Agreement shall be increased by the aggregate amount of such Commitment Increases, and (ii) Schedule 2.01 shall be deemed modified, without further action, to reflect the revised Tranche A Commitments and Applicable Percentages of the Tranche A Lenders.

(e) Conditions to Effectiveness of Increase. As a condition precedent to such increase, (i) the Lead Borrower shall deliver to the Agent a certificate of each Domestic Loan Party dated as of the Increase Effective Date (in sufficient copies for each Tranche A Lender) signed by a Responsible Officer of such Domestic Loan Party (A) certifying and attaching the resolutions adopted by such Domestic Loan Party approving or consenting to such increase, and (B) in the case of the Domestic Borrowers, certifying that, before and after giving effect to such increase, (1) the representations and warranties contained in Article V and the other Loan Documents are true and correct on and as of the Increase Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 2.15, the representations and warranties contained in Section 5.05(a) and (b) shall be deemed to refer to the most recent statements furnished pursuant to Section 6.01(a) and (b), and (2) no Default or Event of Default exists or would arise therefrom, (ii) the Borrowers, the Agent, and any Additional Commitment Lender shall have executed and delivered a joinder to the Loan Documents in such form as the Agent shall reasonably require; (iii) the Borrowers shall have paid such fees and other compensation to the Additional Commitment Lenders as the Lead Borrower and such Additional

Commitment Lenders shall agree; (iv) the Borrowers shall have paid such arrangement fees to the Arranger as the Lead Borrower and the Agent may agree; (v) if requested by the Agent, the Domestic Borrowers shall deliver an opinion or opinions, in form and substance reasonably satisfactory to the Agent, from counsel to the Domestic Borrowers reasonably satisfactory to the Agent and dated such date; (vi) the Domestic Borrowers and the Additional Commitment Lender shall have delivered such other instruments, documents and agreements as the Agent may reasonably have requested; and (vii) no Default or Event of Default exists. The Domestic Borrowers shall prepay any Tranche A Loans outstanding on the Increase Effective Date (and pay any additional amounts required pursuant to Section 3.05) to the extent necessary to keep the outstanding Tranche A Loans ratable with any revised Applicable Percentages arising from any nonratable increase in the Tranche A Commitments under this Section.

(f) Conflicting Provisions. This Section shall supersede any provisions in Sections 2.13 or 10.01 to the contrary.

**ARTICLE III
TAXES, YIELD PROTECTION AND ILLEGALITY;
APPOINTMENT OF LEAD BORROWER**

3.01 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Loan Parties hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if the Loan Parties shall be required by Law to deduct, withhold or remit any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions, withholdings and remittances (including deductions, withholdings and remittances applicable to additional sums payable under this Section) the Agent, Lenders or L/C Issuer, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Loan Parties shall make such deductions, withholdings and remittances and (iii) the Loan Parties shall timely pay or remit the full amount deducted or withheld to the relevant Governmental Authority in accordance with Law.

(b) Payment of Other Taxes by the Borrowers. Without limiting the provisions of Section 3.01(a) above, the Borrowers shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with Law.

(c) Indemnification by the Loan Parties. (i) The Loan Parties shall indemnify the Agent, each Lender and the L/C Issuer, within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid, withheld or remitted by the Agent, such Lender or the L/C Issuer, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Lead Borrower or the Canadian Borrower by a Lender or the L/C Issuer (with a copy to the Agent), or by the Agent on its own behalf or on behalf of the Agent, a Lender or the L/C Issuer, shall be conclusive absent manifest error.

(ii) Without limiting the provisions of Section 3.01(a) or (b), (A) the Borrowers will not be required to indemnify any Foreign Lender, or pay any additional amount to such Foreign Lender, pursuant to Section 3.01(a), (b) or (c), in respect of Taxes to the extent that the obligation to pay or indemnify such additional amounts would

not have arisen but for the failure of such Foreign Lender to comply with the provisions of Section 3.01(f), and (B) each Credit Party will, and does hereby, indemnify the Borrowers and Agents, and will make payment in respect thereof within ten days after demand therefor, against any and all Taxes and any and all related losses, claims, liabilities, penalties, interest and expenses (including the fees, charges and disbursements of any counsel for the Borrowers or Agents) incurred by or asserted against any Borrower or Agent by any Governmental Authority as a result of the failure by such Credit Party to deliver, or as a result of the inaccuracy, inadequacy or deficiency of, any documentation required to be delivered by such Credit Party to the Borrowers or Agents pursuant to Section 3.01(f). Each Credit Party hereby authorizes Agents to set off and apply any and all amounts at any time owing to such Credit Party under this Agreement or any other Loan Document against any amount due to Agents under this Section 3.01(c)(ii). The agreements in this Section 3.01(c)(ii) will survive the resignation and/or replacement of Agents, any assignment of rights by, or the replacement of, a Credit Party, the termination of the Commitments and the repayment, satisfaction or discharge of all other Obligations.

(d) Evidence of Payments. As soon as practicable after any payment or remittance of Indemnified Taxes or Other Taxes by the Loan Parties to a Governmental Authority, the Lead Borrower or the Canadian Borrower, as applicable, shall deliver to the Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or remittance or other evidence of such payment or remittance reasonably satisfactory to the Agent.

(e) Status of Lenders. For all Tax purposes of this Agreement, including this Section 3.01, it is assumed that (i) the Domestic Lenders and the Term Lender will lend to the Domestic Borrowers and not to the Canadian Borrower and (ii) the Canadian Lenders will lend to the Canadian Borrower and not to the Domestic Borrowers. Any Foreign Lender other than a Canadian Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which any Domestic Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Lead Borrower (with a copy to the Agent), at the time or times prescribed by Law or reasonably requested by the Lead Borrower or the Agent, such properly completed and executed documentation prescribed by Law as will permit such payments to be made without withholding or at a reduced rate of withholding. Such delivery shall be provided on the Effective Date and on or before such documentation expires or becomes obsolete or after the occurrence of an event requiring a change in the documentation most recently delivered. In addition, any Lender, if requested by the Lead Borrower or the Canadian Borrower, as applicable, or the Agent shall deliver such other documentation prescribed by Law or reasonably requested by the Lead Borrower or the Canadian Borrower, as applicable, or the Agent as will enable the Lead Borrower or the Canadian Borrower, as applicable, or the Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

(f) Tax Documentation. Without limiting the generality of the foregoing, in the event that any Domestic Borrower is resident for tax purposes in the United States, any Foreign Lender (other than a Canadian Lender) shall deliver to the Lead Borrower and the Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Lead Borrower or the Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) duly completed copies of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States is a party,

(ii) duly completed copies of Internal Revenue Service Form W-8ECI,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) a certificate to the effect that such Foreign Lender is not (A) a “bank” within the meaning of section 881(c)(3)(A) of the Code, (B) a “10 percent shareholder” of the Domestic Borrowers within the meaning of section 881(c)(3)(B) of the Code, or (C) a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code and (y) duly completed copies of Internal Revenue Service Form W-8BEN, or

(iv) any other form prescribed by Law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by Law to permit the Lead Borrower to determine the withholding or deduction required to be made.

(g) Treatment of Certain Refunds. If the Agent, any Lender or the L/C Issuer determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Loan Parties or with respect to which the Loan Parties have paid additional amounts pursuant to this Section, it shall pay to the applicable Loan Parties an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrowers under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Agent, such Lender or the L/C Issuer, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Loan Parties, upon the request of the Agent, such Lender or the L/C Issuer, agree to repay the amount paid over to the applicable Loan Parties (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Agent, such Lender or the L/C Issuer in the event that the Agent, such Lender or the L/C Issuer is required to repay such refund to such Governmental Authority. This Section 3.01(g) shall not be construed to require the Agent, any Lender or the L/C Issuer to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Loan Parties or any other Person.

3.02 Illegality. If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund LIBOR Rate Loans or BA Equivalent Loans, or to determine or charge interest rates based upon the LIBOR Rate or the BA Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Lead Borrower or the Canadian Borrower, as applicable, through the Agent any obligation of such Lender to make or continue LIBOR Rate Loans or BA Equivalent Loans, as applicable, or to Convert Base Rate Loans or U.S. Index Rate Loans to LIBOR Rate Loans or to Convert Canadian Prime Rate Loans to BA Equivalent Loans shall be suspended until such Lender notifies the Agent and the Lead Borrower or the Canadian Borrower, as applicable, that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the applicable Borrowers shall, upon demand from such Lender (with a copy to the Agent), prepay or, if applicable, Convert all LIBOR Rate Loans of such Lender to Base Rate Loans or U.S. Index Rate Loans, as applicable, or Convert all BA Equivalent Loans of such Lender to Canadian Prime Rate Loans, as applicable, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such LIBOR Rate Loans or BA Equivalent Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such LIBOR Rate Loans or BA Equivalent Loans. Upon any such prepayment or Conversion, the applicable Borrowers shall also pay accrued interest on the amount so prepaid or Converted.

3.03 Inability to Determine Rates. If the Required Lenders determine that for any reason in connection with any request for a LIBOR Rate Loan or a BA Equivalent Loan or a Conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank market for the applicable amount and Interest Period of such LIBOR Rate Loan or Canadian Dollar bankers' acceptances are not being transacted in the Canadian interbank market for the applicable amount and Interest Period of such BA Equivalent Loan, (b) adequate and reasonable means do not exist for determining the LIBOR Rate or the BA Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan or BA Equivalent Loan, or (c) the LIBOR Rate or BA Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan or BA Equivalent Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Agent will promptly so notify the Lead Borrower or the Canadian Borrower, as applicable, and each applicable Lender. Thereafter, the obligation of the applicable Lenders to make or maintain LIBOR Rate Loans or BA Equivalent Loans shall be suspended until the Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Lead Borrower or the Canadian Borrower, as applicable, may revoke any pending request for a Borrowing of, Conversion to or continuation of LIBOR Rate Loans or BA Equivalent Loans or, failing that, will be deemed to have Converted such request into a request for a Borrowing of Base Rate Loans, U.S. Index Rate Loans or Canadian Prime Rate Loans, as applicable, in the amount specified therein.

3.04 Increased Costs; Reserves on LIBOR Rate Loans and BA Equivalent Loans.

(a) Increased Costs Generally. Except to the extent addressed by Section 3.01, if any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the LIBOR Rate) or the L/C Issuer;

(ii) subject any Lender or the L/C Issuer to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any LIBOR Rate Loan or BA Equivalent Loan made by it, or change the basis of taxation of payments to such Lender or the L/C Issuer in respect thereof; or

(iii) impose on any Lender or the L/C Issuer or the London interbank market any other condition, cost or expense affecting this Agreement or LIBOR Rate Loans or BA Equivalent Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any LIBOR Rate Loan or BA Equivalent Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender or the L/C Issuer of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or the L/C Issuer hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or the L/C Issuer, the applicable Loan Parties will pay to such Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or the L/C Issuer, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or the L/C Issuer determines that any Change in Law affecting such Lender or the L/C Issuer or any Lending Office of such Lender or such Lender's or the L/C Issuer's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the L/C Issuer's capital or on the capital of such Lender's or the L/C Issuer's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the L/C Issuer, to a level below that which such Lender or the L/C Issuer or such Lender's or the L/C Issuer's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the L/C Issuer's policies and the policies of such Lender's or the L/C Issuer's holding company with respect to capital adequacy), then from time to time the applicable Loan Parties will pay to such Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or the L/C Issuer or such Lender's or the L/C Issuer's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender or the L/C Issuer setting forth the amount or amounts necessary to compensate such Lender or the L/C Issuer or its holding company, as the case may be, as specified in Section 3.04(a) or (b) and delivered to the Lead Borrower or the Canadian Borrower, as applicable, shall be conclusive absent manifest error; provided that such amount shall be consistent with return metrics applied in determining amounts that such Lender or L/C Issuer has required other similarly situated borrowers or obligors to pay with respect to such increased costs or reduced returns. The applicable Loan Parties shall pay such Lender or the L/C Issuer, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or the L/C Issuer to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's or the L/C Issuer's right to demand such compensation, provided that, notwithstanding the provisions of Section 3.04(a) and (b), the Loan Parties shall not be required to compensate a Lender or the L/C Issuer pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than six months prior to the date that such Lender or the L/C Issuer, as the case may be, notifies the Lead Borrower or the Canadian Borrower, as applicable, of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the L/C Issuer's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six-month period referred to above shall be extended to include the period of retroactive effect thereof), and provided further that the Lender or the L/C Issuer claiming compensation therefor shall apply consistent return metrics applied to other similarly situated borrowers or obligors with respect to such increased costs or reductions.

(e) Reserves on LIBOR Rate Loans. The Domestic Borrowers or the Canadian Borrower, as applicable, shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each LIBOR Rate Loan equal to the actual costs of such reserves allocated to such Loan by such Lender (as determined by such Lender in good faith, which determination shall be conclusive), which shall be due and payable on each date on which interest is payable on such Loan, provided the Lead Borrower or the Canadian Borrower, as applicable, shall have received at least 10 days' prior notice (with a copy to the Agent) of such additional interest from such Lender. If a Lender fails to give notice 10 days prior to the relevant Interest Payment Date, such additional interest shall be due and payable 10 days from receipt of such notice.

3.05 Compensation for Losses. Upon demand of any Lender (with a copy to the Agent) from time to time, the applicable Borrowers shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, Conversion, payment or prepayment of any Loan other than a Base Rate Loan, U.S. Index Rate Loan or Canadian Prime Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Borrowers (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or Convert any Loan other than a Base Rate Loan, U.S. Index Rate Loan or Canadian Prime Rate Loan on the date or in the amount notified by the Lead Borrower or the Canadian Borrower, as applicable; or

(c) any assignment of a LIBOR Rate Loan or a BA Equivalent Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Lead Borrower or the Canadian Borrower, as applicable, pursuant to Section 10.13;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained; provided that no Borrower shall be obligated to pay any of the foregoing amounts incurred in connection with such Lender becoming or being a Defaulting Lender. The applicable Borrowers shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrowers to the Lenders under this Section 3.05, each Lender shall be deemed (i) to have funded each LIBOR Rate Loan made by it at the LIBOR Rate for such Loan by a matching deposit or other borrowing in the London interbank market for a comparable amount and for a comparable period, whether or not such LIBOR Rate Loan was in fact so funded and (ii) to have funded each BA Equivalent Loan made by it at the BA Rate for such Loan by a matching discounting, acceptance or other Borrowing or transaction in the Canadian interbank market for bankers' acceptances for a comparable period, whether or not such BA Equivalent Loan was in fact so discounted or accepted.

3.06 Mitigation Obligations; Replacement of Lenders.

(a) Designation of a Different Lending Office. If any Lender requests compensation under Section 3.04, or the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender gives a notice pursuant to Section 3.02, then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04, as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02, as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Domestic Borrowers or the Canadian Borrower, as applicable, hereby agree to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 3.04, or if the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, the Borrowers may replace such Lender in accordance with Section 10.13.

3.07 Survival. All of the Borrowers' obligations under this Article III shall survive termination of the Aggregate Commitments and repayment of all other Obligations hereunder.

3.08 Designation of Lead Borrower as Domestic Borrowers' Agent.

(a) Each Domestic Borrower hereby irrevocably designates and appoints the Lead Borrower as such Domestic Borrower's agent to obtain Domestic Credit Extensions, the proceeds of which shall be available to each Domestic Borrower for such uses as are permitted under this Agreement. As the disclosed principal for its agent, each Domestic Borrower shall be obligated to each Domestic Credit Party on account of Domestic Credit Extensions so made as if made directly by the applicable Domestic Credit Party to such Domestic Borrower, notwithstanding the manner by which such Domestic Credit Extensions are recorded on the books and records of the Lead Borrower and of any other Domestic Borrower. In addition, each Domestic Loan Party other than the Domestic Borrowers hereby irrevocably designates and appoints the Lead Borrower as such Domestic Loan Party's agent to represent such Domestic Loan Party in all respects under this Agreement and the other Loan Documents.

(b) Each Borrower recognizes that credit available to it hereunder is in excess of and on better terms than it otherwise could obtain on and for its own account and that one of the reasons therefor is its joining in the credit facility contemplated herein with all other Borrowers. Consequently, each Borrower hereby assumes and agrees to discharge all Obligations of each of the other Borrowers; provided that the Canadian Borrower shall be liable only for the Canadian Liabilities.

(c) The Lead Borrower shall act as a conduit for each Domestic Borrower (including itself, as a "Domestic Borrower") on whose behalf the Lead Borrower has requested a Domestic Credit Extension. Neither the Agent nor any other Domestic Credit Party shall have any obligation to see to the application of such proceeds therefrom.

**ARTICLE IV
CONDITIONS PRECEDENT TO CREDIT EXTENSIONS**

4.01 Conditions to Effectiveness. The effectiveness of this Agreement and the other Loan Documents is subject to satisfaction of the following conditions precedent:

(a) The Agent's receipt of the following, each of which shall be originals, telecopies or other electronic image scan transmission (e.g., "pdf" or "tif" via e-mail) (followed promptly by originals) unless otherwise specified, each dated the Effective Date (or, in the case of certificates of governmental officials, a recent date before the Effective Date) and each in form and substance satisfactory to the Agent:

(i) counterparts of this Agreement each properly executed by a Responsible Officer of the signing Loan Party and the Lenders sufficient in number for distribution to the Agent, each Lender and the Lead Borrower;

(ii) a Note executed by the applicable Borrowers in favor of each Lender requesting a Note;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Agent may require evidencing (A) the authority of each Loan Party to enter into this Agreement and the other Loan Documents to which such Loan Party is a party or is to become a party and (B) the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party or is to become a party;

(iv) copies of each Loan Party's Organization Documents and such other documents and certifications as the Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that each Loan Party is validly existing, in good standing and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to so qualify in such jurisdiction could not reasonably be expected to have a Material Adverse Effect;

(v) a favorable opinion of Morrison & Foerster LLP, United States counsel to the Loan Parties, and of Blake, Cassels & Graydon LLP, Canadian counsel to the Loan Parties, addressed to the Agent and each Lender, as to such matters concerning the Loan Parties and the Loan Documents as the Agent may reasonably request;

(vi) a certificate of a Responsible Officer of the Lead Borrower certifying (A) that the conditions specified in Sections 4.02(a) and (b) have been satisfied, (B) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect, (C) to the Solvency of the Loan Parties as of the Effective Date after giving effect to the transactions contemplated hereby, and (D) either that (1) no consents, licenses or approvals are required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, or (2) that all such consents, licenses and approvals have been obtained and are in full force and effect;

(vii) evidence that all insurance required to be maintained pursuant to the Loan Documents and all endorsements in favor of the Agent required under the Loan Documents have been obtained and are in effect;

(viii) the Security Documents and certificates evidencing any stock being pledged thereunder, together with undated stock powers executed in blank, each duly executed by the applicable Loan Parties;

(ix) the Fee Letter, duly executed by the Lead Borrower;

(x) (A) an appraisal (based on net liquidation value) by a third party appraiser acceptable to the Agent of all Inventory of the Borrowers, the results of which are satisfactory to the Agent, and (B) a written report regarding the results of a commercial finance examination of the Loan Parties, which shall be satisfactory to the Agent;

(xi) results of searches or other evidence reasonably satisfactory to the Agent (in each case dated as of a date reasonably satisfactory to the Agent) indicating the absence of Liens on the assets of the Loan Parties, except for Permitted Encumbrances and Liens for which termination statements and releases, satisfactions and discharges of any Mortgages, PPSA estoppel letters and releases or subordination agreements satisfactory to the Agent are being tendered concurrently with such extension of credit or other arrangements satisfactory to the Agent for the delivery of such termination statements and releases, satisfactions and discharges have been made;

(xii) (A) all documents and instruments, including Uniform Commercial Code financing statements and PPSA financing statement registrations, required by law or reasonably requested by the Agents to be filed, registered or recorded to create or perfect the first priority (subject to Permitted Encumbrances having priority by operation of Law) Liens intended to be created under the Loan Documents and all such documents and instruments shall have been so filed, registered or recorded to the satisfaction of the Agents, (B) copies of Credit Card Notifications, which shall have been executed on behalf of such Loan Party and delivered to such Loan Party's credit card clearinghouses and processors listed on Schedule 5.21(b), (C) Blocked Account Agreements entered into with the applicable Blocked Account Banks, and (D) control agreements with respect to the Loan Parties' securities and investment accounts have been obtained;

(xiii) evidence that all other actions that the Agent may deem necessary or desirable in order to create valid first and subsisting Liens on the property described in the Mortgages has been taken;

(xiv) an appraisal of each of the properties described in the Mortgages complying with the requirements of FIRREA by a third party appraiser acceptable to the Agent and otherwise in form and substance satisfactory to the Agent; and

(xv) such other assurances, certificates, documents, consents or opinions as the Agent reasonably may require.

(b) After giving effect to the transactions contemplated hereby and any Credit Extensions to be made on the Effective Date, Domestic Availability shall be not less than \$30,000,000.

(c) The Agent shall have received a Borrowing Base Certificate dated the Effective Date, relating to the month ended on June 30, 2011, and executed by a Responsible Officer of the Lead Borrower.

(d) The Agent shall be reasonably satisfied that any financial statements delivered to it and the Lenders fairly present the business and financial condition of the Loan Parties and that there has been no Material Adverse Effect since January 31, 2011.

(e) The Agent and the Lenders shall have received and be satisfied with (i) updated quarterly projections of the Borrowers and (ii) not more than fifteen (15) days prior to the Effective Date, financial statements for the Fiscal Month most recently ended, in each case in form and substance acceptable to the Agent.

(f) There shall not be pending any litigation or other proceeding, the result of which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(g) There shall not have occurred any default of any Material Contract of any Loan Party which could reasonably be expected to have a Material Adverse Effect.

(h) The consummation of the transactions contemplated hereby shall not violate any Law or any Organization Document.

(i) All fees required to be paid to the Agent or the Arranger on or before the Effective Date shall have been paid in full, and all fees required to be paid to the Lenders on or before the Effective Date shall have been paid in full.

(j) The Borrowers shall have paid all fees, charges and disbursements of counsel to the Agent to the extent invoiced prior to or on the Effective Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the Effective Date (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrowers and the Agent).

(k) The Agent and the Lenders shall have received all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-money laundering rules and regulations, including without limitation, the USA PATRIOT Act and the AML Legislation.

(l) No material changes in governmental regulations or policies affecting any Loan Party or any Credit Party shall have occurred prior to the Effective Date.

Without limiting the generality of the provisions of Section 9.04, for purposes of determining compliance with the conditions specified in this Section 4.01, each Lender that has signed this Agreement shall be deemed to have Consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be Consented to or approved by or acceptable or satisfactory to a Lender unless the Agent shall have received notice from such Lender prior to the proposed Effective Date specifying its objection thereto.

4.02 Conditions to all Credit Extensions. The obligation of each Lender to honor any Request for Credit Extension (other than a Domestic Loan Notice or Canadian Loan Notice requesting only a Conversion of Loans to the other Type, or a continuation of LIBOR Rate Loans or BA Equivalent Loans) and of each L/C Issuer to issue each Letter of Credit is subject to the following conditions precedent:

(a) The representations and warranties of each Loan Party contained in Article V or in any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the date of such Credit Extension, except (i) to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, (ii) in the case of any representation and warranty qualified by materiality, they shall be true and correct in all respects and (iii) for purposes of this Section 4.02, the representations and warranties contained in Section 5.05(a) and (b) shall be deemed to refer to the most recent statements furnished pursuant to Section 6.01(a) and (b), respectively.

(b) No Default or Event of Default shall exist, or would result from such proposed Credit Extension or from the application of the proceeds thereof.

(c) The Agent and, if applicable, the L/C Issuer or the Swing Line Lender shall have received a Request for Credit Extension in accordance with the requirements hereof.

(d) No event or circumstance which could reasonably be expected to result in a Material Adverse Effect shall have occurred.

Each Request for Credit Extension (other than a Domestic Loan Notice or Canadian Loan Notice requesting only a Conversion of Loans to the other Type or a continuation of LIBOR Rate Loans or BA Equivalent Loans) submitted by the Lead Borrower or the Canadian Borrower, as applicable, shall be deemed to be a representation and warranty by the Borrowers that the conditions specified in Sections 4.02(a), (b) and (d) have been satisfied on and as of the date of the applicable Credit Extension. The conditions set forth in this Section 4.02 are for the sole benefit of the Credit Parties but until the Required Lenders otherwise direct the Agent to cease making Loans and issuing Letters of Credit, the Revolving Lenders will fund their Applicable Percentage of all Loans and L/C Advances and participate in all Swing Line Loans and Letters of Credit whenever made or issued, which are requested by the Lead Borrower or the Canadian Borrower, as applicable, and which, notwithstanding the failure of the Loan Parties to comply with the provisions of this Article IV, agreed to by the Agent provided, however, the making of any such Loans or the issuance of any Letters of Credit shall not be deemed a modification or waiver by any Credit Party of the provisions of this Article IV on any future occasion or a waiver of any rights or the Credit Parties as a result of any such failure to comply.

ARTICLE V REPRESENTATIONS AND WARRANTIES

To induce the Credit Parties to enter into this Agreement and to make Loans and to issue Letters of Credit hereunder, each Loan Party represents and warrants to the Agent and the other Credit Parties that:

5.01 Existence, Qualification and Power. Each Loan Party and each Subsidiary thereof (a) is a corporation, limited or unlimited liability company, partnership or limited partnership, duly incorporated, organized or formed, validly existing and, where applicable, in good standing under the Laws of the jurisdiction of its incorporation, organization or formation, (b) has all requisite power and authority and all requisite governmental licenses, permits, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, and (c) is duly qualified and is licensed and, where applicable, in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license; except in each case referred to in clause (b)(i) or (c), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect. Schedule 5.01 annexed hereto sets forth, as of the Effective Date, each Loan Party's and Subsidiary's name as it appears in official filings in its jurisdiction of incorporation or organization, organization type, organization number, if any, issued by its jurisdiction of incorporation or organization, and its federal employer identification number or similar number in a foreign jurisdiction.

5.02 Authorization; No Contravention. The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is or is to be a party, has been duly authorized by all necessary corporate or other organizational action, and does not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach, termination, or contravention of, or constitute a default under, or require any payment to be made under (i) any Material Contract or any Material Indebtedness to which such Person is a party or affecting such Person or the properties of such Person or any of its Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; (c) result in or require the creation of any Lien upon any asset of any Loan Party (other than Liens in favor of the Agent under the Security Documents); or (d) violate any material Law.

5.03 Governmental Authorization; Other Consents. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document, except for (a) the perfection or maintenance of the Liens created under the Security Documents or (b) such as have been obtained or made and are in full force and effect.

5.04 Binding Effect. This Agreement has been, and each other Loan Document, when delivered, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other applicable Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

5.05 Financial Statements; No Material Adverse Effect.

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Lead Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all Material Indebtedness and other liabilities, direct or contingent, of the Lead Borrower and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness.

(b) The unaudited Consolidated balance sheet of the Lead Borrower and its Subsidiaries dated April 30, 2011, and the related Consolidated statements of income or operations, Shareholders' Equity and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the financial condition of the Lead Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments.

(c) Since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

(d) To the best knowledge of the Lead Borrower, no Internal Control Event exists or has occurred since the date of the Audited Financial Statements that has resulted in or could reasonably be expected to result in a misstatement in any material respect, (i) in any financial information delivered to the Agent or the Lenders, (ii) of the Canadian Borrowing Base, the Term Loan Borrowing Base or the Domestic Borrowing Base, (iii) of covenant compliance calculations provided hereunder or (iv) of the assets, liabilities, financial condition or results of operations of the Lead Borrower and its Subsidiaries on a Consolidated basis.

(e) The Consolidated forecasted balance sheet and statements of income and cash flows of the Lead Borrower and its Subsidiaries delivered pursuant to Section 6.01(d) were prepared in good faith on the basis of the assumptions stated therein, which assumptions were fair in light of the conditions existing at the time of delivery of such forecasts, and represented, at the time of delivery, the Loan Parties' best estimate of its future financial performance.

5.06 Litigation. There are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Loan Parties after due and diligent investigation, threatened in writing or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against any Loan Party or any of its Subsidiaries or against any of its properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) either individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

5.07 No Default. No Loan Party or any Subsidiary is in default under or with respect to, or party to, any Material Contract or any Material Indebtedness. No Default or Event of Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

5.08 Ownership of Property; Liens

(a) Each of the Loan Parties has marketable title in fee simple to or valid leasehold interests in, all Real Estate necessary or used in the ordinary conduct of its business, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each of the Loan Parties has good and marketable title to, valid leasehold interests in, or valid licenses to use all personal property and assets material to the ordinary conduct of its business.

(b) Schedule 5.08(b)(1) sets forth the address (including street address, county and state or province) of all Real Estate (excluding Leases) that is owned by the Loan Parties, together with a list of the holders of any mortgage or other Lien thereon as of the Effective Date. Each Loan Party has good, marketable and insurable fee simple title to the Real Estate owned by such Loan Party or such Subsidiary, free and clear of all Liens, other than Permitted Encumbrances. Schedule 5.08(b)(2) sets forth the address (including street address, county and state or province) of all Leases of the Loan Parties, together with the name of each lessor and its contact information with respect to each such Lease as of the Effective Date. Each of such Leases is in full force and effect and the Loan Parties are not in default of the terms thereof.

(c) Schedule 7.01 sets forth a complete and accurate list of all Liens on the property or assets of each Loan Party on the Effective Date, showing the lienholder thereof, the principal amount of the obligations secured thereby and the property or assets of such Loan Party subject thereto. The property of each Loan Party is subject to no Liens, other than Permitted Encumbrances.

(d) Schedule 7.02 sets forth a complete and accurate list of each Investment held by any Loan Party on the Effective Date, showing as of the Effective Date the amount, obligor or issuer and maturity, if any, thereof.

(e) Schedule 7.03 sets forth a complete and accurate list of all Indebtedness of each Loan Party on the Effective Date, showing as of the Effective Date the amount, obligor or issuer and maturity thereof.

5.09 Environmental Compliance.

(a) No Loan Party (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability, except, in each case, as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) None of the properties currently, or, to the best knowledge of the Loan Parties, formerly, owned or operated by any Loan Party is listed or proposed for listing on the NPL or on the CERCLIS or any analogous foreign, state, provincial, municipal or local list; there are no and never have been any underground or above-ground storage tanks or any surface impoundments, septic tanks, pits, sumps or lagoons in which Hazardous Materials are being or have been treated, stored or disposed on any property currently owned or operated by any Loan Party or, to the best of the knowledge of the Loan Parties, on any property formerly owned or operated by any Loan Party; there is no asbestos or asbestos-containing material on any property currently owned or operated by any Loan Party; and Hazardous Materials have not been released, discharged or disposed of on any property currently or formerly owned or operated by any Loan Party.

(c) No Loan Party is undertaking, and no Loan Party has completed, either individually or together with other potentially responsible parties, any investigation or assessment or remedial or response action relating to any actual or threatened release, discharge or disposal of Hazardous Materials at any site, location or operation, either voluntarily or pursuant to the order of any Governmental Authority or the requirements of any Environmental Law; and all Hazardous Materials generated, used, treated, handled or stored at, or transported to or from, any property currently or formerly owned or operated by any Loan Party have been disposed of in a manner not reasonably expected to result in material liability to any Loan Party.

5.10 Insurance. The properties of the Loan Parties are insured with financially sound and reputable insurance companies which are not Affiliates of the Loan Parties, in such amounts, with such deductibles and covering such risks (including, without limitation, workmen's compensation, public liability, business interruption and property damage insurance) as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Loan Parties operates. Schedule 5.10 sets forth a description of all insurance maintained by or on behalf of the Loan Parties as of the Effective Date. As of the Effective Date, each insurance policy listed on Schedule 5.10 is in full force and effect and all premiums in respect thereof that are due and payable have been paid.

5.11 Taxes. The Loan Parties have filed all federal, state, provincial and other material tax returns and reports required to be filed, and have paid all federal, state, provincial and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings being diligently conducted, for which adequate reserves have been provided in accordance with GAAP, as to which Taxes no Lien has been filed or seizure or garnishment made and which contest effectively suspends the collection of the contested obligation and the enforcement of any Lien or other right or remedy securing such obligation. There is no proposed tax assessment against any Loan Party that would, if made, have a Material Adverse Effect. No Loan Party or any Subsidiary thereof is a party to any tax sharing agreement.

5.12 ERISA Compliance; Canadian Pension Plans.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter or opinion letter from the IRS or the remedial amendment period for such Plan has not expired and, to the best knowledge of the Lead Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. The Domestic Loan Parties and each ERISA Affiliate have made all required contributions to each Plan

subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan. No Lien imposed under the Code or ERISA exists or is likely to arise on account of any Plan.

(b) There are no pending or, to the best knowledge of the Lead Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c)(i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability that could reasonably be expected to have a Material Adverse Effect; (iii) neither any Domestic Loan Party nor any ERISA Affiliate has incurred, or reasonably expects to incur, any material liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither any Domestic Loan Party nor any ERISA Affiliate has incurred, or reasonably expects to incur, any material liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such material liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither any Domestic Loan Party nor any ERISA Affiliate has engaged in a transaction that could reasonably be subject to Sections 4069 or 4212(c) of ERISA.

(d) No Canadian Loan Party maintains or is required to contribute to any Canadian Pension Plan.

5.13 Subsidiaries; Equity Interests. As of the Effective Date, the Loan Parties have no Subsidiaries other than those specifically disclosed in Part (a) of Schedule 5.13, which Schedule sets forth the legal name, jurisdiction of incorporation or formation and authorized Equity Interests of each such Subsidiary. All of the outstanding Equity Interests in the Loan Parties and the Subsidiaries have been validly issued, are fully paid and non-assessable and are owned in the amounts specified on Part (a) of Schedule 5.13 free and clear of all Liens except for Permitted Encumbrances arising by operation of Law. Except as set forth in Schedule 5.13, there are no outstanding rights to purchase any Equity Interests in any Subsidiary. As of the Effective Date, the Loan Parties have no equity investments in any other corporation or entity other than those specifically disclosed in Part (b) of Schedule 5.13. The copies of the Organization Documents of each Loan Party and each amendment thereto provided pursuant to Section 4.01 are true and correct copies of each such document as of the Effective Date, each of which is valid and in full force and effect as of the Effective Date.

5.14 Margin Regulations; Investment Company Act.

(a) No Loan Party is engaged or will be engaged, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock. None of the proceeds of the Credit Extensions shall be used directly or indirectly for any purpose that violates Regulations T, U, or X issued by the FRB.

(b) None of the Loan Parties, any Person Controlling any Loan Party, or any Subsidiary is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

5.15 Disclosure. Each Loan Party has disclosed to the Agent and the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party to the Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case, as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Loan Parties represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

5.16 Compliance with Laws. Each of the Loan Parties is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

5.17 Intellectual Property; Licenses, Etc. The Loan Parties own, or possess the right to use, all of the Intellectual Property, licenses, permits and other authorizations that are reasonably necessary for the operation of their respective businesses, to avoid conflict with the rights of any other Person. To the best knowledge of the Lead Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by any Loan Party infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Lead Borrower, threatened in writing, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.18 Labor Matters.

There are no strikes, lockouts, slowdowns or other material labor disputes against any Loan Party pending or, to the knowledge of any Loan Party, threatened in writing. The hours worked by and payments made to employees of the Loan Parties comply with the Fair Labor Standards Act and any other applicable federal, state, provincial, municipal, local or foreign Law dealing with such matters. No Loan Party has incurred any liability or obligation under the Worker Adjustment and Retraining Act or similar state, provincial or foreign Law. All payments due from any Loan Party, or for which any claim may be made against any Loan Party, on account of wages and employee health and welfare insurance and other benefits, have been paid or properly accrued in accordance with GAAP as a liability on the books of such Loan Party. Except as set forth on Schedule 5.18, no Loan Party is a party to or bound by any collective bargaining agreement, management agreement, employment agreement, bonus, restricted stock, stock option, or stock appreciation plan or agreement or any similar plan, agreement or arrangement. There are no representation proceedings pending or, to any Loan Party's knowledge, threatened in writing to be filed with the National Labor Relations Board, and no labor organization or group of employees of any Loan Party has made a pending demand for recognition. There are no complaints, unfair labor practice charges, grievances, arbitrations, unfair employment practices charges or any other claims or complaints against any Loan Party pending or, to the knowledge of any Loan Party, threatened in writing to be filed with any Governmental Authority or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment of any employee of any Loan Party. The consummation of the transactions contemplated by the Loan Documents will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which any Loan Party is bound.

5.19 Security Documents.

(a) The Security Agreement creates in favor of the Agent, for the benefit of the Credit Parties, a legal, valid, continuing and enforceable Lien on the Collateral (as defined in the Security Agreement), the enforceability of which is subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law. The financing statements, releases and other filings are in appropriate form and have been or will be filed in the offices specified in Schedule II of the Security Agreement. Upon (i) the filing of UCC financing statements, naming the Agent as secured party, Domestic Loan Parties as debtors and such Collateral as collateral, in the offices of the Secretaries of States of the States in which the Domestic Loan Parties are incorporated or formed, the Agent will have a perfected Lien on, and security interest in, to and under all right, title and interest of the Domestic Loan Parties in all such Collateral that may be perfected by the filing of a UCC financing statement, (ii) the obtaining of "control" (as defined in the UCC) of any such Collateral, the Agent will have a perfected Lien on, and security interest in, to and under all right, title and interest of the Domestic Loan Parties in all such Collateral that may be perfected by obtaining control, in each case prior and superior in right to any other Person (other than holders of Permitted Encumbrances having priority by operation of Law).

(b) When the Security Agreement (or a short form thereof) is filed in the United States Patent and Trademark Office, the United States Copyright Office and the Canadian Intellectual Property Office and when financing statements, releases and other filings in appropriate form are filed in the offices specified on Schedule II of the Security Agreement, the Agent shall have a fully perfected Lien on, and security interest in, all right, title and interest of the applicable Loan Parties in the Intellectual Property Collateral (as defined in the Security Agreement or the Canadian Security Documents, as applicable) in which a security interest may be perfected by filing, recording or registering a security agreement, financing statement or analogous document in the United States Patent and Trademark Office, the United States Copyright Office or the Canadian Intellectual Property Office, as applicable, in each case prior and superior in right to any other Person (it being understood that subsequent recordings in the United States Patent and Trademark Office, the United States Copyright Office and the Canadian Intellectual Property Office may be necessary to perfect a Lien on registered trademarks, trademark applications and copyrights acquired by the applicable Loan Parties after the Effective Date).

(c) The Canadian Security Documents create in favor of the Agent, for the benefit of the Canadian Credit Parties, a legal, valid, continuing and enforceable security interest in the Collateral (as defined in the Canadian Security Documents), the enforceability of which is subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law. The financing statements, releases and other filings are in appropriate form and have been filed in the offices specified in Schedule II of the General Security Agreement forming part of the Canadian Security Documents. Upon such filings, the Agent will have a perfected Lien on, and security interest in, to and under all right, title and interest of the grantors thereunder in all Collateral that may be perfected under the PPSA (in effect on the date this representation is made) by filing, recording or registering a financing statement or analogous document (including without limitation the proceeds of such Collateral subject to the limitations relating to such proceeds in the PPSA), in each case prior and superior in right to any other Person (other than holders of Permitted Encumbrances having priority by operation of Law).

(d) The Mortgages create in favor of the Agent, for the benefit of the Credit Parties, a legal, valid, continuing and enforceable Lien in the Mortgaged Property (as defined in the Mortgages), the enforceability of which is subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of

whether considered in a proceeding in equity or at law. Upon the filing or recording of the Mortgages with the appropriate Governmental Authorities, the Agent will have a perfected Lien on, and security interest in, to and under all right, title and interest of the grantors thereunder in all Mortgaged Property that may be perfected by such filing (including without limitation the proceeds of such Mortgaged Property), in each case prior and superior in right to any other Person.

5.20 Solvency

After giving effect to the transactions contemplated by this Agreement, and before and after giving effect to each Credit Extension, the Loan Parties, on a Consolidated basis, are Solvent. No transfer of property has been or will be made by any Loan Party and no obligation has been or will be incurred by any Loan Party in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of any Loan Party.

5.21 Deposit Accounts; Credit Card Arrangements.

(a) Annexed hereto as Schedule 5.21(a) is a list of all DDAs maintained by the Loan Parties as of the Effective Date, which Schedule includes, with respect to each DDA (i) the name and address of the depository; (ii) the account number(s) maintained with such depository; (iii) a contact person at such depository, and (iv) the identification of each Blocked Account Bank.

(b) Annexed hereto as Schedule 5.21(b) is a list describing all arrangements as of the Effective Date to which any Loan Party is a party with respect to the processing and/or payment to such Loan Party of the proceeds of any credit card charges and debit card charges for sales made by such Loan Party.

5.22 Brokers. No broker or finder brought about the obtaining, making or closing of the Loans or transactions contemplated by the Loan Documents, and no Loan Party or Affiliate thereof has any obligation to any Person in respect of any finder's or brokerage fees in connection therewith.

5.23 Customer and Trade Relations. There exists no actual or, to the knowledge of any Loan Party, threatened in writing, termination or cancellation of, or any material adverse modification or change in the business relationship of any Loan Party with any supplier material to its operations.

5.24 Material Contracts. Schedule 5.24 sets forth all Material Contracts to which any Loan Party is a party or is bound as of the Effective Date. The Loan Parties are not in breach or in default in any material respect of or under any Material Contract and have not received any notice of the intention of any other party thereto to terminate any Material Contract.

5.25 Casualty. Neither the businesses nor the properties of any Loan Party or any of its Subsidiaries are affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance) that, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

ARTICLE VI AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied (other than contingent indemnification claims for which a claim has not been asserted), or any Letter of Credit shall remain outstanding, the Loan Parties shall, and shall (except in the case of the covenants set forth in Sections 6.01, 6.02, and 6.03) cause each Subsidiary to:

6.01 Financial Statements. Deliver to the Agent, in form and detail satisfactory to the Agent:

(a) as soon as available, but in any event within 90 days after the end of each Fiscal Year of the Lead Borrower, a Consolidated and consolidating balance sheet of the Lead Borrower and its Subsidiaries as at the end of such Fiscal Year, and the related consolidated and consolidating statements of income or operations, Shareholders' Equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail and prepared in accordance with GAAP, such consolidated statements to be audited and accompanied by a report and unqualified opinion of a Registered Public Accounting Firm of nationally recognized standing reasonably acceptable to the Agent, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit, and such consolidating statements to be certified by a Responsible Officer of the Lead Borrower to the effect that such statements are fairly stated in all material respects when considered in relation to the consolidated financial statements of the Lead Borrower and its Subsidiaries;

(b) as soon as available, but in any event within 45 days after the end of each Fiscal Quarter of each Fiscal Year of the Lead Borrower, a Consolidated balance sheet of the Lead Borrower and its Subsidiaries as at the end of such Fiscal Quarter, and the related consolidated statements of income or operations, Shareholders' Equity and cash flows for such Fiscal Quarter and for the portion of the Lead Borrower's Fiscal Year then ended, setting forth in each case in comparative form the figures for (A) such period set forth in the projections delivered pursuant to Section 6.01(d) hereof, (B) the corresponding Fiscal Quarter of the previous Fiscal Year and (C) the corresponding portion of the previous Fiscal Year, all in reasonable detail, certified by a Responsible Officer of the Lead Borrower as fairly presenting the financial condition, results of operations, Shareholders' Equity and cash flows of the Lead Borrower and its Subsidiaries as of the end of such Fiscal Quarter in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes;

(c) as soon as available, but in any event within 30 days after the end of each of the Fiscal Months of each fiscal year of the Lead Borrower, a consolidated balance sheet of the Lead Borrower and its Subsidiaries as at the end of such Fiscal Month, and the related consolidated statements of income or operations, Shareholders' Equity and cash flows for such Fiscal Month, and for the portion of the Lead Borrower's Fiscal Year then ended, setting forth in each case in comparative form the figures for (A) such period set forth in the projections delivered pursuant to Section 6.01(d) hereof, (B) the corresponding Fiscal Month of the previous Fiscal Year and (C) the corresponding portion of the previous fiscal year, all in reasonable detail, certified by a Responsible Officer of the Lead Borrower as fairly presenting the financial condition, results of operations, Shareholders' Equity and cash flows of the Lead Borrower and its Subsidiaries as of the end of such Fiscal Month in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes;

(d) as soon as available, but in any event no more than 60 days after the end of each Fiscal Year of the Lead Borrower, forecasts prepared by management of the Lead Borrower, in form satisfactory to the Agent, of Canadian Availability, Domestic Availability and Total Availability, a statement of the projected number of Stores to be opened and closed by the Borrowers, and the consolidated balance sheets and statements of income or operations and cash flows of the Lead Borrower and its Subsidiaries on a monthly basis for the immediately following Fiscal Year (including the fiscal year in which the Maturity Date occurs).

6.02 Certificates; Other Information. Deliver to the Agent, in form and detail satisfactory to the Agent:

(a) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b) and (c), a duly completed Compliance Certificate signed by a Responsible Officer of the Lead Borrower;

(b) on the first Monday of each Fiscal Month (or, if such day is not a Business Day, on the next succeeding Business Day), or more frequently as the Borrowers may elect, a Borrowing Base Certificate showing the Canadian Borrowing Base, the Term Loan Borrowing Base and the Domestic Borrowing Base as of the close of business as of the last day of the immediately preceding Fiscal Month, each Borrowing Base Certificate to be certified as complete and correct by a Responsible Officer of the Lead Borrower; provided that at any time that an Accelerated Borrowing Base Delivery Event has occurred and is continuing, such Borrowing Base Certificate shall be delivered on Monday of each week (or, if Monday is not a Business Day, on the next succeeding Business Day), as of the close of business on the immediately preceding Saturday;

(c) promptly upon receipt, copies of any detailed audit reports or management letters submitted to the board of directors (or the audit committee of the board of directors) of any Loan Party by its Registered Public Accounting Firm in connection with the accounts or books of the Loan Parties or any Subsidiary, or any audit of any of them, including, without limitation, specifying any Internal Control Event;

(d) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Loan Parties, and copies of all annual, regular, periodic and special reports and registration statements which any Loan Party may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934 or with any Canadian national securities exchange;

(e) the financial and collateral reports described on Schedule 6.02 hereto, at the times set forth in such Schedule;

(f) as soon as available, but in any event within 30 days after the end of each Fiscal Year of the Loan Parties, a report summarizing the insurance coverage (specifying type, amount and carrier) in effect for each Loan Party and its Subsidiaries;

(g) promptly after the Agent's request therefor, copies of all Material Contracts and documents evidencing Material Indebtedness;

(h) promptly, and in any event within five Business Days after receipt thereof by any Loan Party or any Subsidiary thereof, copies of each material notice or other material correspondence received from any Governmental Authority (including, without limitation, the SEC (or comparable agency in Canada or any other applicable non-U.S. jurisdiction) concerning any proceeding with, or investigation or possible investigation or other inquiry by such Governmental Authority regarding financial or other operational results of any Loan Party or any Subsidiary thereof or any other matter which, if adversely determined, could reasonably be expected to have a Material Adverse Effect; and

(i) promptly, such additional information regarding the business affairs, financial condition or operations of any Loan Party or any Subsidiary, or compliance with the terms of the Loan Documents, as the Agent or any Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 6.01(a), (b), or (c) or Section 6.02(d) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Lead Borrower posts such documents, or provides a link thereto on the Lead Borrower's website on the Internet at the website address listed on Schedule 10.02; or (ii) on which such documents are posted on the Lead Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Agent have access (whether a commercial, third-party website or whether sponsored by the Agent); provided that: (A) the Lead Borrower shall deliver paper copies of such documents to the Agent until a written request to cease delivering paper copies is given by the Agent and (B) the Lead Borrower shall notify the Agent (by telecopier or electronic mail) of the posting of any such documents and provide to the Agent by electronic mail electronic versions (i.e., soft copies) of such documents. The Agent shall not have any obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Loan Parties with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

The Loan Parties hereby acknowledge that (a) the Agent and/or the Arranger will make available to the Lenders and the L/C Issuer materials and/or information provided by or on behalf of the Loan Parties hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Loan Parties or their securities) (each, a "Public Lender"). The Loan Parties hereby agree that they will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Loan Parties shall be deemed to have authorized the Agent, the Arranger, the L/C Issuer and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Loan Parties or their securities for purposes of United States or Canada federal, provincial and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information, they shall be treated as set forth in Section 10.07); (y) all Borrower Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor"; and (z) the Agent and the Arranger shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor."

6.03 Notices. Promptly notify the Agent:

- (a) of the occurrence of any Default or Event of Default;
- (b) following such Loan Party's obtaining knowledge of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect,
- (c) following such Loan Party's obtaining knowledge of any "event of default" or similar event under, a Material Contract or with respect to Material Indebtedness of any Loan Party or any Subsidiary thereof;

- (d) of the occurrence of any ERISA Event or Termination Event;
- (e) of any material change in accounting policies or financial reporting practices by any Loan Party or any Subsidiary thereof;
- (f) of any change in any Loan Party's senior executive officers;
- (g) of the discharge by any Loan Party of its present Registered Public Accounting Firm or any withdrawal or resignation by such Registered Public Accounting Firm;
- (h) of any collective bargaining agreement or other labor contract to which a Loan Party becomes a party, or the application for the certification of a collective bargaining agent;
- (i) following such Loan Party's obtaining knowledge of the filing of any Lien for unpaid Taxes against any Loan Party or the receipt by any Loan Party of a notice to pay or garnishment for unpaid Taxes;
- (j) of any Prepayment Event;
- (k) of any written notice of a dispute received by such Loan Party with respect to any licensing, patent, royalty, trademark, trade name or copyright agreement with any third party regarding the threatened termination of such agreement; and
- (l) of any failure by any Loan Party to pay rent beyond any applicable cure or grace period provided in the applicable lease at (i) any of the Loan Parties' distribution centers or warehouses; (ii) twenty (20%) or more of such Loan Party's Store locations or (iii) any of such Loan Party's locations if such failure would be reasonably likely to result in a Material Adverse Effect.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Lead Borrower setting forth details of the occurrence referred to therein and stating what action the Lead Borrower has taken and proposes to take with respect thereto.

6.04 Payment of Obligations. Pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, (b) all lawful claims (including, without limitation, claims of landlords, warehousemen, customs brokers, freight forwarders, consolidators, and carriers) which, if unpaid, would by Law become a Lien upon its property other than a Permitted Encumbrance; and (c) all Material Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness, except, in each case, where (i) the validity or amount thereof is being contested in good faith by appropriate proceedings, (ii) such Loan Party has set aside on its books adequate reserves with respect thereto in accordance with GAAP, (iii) such contest effectively suspends collection of the contested obligation and enforcement of any Lien securing such obligation, (iv) no Lien has been filed with respect thereto and (v) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect. Nothing contained herein shall be deemed to limit the rights of the Agents with respect to determining Reserves pursuant to this Agreement.

6.05 Preservation of Existence, Etc. (a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization or formation except in a transaction permitted by Section 7.05 or 7.06 and except for the dissolution, liquidation,

winding up or cessation of existence of any Subsidiary that is not a Material Subsidiary; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) preserve or renew all of its Intellectual Property, except to the extent such Intellectual Property is no longer used or useful in the conduct of the business of the Loan Parties.

6.06 Maintenance of Properties. (a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; and (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

6.07 Maintenance of Insurance (a). Maintain with financially sound and reputable insurance companies reasonably acceptable to the Agent and not Affiliates of the Loan Parties, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business and operating in the same or similar locations or as is required by Law, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons and as are reasonably acceptable to the Agent.

(b) Maintain for themselves and their Subsidiaries, a Directors and Officers insurance policy, and a "Blanket Crime" policy including employee dishonesty, forgery or alteration, theft, disappearance and destruction, robbery and safe burglary, property, and computer fraud coverage with responsible companies in such amounts as are customarily carried by business entities engaged in similar businesses similarly situated, and will upon request by the Agent furnish the Agent certificates evidencing renewal of each such policy.

(c) Cause fire and extended coverage policies maintained with respect to any Collateral to be endorsed or otherwise amended to include (i) a non-contributing mortgage clause (regarding improvements to Real Estate) and lenders' loss payable clause (regarding personal property), in form and substance satisfactory to the Agent, which endorsements or amendments shall provide that, unless otherwise directed by the Agent, the insurer shall pay all proceeds otherwise payable to the Loan Parties under the policies directly to the Agent, (ii) a provision to the effect that none of the Loan Parties, Credit Parties or any other Person shall be a co-insurer and (iii) such other provisions as the Agent may reasonably require from time to time to protect the interests of the Credit Parties.

(d) Cause commercial general liability policies to be endorsed to name the Agent as an additional insured.

(e) Cause business interruption policies to name the Agent as a loss payee and to be endorsed or amended to include (i) a provision that, from and after the Effective Date, unless otherwise directed by the Agent, the insurer shall pay all proceeds otherwise payable to the Loan Parties under the policies directly to the Agent, (ii) a provision to the effect that none of the Loan Parties, the Agent, or any other party shall be a co-insurer and (iii) such other provisions as the Agent may reasonably require from time to time to protect the interests of the Credit Parties.

(f) Cause each such policy referred to in this Section 6.07 to also provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium except upon not less than ten (10) days' prior written notice thereof by the insurer to the Agent (giving the Agent the right to cure defaults in the payment of premiums) or (ii) for any other reason except upon not less than thirty (30) days' prior written notice thereof by the insurer to the Agent.

(g) Deliver to the Agent, prior to the cancellation, modification or non-renewal of any such policy of insurance, a copy of a renewal or replacement policy (or other evidence of renewal of a policy previously delivered to the Agent, including an insurance binder) together with evidence satisfactory to the Agent of payment of the premium therefor.

(h) If at any time the area in which any Eligible Real Estate are located is designated (i) a "flood hazard area" in any Flood Insurance Rate Map published by the Federal Emergency Management Agency (or any successor agency), obtain flood insurance in such total amount as is reasonable and customary for companies engaged in the business of operating supermarkets, and otherwise comply with the National Flood Insurance Program as set forth in the Flood Disaster Protection Act of 1973, as amended from time to time, or (ii) a "Zone 1" area, obtain earthquake insurance in such total amount as is reasonable and customary for companies engaged in a similar situated business.

(i) Permit any representatives that are designated by the Agent to inspect the insurance policies maintained by or on behalf of the Loan Parties and, subject to Section 6.10(a), to inspect books and records related thereto and any properties covered thereby.

None of the Credit Parties, or their agents or employees shall be liable for any loss or damage insured by the insurance policies required to be maintained under this Section 6.07. Each Loan Party shall look solely to its insurance companies or any other parties other than the Credit Parties for the recovery of such loss or damage and such insurance companies shall have no rights of subrogation against any Credit Party or its agents or employees. If, however, the insurance policies do not provide waiver of subrogation rights against such parties, as required above, then the Loan Parties hereby agree, to the extent permitted by law, to waive their right of recovery, if any, against the Credit Parties and their agents and employees. The designation of any form, type or amount of insurance coverage by any Credit Party under this Section 6.07 shall in no event be deemed a representation, warranty or advice by such Credit Party that such insurance is adequate for the purposes of the business of the Loan Parties or the protection of their properties.

6.08 Compliance with Laws. Comply in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves have been set aside and maintained by the Loan Parties in accordance with GAAP; (b) such contest effectively suspends enforcement of the contested Laws, and (c) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.09 Books and Records; Accountants.

(a) Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Loan Parties or such Subsidiary, as the case may be; and (ii) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Loan Parties or such Subsidiary, as the case may be.

(b) At all times retain a Registered Public Accounting Firm which is reasonably satisfactory to the Agent.

6.10 Inspection Rights.

(a) Permit representatives and independent contractors of the Agent to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and Registered Public Accounting Firm, all at the expense of the Loan Parties and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Lead Borrower or the Canadian Borrower, as applicable; provided, however, that when a Default or an Event of Default exists the Agent (or any of its representatives or independent contractors) may do any of the foregoing at the expense of the Loan Parties at any time during normal business hours and without advance notice.

(b) Upon the request of the Agent after reasonable prior notice, permit the Agent or professionals (including investment bankers, consultants, accountants, and lawyers) retained by the Agent to conduct commercial finance examinations and other evaluations, including, without limitation, of (i) the Lead Borrower's or the Canadian Borrower's, as applicable, practices in the computation of the Canadian Borrowing Base, the Term Loan Borrowing Base and the Domestic Borrowing Base (ii) the assets included in the Canadian Borrowing Base, the Term Loan Borrowing Base and the Domestic Borrowing Base and related financial information such as, but not limited to, sales, gross margins, payables, accruals and reserves, and (iii) the Loan Parties' business plan, forecasts and cash flows. The Loan Parties shall pay the fees and expenses of the Agent and such professionals with respect to (i) while no Event of Default shall have occurred and be continuing, one commercial finance examination during any twelve month period; provided that, (A) if Domestic Availability at any time is less than 50% of the Loan Cap but greater than or equal to the greater of (x) 15% of the Loan Cap and (y) \$20,000,000, the Loan Parties shall pay such fees and expenses for two commercial finance examinations during any twelve month period, and (B) if Domestic Availability is less than the greater of (x) 15% of the Loan Cap and (y) \$20,000,000, the Loan Parties shall pay such fees and expenses for three commercial finance examinations in any twelve month period, and (ii) all such commercial finance examinations, if required by Law or if an Event of Default shall have occurred and be continuing. Notwithstanding the foregoing, the Agent shall cause at least one commercial finance examination to be conducted during each twelve month period following the Effective Date at the expense of the Loan Parties, and may cause additional commercial finance examinations to be undertaken as it in its discretion deems necessary or appropriate, at its own expense.

(c) Upon the request of the Agent after reasonable prior notice, permit the Agent or professionals (including appraisers) retained by the Agent to conduct appraisals of the Inventory Collateral, including, without limitation, the Inventory included in the Canadian Borrowing Base and Domestic Borrowing Base. The Loan Parties shall pay the fees and expenses of the Agent and such professionals with respect to (i) while no Event of Default shall have occurred and be continuing, one appraisal during any twelve month period; provided that, (A) if Domestic Availability at any time is less than 50% of the Loan Cap but greater than or equal to the greater of (x) 15% of the Loan Cap and (y) \$20,000,000, the Loan Parties shall pay such fees and expenses for two appraisals during any twelve month period, and (B) if Domestic Availability is less than the greater of (x) 15% of the Loan Cap and (y) \$20,000,000, the Loan Parties shall pay such fees and expenses for three appraisals in any twelve month period, and (ii) all such appraisals, if required by Law or if an Event of Default shall have occurred and be continuing. Notwithstanding the foregoing, the Agent shall cause at least one Inventory appraisal to be conducted during each twelve month period following the Effective Date at the expense of the Loan Parties, and may cause additional appraisals to be undertaken as it in its discretion deems necessary or appropriate, at its own expense.

(d) Upon the reasonable request of the Agent after reasonable prior notice, permit the Agent or professionals (including appraisers) retained by the Agent to conduct appraisals of the Registered Trade Names. The Loan Parties shall pay the fees and expenses of the Agent and such professionals with respect to (i) while no Event of Default shall have occurred and be continuing, up to one appraisal during any twelve month period, and (ii) all such appraisals, if required by Law or if an Event of Default shall have occurred and be continuing. Notwithstanding the foregoing, the Agent may cause additional appraisals of the Registered Trade Names to be undertaken as it in its discretion deems necessary or appropriate, at the Term Lender's expense.

(e) Upon the request of the Agent after reasonable prior notice, permit the Agent or professionals (including appraisers) retained by the Agent to conduct appraisals of the Eligible Real Estate. The Loan Parties shall pay the fees and expenses of the Agent and such professionals with respect to (i) while no Event of Default shall have occurred and be continuing, up to one appraisal during any twelve month period, and (ii) all such appraisals, if required by Law or if an Event of Default shall have occurred and be continuing. Notwithstanding the foregoing, the Agent may cause additional appraisals of Eligible Real Estate to be undertaken as it in its discretion deems necessary or appropriate, at its own expense.

(f) Permit the Agent, from time to time, to engage a geohydrologist, an independent engineer or other qualified consultant or expert, reasonably acceptable to the Agent, at the expense of the Loan Parties, to undertake Phase I environmental site assessments during the term of this Agreement of the Eligible Real Estate, provided that such assessments may only be undertaken (i) during the continuance of a Default or an Event of Default, or (ii) if a Loan Party receives any notice or obtains knowledge of (A) any potential or known release of any Hazardous Materials at or from any Eligible Real Estate, notification of which must be given to any Governmental Authority under any Environmental Law, or notification of which has, in fact, been given to any Governmental Authority, or (B) any complaint, order, citation or notice with regard to air emissions, water discharges, or any other environmental health or safety matter affecting any Loan Party or any Eligible Real Estate from any Person (including, without limitation, the Environmental Protection Agency). Environmental assessments may include detailed visual inspections of the Real Estate, including, without limitation, any and all storage areas, storage tanks, drains, dry wells and leaching areas, and the taking of soil samples, surface water samples and ground water samples, as well as such other investigations or analyses as are reasonably necessary for a determination of the compliance of the Real Estate and the use and operation thereof with all applicable Environmental Laws. The Borrowers will, and will cause each of their Subsidiaries to, cooperate in all respects with the Agent and such third parties to enable such assessment and evaluation to be timely completed in a manner reasonably satisfactory to the Agent.

6.11 Additional Loan Parties. Notify the Agent at the time that any Person becomes a Subsidiary, and promptly thereafter (and in any event within fifteen (15) days): (a) cause such Subsidiary, if it is a Material Subsidiary that is not a CFC (other than a Canadian Subsidiary guaranteeing Canadian Liabilities), (i) to become, at the Agent's option, a Borrower or Guarantor by executing and delivering to the Agent a Joinder to the Loan Documents, or such other documents as the Agent shall deem appropriate for such purpose, (ii) to grant a Lien to the Agent on such Subsidiary's assets of the same type that constitute Collateral to secure the Obligations, and (iii) deliver to the Agent documents of the types referred to in Sections 4.01(a)(iii) and (iv) and favorable opinions of counsel to such Subsidiary (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to in clause (i)), and (b) if any Equity Interests or Indebtedness of such Subsidiary are owned by or owing to any Loan Party, to the extent that such Equity Interests or

Indebtedness are not already Collateral, to pledge such Equity Interests and promissory notes evidencing such Indebtedness (except that, if such Subsidiary is a CFC, the Equity Interests of such Subsidiary to be pledged by any Domestic Loan Party shall be limited to 65% of the outstanding voting Equity Interests of such Subsidiary and 100% of the non-voting Equity Interests of such Subsidiary, in each case in form, content and scope reasonably satisfactory to the Agent. In no event shall compliance with this Section 6.11 waive or be deemed a waiver or Consent to any transaction giving rise to the need to comply with this Section 6.11 if such transaction was not otherwise expressly permitted by this Agreement or constitute or be deemed to constitute, with respect to any Subsidiary, an approval of such Person as a Borrower or permit the inclusion of any acquired assets in the computation of the Canadian Borrowing Base, the Term Loan Borrowing Base or the Domestic Borrowing Base.

6.12 Cash Management.

(a) ACH or wire transfer no less frequently than daily (and whether or not there are then any outstanding Obligations) to a Blocked Account all amounts on deposit in each DDA (net of any minimum balance, not to exceed \$2,500.00, as may be required to be kept in the subject DDA by the depository institution at which such DDA is maintained) and all payments due from credit card processors.

(b) (i) After the occurrence and during the continuance of a Cash Dominion Event, cause the ACH or wire transfer by the Domestic Loan Parties to the concentration account maintained at Bank of America or with another Domestic Lender reasonably satisfactory to the Agent with whom a Blocked Account Agreement has been executed (the "U.S. Concentration Account") , and (ii) after the occurrence and during the continuance of an Event of Default, cause the ACH or wire transfer by the Canadian Loan Parties to the concentration account maintained at Bank of America-Canada Branch or with another Canadian Lender reasonably satisfactory to the Agent with whom a Blocked Account Agreement has been executed (the "Canadian Concentration Account"), as applicable, in each case no less frequently than daily (and whether or not there are then any outstanding Obligations), all cash receipts and collections received by each applicable Loan Party from all sources, including, without limitation, the following:

(i) all available cash receipts from the sale of Inventory (including without limitation, proceeds of credit card charges) and other assets (whether or not constituting Collateral);

(ii) all proceeds of collections of Accounts;

(iii) all Net Proceeds, and all other cash payments received by a Loan Party from any Person or from any source or on account of any Disposition or other transaction or event, including, without limitation, any Prepayment Event;

(iv) the then contents of each DDA (net of any minimum balance, not to exceed \$10,000.00, as may be required to be kept in the subject DDA by the depository institution at which such DDA is maintained); and

(v) the then entire ledger balance of each Blocked Account (net of any minimum balance, not to exceed \$10,000.00, as may be required to be kept in the subject Blocked Account by the Blocked Account Bank).

(c) Each of the U.S. Concentration Account and the Canadian Concentration Account shall at all times be under the sole dominion and control of the Agent. The Loan Parties hereby acknowledge and agree that (i) the Loan Parties have no right of withdrawal from the U.S. Concentration Account or the Canadian Concentration Account, (ii) the funds on deposit in the U.S. Concentration Account shall at all times be collateral security for all of the Obligations and the funds on deposit in the Canadian Concentration Account shall at all times be collateral security for all of the Canadian Liabilities, (iii) the funds on deposit in the U.S. Concentration Account shall be applied to the Obligations as provided in this Agreement and (iv) the funds on deposit in the Canadian Concentration Account shall be applied to the Canadian Liabilities as provided in this Agreement. In the event that, notwithstanding the provisions of this Section 6.12, any Loan Party receives or otherwise has dominion and control of any such cash receipts or collections, such receipts and collections shall be held in trust by such Loan Party for the Agent shall not be commingled with any of such Loan Party's other funds or deposited in any account of such Loan Party and shall, not later than the Business Day after receipt thereof, be deposited into the U.S. Concentration Account or the Canadian Concentration Account, as applicable, or dealt with in such other fashion as such Loan Party may be instructed by the Agent.

(d) Upon the request of the Agent, cause bank statements and/or other reports to be delivered to the Agent not less often than monthly, accurately setting forth all amounts deposited in each Blocked Account to ensure the proper transfer of funds as set forth above.

6.13 Information Regarding the Collateral.

(a) Furnish to the Agent (x) at least fifteen (15) days prior written notice of any change in: (i) any Loan Party's name; (ii) the location of any Loan Party's registered or chief executive office or its principal place of business; (iii) any Loan Party's organizational structure or jurisdiction of incorporation or formation; or (iv) any Loan Party's Federal Taxpayer Identification Number or organizational identification number assigned to it by its state or other jurisdiction of organization and (y) not later than thirty (30) days after any change in the location of any office of any Loan Party office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility), notice thereof. The Loan Parties shall not effect or permit any change referred to in the preceding sentence unless all filings have been made under the UCC, the PPSA or otherwise that are required in order for the Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral for its own benefit and the benefit of the other applicable Credit Parties with the priority required by the Security Documents.

(b) Should any of the information on any of the Schedules hereto become inaccurate or misleading in any material respect as a result of changes after the Effective Date, advise the Agent in writing of such revisions or updates as may be necessary or appropriate to update or correct the same. From time to time as may be reasonably requested by the Agent, the Lead Borrower shall supplement each Schedule hereto, or any representation herein or in any other Loan Document, with respect to any matter arising after the Effective Date that, if existing or occurring on the Effective Date, would have been required to be set forth or described in such Schedule or as an exception to such representation or that is necessary to correct any information in such Schedule or representation which has been rendered inaccurate thereby (and, in the case of any supplements to any Schedule, such Schedule shall be appropriately marked to show the changes made therein). Notwithstanding the foregoing, no supplement or revision to any Schedule or representation shall be deemed the Credit Parties' consent to the matters reflected in such updated Schedules or revised representations; nor shall any such supplement or revision to any Schedule or representation be deemed the Credit Parties' waiver of any Default or Event of Default resulting from the matters disclosed therein.

6.14 Physical Inventories.

(a) Cause not less than one physical inventory to be undertaken, at the expense of the Loan Parties, in each twelve month period consistent with past practices, conducted by such inventory takers as are satisfactory to the Agent and following such methodology as is consistent with the methodology used in the immediately preceding inventory or as otherwise may be satisfactory to the Agent. The Agent, at the expense of the Loan Parties, may participate in and/or observe each scheduled physical count of Inventory which is undertaken on behalf of any Loan Party. The Borrowers shall provide the Agent with the preliminary Inventory levels at each of the Borrowers' Stores within ten (10) days following the completion of such physical inventory. The Lead Borrower, within 60 days following the completion of such inventory, shall provide the Agent with a reconciliation of the results of such inventory (as well as of any other physical inventory or cycle counts undertaken by a Loan Party) and shall post such results to the Loan Parties' stock ledgers and general ledgers, as applicable.

(b) Permit the Agent, in its discretion, if any Default or Event of Default exists, to cause additional such inventories to be taken as the Agent determines (each, at the expense of the Loan Parties).

6.15 Environmental Laws.

(a) Conduct its operations and keep and maintain its Real Estate in material compliance with all Environmental Laws; (b) obtain and renew all environmental permits necessary for its operations and properties; and (c) implement any and all investigation, remediation, removal and response actions that are appropriate or necessary to maintain the value and marketability of the Real Estate or to otherwise comply with Environmental Laws pertaining to the presence, generation, treatment, storage, use, disposal, transportation or release of any Hazardous Materials on, at, in, under, above, to, from or about any of its Real Estate, provided, however, that neither a Loan Party nor any of its Subsidiaries shall be required to undertake any such cleanup, removal, remedial or other action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and adequate reserves have been set aside and are being maintained by the Loan Parties with respect to such circumstances in accordance with GAAP.

6.16 Further Assurances.

(a) Execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements and other documents), that may be required under any Law, or which the Agent may reasonably request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created or intended to be created by the Security Documents or the validity or priority of any such Lien, all at the expense of the Loan Parties. The Loan Parties also agree to provide to the Agent, from time to time upon request, evidence satisfactory to the Agent as to the perfection of the Liens created or intended to be created by the Security Documents.

(b) If any material assets are acquired by any Loan Party after the Effective Date (other than assets constituting Collateral under the Security Documents that become subject to the Lien under the Security Documents upon acquisition thereof), notify the Agent thereof, and the Loan Parties will cause such assets to be subjected to a Lien securing the Obligations and will take such actions as shall be necessary or shall be requested by the Agent to grant and perfect such Liens, including actions described in Section 6.16(a), all at the expense of the Loan Parties. In no event shall compliance with this Section 6.16(b) waive or be deemed a waiver or Consent to any transaction giving rise to the need to comply with this Section 6.16(b) if such transaction was not otherwise expressly permitted by this Agreement or any other Loan Document or constitute or be deemed to constitute Consent to the inclusion of any acquired assets in the computation of the Canadian Borrowing Base, the Term Loan Borrowing Base and the Domestic Borrowing Base.

(c) Upon the request of the Agent, cooperate with the Agent to cause each of its customs brokers, freight forwarders, consolidators and/or carriers to deliver an agreement (including, without limitation, a Customs Broker/Carrier Agreement) to the Agent covering such matters and in such form as the Agent may reasonably require.

6.17 Compliance with Terms of Leaseholds.

Except as otherwise expressly permitted hereunder, (a) make all payments and otherwise perform all obligations in respect of all Leases to which any Loan Party or any of its Subsidiaries is a party, keep such Leases in full force and effect (b) not allow such Leases to lapse or be terminated or any rights to renew such Leases to be forfeited or cancelled except in the ordinary course of business, consistent with past practices, (c) notify the Agent of any default by any party with respect to such Leases and cooperate with the Agent in all respects to cure any such default, and (d) cause each of its Subsidiaries to do the foregoing, except, in any case, where the failure to do so, either individually or in the aggregate, could not be reasonably likely to have a Material Adverse Effect.

6.18 Material Contracts. (a) Perform and observe all the terms and provisions of each Material Contract to be performed or observed by it, (b) maintain each such Material Contract in full force and effect except to the extent such Material Contract is no longer used or useful in the conduct of the business of the Loan Parties in the ordinary course of business, consistent with past practices, (c) enforce each such Material Contract in accordance with its terms, and, (d) upon request of the Agent, make such demands and requests for information and reports or for action from any other party to each such Material Contract as any Loan Party or any of its Subsidiaries is entitled to make under such Material Contract, and (e) cause each of its Subsidiaries to do the foregoing, except, in any case, where the failure to do so, either individually or in the aggregate, could not be reasonably likely to have a Material Adverse Effect.

**ARTICLE VII
NEGATIVE COVENANTS**

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied (other than contingent indemnification claims for which a claim has not been asserted), or any Letter of Credit shall remain outstanding, no Loan Party shall, nor shall it permit any Material Subsidiary to, directly or indirectly:

7.01 Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired or sign or file under the UCC, the PPSA or any similar Law or statute of any jurisdiction a financing statement that names any Loan Party or any Subsidiary thereof as debtor; sign or suffer to exist any security agreement authorizing any Person thereunder to file such financing statement; sell any of its property or assets subject to an understanding or agreement (contingent or otherwise) to repurchase such property or assets with recourse to it or any of its Subsidiaries; or assign or otherwise transfer any accounts or other rights to receive income, other than, as to all of the above, Permitted Encumbrances.

7.02 Investments. Make any Investments, except Permitted Investments.

7.03 Indebtedness; Disqualified Stock; Equity Issuances

- (a) Create, incur, assume, guarantee, suffer to exist or otherwise become or remain liable with respect to, any Indebtedness, except Permitted Indebtedness;
- (b) issue Disqualified Stock; or

(c) issue and sell any other Equity Interests other than those issued by (A) any Subsidiary of the Lead Borrower to the Lead Borrower or any other Subsidiary of the Lead Borrower, to the extent not prohibited by Section 7.02 from being acquired by the applicable acquirer, or (B) the Lead Borrower, if such Equity Interests are in the form of common stock or other securities that do not require the making of any Restricted Payment on such Equity Interests, whether in the form of mandatory distributions, dividends or payments upon mandatory redemption other than redemption at the option of the Lead Borrower (unless such Restricted Payments are to be made solely in additional shares of Equity Interests, in lieu of cash), (C) by the Lead Borrower to any officer, director, employee or consultant of the Lead Borrower or any of its Subsidiaries pursuant to employment agreements, stock options, stock incentive or stock ownership plans, or (D) so long as no Event of Default has occurred and is continuing or would result therefrom, the Lead Borrower in an Initial Public Offering or Secondary Offering.

7.04 Fundamental Changes. Merge, dissolve, liquidate, consolidate or amalgamate with or into another Person, (or agree to do any of the foregoing), except that, so long as no Default or Event of Default shall have occurred and be continuing prior to or immediately after giving effect to any action described below or would result therefrom:

(a) any Subsidiary which is not a Loan Party may merge or amalgamate with (i) a Loan Party, provided that the Loan Party shall be the continuing or surviving Person, or (ii) any one or more other Subsidiaries which are not Loan Parties, provided that when any wholly-owned Subsidiary is merging or amalgamating with another Subsidiary, the wholly-owned Subsidiary shall be the continuing or surviving Person;

(b) any Subsidiary which is a Loan Party may merge or amalgamate into any Subsidiary which is a Loan Party or into a Borrower, provided that in any merger or amalgamation involving a Borrower, a Borrower shall be the continuing or surviving Person;

(c) in connection with a Permitted Acquisition, any Subsidiary of a Loan Party may merge or amalgamate with or into or consolidate with any other Person or permit any other Person to merge with or into or consolidate with it; provided that (i) the Person surviving such merger or amalgamation shall be a wholly-owned Subsidiary of a Loan Party and such Person shall become a Loan Party in accordance with the provisions of Section 6.11 hereof, and (ii) in the case of any such merger or amalgamation to which any Loan Party is a party, such Loan Party is the surviving Person; and

(d) any CFC that is not a Loan Party may merge into any CFC that is not a Loan Party.

7.05 Dispositions. Make any Disposition or enter into any agreement to make any Disposition, except Permitted Dispositions.

7.06 Restricted Payments. Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that each of the following shall be permitted so long as no Default or Event of Default shall have occurred and be continuing prior, or immediately after giving effect, to the following, or would result therefrom:

- (a) each Subsidiary of a Loan Party may make Restricted Payments to any Loan Party;
- (b) the Loan Parties and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other common Equity Interests of such Person;
- (c) the Lead Borrower may make Restricted Payments on account of employee stock repurchase programs or other similar programs in an amount not to exceed \$5,000,000 in any Fiscal Year; and
- (d) if the RP Conditions are satisfied, the Loan Parties may make other Restricted Payments.

7.07 Prepayments of Indebtedness. Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner any Indebtedness, or make any payment in violation of any subordination terms of any Subordinated Indebtedness, except (a) as long as no Default or Event of Default then exists, regularly scheduled or mandatory repayments, repurchases, redemptions or defeasances of (i) Permitted Indebtedness (other than Subordinated Indebtedness), and (ii) Subordinated Indebtedness in accordance with the subordination terms thereof, (b) voluntary prepayments, repurchases, redemptions or defeasances of (i) Permitted Indebtedness (but excluding on account of any Subordinated Indebtedness) as long as the Payment Conditions are satisfied, and (ii) Subordinated Indebtedness in accordance with the subordination terms thereof and as long as the Payment Conditions are satisfied, and (c) Permitted Refinancings of any such Indebtedness.

7.08 Change in Nature of Business

Engage in any line of business substantially different from the business conducted by the Loan Parties and their Subsidiaries on the Effective Date or any business reasonably related or incidental thereto.

7.09 Transactions with Affiliates. Enter into, renew, extend or be a party to any transaction of any kind with any Affiliate of any Loan Party, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to the Loan Parties or such Subsidiary as would be obtainable by the Loan Parties or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate, provided that the foregoing restriction shall not apply to (a) a transaction between or among the Loan Parties, (b) advances for commissions, travel and other similar purposes in the ordinary course of business to directors, officers and employees, (c) the issuance of Equity Interests in the Lead Borrower to any officer, director, employee or consultant of the Lead Borrower or any of its Subsidiaries, (d) the payment of reasonable fees and out-of-pocket costs to directors, and compensation and employee benefit arrangements paid to, and indemnities provided for the benefit of, directors, officers or employees of the Lead Borrower or any of its Subsidiaries, (e) any issuances of securities (other than any such issuances not permitted hereunder) or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment agreements, stock options and stock ownership plans (in each case in respect of Equity Interests in the Lead Borrower), (f) as long as no Event of Default then exists or would arise therefrom, the payment at any time prior to or contemporaneously with the Initial Public Offering of any management or other similar fees pursuant to that certain Amended and Restated Management Services Agreement, dated as of June 2009, by and between the Lead Borrower, Home Holdings, LLC, Catterton Management Company, LLC, Tower Three Partners LLC and GJK Capital Advisors, LLC and (g) the Initial Public Offering or any Secondary Offering.

7.10 Burdensome Agreements. Enter into or permit to exist any Contractual Obligation (other than this Agreement or any other Loan Document) that (a) limits the ability (i) of any Subsidiary to make Restricted Payments or other distributions to any Loan Party or to otherwise transfer property to or invest in a Loan Party, (ii) of any Subsidiary to Guarantee the Obligations, (iii) of any Subsidiary to make or repay loans to a Loan Party, or (iv) of the Loan Parties or any Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person in favor of the Agent; provided, however, that this clause (iv) shall not prohibit any negative pledge incurred or provided in favor of any holder of Indebtedness permitted under clauses (c) or (d) of the definition of Permitted Indebtedness solely to the extent any such negative pledge relates to the property financed by or the subject of such Indebtedness; or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person.

7.11 Use of Proceeds. Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, (a) for any purpose that would violate Regulations T, U or X of the FRB, or (b) for any purposes other than (i) the acquisition of working capital assets in the ordinary course of business, (ii) to finance Capital Expenditures of the Loan Parties, and (iii) for general corporate purposes, in each case to the extent expressly permitted under Law and the Loan Documents.

7.12 Amendment of Material Documents.

Amend, modify or waive any of a Loan Party's rights under (a) its Organization Documents in a manner materially adverse to the Credit Parties, or (b) any Material Contract or Material Indebtedness (other than on account of any Permitted Refinancing thereof), in each case to the extent that such amendment, modification or waiver would result in a Default or Event of Default under any of the Loan Documents, would be materially adverse to the Credit Parties, or otherwise would be reasonably likely to have a Material Adverse Effect.

7.13 Fiscal Year.

Change the Fiscal Year of any Loan Party, or the accounting policies or reporting practices of the Loan Parties, except as required by GAAP.

7.14 Deposit Accounts; Credit Card Processors.

Open new DDAs unless the Loan Parties shall have delivered to the Agent appropriate Blocked Account Agreements. No Loan Party shall maintain any bank accounts or enter into any agreements with credit card processors other than the ones expressly contemplated herein or in Section 6.12 hereof.

7.15 Financial Covenants.

(a) Consolidated Fixed Charge Coverage Ratio. During the continuance of a Covenant Compliance Event, permit the Consolidated Fixed Charge Coverage Ratio, calculated as of the last day of each month on a trailing twelve months basis, to be less than 1.0:1.0.

(b) Consolidated Leverage Ratio. At any time that the Term Loan or any portion thereof is outstanding, permit the Consolidated Leverage Ratio, calculated as of the last day of each month on a trailing twelve months basis, to be greater than 4.25:1.0.

7.16 Canadian Pension Plans.

No Canadian Loan Party shall become party to, or maintain or contribute to, any Canadian Pension Plan which is a defined benefit pension plan, or fail to make all required contributions to any Canadian Pension Plan when due.

ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES

8.01 Events of Default. Any of the following shall constitute an Event of Default:

(a) Non-Payment. The Borrowers or any other Loan Party fails (i) to pay when and as required to be paid herein, any amount of principal of any Loan or any L/C Obligation, or deposit any funds as Cash Collateral in respect of L/C Obligations, or (ii) pay within three days after the same becomes due, any interest on any Loan or any L/C Obligation, or any fee due hereunder, or (iii) pay within five days after the same becomes due, any other amount payable hereunder or under any other Loan Document; or

(b) Specific Covenants. (i) Any Loan Party fails to perform or observe any term, covenant or agreement contained in any of Sections 6.01, 6.02, 6.03, 6.05, 6.07, 6.10, 6.11, 6.12, or 6.13 or Article VII; or

(c) Other Defaults. Any Loan Party fails to perform or observe any other covenant or agreement (not specified in Section 8.01(a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for 15 days; or

(d) Representations and Warranties. Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of any Loan Party herein, in any other Loan Document, shall be incorrect or misleading in any material respect when made or deemed made; or

(e) Cross-Default. (i) Any Loan Party (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Material Indebtedness, or (B) fails to observe or perform any other agreement or condition relating to any such Material Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Material Indebtedness or the beneficiary or beneficiaries of any Guarantee thereof (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which a Loan Party or any Subsidiary thereof is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which a Loan Party or any Subsidiary thereof is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Loan Party or such Subsidiary as a result thereof is greater than \$1,000,000 or

(f) Insolvency Proceedings, Etc. Any Loan Party or any of its Subsidiaries (other than any CFC that is not a Material Subsidiary) institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, interim receiver, trustee, monitor, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or a proceeding shall be commenced or a petition filed, without the application or consent of such Person, seeking or requesting the appointment of any receiver, interim receiver, trustee, monitor, custodian, conservator, liquidator, rehabilitator or similar officer is appointed and the appointment continues undischarged, undismissed or unstayed for 45 calendar days or an order or decree approving or ordering any of the foregoing shall be entered; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 45 calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment. (i) Any Loan Party or any Material Subsidiary thereof becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within 10 days after its issuance or levy; or

(h) Judgments. There is entered against any Loan Party or any Material Subsidiary thereof (i) one or more judgments or orders for the payment of money in an aggregate amount (as to all such judgments and orders) exceeding \$3,000,000 (to the extent not covered by independent third-party insurance as to which the insurer is rated at least "A" by A.M. Best Company, has been notified of the potential claim and does not dispute coverage), or (ii) any one or more non-monetary judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA; Canadian Pension Plans. (i)(A) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of any Loan Party under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC which would reasonably be likely to result in a Material Adverse Effect, or (B) a Loan Party or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan which failure would reasonably likely result in a Material Adverse Effect, or (C) a Termination Event occurs which would reasonably likely result in a Material Adverse Effect, or (ii) any event or condition similar to those specified in clause (i) hereof shall occur or exist with respect to any Canadian Pension Plan, which, in the reasonable judgment of the Agent, would have a Material Adverse Effect, or if any Canadian Loan Party becomes party to, or maintains or contributes to, any Canadian Pension Plan which is a defined benefit pension plan, or if any Canadian Loan Party is in default with respect to payments to a Canadian Pension Plan or any Lien arises (save for contribution amounts not yet due) in connection with any Canadian Pension Plan; or

(j) Invalidity of Loan Documents. (i) Any provision of any Loan Document, at any time after its execution and delivery and for any reason, ceases to be in full force and effect other than as expressly permitted under the Loan Documents; or any Loan Party or any other Affiliate thereof contests in any manner the validity or enforceability of any provision of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any provision of any Loan Document, or purports to revoke, terminate or rescind any provision of any Loan Document or seeks to avoid, limit or otherwise adversely affect any Lien purported to be created under any Security Document; or (ii) any Lien purported to be created under any Security Document shall cease to be, or shall be asserted by any Loan Party or any other Person not to be, a valid and perfected Lien on any Collateral, with the priority required by the applicable Security Document; or

(k) Change of Control. There occurs any Change of Control; or

(l) Cessation of Business. Except as otherwise expressly permitted hereunder, the Loan Parties, taken as a whole, shall take any action to suspend the operation of their business in the ordinary course, liquidate all or a material portion of their assets or Store locations, or employ an agent or other third party to conduct a program of closings, liquidations or "Going-Out-Of-Business" sales of any material portion of their business; or

(m) Loss of Collateral. There occurs any uninsured loss to any material portion of the Collateral of the type included in any of the Canadian Borrowing Base, the Term Loan Borrowing Base or the Domestic Borrowing Base; or

(n) Breach of Contractual Obligation. Any Loan Party or any Subsidiary thereof fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Material Contract or fails to observe or perform any other agreement or condition relating to any such Material Contract or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the counterparty to such Material Contract to terminate such Material Contract; or

(o) Indictment. (i) Any Loan Party is (A) criminally indicted or convicted of a felony for fraud or dishonesty in connection with the Loan Parties' business, or (B) charged by a Governmental Authority under any law that would reasonably be expected to lead to forfeiture of any material portion of Collateral, or (ii) any director or senior officer of any Loan Party is (A) criminally indicted or convicted of a felony or indictable offense for fraud or dishonesty in connection with the Loan Parties' business, unless such director or senior officer promptly resigns or is removed or replaced or (B) charged by a Governmental Authority under any law that would reasonably be expected to lead to forfeiture of any material portion of Collateral;

(p) Subordination. (i) The subordination provisions of the documents evidencing or governing any Subordinated Indebtedness (the "Subordinated Provisions") shall, in whole or in part, terminate, cease to be effective or cease to be legally valid, binding and enforceable against any holder of the applicable Subordinated Indebtedness; or (ii) any Borrower or any other Loan Party shall, directly or indirectly, disavow or contest in any manner (A) the effectiveness, validity or enforceability of any of the Subordination Provisions, (B) that the Subordination Provisions exist for the benefit of the Credit Parties, or (C) that all payments of principal of or premium and interest on the applicable Subordinated Indebtedness, or realized from the liquidation of any property of any Loan Party, shall be subject to any of the Subordination Provisions.

8.02 Remedies Upon Event of Default. If any Event of Default occurs and is continuing, the Agent may, or, at the request of the Required Lenders shall, take any or all of the following actions:

(a) declare the Commitments of each Revolving Lender to make Revolving Loans and any obligation of the L/C Issuer to make L/C Credit Extensions to be terminated, whereupon such Commitments and obligations shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other Obligations to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Loan Parties;

(c) require that the Loan Parties Cash Collateralize the L/C Obligations; and

(d) whether or not the maturity of the Obligations shall have been accelerated pursuant hereto, proceed to protect, enforce and exercise all rights and remedies of the Credit Parties under this Agreement, any of the other Loan Documents or Law, including, but not limited to, by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement and the other Loan Documents or any instrument pursuant to which the Obligations are evidenced, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Credit Parties;

provided, however, that upon the occurrence of any Default or Event of Default with respect to any Loan Party or any Subsidiary thereof under Section 8.01(f), the obligation of each Revolving Lender to make Revolving Loans and any obligation of the L/C Issuer to make L/C Credit Extensions shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of the Loan Parties to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of the Agent or any Lender.

No remedy herein is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of Law.

8.03 Application of Funds

(a) After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received from the Domestic Loan Parties or from the Collateral owned by the Domestic Loan Parties on account of the Obligations shall be applied by the Agent in the following order:

First, to payment of that portion of the Obligations (excluding the Other Liabilities and the Canadian Liabilities) constituting fees, indemnities, Credit Party Expenses and other amounts (including fees, charges and disbursements of counsel to the Agent and amounts payable under Article III) payable to the Agent;

Second, to payment of that portion of the Obligations (excluding the Other Liabilities and the Canadian Liabilities) constituting indemnities, Credit Party Expenses, and other amounts (other than principal, interest and fees) payable to the Lenders and the L/C Issuer (including amounts payable under Article III), ratably among them in proportion to the amounts described in this clause Second payable to them;

Third, to the extent not previously reimbursed by the Lenders, to payment to the Agent of that portion of the Obligations constituting principal and accrued and unpaid interest on any Permitted Overadvances;

Fourth, to the extent that Swing Line Loans have not been refinanced by a Domestic Loan, payment to the Swing Line Lender of that portion of the Obligations constituting accrued and unpaid interest on the Swing Line Loans;

Fifth, to the extent that Swing Line Loans have not been refinanced by a Domestic Loan, to payment to the Swing Line Lender of that portion of the Obligations constituting unpaid principal of the Swing Line Loans;

Sixth, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Tranche A Loans, L/C Borrowings with respect to Domestic Letters of Credit, and fees (including Letter of Credit Fees) owing to the Tranche A Lenders, ratably among the Tranche A Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Sixth payable to them;

Seventh, to payment of that portion of the Obligations constituting unpaid principal of the Tranche A Loans and L/C Borrowings with respect to Domestic Letters of Credit, ratably among the Tranche A Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Seventh held by them;

Eighth, to the Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Domestic Letters of Credit;

Ninth, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Incremental Loans, ratably among the Incremental Lenders in proportion to the respective amounts described in this clause Ninth payable to them;

Tenth, to payment of that portion of the Obligations constituting unpaid principal of the Incremental Loans, ratably among the Incremental Lenders in proportion to the respective amounts described in this clause Tenth held by them;

Eleventh, to payment of that portion of the Canadian Liabilities (excluding the Other Liabilities) constituting fees, indemnities, Credit Party Expenses and other amounts (including amounts payable under Article III) payable to the Agent;

Twelfth, to payment of that portion of the Canadian Liabilities (excluding the Other Liabilities) constituting indemnities, Credit Party Expenses, and other amounts (other than principal, interest and fees) payable to the Canadian Lenders and the L/C Issuer (including Credit Party Expenses to the respective Canadian Lenders and the L/C Issuer and amounts payable under Article III), ratably among them in proportion to the amounts described in this clause Twelfth payable to them;

Thirteenth, to payment of that portion of the Canadian Liabilities constituting accrued and unpaid interest on the Canadian Loans, L/C Borrowings with respect to Canadian Letters of Credit, and fees (including Letter of Credit Fees) owing to the Canadian Lenders, ratably among the Canadian Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Thirteenth payable to them;

Fourteenth, to payment of that portion of the Canadian Liabilities constituting unpaid principal of the Canadian Loans and L/C Borrowings with respect to Canadian Letters of Credit, ratably among the Canadian Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Fourteenth held by them;

Fifteenth, to the Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Canadian Letters of Credit;

Sixteenth, to payment of all other Obligations (including without limitation the cash collateralization of unliquidated indemnification obligations as provided in Section 10.04(g), but excluding any Other Liabilities), ratably among the Credit Parties in proportion to the respective amounts described in this clause Sixteenth held by them;

Seventeenth, to payment of that portion of the Obligations arising from Cash Management Services, ratably among the Credit Parties in proportion to the respective amounts described in this clause Seventeenth held by them;

Eighteenth, to payment of all other Obligations arising from Bank Products, ratably among the Credit Parties in proportion to the respective amounts described in this clause Eighteenth held by them; and

Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Loan Parties or as otherwise required by Law.

Subject to Section 2.03(c), amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clauses Eighth and Fifteenth above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above.

(b) After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received from the Canadian Loan Parties or from the Collateral owned by the Canadian Loan Parties on account of the Obligations shall be applied by the Agent in the following order:

First, to payment of that portion of the Canadian Liabilities (excluding the Other Canadian Liabilities) constituting fees, indemnities, Credit Party Expenses and other amounts (including amounts payable under Article III) payable to the Agent;

Second, to payment of that portion of the Canadian Liabilities (excluding the Other Canadian Liabilities) constituting indemnities, Credit Party Expenses, and other amounts (other than principal, interest and fees) payable to the Canadian Lenders and the L/C Issuer (including amounts payable under Article III), ratably among them in proportion to the amounts described in this clause Second payable to them;

Third, to payment of that portion of the Canadian Liabilities constituting accrued and unpaid interest on the Canadian Loans, L/C Borrowings with respect to Canadian Letters of Credit, and fees (including Letter of Credit Fees) owing to the Canadian Lenders, ratably among the Canadian Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Third payable to them;

Fourth, to payment of that portion of the Canadian Liabilities constituting unpaid principal of the Canadian Loans and L/C Borrowings with respect to Canadian Letters of Credit, and to pay any amounts owing with respect to Canadian Liabilities, ratably among the Canadian Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Fourth held by them;

Fifth, to the Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Canadian Letters of Credit;

Sixth, to payment of all other Canadian Liabilities (including without limitation the cash collateralization of unliquidated indemnification obligations as provided in Section 10.04(g)), but excluding any Other Canadian Liabilities), ratably among the Canadian Credit Parties in proportion to the respective amounts described in this clause Sixth held by them;

Seventh, to payment of that portion of the Canadian Liabilities arising from Cash Management Services, ratably among the Canadian Credit Parties in proportion to the respective amounts described in this clause Seventh held by them;

Eighth, to payment of all other Canadian Liabilities arising from Bank Products, ratably among the Canadian Credit Parties in proportion to the respective amounts described in this clause Eighth held by them; and

Last, the balance, if any, after all of the Canadian Liabilities have been indefeasibly paid in full, to the Canadian Loan Parties or as otherwise required by Law.

Subject to Section 2.03(c), amounts used to Cash Collateralize the aggregate undrawn amount of Canadian Letters of Credit pursuant to clause Fifth above shall be applied to satisfy drawings under such Canadian Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Canadian Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Canadian Liabilities, if any, in the order set forth above.

ARTICLE IX THE AGENT

9.01 Appointment and Authority.

(a) Each of the Lenders (in its capacity as a Lender), the Swing Line Lender and the L/C Issuer hereby irrevocably appoints Bank of America to act on its behalf as the administrative agent and collateral agent hereunder and under the other Loan Documents and authorizes the Agent to take such actions on its behalf and to exercise such powers as are delegated to the Agent by the terms hereof or thereof (including, without limitation, acquiring, holding and enforcing any and all Liens on Collateral granted by any of the Loan Parties to secure any of the Obligations), together with such actions and powers as are reasonably incidental thereto.

(b) The provisions of this Article are solely for the benefit of the Agent, the Lenders and the L/C Issuer, and no Loan Party or any Subsidiary thereof shall have rights as a third party beneficiary of any of such provisions.

9.02 Rights as a Lender. The Person serving as the Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though they were not the Agent and the term “Lender” or “Lenders” shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Loan Parties or any Subsidiary or other Affiliate thereof as if such Person were not the Agent hereunder and without any duty to account therefor to the Lenders.

9.03 Exculpatory Provisions. The Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default or Event of Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Agent to liability or that is contrary to any Loan Document or Law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Loan Parties or any of its Affiliates or branches that is communicated to or obtained by the Person serving as the Agent or any of its Affiliates or branches in any capacity.

The Agent shall not be liable for any action taken or not taken by it (i) with the Consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 10.01 and 8.02) or (ii) in the absence of its own gross negligence or willful misconduct as determined by a final and non-appealable judgment of a court of competent jurisdiction.

The Agent shall not be deemed to have knowledge of any Default or Event of Default unless and until notice describing such Default or Event of Default is given to the Agent by the Loan Parties, a Lender or the L/C Issuer. In the event that the Agent obtains such actual knowledge or receives such a notice, the Agent shall give prompt notice thereof to each of the other applicable Credit Parties. Upon the occurrence of a Default or an Event of Default, the Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Applicable Lenders. Unless and until the Agent shall have received such direction, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to any such Default or Event of Default as it shall deem advisable in the best interest of the Credit Parties. In no event shall the Agent be required to comply with any such directions to the extent that the Agent believes that its compliance with such directions would be unlawful.

The Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default or Event of Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or the creation, perfection or priority of any Lien purported to be created by the Security Documents, (v) the value or the sufficiency of any Collateral, or (vi) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Agent.

9.04 Reliance by Agent.

The Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including, but not limited to, any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or the L/C Issuer, the Agent may presume that such condition is satisfactory to such Lender or the L/C Issuer unless the Agent shall have received written notice to the contrary from such Lender or the L/C Issuer prior to the making of such Loan or the issuance of such Letter of Credit. The Agent may consult with legal counsel (who may be counsel for any Loan Party), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

9.05 Delegation of Duties. The Agent may perform any and all of their respective duties and exercise their respective rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Agent. The Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as the Agent may request.

9.06 Resignation of Agent. The Agent may at any time give written notice of its resignation to the Lenders, the L/C Issuer and the Lead Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, in consultation with the Lead Borrower, to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may on behalf of the Lenders and the L/C Issuer, appoint a successor Agent meeting the qualifications set forth above; provided that if the Agent shall notify the Lead Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any Collateral held by the Agent on behalf of the Lenders or the L/C Issuer under any of the Loan Documents, the retiring Agent shall continue to hold such collateral security until such time as a successor Agent is appointed) and (2) all payments, communications and determinations provided to be made by, to or through the Agent shall instead be made by or to each Lender and the L/C Issuer directly, until such time as the Required Lenders appoint a successor Agent as provided for above in this Section.

Upon the acceptance of a successor's appointment as Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Agent, and the retiring Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrowers to a successor Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Lead Borrower and such successor. After the retiring Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 10.04 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Agent was acting as Agent hereunder.

9.07 Non-Reliance on Agent and Other Lenders. Each Lender and the L/C Issuer acknowledges that it has, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and the L/C Issuer also acknowledges that it will, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder. Except as provided in Section 9.12, the Agent shall not have any duty or responsibility to provide any Credit Party with any other credit or other information concerning the affairs, financial condition or business of any Loan Party that may come into the possession of the Agent.

9.08 No Other Duties, Etc. Anything herein to the contrary notwithstanding, none of the Bookrunners, Arrangers, Syndication Agent or Documentation Agent listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity as an Agent, a Lender or the L/C Issuer hereunder.

9.09 Agent May File Proofs of Claim. In case of the pendency of any proceeding under any Debtor Relief Law or any other judicial proceeding relative to any Loan Party, the Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Agent shall have made any demand on the Loan Parties) shall be entitled and empowered, by intervention in such proceeding or otherwise

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders, the L/C Issuer, the Agent, and the other Credit Parties (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders, the L/C Issuer, the Agent, such Credit Parties and their respective agents and counsel and all other amounts due the Lenders, the L/C Issuer the Agent, and such Credit Parties under Sections 2.03(i), 2.03(j) and 2.03(k) as applicable, 2.09 and 10.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender and the L/C Issuer to make such payments to the Agent and, if the Agent shall consent to the making of such payments directly to the Lenders and the L/C Issuer, to pay to the Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Agent and its agents and counsel, and any other amounts due the Agent under Sections 2.09 and 10.04.

Nothing contained herein shall be deemed to authorize the Agent to authorize or consent to or accept or adopt on behalf of any Lender or the L/C Issuer any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or the L/C Issuer or to authorize the Agent to vote in respect of the claim of any Lender or the L/C Issuer in any such proceeding.

9.10 Collateral and Guaranty Matters. The Credit Parties irrevocably authorize the Agent, at its option and in its discretion,

(a) to release any Lien on any property granted to or held by the Agent under any Loan Document (i) upon termination of the Aggregate Commitments and payment in full of all Obligations (other than contingent indemnification obligations for which no claim has been asserted) and the expiration, termination or Cash Collateralization of all Letters of Credit, (ii) that is Disposed of or to be Disposed of as part of or in connection with any Permitted Disposition, or (iii) if approved, authorized or ratified in writing by the Applicable Lenders in accordance with Section 10.01;

(b) to subordinate any Lien on any property granted to or held by the Agent under any Loan Document to the holder of any Lien on such property that is permitted by clause (h) of the definition of Permitted Encumbrances; and

(c) to release any Guarantor from its obligations under the Facility Guaranty if such Person ceases to be a Subsidiary as a result of a transaction permitted hereunder.

Upon request by the Agent at any time, the Applicable Lenders will confirm in writing the Agent's authority to release or subordinate its interest in particular types or items of property, or to release any Guarantor from its obligations under the Facility Guaranty pursuant to this Section 9.10. In each case as specified in this Section 9.10, the Agent will, at the Loan Parties' expense, execute and deliver to the applicable Loan Party such documents as such Loan Party may reasonably request to evidence the release of such item of Collateral from the Liens of the Security Documents or to subordinate its interest in such item, or to release such Guarantor from its obligations under the Facility Guaranty, in each case in accordance with the terms of the Loan Documents and this Section 9.10.

9.11 Notice of Transfer.

The Agent may deem and treat a Lender party to this Agreement as the owner of such Lender's portion of the Obligations for all purposes, unless and until, and except to the extent, an Assignment and Acceptance shall have become effective as set forth in Section 10.06.

9.12 Reports and Financial Statements.

By signing this Agreement, each Lender:

(a) agrees to furnish the Agent after the occurrence and during the continuance of a Cash Dominion Event (and thereafter at such frequency as the Agent may reasonably request) with a summary of all Other Liabilities due or to become due to such Lender. In connection with any distributions to be made hereunder, the Agent shall be entitled to assume that no amounts are due to any Lender on account of Other Liabilities unless the Agent has received written notice thereof from such Lender;

(b) is deemed to have requested that the Agent furnish, and the Agent agrees to furnish, such Lender, promptly after they become available, copies of all Borrowing Base Certificates and financial statements required to be delivered by the Lead Borrower hereunder and all commercial finance examinations and appraisals of the Collateral received by the Agent (collectively, the "Reports");

(c) expressly agrees and acknowledges that the Agent makes no representation or warranty as to the accuracy of the Reports, and shall not be liable for any information contained in any Report;

(d) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that the Agent or any other party performing any audit or examination will inspect only specific information regarding the Loan Parties and will rely significantly upon the Loan Parties' books and records, as well as on representations of the Loan Parties' personnel;

(e) agrees to keep all Reports confidential in accordance with the provisions of Section 10.07 hereof; and

(f) without limiting the generality of any other indemnification provision contained in this Agreement, agrees: (i) to hold the Agent and any such other Lender preparing a Report harmless from any action the indemnifying Lender may take or conclusion the indemnifying Lender may reach or draw from any Report in connection with any Credit Extensions that the indemnifying Lender has made or may make to the Borrowers, or the indemnifying Lender's participation in, or the indemnifying Lender's purchase of, a Loan or Loans; and (ii) to pay and protect, and indemnify, defend, and hold the Agent and any such other Lender preparing a Report harmless from and against, the claims, actions, proceedings, damages, costs, expenses, and other amounts (including attorney costs) incurred by the Agent and any such other Lender preparing a Report as the direct or indirect result of any third parties who might obtain all or part of any Report through the indemnifying Lender.

9.13 Agency for Perfection.

Each Lender hereby appoints each other Lender as agent for the purpose of perfecting Liens for the benefit of the Agent and the Lenders, in assets which, in accordance with Article 9 of the UCC, with the PPSA or with any other Law of the United States or Canada can be perfected only by possession or control. Should any Lender (other than the Agent) obtain possession or control of any such Collateral, such Lender shall notify the Agent thereof, and, promptly upon the Agent's request therefor shall deliver such Collateral to the Agent or otherwise deal with such Collateral in accordance with the Agent's instructions.

9.14 Indemnification of Agent. Without limiting the obligations of Loan Parties hereunder, the Lenders shall indemnify the Agent, the L/C Issuer and any Related Party, as the case may be ratably according to their Applicable Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent, the L/C Issuer and their Related Parties in any way relating to or arising out of this Agreement or any other Loan Document or any action taken or omitted to be taken by the Agent, the L/C Issuer and their Related Parties in connection therewith; provided, that no Lender shall be liable for any portion of such liabilities,

obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent's, the L/C Issuer's and their Related Parties' gross negligence or willful misconduct as determined by a final and nonappealable judgment of a court of competent jurisdiction.

9.15 Relation among Lenders. The Lenders are not partners or co-venturers, and no Lender shall be liable for the acts or omissions of, or (except as otherwise set forth herein in case of the Agent) authorized to act for, any other Lender.

9.16 Defaulting Lender.

(a) Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if for any reason any Lender shall become a Defaulting Lender or otherwise shall fail or refuse to abide by its obligations under this Agreement, then, until such time as that Lender is no longer a Defaulting Lender, to the extent permitted by Law, in addition to the rights and remedies that may be available to the other Credit Parties and the Loan Parties:

(i) Waivers and Amendments. Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in Section 10.01.

(ii) Reallocation of Payments. Any payment of principal, interest, fees or other amounts received by the Agent for the account of that Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article VIII or otherwise, and including any amounts made available to the Agent by that Defaulting Lender pursuant to Section 10.08), will be applied at such time or times as may be determined by Agent as follows: *FIRST*, to the payment of any amounts owing by that Defaulting Lender to the Agent hereunder; *SECOND*, to the payment on a *pro rata* basis of any amounts owing by that Defaulting Lender to the applicable L/C Issuer or Swing Line Lender hereunder; *THIRD*, if so determined by the Agent or requested by the L/C Issuer or Swing Line Lender, to be held as cash collateral for future funding obligations of that Defaulting Lender of any participation in any Letter of Credit or Swing Line Loan; *FOURTH*, as the Borrowers may request (so long as no Default or Event of Default exists), to the funding of any Loan in respect of which that Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Agent; *FIFTH*, if so determined by the Agent and the Borrowers and subject to Section 2.03(g), to be held in an interest bearing deposit account and released in order to satisfy obligations of that Defaulting Lender to fund Loans under this Agreement; *SIXTH*, to the payment of any amounts owing to the Lenders, the L/C Issuer or Swing Line Lender as a result of any judgment of a court of competent jurisdiction obtained by any Lender, such L/C Issuer or Swing Line Lender against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; *SEVENTH*, so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrowers as a result of any judgment of a court of competent jurisdiction obtained by the Borrowers against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; and *EIGHTH*, to that Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if (1) such payment is a payment of the principal amount of any Loans or L/C Borrowings in respect of which that Defaulting Lender has not fully funded its appropriate share and (2) such Loans or L/C Borrowings were made at a time when the conditions set forth in Section 4.02 were satisfied or waived, such payment will be applied solely to pay the Loans of, and L/C Borrowings owed to, all non-Defaulting Lenders on a *pro rata* basis prior to being applied to the payment of any Loans of, or L/C Borrowings owed to, that Defaulting Lender. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post cash collateral pursuant to this Section 9.16 (a)(ii) will be deemed paid to and redirected by that Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) Certain Fees. A Defaulting Lender shall not be entitled to receive any commitment fee pursuant to Section 2.09 for any period during which that Lender is a Defaulting Lender (and the Borrowers shall not be required to pay any such fee that otherwise would have been required to have been paid to such Defaulting Lender).

(iv) Reallocation of Applicable Percentages to Reduce Fronting Exposure. During any period in which there is a Defaulting Lender, for purposes of computing the amount of the obligation of each non-Defaulting Lender to acquire, refinance or fund participations in Letters of Credit or Swing Line Loans pursuant to Sections 2.03 and 2.04 the Applicable Percentage of each non-Defaulting Lender that is a Revolving Lender will be computed without giving effect to the Commitment of that Defaulting Lender; provided, that, (A) each such reallocation will be given effect only if, at the date the applicable Revolving Lender becomes a Defaulting Lender, no Default or Event of Default exists and (B) each such reallocation will be given effect only to the extent that, after giving effect to such reallocation, each non-Defaulting Lender's Applicable Percentage of the Defaulting Lender's aggregate Fronting Exposure will not exceed the positive difference, if any, of (1) the Commitment of that non-Defaulting Lender minus (2) the sum of (x) the aggregate Outstanding Amount of the Loans of that non-Defaulting Lender, (y) that non-Defaulting Lender's Applicable Percentage of the then Outstanding Amount of any L/C Obligations, and (z) that non-Defaulting Lender's Applicable Percentage of the then Outstanding Amount of any Swing Line Loans.

(a) Defaulting Lender Cure. If the Borrowers, the Agent, L/C Issuer and Swing Line Lender agree in writing in their sole discretion that a Defaulting Lender should no longer be deemed to be a Defaulting Lender, the Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any cash collateral), that Lender will, to the extent applicable, purchase that portion of outstanding Loans of the other Lenders or take such other actions as the Agent may determine to be necessary to cause the Loans and funded and unfunded participations in Letters of Credit and Swing Line Loans to be held on a pro rata basis by the Lenders in accordance with their Applicable Percentage (without giving effect to Section 9.16(a)(iv)), whereupon that Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrowers while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

9.17 Risk Participation.

(a) Upon the earlier of Substantial Liquidation (so long as the Canadian Commitments have been terminated) or the Determination Date, if all Canadian Liabilities have not been repaid in, then the Domestic Lenders shall purchase (by way of a participation) from the Canadian Lenders (on the date of Substantial Liquidation or the Determination Date, as applicable) such portion of the Canadian Liabilities so that each Revolving Lender shall, after giving effect to any such purchases, hold its Liquidation Percentage of all outstanding Canadian Liabilities and all other Obligations.

(b) Upon the earlier of Substantial Liquidation or the Determination Date, if all Obligations of the Domestic Borrowers (excluding those Obligations relating to the Canadian Liabilities) have not been repaid in full, then the Canadian Lenders shall purchase from the Domestic Lenders (on the date of Substantial Liquidation or the Determination Date, as applicable) such portion of such Obligations so that each Revolving Lender shall, after giving effect to any such purchases, hold its Liquidation Percentage of all outstanding Obligations of the Domestic Borrowers and the Canadian Liabilities.

(c) All purchases of Obligations under this Section 9.17 shall be at par, for cash, with no premium, discount or reduction.

(d) No Revolving Lender shall be responsible for any default of any other Revolving Lender in respect of any other Revolving Lender's obligations under this Section 9.17, nor shall the obligations of any Revolving Lender hereunder be increased as a result of such default of any other Revolving Lender. Each Revolving Lender shall be obligated to the extent provided herein regardless of the failure of any other Revolving Lender to fulfill its obligations hereunder.

(e) Each Revolving Lender shall execute such instruments, documents and agreements and do such other actions as may be necessary or proper in order to carry out more fully the provisions and purposes of this Section 9.17 and the purchase of Obligations or the Canadian Liabilities, as applicable, as provided herein.

(f) The obligations of each Revolving Lender under this Section 9.17 are irrevocable and unconditional and shall not be subject to any qualification or exception whatsoever including, without limitation, lack of validity or enforceability of this Agreement or any of the Loan Documents or the existence of any claim, setoff, defense or other right which any Loan Party may have at any time against any of the Revolving Lenders.

(g) No fees required to be paid on any assignment pursuant to Section 10.06 of this Agreement shall be payable in connection with any assignment under this Section 9.17.

ARTICLE X MISCELLANEOUS

10.01 Amendments, Etc. (a) (a) No amendment or waiver of any provision of this Agreement or any other Loan Document, and no Consent to any departure by any Loan Party therefrom, shall be effective unless in writing signed by the Agent, with the Consent of the Required Lenders, and the Lead Borrower or the applicable Loan Party, as the case may be, and each such waiver or Consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

(i) increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 8.02) without the written Consent of such Lender;

(ii) as to any Lender, postpone any date fixed by this Agreement or any other Loan Document for (i) any scheduled payment (including the Maturity Date) of principal, interest, fees or other amounts due hereunder or under any of the other Loan Documents without the written Consent of such Lender, or (ii) any scheduled or mandatory reduction or termination of the Aggregate Commitments hereunder or under any other Loan Document, without the written Consent of such Lender;

(iii) as to any Lender, reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing held by such Lender, or (subject to clause (iv) of the second proviso to this Section 10.01) any fees or other amounts payable hereunder or under any other Loan Document to or for the account of such Lender, without the written Consent of such Lender; provided, however, that only the Consent of the Required Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Borrowers to pay interest or Letter of Credit Fees at the Default Rate;

(iv) as to any Lender, change Section 2.13 or Section 8.03 in a manner that would alter the pro rata sharing of payments required thereby without the written Consent of such Lender;

(v) change any provision of this Section or the definition of "Required Lenders", "Required Supermajority Lenders" or any other provision hereof or of any Loan Document specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or under any other Loan Document or make any determination or grant any consent hereunder or thereunder, without the written Consent of each Lender;

(vi) except as expressly permitted hereunder or under any other Loan Document, release, or limit the liability of, any Loan Party without the written Consent of each Lender;

(vii) except for Permitted Dispositions or as provided in Section 9.10, release all or substantially all of the Collateral from the Liens of the Security Documents without the written Consent of each Lender;

(viii) increase any advance rate percentage set forth in the definition of the terms "Canadian Borrowing Base", "Tranche A Borrowing Base" or "Incremental Borrowing Base" without the written Consent of each Lender; or otherwise change the definition of the terms "Canadian Borrowing Base", "Tranche A Borrowing Base" or "Incremental Borrowing Base" or any component definition thereof if as a result thereof the amounts available to be borrowed by the Borrowers would be increased without the written Consent of the Required Supermajority Lenders; *provided that* the foregoing shall not limit the discretion of the Agent to change, establish or eliminate any Reserves;

(ix) modify the definition of Permitted Overadvance so as to increase the amount thereof or, except as otherwise provided in such definition, the time period for which a Permitted Overadvance may remain outstanding without the written Consent of each Lender; and

(x) except as expressly permitted herein or in any other Loan Document, subordinate the Obligations hereunder or the Liens granted hereunder or under the other Loan Documents, to any other Indebtedness or Lien, as the case may be without the written Consent of each Lender;

and, provided further, that (i) no amendment, waiver or Consent shall, unless in writing and signed by the L/C Issuer in addition to the Lenders required above, affect the rights or duties of the L/C Issuer under this Agreement or any Issuer Document relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or Consent shall, unless in writing and signed by the Swing Line Lender in addition to the Lenders required above, affect the rights or duties of the Swing Line Lender under this Agreement; (iii) no amendment, waiver or Consent shall, unless in writing and signed by the Agent in addition to the Lenders required above, affect the rights or duties of the Agent under this Agreement or any other Loan Document; and (iv) the Fee Letter may be amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or Consent

hereunder (and any amendment, waiver or consent which by its terms requires the Consent of all Lenders or each affected Lender may be effected with the Consent of the applicable Lenders other than Defaulting Lenders), except that (x) the Commitment of any Defaulting Lender may not be increased or extended without the Consent of such Defaulting Lender and (y) any waiver, amendment or modification requiring the Consent of all Lenders or each affected Lender that by its terms affects any Defaulting Lender more adversely than other affected Lenders shall require the consent of such Defaulting Lender.

(b) Notwithstanding anything to the contrary in this Agreement or any other Loan Document, (x) no provider or holder of any Bank Products or Cash Management Services shall have any voting or approval rights hereunder (or be deemed a Lender) solely by virtue of its status as the provider or holder of such agreements or products or the Obligations owing thereunder, nor shall the consent of any such provider or holder be required (other than in their capacities as Lenders, to the extent applicable) for any matter hereunder or under any of the other Loan Documents, including as to any matter relating to the Collateral or the release of Collateral or any Loan Party, and (y) any Loan Document may be amended and waived with the consent of the Agent at the request of the Borrower without the need to obtain the consent of any other Lender if such amendment or waiver is delivered in order (i) to comply with local Law or advice of local counsel, (ii) to cure ambiguities or defects or (iii) to cause any Loan Document to be consistent with this Agreement and the other Loan Documents.

(c) If any Lender does not Consent (a "Non-Consenting Lender") to a proposed amendment, waiver, consent or release with respect to any Loan Document that requires the Consent of each Lender and that has been approved by the Required Lenders, the Lead Borrower may replace such Non-Consenting Lender in accordance with Section 10.13; provided that such amendment, waiver, consent or release can be effected as a result of the assignment contemplated by such Section (together with all other such assignments required by the Lead Borrower to be made pursuant to this paragraph).

10.02 Notices; Effectiveness; Electronic Communications.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in Section 10.02(b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Loan Parties, the Agent, the L/C Issuer or the Swing Line Lender, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 10.02; and

(ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices delivered through electronic communications to the extent provided in Section 10.02(b) below, shall be effective as provided in such Section 10.02(b).

(b) Electronic Communications. Notices and other communications to the Lenders and the L/C Issuer hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Agent provided that the foregoing shall not apply to notices to any Lender or the L/C Issuer pursuant to Article II if such Lender or the L/C Issuer, as applicable, has notified the Agent that it is incapable of receiving notices under such Article by electronic communication. The Agent or the Lead Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Agent or any of their Related Parties (collectively, the "Agent Parties") have any liability to any Loan Party, any Lender, the L/C Issuer or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Loan Parties' or the Agent's transmission of Borrower Materials through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of the Agent Party; provided, however, that in no event shall any Agent Party have any liability to any Loan Party, any Lender, the L/C Issuer or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. Each of the Loan Parties, the Agent, the L/C Issuer and the Swing Line Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Lead Borrower, the Agent, the L/C Issuer and the Swing Line Lender. In addition, each Lender agrees to notify the Agent from time to time to ensure that the Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(e) Reliance by Agent, L/C Issuer and Lenders. The Agent, the L/C Issuer and the Lenders shall be entitled to rely and act upon any notices (including telephonic Loan Notices and Swing Line Loan Notices) purportedly given by or on behalf of the Loan Parties even if (i) such notices were not

made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Loan Parties shall indemnify the Agent, the L/C Issuer, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Loan Parties. All telephonic notices to and other telephonic communications with the Agent may be recorded by the Agent and each of the parties hereto hereby consents to such recording.

10.03 No Waiver; Cumulative Remedies. No failure by any Credit Party to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or under any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided herein and in the other Loan Documents are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default or Event of Default, regardless of whether any Credit Party may have had notice or knowledge of such Default or Event of Default at the time.

10.04 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Borrowers shall pay all Credit Party Expenses, provided that the Canadian Borrower shall only pay Credit Party Expenses owing to the Canadian Credit Parties.

(b) Indemnification by the Loan Parties. The Loan Parties shall indemnify the Agent (and any sub-agent of the Agent), each other Credit Party, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless (on an after tax basis) from, any and all losses, claims, causes of action, damages, liabilities, settlement payments, costs, and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any third party or by any Borrower or any other Loan Party arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, the consummation of the transactions contemplated hereby or thereby, or the administration of this Agreement and the other Loan Documents, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the L/C Issuer to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit, any bank advising or confirming a Letter of Credit and any other Person seeking to enforce the rights of a Borrower, beneficiary, transferee, or assignee or Letter of Credit proceeds or the holder of an instrument or document related to any Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by any Loan Party or any of its Subsidiaries, or any Environmental Liability related in any way to any Loan Party or any of its Subsidiaries, (iv) any claims of, or amounts paid by any Credit Party to, a Blocked Account Bank or other Person which has entered into a control agreement with any Credit Party hereunder, or (v) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by any Borrower or any other Loan Party or any of the Loan Parties' directors, shareholders or creditors, and regardless of whether any Indemnitee is a party thereto, in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims,

damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by a Borrower or any other Loan Party against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if the Borrowers or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

(c) Waiver of Consequential Damages, Etc. To the fullest extent permitted by Law, the Loan Parties shall not assert, and hereby waive, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby other than for direct or actual damages resulting from the gross negligence or willful misconduct of such Indemnitee as determined by a final and nonappealable judgment of a court of competent jurisdiction.

(d) Payments. All amounts due under this Section shall be payable on demand therefor.

(e) Survival. The agreements in this Section shall survive the resignation of any of the Agent and the L/C Issuer, the assignment of any Commitment or Loan by any Lender, the replacement of any Lender, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all the other Obligations.

10.05 Payments Set Aside. To the extent that any payment by or on behalf of the Loan Parties is made to any Credit Party, or any Credit Party exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by such Credit Party in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and the L/C Issuer severally agrees to pay to the Agent upon demand its Applicable Percentage (without duplication) of any amount so recovered from or repaid by the Agent plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate or the Bank of America-Canada Overnight Rate, as applicable, from time to time in effect. The obligations of the Lenders and the L/C Issuer under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

10.06 Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that no Loan Party may assign or otherwise transfer any of its rights or obligations hereunder or under any other Loan Document without the prior written Consent of the Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of Section 10.06(b), (ii) by way of

participation in accordance with the provisions of Section 10.06(d), or (iii) by way of pledge or assignment of a security interest subject to the restrictions of Section 10.06(f) (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in Section 10.06(d) and, to the extent expressly contemplated hereby, the Related Parties of each of the Credit Parties) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment(s) and the Loans (including for purposes of this Section 10.06(b), participations in L/C Obligations and in Swing Line Loans) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund with respect to a Lender, no minimum amount need be assigned; and

(B) in any case not described in Section 10.06(b)(i)(A), the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Agent and, so long as no Default or Event of Default has occurred and is continuing, the Lead Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met;

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned, except that this clause (ii) shall not apply to the Swing Line Lender's rights and obligations in respect of Swing Line Loans;

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by Section 10.06(b)(i)(B) and, in addition:

(A) the consent of the Lead Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (1) a Default or Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund with respect to such Lender; and

(B) the consent of the Agent, the L/C Issuer and the Swing Line Lender (such consent not to be unreasonably withheld or delayed) shall be required for assignments in respect of any Commitment if such assignment is to a Person that is not a Lender, an Affiliate of such Lender or an Approved Fund with respect to such Lender; and

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500, provided, however, that the Agent may, in its sole discretion, elect to waive such processing and recordation fee in the case of any assignment. The assignee, if it shall not be a Lender, shall deliver to the Agent an Administrative Questionnaire.

Subject to acceptance and recording thereof by the Agent pursuant to Section 10.06(c), from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, and 10.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the applicable Borrowers (at their expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 10.06(b) shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 10.06(d).

(c) Register. The Agent, acting solely for this purpose as an agent of the Borrowers, shall maintain at the Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, absent manifest error, and the Loan Parties, the Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Lead Borrower and any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Loan Parties or the Agent, sell participations to any Person (other than a natural person or the Loan Parties or any of the Loan Parties' Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including such Lender's participations in L/C Obligations and/or Swing Line Loans) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Loan Parties, the Agent, the Lenders and the L/C Issuer shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any Participant shall agree in writing to comply with all confidentiality obligations set forth in Section 10.07 as if such Participant was a Lender hereunder.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 10.01 that affects such Participant. Subject to Section 10.06(e) of this Section, the Loan Parties agree that each Participant shall be entitled to

the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 10.06(b). To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 10.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.13 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Lead Borrower's prior written consent. A Participant that would be a Foreign Lender (other than a Canadian Lender) if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Lead Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Loan Parties, to comply with Section 3.01(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

(h) Resignation as L/C Issuer or Swing Line Lender after Assignment or Resignation. Notwithstanding anything to the contrary contained herein, if at any time Bank of America assigns all of its Commitment and Loans pursuant to Section 10.06(b) above, or resigns as the Agent in accordance with the provisions of Section 9.06, Bank of America may, (i) upon 30 days' notice to the Lead Borrower and the Lenders, resign as L/C Issuer and/or (ii) with duplication of any notice required under Section 9.06, upon 30 days' notice to the Lead Borrower, resign as Swing Line Lender. In the event of any such resignation as L/C Issuer or Swing Line Lender, the Lead Borrower shall be entitled to appoint from among the Lenders a successor L/C Issuer or Swing Line Lender hereunder; provided, however, that no failure by the Lead Borrower to appoint any such successor shall affect the resignation of Bank of America as L/C Issuer or Swing Line Lender, as the case may be. If Bank of America resigns as L/C Issuer, it shall retain all the rights, powers, privileges and duties of the L/C Issuer hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as L/C Issuer and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Loans or Canadian Prime Rate Loans or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(e)). Upon the appointment of a successor L/C Issuer and/or Swing Line Lender, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring L/C Issuer or Swing Line Lender, as the case may be, and (b) the successor L/C Issuer shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to Bank of America to effectively assume the obligations of Bank of America with respect to such Letters of Credit.

(i) **Defaulting Lenders.** In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of the Borrowers and the Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Agent or any Lender hereunder (and interest accrued thereon) and (y) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Letters of Credit in accordance with its pro rata share. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable Law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs.

10.07 Treatment of Certain Information; Confidentiality. Each of the Credit Parties agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates, Approved Funds, and to its and its Affiliates' and Approved Funds' respective partners, directors, officers, employees, agents, funding sources, attorneys, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority), (c) to the extent required by Laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any Swap Contract relating to any Loan Party and its obligations, (g) with the consent of the Lead Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to any Credit Party or any of their respective Affiliates on a non-confidential basis from a source other than the Loan Parties.

For purposes of this Section, "Information" means all information received from the Loan Parties or any Subsidiary thereof relating to the Loan Parties or any Subsidiary thereof or their respective businesses, other than any such information that is available to any Credit Party on a non-confidential basis prior to disclosure by the Loan Parties or any Subsidiary thereof, provided that, in the case of information received from any Loan Party or any Subsidiary after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Credit Parties acknowledges that (a) the Information may include material non-public information concerning the Loan Parties or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with Law, including Federal, state and provincial securities Laws.

10.08 Right of Setoff. If an Event of Default shall have occurred and be continuing or if any Lender shall have been served with a trustee process or similar attachment relating to property of a Loan Party, each Lender, the L/C Issuer and each of their respective Affiliates is hereby authorized at any time and from time to time, after obtaining the prior written consent of the Agent or the Required Lenders, to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) or other property at any time held and other obligations (in whatever currency) at any time owing by such Lender, the L/C Issuer or any such Affiliate to or for the credit or the account of the Borrowers or any other Loan Party against any and all of the Obligations now or hereafter existing under this Agreement or any other Loan Document to such Lender or the L/C Issuer, regardless of the adequacy of the Collateral, and irrespective of whether or not such Lender or the L/C Issuer shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrowers or such Loan Party may be contingent or unmatured or are owed to a branch or office of such Lender or the L/C Issuer different from the branch or office holding such deposit or obligated on such indebtedness; provided, that in the event that any Defaulting Lender shall exercise any such right of setoff, (x) all amounts so set off shall be paid over immediately to the Agent for further application in accordance with the provisions of Section 9.16 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Agent and the Lenders, and (y) the Defaulting Lender shall provide promptly to the Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of setoff. The rights of each Lender, the L/C Issuer and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender, the L/C Issuer or their respective Affiliates may have. Each Lender and the L/C Issuer agrees to notify the Lead Borrower or the Canadian Borrower, as applicable, and the Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

10.09 Interest Rate Limitation. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by Law (the "Maximum Rate"). If the Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrowers. In determining whether the interest contracted for, charged, or received by the Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

10.10 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Agent and when the Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy, pdf or other electronic transmission shall be as effective as delivery of a manually executed counterpart of this Agreement.

10.11 Survival. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have

been or will be relied upon by the Credit Parties, regardless of any investigation made by any Credit Party or on their behalf and notwithstanding that any Credit Party may have had notice or knowledge of any Default or Event of Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding. Further, the provisions of Sections 3.01, 3.04, 3.05 and 10.04 and Article IX shall survive and remain in full force and effect regardless of the repayment of the Obligations, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof. In connection with the termination of this Agreement and the release and termination of the Lien on the Collateral, the Agent may require such indemnities and collateral security as they shall reasonably deem necessary or appropriate to protect the Credit Parties against (x) loss on account of credits previously applied to the Obligations that may subsequently be reversed or revoked, (y) any obligations that may thereafter arise with respect to the Other Liabilities, and (z) any Obligations that may thereafter arise under Section 10.04 hereof.

10.12 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.13 Replacement of Lenders. If any Lender requests compensation under Section 3.04, or if the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender is a Defaulting Lender or a Non-Consenting Lender, then the Borrowers may, at their sole expense and effort, upon notice to such Lender and the Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 10.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(a) the Borrowers shall have paid to the Agent the assignment fee specified in Section 10.06(b);

(b) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and L/C Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 3.05) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrowers (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01, such assignment will result in a reduction in such compensation or payments thereafter; and

(d) such assignment does not conflict with Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrowers to require such assignment and delegation cease to apply.

10.14 Governing Law; Jurisdiction; Etc.

(a) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF, BUT INCLUDING SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

(b) SUBMISSION TO JURISDICTION. EACH LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN THE BOROUGH OF MANHATTAN AND OF THE UNITED STATES DISTRICT COURT OF THE STATE OF NEW YORK SITTING THEREIN, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE LOAN PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY LAW, IN SUCH FEDERAL COURT. EACH OF THE LOAN PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT ANY CREDIT PARTY MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST ANY LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. EACH LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE LOAN PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(e) ACTIONS COMMENCED BY LOAN PARTIES. EACH LOAN PARTY AGREES THAT ANY ACTION COMMENCED BY ANY LOAN PARTY ASSERTING ANY CLAIM OR COUNTERCLAIM ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL BE BROUGHT SOLELY IN A COURT OF THE STATE OF NEW YORK SITTING IN THE BOROUGH OF MANHATTAN OR ANY FEDERAL COURT SITTING THEREIN AS THE AGENT MAY ELECT IN ITS SOLE DISCRETION AND CONSENTS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS WITH RESPECT TO ANY SUCH ACTION.

10.15 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.16 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby, the Loan Parties each acknowledge and agree that: (i) the credit facility provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm's-length commercial transaction between the Loan Parties, on the one hand, and the Credit Parties, on the other hand, and each of the Loan Parties is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (ii) in connection with the process leading to such transaction, each Credit Party is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Loan Parties or any of their respective Affiliates, stockholders, creditors or employees or any other Person; (iii) none of the Credit Parties has assumed or will assume an advisory, agency or fiduciary responsibility in favor of the Loan Parties with respect to any of the transactions contemplated hereby or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether any of the Credit Parties has advised or is currently advising any Loan Party or any of its Affiliates on other matters) and none of the Credit Parties has any obligation to any Loan Party or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; (iv) the Credit Parties and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Loan Parties and their respective Affiliates, and none of the Credit Parties has any obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (v) the Credit Parties have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby (including any amendment, waiver or other modification hereof or of any other Loan Document) and each of the Loan Parties has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate. Each of the Loan Parties hereby waives and releases, to the fullest extent permitted by law, any claims that it may have against each of the Credit Parties with respect to any breach or alleged breach of agency or fiduciary duty.

10.17 USA PATRIOT Act Notice. Each Lender that is subject to the Act (as hereinafter defined) and the Agent (for itself and not on behalf of any Lender) hereby notifies the Loan Parties that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow such Lender or the Agent, as applicable, to identify each Loan Party in accordance with the Act. Each Loan Party is in compliance, in all material respects, with the Patriot Act. No part of the proceeds of the Loans will be used by the Loan Parties, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

10.18 Foreign Asset Control Regulations. Neither of the advance of the Loans nor the use of the proceeds of any thereof will violate the Trading With the Enemy Act (50 U.S.C. § 1 et seq., as amended) (the "Trading With the Enemy Act") or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) (the "Foreign Assets Control Regulations") or any enabling legislation or executive order relating thereto (which for the avoidance of doubt shall include, but shall not be limited to (a) Executive Order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the "Executive Order") and (b) the Act. Furthermore, none of the Borrowers or their Affiliates (a) is or will become a "blocked person" as described in the Executive Order, the Trading With the Enemy Act or the Foreign Assets Control Regulations or (b) engages or will engage in any dealings or transactions, or be otherwise associated, with any such "blocked person" or in any manner violative of any such order.

10.19 Canadian Anti-Money Laundering Legislation.

(a) Each Loan Party acknowledges that, pursuant to the Proceeds of Crime Act and other applicable anti-money laundering, anti-terrorist financing, government sanction and "know your client" laws (collectively, including any guidelines or orders thereunder, "AML Legislation"), the Lenders may be required to obtain, verify and record information regarding the Loan Parties and their respective directors, authorized signing officers, direct or indirect shareholders or other Persons in control of the Loan Parties, and the transactions contemplated hereby. Each Loan Party shall promptly provide all such information, including supporting documentation and other evidence, as may be reasonably requested by any Lender or any prospective assignee or participant of a Lender, the L/C Issuer, or the Agent, in order to comply with any applicable AML Legislation, whether now or hereafter in existence.

(b) If the Agent has ascertained the identity of any Loan Party or any authorized signatories of the Loan Parties for the purposes of applicable AML Legislation, then the Agent:

(i) shall be deemed to have done so as an agent for each Lender, and this Agreement shall constitute a "written agreement" in such regard between each Lender and the Agent within the meaning of the applicable AML Legislation; and

(ii) shall provide to each Lender copies of all information obtained in such regard without any representation or warranty as to its accuracy or completeness.

Notwithstanding the preceding sentence and except as may otherwise be agreed in writing, each of the Lenders agrees that the Agent has no obligation to ascertain the identity of the Loan Parties or any authorized signatories of the Loan Parties on behalf of any Lender, or to confirm the completeness or accuracy of any information it obtains from any Loan Party or any such authorized signatory in doing so.

10.20 Time of the Essence. Time is of the essence of the Loan Documents.

10.21 Press Releases.

(a) Each Credit Party executing this Agreement agrees that neither it nor its Affiliates will in the future issue any press releases or other public disclosure using the name of the Agent or its Affiliates or referring to this Agreement or the other Loan Documents without at least two (2) Business Days' prior notice to the Agent and without the prior written consent of the Agent unless (and only to the extent that) such Credit Party or Affiliate is required to do so under Law and then, in any event, such Credit Party or Affiliate will consult with the Agent before issuing such press release or other public disclosure.

(b) Each Loan Party consents to the publication by the Agent or any Lender of advertising material relating to the financing transactions contemplated by this Agreement using any Loan Party's name, product photographs, logo or trademark. The Agent or such Lender shall provide a draft reasonably in advance of any advertising material to the Lead Borrower for review and comment prior to the publication thereof. The Agent reserves the right to provide to industry trade organizations information necessary and customary for inclusion in league table measurements.

10.22 Judgment Currency.

If, for purposes of obtaining judgment in any court, it is necessary to convert a sum from the currency provided under a Loan Document ("Agreement Currency") into another currency, the Spot Rate shall be used as the rate of exchange. Notwithstanding any judgment in a currency ("Judgment Currency") other than the Agreement Currency, a Loan Party shall discharge its obligation in respect of any sum due under a Loan Document only if, on the Business Day following receipt by the Agent of payment in the Judgment Currency, the Agent can use the amount paid to purchase the sum originally due in the Agreement Currency. If the purchased amount is less than the sum originally due, such Loan Party agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Agent and the other Credit Parties against such loss. If the purchased amount is greater than the sum originally due, the Agent shall return the excess amount to such Loan Party (or to the Person legally entitled thereto).

10.23 Additional Waivers.

(a) To the fullest extent permitted by Law, the obligations of each Loan Party shall not be affected by (i) the failure of any Credit Party to assert any claim or demand or to enforce or exercise any right or remedy against any other Loan Party under the provisions of this Agreement, any other Loan Document or otherwise, (ii) any rescission, waiver, amendment or modification of, or any release from any of the terms or provisions of, this Agreement or any other Loan Document, or (iii) the failure to perfect any Lien on, or the release of, any of the Collateral or other security held by or on behalf of the Agent or any other Credit Party.

(b) The obligations of each Loan Party shall not be subject to any reduction, limitation, impairment or termination for any reason (other than the indefeasible payment in full in cash of the Obligations after the termination of the Commitments), including any claim of waiver, release, surrender, alteration or compromise of any of the Obligations, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of any of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Loan Party hereunder shall not be discharged or impaired or otherwise affected by the failure of the Agent or any other Credit Party to assert any claim or demand or to enforce any remedy under this Agreement, any other Loan Document or any other agreement, by any waiver or modification of any provision of any thereof, any default, failure or delay, willful or otherwise, in the performance of any of the Obligations, or by any other act or omission that may or might in any manner or to any extent vary the risk of any Loan Party or that would otherwise operate as a discharge of any Loan Party as a matter of Law or equity (other than the indefeasible payment in full in cash of all the Obligations after the termination of the Commitments).

(c) To the fullest extent permitted by Law, each Loan Party waives any defense based on or arising out of any defense of any other Loan Party or the unenforceability of the Obligations or any part thereof from any cause, or the cessation from any cause of the liability of any other Loan Party, other than the indefeasible payment in full in cash of all the Obligations and the termination of the Commitments. The Agent and the other Credit Parties may, at their election, foreclose on any security held by one or more of them by one or more judicial or non-judicial sales, accept an assignment of any such security in lieu of foreclosure, compromise or adjust any part of the Obligations, make any other accommodation with any other Loan Party, or exercise any other right or remedy available to them against any other Loan Party, without affecting or impairing in any way the liability of any Loan Party hereunder except to the extent that all the Obligations have been indefeasibly paid in full in cash and the Commitments have been terminated; provided that the Canadian Borrower shall be liable only for the Canadian Liabilities and the Collateral granted by the Canadian Borrower shall secure only the Canadian Liabilities. Each Loan Party waives any defense arising out of any such election even though such election operates, pursuant to Law, to impair or to extinguish any right of reimbursement or subrogation or other right or remedy of such Loan Party against any other Loan Party, as the case may be, or any security.

(d) The Obligations are the joint and several obligation of each Loan Party; provided that the Canadian Loan Parties shall be liable only for the Canadian Liabilities. Upon payment by any Loan Party of any Obligations, all rights of such Loan Party against any other Loan Party arising as a result thereof by way of right of subrogation, contribution, reimbursement, indemnity or otherwise shall in all respects be subordinate and junior in right of payment to the prior indefeasible payment in full in cash of all the Obligations and the termination of the Commitments. In addition, any indebtedness of any Loan Party now or hereafter held by any other Loan Party is hereby subordinated in right of payment to the prior indefeasible payment in full of the Obligations and no Loan Party will demand, sue for or otherwise attempt to collect any such indebtedness. If any amount shall erroneously be paid to any Loan Party on account of (i) such subrogation, contribution, reimbursement, indemnity or similar right or (ii) any such indebtedness of any Loan Party, such amount shall be held in trust for the benefit of the Credit Parties and shall forthwith be paid to the Agent to be credited against the payment of the Obligations, whether matured or unmatured, in accordance with the terms of this Agreement and the other Loan Documents. Subject to the foregoing, to the extent that any Domestic Borrower shall, under this Agreement as a joint and several obligor, repay any of the Obligations constituting Loans made to another Borrower hereunder or other Obligations incurred directly and primarily by any other Borrower (an "Accommodation Payment"), then the Domestic Borrower making such Accommodation Payment shall be entitled to contribution and indemnification from, and be reimbursed by, each of the other Domestic Borrowers in an amount, for each of such other Domestic Borrowers, equal to a fraction of such Accommodation Payment, the numerator of which fraction is such other Domestic Borrower's Allocable Amount and the denominator of which is the sum of the Allocable Amounts of all of the Domestic Borrowers. As of any date of determination, the "Allocable Amount" of each Domestic Borrower shall be equal to the maximum amount of liability for Accommodation Payments which could be asserted against such Domestic Borrower hereunder without (a) rendering such Domestic Borrower "insolvent" within the meaning of Section 101 (31) of the Bankruptcy Code, Section 2 of the Uniform Fraudulent Transfer Act ("UFTA") or Section 2 of the Uniform Fraudulent Conveyance Act ("UFCA"), (b) leaving such Domestic Borrower with unreasonably small capital or assets, within the meaning of Section 548 of the Bankruptcy Code, Section 4 of the UFTA, or Section 5 of the UFCA, or (c) leaving such Domestic Borrower unable to pay its debts as they become due within the meaning of Section 548 of the Bankruptcy Code or Section 4 of the UFTA, or Section 5 of the UFCA. Further, to the extent that any Domestic Borrower shall, under this Agreement as a joint and several obligor, repay any of the Obligations constituting Loans made to the Canadian Borrower hereunder or other Obligations incurred directly and primarily by any the Canadian Borrower, then, in addition to any rights of contribution it may have from other Domestic Borrowers, such Domestic Borrower shall be entitled to contribution and indemnification from, and be reimbursed by, the Canadian Borrower in the amount of such payment.

10.24 No Strict Construction.

The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

10.25 Attachments.

The exhibits, schedules and annexes attached to this Agreement are incorporated herein and shall be considered a part of this Agreement for the purposes stated herein, except that in the event of any conflict between any of the provisions of such exhibits and the provisions of this Agreement, the provisions of this Agreement shall prevail.

10.26 Limitation of Canadian Borrower Liability.

Notwithstanding anything to the contrary herein contained, the liability of the Canadian Loan Parties hereunder and under any other Loan Documents shall be limited to the Canadian Liabilities and the Canadian Loan Parties shall have no liability whatsoever under the Loan Documents with respect to any other Obligations of the Domestic Borrowers or the other Domestic Loan Parties.

10.27 Amendment and Restatement.

This Agreement, together with the Security Agreement, is an amendment and restatement of the Existing Credit Agreement, it being acknowledged and agreed that as of the Effective Date all obligations outstanding under or in connection with the Existing Credit Agreement and any of the other Loan Documents (such obligations, collectively, the "Existing Obligations") constitute obligations under this Agreement. This Agreement is in no way intended to constitute a novation of the Existing Credit Agreement or the Existing Obligations. With respect to (i) any date or time period occurring and ending prior to the Effective Date, the Existing Credit Agreement and the other Loan Documents shall govern the respective rights and obligations of any party or parties hereto also party thereto and shall for such purposes remain in full force and effect; and (ii) any date or time period occurring or ending on or after the Effective Date, the rights and obligations of the parties hereto shall be governed by this Agreement (including, without limitation, the exhibits and schedules hereto) and the other Loan Documents. From and after the Effective Date, any reference to the Existing Credit Agreement in any of the other Loan Documents executed or issued by and/or delivered to any one or more parties hereto pursuant to or in connection therewith shall be deemed to be a reference to this Agreement, and the provisions of this Agreement shall prevail in the event of any conflict or inconsistency between such provisions and those of the Existing Credit Agreement.

10.28 Language.

The parties herein have expressly requested that this Agreement and all related documents be drawn up in the English language. A la demande expresse des parties aux présentes, cette convention et tout document y afférent ont été rédigés en langue anglaise.

NINTH AMENDED AND RESTATED CREDIT AGREEMENT

Dated as of August 3, 2011

among

RESTORATION HARDWARE, INC.,
as the Lead Borrower

For

The Borrowers Named Herein

The Guarantors Named Herein

BANK OF AMERICA, N.A.
as Administrative Agent and Collateral Agent

and

The Other Lenders Party Hereto

WELLS FARGO CAPITAL FINANCE, LLC,
as Syndication Agent

U.S. BANK, NATIONAL ASSOCIATION,
as Documentation Agent

MERRILL, LYNCH, PIERCE, FENNER & SMITH INCORPORATED
as Sole Lead Arranger and Sole Bookrunner

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E	Assignment and Assumption
F	Borrowing Base Certificate
G	Credit Card Notification

NINTH AMENDED AND RESTATED CREDIT AGREEMENT

This NINTH AMENDED AND RESTATED CREDIT AGREEMENT ("Agreement") is entered into as of August 3, 2011, among **RESTORATION HARDWARE, INC.**, a Delaware corporation, as a Domestic Borrower and the Lead Borrower (as hereinafter defined); the Other Domestic Borrowers (as hereinafter defined); **RESTORATION HARDWARE CANADA, INC.**, a British Columbia company, as the Canadian Borrower; the Guarantors; each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), **BANK OF AMERICA, N.A.**, as Administrative Agent and Collateral Agent; **WELLS FARGO CAPITAL FINANCE, LLC**, as Syndication Agent; and **U.S. BANK, NATIONAL ASSOCIATION**, as Documentation Agent.

WITNESSETH:

WHEREAS, the Borrowers have requested that the Domestic Lenders make available to the Domestic Borrowers a revolving credit facility (including a letter of credit sub-facility) in an initial maximum amount not to exceed \$300,000,000, and a first in, last out revolving credit facility in a maximum principal amount not to exceed \$17,500,000, the proceeds of which, in each case, shall be used by the Domestic Borrowers for purposes permitted under, and otherwise in accordance with and subject to the terms of, this Agreement;

WHEREAS, the Borrowers have requested that the Canadian Lenders make available to the Canadian Borrower a revolving credit sub-facility in the maximum principal amount of \$10,000,000, the proceeds of which shall be used by the Canadian Borrower for purposes permitted under, and otherwise in accordance with and subject to the terms of, this Agreement;

WHEREAS, prior to the date of this Agreement, the Lead Borrower, on the one hand, and Bank of America, N.A., as Agent thereunder, and the lenders party thereto, on the other hand, previously entered into an Eighth Amended and Restated Loan and Security Agreement dated as of June 19, 2006 (as amended and in effect, the "Existing Credit Agreement"), pursuant to which the lenders party thereto provided the Lead Borrower, among others, with certain financial accommodations;

WHEREAS, in accordance with Section 11.10 of the Existing Credit Agreement, the Borrowers, the Lenders, and the Agent desire to amend and restate the Existing Credit Agreement as provided herein and in the Security Agreement.

NOW, THEREFORE, in consideration of the mutual conditions and agreements set forth in this Agreement, and for good and valuable consideration, the receipt of which is hereby acknowledged, the undersigned hereby agree that the Existing Credit Agreement shall be amended and restated in its entirety

to read as set forth herein and in the Security Agreement (it being agreed that neither this Agreement nor the Security Agreement shall be deemed to evidence or result in a novation or repayment and reborrowing of the Obligations under the Existing Credit Agreement):

ARTICLE I
DEFINITIONS AND ACCOUNTING TERMS

1.01 Defined Terms. As used in this Agreement, the following terms shall have the meanings set forth below:

“Accelerated Borrowing Base Delivery Event” means either (i) the occurrence and continuance of any Event of Default, or (ii) the failure of the Borrowers to maintain Domestic Availability at least equal to the greater of (x) fifteen percent (15%) of the Loan Cap, or (y) \$20,000,000. For purposes of this Agreement, the occurrence of an Accelerated Borrowing Base Delivery Event shall be deemed continuing (i) so long as such Event of Default has not been waived, and/or (ii) if the Accelerated Borrowing Base Delivery Event arises as a result of the Borrowers’ failure to achieve Domestic Availability as required hereunder, until Domestic Availability has exceeded the greater of (x) fifteen percent (15%) of Loan Cap, or (y) \$20,000,000 for sixty (60) consecutive calendar days, in which case an Accelerated Borrowing Base Delivery Event shall no longer be deemed to be continuing for purposes of this Agreement. The termination of an Accelerated Borrowing Base Delivery Event as provided herein shall in no way limit, waive or delay the occurrence of a subsequent Accelerated Borrowing Base Delivery Event in the event that the conditions set forth in this definition again arise.

“ACH” means automated clearing house transfers.

“Accommodation Payment” as defined in Section 10.23(d).

“Account” means “accounts” as defined in the UCC or the PPSA, as applicable, and also means a right to payment of a monetary obligation, whether or not earned by performance, (a) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (b) for services rendered or to be rendered, or (c) arising out of the use of a credit or charge card or information contained on or for use with the card.

“Acquisition” means, with respect to any Person, any transaction that constitutes, or is part of a group of transactions which are part of a common plan for, (a) a purchase of a Controlling interest in the Equity Interests of any other Person, (b) a purchase or other acquisition of all or substantially all of the assets or properties of, another Person or of any business unit of another Person, (c) any merger, amalgamation or consolidation of such Person with any other Person or (d) any other transaction or series of transactions resulting in the acquisition of all or substantially all of the assets or Store locations of any Person.

“Act” shall have the meaning provided in Section 10.17.

“Additional Commitment Lender” shall have the meaning provided in Section 2.15.

“Adjusted LIBOR Rate” means, with respect to any LIBOR Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of one percent (1%)) equal to the LIBOR Rate for such Interest Period multiplied by the Statutory Reserve Rate. The Adjusted LIBOR Rate will be adjusted automatically as to all LIBOR Borrowings then outstanding as of the effective date of any change in the Statutory Reserve Rate.

“Adjustment Date” means the first day after the end of each Fiscal Quarter.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Agent.

“Affiliate” means, with respect to any Person, (i) another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified, (ii) any director, officer, managing member, partner, trustee, or beneficiary of that Person, (iii) any other Person directly or indirectly holding 20% or more of any class of the Equity Interests of that Person, and (iv) any other Person 20% or more of any class of whose Equity Interests is held directly or indirectly by that Person.

“Agent” means collectively, the Administrative Agent and the Collateral Agent, and individually means either of them, as applicable.

“Agent Parties” shall have the meaning specified in Section 10.02(c).

“Agent’s Office” means the Agent’s address and, as appropriate, account as set forth on Schedule 10.02, or such other address or account as any Agent may from time to time notify the Lead Borrower and the Lenders.

“Aggregate Commitments” means the aggregate of the Canadian Commitments and the Domestic Commitments of all the Lenders. As of the Effective Date, the Aggregate Commitments are \$317,500,000.

“Agreement” means this Credit Agreement.

“Allocable Amount” has the meaning specified in Section 10.22(d).

“AML Legislation” has the meaning specified in Section 10.19.

“Applicable Lenders” means the Required Lenders, the Required Supermajority Lenders, all affected Lenders, or all Lenders, as the context may require.

“Applicable Margin” means:

(a) From and after the Effective Date until the first Adjustment Date occurring on February 1, 2012, the percentages set forth in Level II of the pricing grid below; and

(b) On and after the first Adjustment Date occurring on February 1, 2012 and on each Adjustment Date thereafter, the percentages set forth in the following pricing grid based upon the average daily Domestic Availability during the Fiscal Quarter ended immediately preceding such Adjustment Date; provided, however, that in the event that the Consolidated Fixed Charge Coverage Ratio, as calculated twelve (12) months following the Effective Date on a trailing twelve month basis, is greater than 1.50:1.00, then each percentage set forth in the pricing grid set forth below automatically shall be reduced by 0.25%; provided further if any Borrowing Base Certificate is at any time restated or otherwise revised (including as a result of an audit), or if the information set forth in any Borrowing Base Certificate otherwise proves to be false or incorrect, in each case, in a way that affects such average daily Domestic Availability such that the Applicable Margin would have been higher than was otherwise in effect during any period, without constituting a waiver of any Default or Event of Default arising as a result

thereof, interest due under this Agreement shall be immediately recalculated at such higher rate for any applicable periods and shall be due and payable on demand.

Level	Average Daily Domestic Availability for the immediately preceding Fiscal Quarter	Base Rate Margin, U.S. Index Rate Margin and Canadian Prime Rate Margin for Tranche A Loans	Base Rate Margin for Incremental Loans	LIBOR Margin and BA Rate Margin for Tranche A Loans	LIBOR Margin for Incremental Loans
I	Less than 30% of the Loan Cap	1.50%	3.00%	2.50%	4.00%
II	Equal to or greater than 30% of the Loan Cap but less than or equal to 60% of the Loan Cap	1.25%	2.75%	2.25%	3.75%
III	Greater than 60% of the Loan Cap	1.00%	2.50%	2.00%	3.50%

“Applicable Percentage” means, with respect to (a) any Tranche A Lender at any time, the percentage (carried out to the ninth decimal place) of the Tranche A Commitments represented by such Domestic Lender’s Domestic Commitment at such time, (b) any Incremental Lender at any time, the percentage (carried out to the ninth decimal place) of the Incremental Commitments represented by such Incremental Lender’s Incremental Commitment at such time, (c) any Canadian Lender at any time, the percentage (carried out to the ninth decimal place) of the Canadian Total Commitments represented by such Canadian Lender’s Canadian Commitment at such time, and (d) any Lender at any time, the percentage (carried out to the ninth decimal place) of the Aggregate Commitments represented by such Lender’s Commitment at such time. If the Tranche A Commitments, Incremental Commitments and/or Canadian Commitments of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 2.06 or Section 8.02 or if the Aggregate Commitments have expired, then the Applicable Percentage of each Lender shall be determined based on the Applicable Percentage of such Lender most recently in effect, giving effect to any subsequent assignments. The initial Applicable Percentage of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable.

“Applicable Rate” means, at any time of calculation, (a) with respect to Commercial Letters of Credit, a per annum rate equal to fifty percent (50%) of the Applicable Margin for Loans which are LIBOR Rate Loans, and (b) with respect to Standby Letters of Credit, a per annum rate equal to the Applicable Margin for Loans which are LIBOR Rate Loans.

“Appraised Value” means (a) with respect to Eligible Inventory, the appraised orderly liquidation value, net of costs and expenses to be incurred in connection with any such liquidation, which value is expressed as a percentage of Cost of Eligible Inventory as set forth in the inventory stock ledger of the Lead Borrower, which value shall be determined from time to time by the most recent appraisal undertaken by an independent appraiser engaged by the Agent, or (b) with respect to Eligible Real Estate, the fair market value of Eligible Real Estate as set forth in the most recent appraisal of Eligible Real Estate as determined from time to time by an independent appraiser engaged by the Agent, which appraisal shall assume, among other things, a marketing time of not greater than twelve (12) months or less than three (3) months; provided that the Appraised Value of Eligible Real Estate shall in no event exceed the maximum amount of the Obligations at any time specified to be secured by a Mortgage thereon.

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender (c) an entity or an Affiliate of an entity that administers or manages a Lender, or (d) the same investment advisor or an advisor under common control with such Lender, Affiliate or advisor, as applicable.

“Arranger” means Merrill Lynch, Pierce, Fenner & Smith Incorporated, in its capacity as sole lead arranger and sole book manager.

“Assignee Group” means two or more Eligible Assignees that are Affiliates of one another or two or more Approved Funds managed by the same investment advisor.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 10.06(b)), and accepted by the Agent, in substantially the form of Exhibit E or any other form approved by the Agent.

“Attributable Indebtedness” means, on any date, (a) in respect of any Capital Lease Obligation of any Person, the capitalized amount thereof that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP, and (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease or similar payments under the relevant lease or other applicable agreement or instrument that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease, agreement or instrument were accounted for as a capital lease.

“Audited Financial Statements” means the audited consolidated balance sheet of the Lead Borrower and its Subsidiaries for the fiscal year ended January 29, 2011, and the related consolidated statements of income or operations, Shareholders’ Equity and cash flows for such fiscal year of the Lead Borrower and its Subsidiaries, including the notes thereto.

“Auto-Extension Letter of Credit” shall have the meaning specified in Section 2.03(b)(iii).

“Availability Period” means the period from and including the Effective Date to the earliest of (a) the Maturity Date, (b) the date of termination of the Aggregate Commitments pursuant to Section 2.06, and (c) the date of termination of the commitment of each Lender to make Loans and of the obligation of the L/C Issuer to make L/C Credit Extensions pursuant to Section 8.02.

“Availability Reserves” means, without duplication of any other Reserves or items that are otherwise addressed or excluded through eligibility criteria, such reserves as the Agent from time to time determines in its reasonable discretion, acting in good faith, as being appropriate (a) to reflect the impediments to the Agent’s ability to realize upon the Collateral, (b) to reflect claims and liabilities that the Agent determines may need to be satisfied in connection with the realization upon the Collateral, (c) to reflect criteria, events, conditions, contingencies or risks which the Agent believes in good faith could adversely affect any component of the Canadian Borrowing Base or the Domestic Borrowing Base, or (d) to reflect that a Default or an Event of Default then exists. Without limiting the generality of the foregoing, Availability Reserves may include, in the Agent’s reasonable discretion, acting in good faith (but are not limited to) reserves based on: (i) rent; (ii) customs duties, and other costs to release Inventory which is being imported into the United States or Canada; (iii) outstanding Taxes and other governmental charges, including, without limitation, ad valorem, real estate, personal property, sales, claims of the PBGC and similar Governmental Authorities and other Taxes which may have priority over the interests of the Agent in the Collateral; (iv) salaries, wages and benefits due to employees of any Borrower, (v) Customer Credit Liabilities, (vi) customer deposits, (viii) reserves for reasonably anticipated changes in the Appraised Value of Eligible Inventory between appraisals, (viii) warehousemen’s or bailee’s charges and other Permitted Encumbrances which may have priority over the interests of the Agent in the Collateral, (ix) the Agent’s estimate of Canadian Priority Payable Reserves; (x) Cash Management Reserves, (xi) Bank Products Reserves, (xii) Realty Reserves, and (xiii) royalties payable in respect of licensed merchandise.

“BA Equivalent Loan” means any Canadian Loan in CD\$ bearing interest at a rate determined by reference to the BA Rate in accordance with the provisions of Article II.

“BA Equivalent Borrowing” means any Borrowing comprised of BA Equivalent Loans.

“BA Rate” means, for the Interest Period applicable to a BA Equivalent Loan, the rate of interest per annum equal to the annual rates applicable to CD\$ bankers’ acceptances having an identical or comparable term as the proposed BA Equivalent Loan displayed and identified as such on the display referred to as the “CDOR Page” (or any display substituted therefor) of Reuter Monitor Money Rates Service as at approximately 10:00 A.M. (Toronto time) on such day (or, if such day is not a Business Day, as of 10:00 A.M. (Toronto time) on the immediately preceding Business Day), plus five (5) basis points; provided that if such rates do not appear on the CDOR Page at such time on such date, the rate for such date will be the annual discount rate (rounded upward to the nearest whole multiple of 1/100 of 1%) as of 10:00 A.M. on such day at which a Canadian chartered bank listed on Schedule 1 of the Bank Act (Canada) as selected by the Agent is then offering to purchase CD\$ bankers’ acceptances accepted by it having such specified term (or a term as closely as possible comparable to such specified term), plus five (5) basis points.

“Bank of America” means Bank of America, N.A. and its successors.

“Bank of America-Canada Branch” means Bank of America, N.A. (acting through its Canada branch), a banking corporation carrying on business under the Bank Act (Canada).

“Bank of Canada Overnight Rate” means, on any date of determination, the rate of interest charged by the Bank of Canada on one-day Canadian dollar loans to financial institutions, for such date.

“Bank Products” means any services or facilities provided to any Loan Party by the Agent, any Lender, or any of their respective Affiliates or branches, including, without limitation, on account of (a) Swap Contracts, (b) purchase cards, and (c) supply chain finance services (including, without limitation,

trade payable services and supplier accounts receivable purchases), but excluding Cash Management Services.

“Bank Product Reserves” means such reserves as the Agent from time to time determines in its reasonable discretion, acting in good faith, as being appropriate to reflect the liabilities and obligations of the Loan Parties with respect to Bank Products then provided or outstanding.

“Banker’s Acceptance” means a time draft or bill of exchange or other deferred payment obligation relating to a Commercial Letter of Credit which has been accepted by the Issuing Lender.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of (a) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate”; (b) the Federal Funds Rate for such day, plus 0.50%; and (c) the LIBOR Rate for a 30 day interest period as determined on such day, plus 1.0%. The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in Bank of America’s prime rate, the Federal Funds Rate or the LIBOR Rate, respectively, shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Loan” means a Loan that bears interest based on the Base Rate.

“BIA” means *the Bankruptcy and Insolvency Act* (Canada).

“Blocked Account” means each DDA subject to a Blocked Account Agreement.

“Blocked Account Agreement” means with respect to an account established by a Loan Party, an agreement, in form and substance satisfactory to the Agent, establishing control (as defined in the UCC) of such account by the Agent and whereby the bank maintaining such account agrees, upon the occurrence and during the continuance of a Cash Dominion Event, to comply only with the instructions originated by the Agent, without the further consent of any Loan Party.

“Blocked Account Bank” means each bank with whom deposit accounts are maintained in which any funds of any of the Loan Parties from one or more DDAs are concentrated and with whom a Blocked Account Agreement has been, or is required to be, executed in accordance with the terms hereof.

“Borrower Materials” has the meaning specified in Section 6.02.

“Borrowers” means, individually and collectively, the Lead Borrower, the Other Domestic Borrowers, the Canadian Borrower, and any other Person who subsequently becomes a Borrower hereunder.

“Borrowing” means a Canadian Borrowing or a Domestic Borrowing, as applicable, or a Swing Line Borrowing, as the context may require.

“Borrowing Base Certificate” means a certificate substantially in the form of Exhibit F hereto (with such changes therein as may be required by the Agent to reflect the components of and reserves against the Domestic Borrowing Base and the Canadian Borrowing Base as provided for hereunder from time to time), executed and certified as accurate and complete by a Responsible Officer of the Lead Borrower which shall include appropriate exhibits, schedules, supporting documentation, and additional reports as reasonably requested by the Agent.

“Business Day” means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, the state where the Agent’s Office is located and, if such day relates to any LIBOR Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank market and provided further that when used in connection with any Loan by a Canadian Lender, the term “Business Day” shall also exclude any day on which banks are authorized or required by law to be closed in Toronto, Ontario, or Vancouver, British Columbia, Canada.

“Canadian Availability” means, as of any date of determination thereof, the result, if a positive number, of the Equivalent CD\$ Amount of:

(a) the Canadian Loan Cap

minus

(b) the Canadian Total Outstandings on such date.

“Canadian Borrower” means Restoration Hardware Canada, Inc., a company incorporated under the laws of British Columbia.

“Canadian Borrowing” means a borrowing consisting of simultaneous Canadian Loans of the same Type and, in the case of BA Equivalent Loans or LIBOR Rate Loans, having the same Interest Period made by each of the Canadian Lenders pursuant to Article II.

“Canadian Borrowing Base” means, at any time of calculation, an amount equal to the Equivalent CD\$ Amount of:

(a) the face amount of Eligible Credit Card Receivables of the Canadian Borrower, net of Receivables Reserves, multiplied by 90%;

plus

(b) the product of (i) 90% multiplied by (ii) the Appraised Value of Eligible Inventory of the Canadian Borrower, net of Inventory Reserves, multiplied by (iii) the Cost of Eligible Inventory of the Canadian Borrower;

minus

(c) without duplication of any Receivables Reserves or Inventory Reserves, the amount of all Availability Reserves then applicable to the Canadian Loan Parties.

“Canadian Commitments” means, as to each Canadian Lender, its obligation to (a) make Canadian Loans to the Canadian Borrower pursuant to Article II and (b) purchase participations in Canadian L/C Obligations, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Canadian Lender’s name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Canadian Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

“Canadian Concentration Account” has the meaning provided in Section 6.12(b).

“Canadian Credit Extensions” shall mean the making of a Canadian Loan to the Canadian Borrower or any Canadian L/C Credit Extensions.

“Canadian Credit Party” or “Canadian Credit Parties” means (a) individually, (i) each Canadian Lender and each of its Affiliates and branches to whom any Canadian Liabilities are owed, (ii) the Agent, (iii) each L/C Issuer with respect to Canadian Letters of Credit, (iv) the Arranger, (v) each beneficiary of each indemnification obligation undertaken by any Canadian Loan Party under any Loan Document, (vi) any other Person to whom Canadian Liabilities under this Agreement and other Loan Documents are owing, and (vii) the successors and assigns of each of the foregoing, and (b) collectively, all of the foregoing.

“Canadian Dollars” and “CD\$” refer to lawful money of Canada.

“Canadian Lenders” means Bank of America-Canada Branch and any other Person having Canadian Commitments from time to time or at any time, each of which is a Canadian Qualified Lender unless otherwise permitted in this Agreement.

“Canadian Letter of Credit” means each Letter of Credit issued hereunder for the account of the Canadian Borrower.

“Canadian L/C Credit Extension” means, with respect to any Canadian Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

“Canadian Letter of Credit Sublimit” means an amount equal to \$10,000,000. The Canadian Letter of Credit Sublimit is part of, and not in addition to, the Canadian Total Commitments. A permanent reduction of the Canadian Total Commitments shall require a corresponding reduction in the Canadian Letter of Credit Sublimit; provided, however, that if the Canadian Total Commitments are reduced to an amount less than the Canadian Letter of Credit Sublimit, then the Canadian Letter of Credit Sublimit shall be reduced to an amount equal to (or, at Canadian Borrower’s option, less than) the Canadian Total Commitments.

“Canadian Liabilities” means (a) all advances to, and debts (including principal, interest, fees, costs, and expenses), liabilities, obligations, covenants, indemnities, and duties of, any Canadian Loan Party arising under any Loan Document or otherwise with respect to any Canadian Loan or Canadian Letter of Credit (including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral therefor), whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest, fees, costs, expenses and indemnities that accrue after the commencement by or against any Canadian Loan Party or any Affiliate or branch thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding, and (b) any Other Canadian Liabilities.

“Canadian Loan” means an extension of credit by a Canadian Lender to the Canadian Borrower (to the extent based on Canadian Availability) under Article II.

“Canadian Loan Cap” means, at any time of determination, the lesser of (a) the Canadian Total Commitments and (b) the Canadian Borrowing Base.

“Canadian Loan Notice” means a notice of (a) a Canadian Borrowing, (b) a Conversion of Canadian Loans from one Type to the other, or (c) a continuation of BA Equivalent Loans or LIBOR Rate

Loans of the Canadian Borrower, pursuant to Section 2.02(b), which, if in writing, shall be substantially in the form of Exhibit A-2.

“Canadian Loan Parties” means, collectively, the Canadian Borrower and each Canadian Subsidiary that is or becomes a guarantor of the Canadian Liabilities. “Canadian Loan Party” means any one of such Persons.

“Canadian Note” means a promissory note made by the Canadian Borrower in favor of a Canadian Lender evidencing Canadian Loans made by such Canadian Lender, substantially in the form of Exhibit C-3.

“Canadian Overadvance” means a Canadian Credit Extension to the extent that, immediately after its having been made, Canadian Availability is less than zero.

“Canadian Pension Plan” means any pension plan that is subject to *the Pension Benefits Act* (Ontario) or similar legislation of another Canadian province or territory and *the Income Tax Act* (Canada) or other tax statute or regulation in Canada and that is either (a) maintained or sponsored by any Canadian Loan Party or any Canadian Subsidiary for employees or former employees, or (b) maintained pursuant to a collective bargaining agreement, or other arrangement under which more than one employer makes contributions and to which any Canadian Loan Party or any Canadian Subsidiary is making or accruing an obligation to make contributions or has made or accrued such contributions.

“Canadian Prime Rate” means, for any day, the greatest of (i) the fluctuating rate of interest per annum equal to the rate of interest in effect for such day as publicly announced from time to time by Bank of America-Canada Branch as its reference rate of interest for loans made in CD\$ and designated as its “prime” rate being a rate set by Bank of America-Canada Branch based upon various factors, including Bank of America-Canada Branch’s costs and desired return, general economic conditions and other factors and is used as a reference point for pricing some loans, provided that in the event that the Bank of America-Canada Branch (including any successor or assignor) does not at any time publicly announce a prime rate, such rate shall be the “prime rate” publicly announced by a Schedule 1 chartered bank in Canada selected by the Agent, (ii) the Bank of Canada Overnight Rate, plus 0.50%, and (iii) the BA Rate for a one month Interest Period as determined on such day, plus 1.0%. Any change in the prime rate announced by the Bank of America-Canada Branch shall take effect at the opening of business on the day specified in the public announcement of such change. Each interest rate based on the Canadian Prime Rate hereunder, shall be adjusted simultaneously with any change in the Canadian Prime Rate.

“Canadian Prime Rate Loan” means a Canadian Loan in CD\$ that bears interest based on the Canadian Prime Rate.

“Canadian Priority Payable Reserves” means, at any time, without duplication, the obligations, liabilities and indebtedness at such time which have, or could in any proceeding have, a trust, deemed trust, constructive trust, right of garnishment, right of distress, charge or statutory Lien imposed to provide for payment or Liens ranking or capable of ranking senior to or *pari passu* with Liens securing the Canadian Liabilities on any of the Collateral under federal, provincial, state, county, territorial, municipal, or local law including, to the extent that there is such a trust, statutory Liens or Liens in respect of the specified item that has or is capable of having such rank, claims for unremitted and accelerated rents, utilities, taxes (including sales taxes, value added taxes, amounts deducted or withheld or not paid and remitted when due under *the Income Tax Act* (Canada), excise taxes, goods and services taxes (“GST”) and harmonized sales taxes (“HST”) payable pursuant to Part IX of *the Excise Tax Act* (Canada) or similar taxes under provincial or territorial law), the claims of a labourer or worker (whether full-time or part-time) who is owed wages (including any amounts protected by *the Wage Earner Protection Program*

Act (Canada) or secured by Section 81.3 or 81.4 of the BIA), salaries, commissions, disbursements, compensation or other amounts (such as union dues payable on behalf of employees) by the Canadian Loan Parties, vacation pay, severance pay, employee source deductions, workers' compensation obligations, government royalties or pension fund obligations (including claims in respect of, and all amounts currently or past due and not contributed, remitted or paid to, or pursuant to, any Canadian Pension Plan, *the Pension Benefits Act* (Ontario) or any similar law, together with the aggregate value, determined in accordance with GAAP, of all Eligible Inventory which may be or may become subject to a right of a supplier to recover possession thereof or to exercise rights of revendication with respect thereto under any federal, provincial, state, county, municipal, territorial or local law, including Eligible Inventory subject to a right of a supplier to repossess goods pursuant to Section 81.1 of the BIA or the Civil Code of Québec.

"Canadian Qualified Lender" means a financial institution that is listed on Schedule I, II or III of *the Bank Act* (Canada), has received an approval to have a financial establishment in Canada pursuant to Section 522.21 of *the Bank Act* (Canada) or is not a foreign bank for purposes of *the Bank Act* (Canada), and if such financial institution is not resident in Canada and is not deemed to be resident in Canada for purposes of *the Income Tax Act* (Canada), then such financial institution deals at arm's length with each Canadian Credit Party for purposes of *the Income Tax Act* (Canada).

"Canadian Security Documents" means (a) the General Security Agreement dated as of the Effective Date among the respective Canadian Loan Parties and the Agent for the benefit of the Canadian Credit Parties and (b) each other security agreement or other instrument or document executed and delivered by any Canadian Loan Party to the Agent pursuant to this Agreement or any other Loan Document granting a Lien on assets of any Canadian Loan Party for the benefit of the Canadian Credit Parties, as security for the Canadian Liabilities.

"Canadian Subsidiary" means any Subsidiary that is organized under the laws of Canada or any province or territory thereof.

"Canadian Total Commitments" means the aggregate of the Canadian Commitments of all Canadian Lenders. On the Effective Date, the Canadian Total Commitments are \$10,000,000.

"Canadian Total Outstandings" as of any day, shall be equal to the sum of (a) the principal balance of all Canadian Loans then outstanding, and (b) the then amount of the Canadian L/C Credit Extensions.

"Capital Expenditures" means, with respect to any Person for any period, all expenditures made (whether made in the form of cash or other property) or costs incurred for the acquisition or improvement of fixed or capital assets of such Person (excluding normal replacements and maintenance which are properly charged to current operations), in each case that are (or should be) set forth as capital expenditures in a Consolidated statement of cash flows of such Person for such period, in each case prepared in accordance with GAAP.

"Capital Lease Obligations" means, with respect to any Person for any period, the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as liabilities on a balance sheet of such Person under GAAP and the amount of which obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Cash Collateral Account" means a non-interest bearing account established by one or more of the Domestic Loan Parties with Bank of America, and in the name of the Agent (or as the Agent shall

otherwise direct) and under the sole and exclusive dominion and control of the Agent, and, in the case of the Canadian Borrower, a non-interest bearing account established by the Canadian Borrower with the Agent at Bank of America-Canada branch under the sole and exclusive dominion and control of the Agent, in each case in which deposits are required to be made in accordance with Section 2.03(g) or 8.02(c).

“Cash Collateralize” has the meaning specified in Section 2.03(g). Derivatives of such term have corresponding meanings.

“Cash Dominion Event” means either (i) the occurrence and continuance of any Event of Default, or (ii) the failure (after the Effective Date) of the Borrowers to maintain Domestic Availability of at least the greater of (x) \$20,000,000 and (y) fifteen percent (15%) of the Loan Cap. For purposes of this Agreement, the occurrence of a Cash Dominion Event shall be deemed continuing (i) so long as such Event of Default has not been waived by the Required Lenders, and (ii) if the Cash Dominion Event arises as a result of the Borrowers’ failure to achieve Domestic Availability as required hereunder, until the first day on which Domestic Availability shall have exceeded the greater of (1) \$20,000,000 and (2) fifteen percent (15%) of the Loan Cap for thirty (30) consecutive days, in which case a Cash Dominion Event shall no longer be deemed to be continuing for purposes of this Agreement; *provided that* a Cash Dominion Event shall be deemed continuing (even if an Event of Default is no longer continuing and Domestic Availability exceeds the required amount for thirty (30) consecutive days) at all times during any Fiscal Year after a Cash Dominion Event has occurred and been discontinued on three (3) occasions in such Fiscal Year. The termination of a Cash Dominion Event as provided herein shall in no way limit, waive or delay the occurrence of a subsequent Cash Dominion Event in the event that the conditions set forth in this definition again arise.

“Cash Management Reserves” means such reserves as the Agent, from time to time, determines in its discretion as being appropriate to reflect the reasonably anticipated liabilities and obligations of the Loan Parties with respect to Cash Management Services then provided or outstanding.

“Cash Management Services” means any cash management services provided to any Loan Party by the Agent or any Lender or any of their respective Affiliates, including, without limitation (a) ACH transactions, (b) controlled disbursement services, treasury, depository, overdraft, and electronic funds transfer services, (c) credit card processing services, and (d) credit or debit cards.

“CERCLA” means the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 9601 et seq.

“CERCLIS” means the Comprehensive Environmental Response, Compensation, and Liability Information System maintained by the United States Environmental Protection Agency.

“CFC” means a Person that is a controlled foreign corporation under Section 957 of the Code.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority, provided however, for purposes of this Agreement, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, guidelines or directives in connection therewith, and (ii) all rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the

United States or Canadian regulatory authorities, in each case pursuant to Basel III, shall be deemed to have gone into effect and been adopted after the Effective Date.

“Change of Control” means an event or series of events after the Effective Date by which:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934, except that a person or group shall be deemed to have “beneficial ownership” of all securities that such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time (such right, an “option right”), directly or indirectly, of 40% or more of the Equity Interests of the Lead Borrower entitled to vote for members of the board of directors or equivalent governing body of the Lead Borrower on a fully-diluted basis (and taking into account all such Equity Interests that such “person” or “group” has the right to acquire pursuant to any option right) other than any Permitted Holder (provided that, for the avoidance of doubt, any transaction part of or incidental to an Initial Public Offering or Secondary Offering, including the acquisition of Equity Interests by the underwriters in connection therewith, shall be deemed not violative of this clause (a) or any other provision of this Agreement so long as no new group or person shall thereby acquire, directly or indirectly, 30% or more of the Equity Interests of the Lead Borrower, except as otherwise permitted by this clause (a)); or

(b) during any period of 12 consecutive months, a majority of the members of the board of directors or other equivalent governing body of the Lead Borrower cease to be composed of individuals (i) who were members of that board or equivalent governing body on the first day of such period, (ii) whose election or nomination to that board or equivalent governing body was approved by individuals referred to in clause (i) above constituting at the time of such election or nomination at least a majority of that board or equivalent governing body or (iii) whose election or nomination to that board or other equivalent governing body was approved by individuals referred to in clauses (i) and (ii) above and this clause (iii) constituting at the time of such election or nomination at least a majority of that board or equivalent governing body (excluding, in the case of both clause (ii) and clause (iii), any individual whose initial nomination for, or assumption of office as, a member of that board or equivalent governing body occurs as a result of an actual or threatened solicitation of proxies or consents for the election or removal of one or more directors by any person or group other than a solicitation for the election of one or more directors by or on behalf of the board of directors); provided that, for the avoidance of doubt, any individual nominated on behalf of any Permitted Holder shall not be deemed violative of this clause (b); or

(c) the Lead Borrower fails at any time to own, directly or indirectly, 100% of the Equity Interests of each other Loan Party free and clear of all Liens (other than Permitted Encumbrances), except where such failure is as a result of a transaction permitted by the Loan Documents.

“Code” means the Internal Revenue Code of 1986, and the regulations promulgated thereunder, as amended and in effect.

“Collateral” means any and all “Collateral” or “Mortgaged Property” as defined in any applicable Security Document and all other property on which a Lien is granted or purported to be granted in favor of the Agent under the terms of the Security Documents.

“Collateral Access Agreement” means an agreement reasonably satisfactory in form and substance to the Agent executed by (a) a bailee or other Person in possession of Collateral, or (b) any landlord of Real Estate leased by any Loan Party, in each case, except as otherwise agreed by the Agent, pursuant to which such Person (i) acknowledges the Agent’s Lien on the Collateral, (ii) releases or subordinates such Person’s Liens on the Collateral held by such Person or located on such Real Estate, (iii) provides the Agent with access to the Collateral held by such bailee or other Person or located in or on such Real Estate, (iv) as to any landlord, provides the Agent with a reasonable time to sell and dispose of the Collateral from such Real Estate, and (v) makes such other agreements with the Agent as the Agent may reasonably require.

“Commercial Letter of Credit” means any letter of credit or similar instrument (including, without limitation, Bankers’ Acceptances) issued for the purpose of providing the primary payment mechanism in connection with the purchase of any materials, goods or services by a Loan Party in the ordinary course of business of such Loan Party.

“Commitment” means, as to each Lender, the Canadian Commitment, the Tranche A Commitment and the Incremental Commitment of such Lender hereunder.

“Commitment Fee Percentage” means 0.375% per annum.

“Compliance Certificate” means a certificate substantially in the form of Exhibit D.

“Consent” means actual consent given by a Lender from whom such consent is sought.

“Consolidated” means, when used to modify a financial term, test, statement, or report of a Person, the application or preparation of such term, test, statement or report (as applicable) based upon the consolidation, in accordance with GAAP, of the financial condition or operating results of such Person and its Subsidiaries.

“Consolidated EBITDA” means, at any date of determination, an amount equal to Consolidated Net Income, plus (a) the following to the extent deducted in calculating such Consolidated Net Income: (i) Consolidated Interest Charges, (ii) the provision for federal, state, provincial, municipal, local and foreign income Taxes, (iii) depreciation and amortization expense, (iv) other non-recurring expenses reducing such Consolidated Net Income which do not represent a cash item in such period or any future period (in each case of or by Lead Borrower and its Subsidiaries for such Measurement Period) and (v) non-cash compensation charges resulting from the application of FAS 123R or any comparable or successor accounting provision, minus (b) the following to the extent included in calculating such Consolidated Net Income: (i) Federal, state, local and foreign income tax credits and (ii) all non-cash items increasing such Consolidated Net Income, all as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Fixed Charge Coverage Ratio” means, at any date of determination, the ratio of (a) (i) Consolidated EBITDA minus (ii) Capital Expenditures made during such period (net of (x) amounts of cash received during such period from landlords for tenant improvements relating to the Loan Parties’ leased store locations and (y) Capitalized Lease Obligations), minus (iii) the aggregate amount of Federal, state, local and foreign income taxes paid in cash during such period (but not less than zero) to (b) the sum of (i) Debt Service Charges plus (ii) the aggregate amount of all Restricted Payments made to Persons other than the Loan Parties plus (iii) for purposes of calculating compliance with the Payment Condition and the RP Conditions only, all mandatory and optional prepayments of Indebtedness, in each case, of or by the Lead Borrower and its Subsidiaries for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Interest Charges” means, for any Measurement Period, (a) the sum of (i) all interest, premium payments, debt discount, fees, charges and related expenses in connection with borrowed money (including capitalized interest) or in connection with the deferred purchase price of assets, in each case to the extent treated as interest in accordance with GAAP, including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing and net costs under Swap Contracts, but excluding any non-cash or deferred interest financing costs, and (ii) the portion of rent expense with respect to such period under Capital Lease Obligations that is treated as interest in accordance with GAAP minus (b) the sum of (i) interest income during such period (excluding any portion of interest income representing accruals of amounts received in a previous period) and (ii) net gains under Swap Contracts, in each case of or by the Lead Borrower and its Subsidiaries for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Net Income” means, as of any date of determination, the net income (or loss) of the Lead Borrower and its Subsidiaries for the most recently completed Measurement Period, all as determined on a Consolidated basis in accordance with GAAP, provided, however, that there shall be excluded (a) extraordinary gains and extraordinary losses for such Measurement Period, (b) the income (or loss) of the Lead Borrower and its Subsidiaries during such Measurement Period from any Subsidiary in which any Person other than the Lead Borrower or any of its Subsidiaries has a joint interest (which interest of the Lead Borrower or any of its Subsidiaries does not cause the net income of such Subsidiary to be consolidated into the net income of the Lead Borrower or any of its Subsidiaries under GAAP), except to the extent of the amount of cash dividends or other distributions actually paid in cash to the Lead Borrower and its Subsidiaries during such Measurement Period, (c) the income (or loss) of a Subsidiary of the Lead Borrower during such Measurement Period and accrued prior to the date it becomes a Subsidiary of the Lead Borrower or is merged into, amalgamated or consolidated with the Lead Borrower or any of its Subsidiaries, and (d) the income of any Subsidiary of the Lead Borrower to the extent that the declaration or payment of dividends or similar distributions by that Subsidiary of that income is not at the time permitted by operation of the terms of its Organization Documents or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Subsidiary, except that the Lead Borrower’s equity in any net loss of any such Subsidiary for such Measurement Period shall be included in determining Consolidated Net Income.

“Contractual Obligation” means, as to any Person, any material provision of any material agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Convert”, “Conversion” and “Converted” each refers to a conversion of Loans of one Type into Loans of another Type.

“Cost” means the lower of cost or market value of Inventory, as such calculated cost is determined from invoices received by the Borrowers, the Borrowers’ purchase journals or the Borrowers’ stock ledger, based upon the Borrowers’ accounting practices in effect on the Effective Date. “Cost” does not include inventory capitalization costs or other non-purchase price charges (such as freight) used in the Borrowers’ calculation of cost of goods sold.

“Covenant Compliance Event” means that Domestic Availability at any time is less than the greater of (x) 10% of the Loan Cap and (y) \$17,500,000. For purposes hereof, the occurrence of a

Covenant Compliance Event shall be deemed continuing until Domestic Availability has exceeded the greater of (x) 10% of the Loan Cap and (y) \$17,500,000 for thirty (30) consecutive days, in which case a Covenant Compliance Event shall no longer be deemed to be continuing for purposes of this Agreement. The termination of a Covenant Compliance as provided herein shall in no way limit, waive or delay the occurrence of a subsequent Covenant Compliance Event in the event that the conditions set forth in this definition again arise.

“Credit Card Notifications” means notifications substantially in the form attached hereto as Exhibit G.

“Credit Card Receivables” means each “account” (as defined in the UCC or the PPSA, as applicable) together with all income, payments and proceeds thereof, owed by a major credit or debit card issuer (including, but not limited to, Visa, MasterCard and American Express and such other issuers approved by the Agent to a Loan Party resulting from charges by a customer of a Loan Party on credit or debit cards issued by such issuer in connection with the sale of goods by a Loan Party, or services performed by a Loan Party, in each case in the ordinary course of its business.

“Credit Extensions” mean the Canadian Credit Extensions and the Domestic Credit Extensions, as applicable.

“Credit Party” or “Credit Parties” means the Canadian Credit Parties and the Domestic Credit Parties.

“Credit Party Expenses” means (a) all reasonable out-of-pocket expenses incurred by the Agent, the Arranger and their respective Affiliates or branches, in connection with this Agreement and the other Loan Documents, including without limitation (i) the reasonable fees, charges and disbursements of (A) counsel for the Agent and the Arranger, (B) outside consultants for the Agent, (C) appraisers, (D) commercial finance examiners, and (E) environmental site assessments, (ii) in connection with (A) the syndication of the credit facilities provided for herein, (B) the preparation, negotiation, administration, execution and delivery of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (C) the enforcement or protection of their rights in connection with this Agreement or the Loan Documents or efforts to preserve, protect, collect, or enforce the Collateral or in connection with any proceeding under any Debtor Relief Laws, or (D) any workout or restructuring or, or negotiations in respect of any Obligations, and (b) with respect to the L/C Issuer, and its Affiliates, all reasonable out-of-pocket expenses incurred in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder; and (c) all reasonable out-of-pocket expenses incurred by the Credit Parties who are not the Agent, the Arranger, the L/C Issuer or any Affiliate of any of them, after the occurrence and during the continuance of an Event of Default, provided that such Credit Parties shall be entitled to reimbursement for no more than one counsel representing all such Credit Parties (absent a conflict of interest in which case the Credit Parties may engage and be reimbursed for additional counsel).

“Currency Due” as defined in Section 10.22.

“Customer Credit Liabilities” means at any time, the aggregate remaining value at such time of (a) outstanding gift certificates and gift cards of the Borrowers entitling the holder thereof to use all or a portion of the certificate or gift card to pay all or a portion of the purchase price for any Inventory, and (b) outstanding merchandise credits of the Borrowers.

“Customs Broker/Carrier Agreement” means an agreement in form and substance satisfactory to the Agent among a Loan Party, a customs broker, freight forwarder, consolidator, or carrier, and the Agent, in which the customs broker, freight forwarder, consolidator, or carrier acknowledges that it has control over and holds the documents evidencing ownership of the subject Inventory for the benefit of the Agent and agrees, upon notice from the Agent, to hold and dispose of the subject Inventory solely as directed by the Agent.

“DDA” means each checking, savings or other demand deposit account maintained by any of the Loan Parties. All funds in each DDA shall be conclusively presumed to be Collateral and proceeds of Collateral and the Agent and the Lenders shall have no duty to inquire as to the source of the amounts on deposit in any DDA.

“Debt Service Charges” means for any Measurement Period, the sum of (a) Consolidated Interest Charges paid or required to be paid for such Measurement Period, plus (b) scheduled principal payments made or required to be made on account of Indebtedness (excluding the Obligations and any Synthetic Lease Obligations but including, without limitation, Capital Lease Obligations) for such Measurement Period, in each case determined on a Consolidated basis in accordance with GAAP.

“Debtor Relief Laws” means (i) the Bankruptcy Code of the United States, (ii) the BIA, (iii) the *Companies’ Creditors Arrangement Act* (Canada) and (iv) the *Winding-up and Restructuring Act* (Canada), and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States, Canada or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

“Default Rate” means, with respect to any Obligation, a rate per annum equal to the rate of interest (including the Applicable Margin) in effect from time to time with respect thereto (if any), plus 2.00% per annum.

“Defaulting Lender” means, subject to Section 9.16, any Lender that, as determined by the Agent, (a) has failed to fund any portion of the Loans, participations in L/C Obligations or participations in Swing Line Loans required to be funded by it hereunder within one (1) Business Day of the date required to be funded by it hereunder, (b) has otherwise failed to pay over to the Agent or any other Lender any other amount required to be paid by it hereunder within one (1) Business Day of the date when due, (c) has notified any Loan Party, the Agent or other Lender that it does not intend to comply with its funding obligations or has made a public statement to that effect with respect to its funding obligations hereunder or under other agreements in which it commits to extend credit, or (d) has, or has a direct or indirect parent company that has, (i) become the subject of an insolvency proceeding, (ii) had a receiver, interim receiver, monitor, conservator, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or a custodian appointed for it, or (iii) taken any action in furtherance of, or indicated its consent to, approval of or acquiescence in any such proceeding or appointment; provided that a Lender shall not be a Defaulting Lender solely by virtue of the ownership or acquisition of any equity interest in that Lender or any direct or indirect parent company thereof by a Governmental Authority.

“Determination Date” shall mean the date upon which each of the following has occurred:

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- (a) the Canadian Commitments, Tranche A Commitments and/or the Incremental Commitments have been terminated by the Required Lenders; and
- (b) the Obligations and/or the Canadian Liabilities have been declared to be due and payable (or have become automatically due and payable) and have not been paid in accordance with the terms of this Agreement.

“Disposition” or “Dispose” means the sale, transfer, license, lease or other disposition (including any sale and leaseback transaction and), whether in one transaction or in a series of transactions, by any Person of any property (including, without limitation, any Equity Interests held by such Person), or the granting of any option or other right to do any of the foregoing, including any sale, assignment, transfer or other disposal, with or without recourse, of any notes or accounts receivable or any rights and claims associated therewith.

“Disqualified Stock” means any Equity Interest that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, (a) matures or is mandatorily redeemable in cash, pursuant to a sinking fund obligation or otherwise, or (b) is redeemable in cash at the option of the holder thereof, in whole or in part, in each case, on or prior to the date that is 91 days after the Maturity Date. The amount of Disqualified Stock deemed to be outstanding at any time for purposes of this Agreement will be the maximum amount that the Lead Borrower and its Subsidiaries may become obligated to pay in cash upon the occurrence of any of the foregoing events at any such time, plus accrued and unpaid dividends.

“Documentation Agent” means U.S. Bank, National Association.

“Dollars” and “\$” mean lawful money of the United States.

“Domestic Availability” means, as of any date of determination thereof, the result, if a positive number, of:

(a) the Loan Cap
minus

(b) the Domestic Total Outstandings on such date.

“Domestic Borrowers” means the Lead Borrower and the Other Domestic Borrowers.

“Domestic Borrowing” means a borrowing consisting of simultaneous Domestic Loans of the same Type and, in the case of LIBOR Rate Loans, having the same Interest Period made by each of the Domestic Lenders pursuant to Section 2.01.

“Domestic Borrowing Base” means the sum of the Tranche A Borrowing Base and Incremental Availability.

“Domestic Commitments” means, collectively, the Tranche A Commitments and the Incremental Commitments.

“Domestic Commitment Percentage” means the Applicable Percentages of the Domestic Lenders.

“Domestic Credit Extensions” shall mean the making of a Domestic Loan to the Domestic Borrowers or any Domestic L/C Credit Extensions.

“Domestic Credit Party” and “Domestic Credit Parties” means (a) individually, (i) each Lender and its Affiliates to whom any Obligations are owed, (ii) the Agent, (iii) each L/C Issuer, (iv) the Arranger, (v) each beneficiary of each indemnification obligation undertaken by any Loan Party under any Loan Document, (vi) any other Person to whom Obligations under this Agreement and other Loan Documents are owing, and (vii) the successors and assigns of each of the foregoing, and (b) collectively, all of the foregoing.

“Domestic Lenders” means the Tranche A Lenders and the Incremental Lenders.

“Domestic L/C Credit Extension” means, with respect to any Domestic Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

“Domestic Letter of Credit” means each Letter of Credit issued hereunder for the account of the Domestic Borrowers.

“Domestic Letter of Credit Sublimit” means an amount equal to \$50,000,000. The Domestic Letter of Credit Sublimit is part of, and not in addition to, the Tranche A Commitments. A permanent reduction of the Tranche A Commitments shall not require a corresponding pro rata reduction in the Domestic Letter of Credit Sublimit; provided, however, that if the Tranche A Commitments are reduced to an amount less than the Domestic Letter of Credit Sublimit, then the Domestic Letter of Credit Sublimit shall be reduced to an amount equal to (or, at the Lead Borrower’s option, less than) the Tranche A Commitments.

“Domestic Loan” means a Tranche A Loan or an Incremental Loan.

“Domestic Loan Notice” means a notice of (a) a Domestic Borrowing, (b) a Conversion of Domestic Loans from one Type to the other, or (c) a continuation of LIBOR Rate Loans, pursuant to Section 2.02(b), which, if in writing, shall be substantially in the form of Exhibit A-1.

“Domestic Loan Parties” means, collectively, the Domestic Borrowers and each Subsidiary of the Lead Borrower that is or becomes a guarantor of the Obligations. “Domestic Loan Party” means any one of such Persons.

“Domestic Note” means a Tranche A Note or an Incremental Note.

“Domestic Obligations” means all Obligations other than Canadian Liabilities.

“Domestic Overadvance” means a Domestic Credit Extension to the extent that, immediately after its having been made, Domestic Availability is less than zero.

“Domestic Subsidiary” means any Subsidiary that is organized under the laws of the United States of America, any State thereof or the District of Columbia (excluding, for the avoidance of doubt, any Subsidiary organized under the laws of Puerto Rico or any other territory).

“Domestic Total Commitments” means the sum of the Tranche A Commitments and the Incremental Commitments outstanding at any time. On the Effective Date, the Domestic Total Commitments are \$317,500,000.

“Domestic Total Outstandings” as of any day, shall be equal to the sum of (a) the principal balance of all Domestic Loans then outstanding, and (b) the then amount of the Domestic L/C Credit Extensions.

“Effective Date” means the first date all the conditions precedent in Section 4.01 are satisfied or waived in accordance with Section 10.01.

“Effective Date Guaranty” means the Guaranty executed by the Domestic Borrowers in favor of the Canadian Credit Parties as of the Effective Date.

“Eligible Assignee” means (a) a Credit Party or any of its Affiliates or branches; (b) a bank, insurance company, or company engaged in the business of making commercial loans, which Person, together with its Affiliates and branches, has a combined capital and surplus in excess of \$250,000,000; (c) an Approved Fund; (d) any Person to whom a Credit Party assigns its rights and obligations under this Agreement as part of an assignment and transfer of such Credit Party’s rights in and to a material portion of such Credit Party’s portfolio of asset based credit facilities, and (e) any other Person (other than a natural person) approved by (i) the Agent, the L/C Issuer and the Swing Line Lender, and (ii) unless an Event of Default has occurred and is continuing, the Lead Borrower (each such approval not to be unreasonably withheld or delayed); provided that notwithstanding the foregoing, “Eligible Assignee” shall not include a Loan Party or any of the Loan Parties’ Affiliates or Subsidiaries or any Permitted Holder or any Defaulting Lender; and provided further that unless an Event of Default has occurred and is continuing, only Canadian Qualified Lenders shall be Eligible Assignees with respect to any assignment of the Canadian Liabilities.

“Eligible Credit Card Receivables” means at the time of any determination thereof, each Credit Card Receivable that satisfies the following criteria at the time of creation and continues to meet the same at the time of such determination: such Credit Card Receivable (i) has been earned by performance and represents the bona fide amounts due to a Loan Party from a credit card payment processor and/or credit card issuer, and in each case originated in the ordinary course of business of such Loan Party, (ii) is not of a type described in any of clauses (a) through (j) below, and (iii) indicates no Person other than a Loan Party as payee or remittance party. In determining the amount of any Eligible Credit Card Receivable, the face amount of the applicable account shall be reduced by, without duplication, to the extent not reflected in such face amount, (x) the amount of all accrued and actual discounts, claims, credits or credits pending, promotional program allowances, price adjustments, finance charges or other allowances (including any amount that a Loan Party may be obligated to rebate to a customer, a credit card payment processor, or credit card issuer pursuant to the terms of any agreement or understanding (written or oral)) and (y) the aggregate amount of all cash received in respect of such account but not yet applied by the Loan Parties to reduce the amount of such Credit Card Receivable. Except as otherwise agreed by the Agent, any Credit Card Receivable included within any of the following categories shall not constitute an Eligible Credit Card Receivable:

(a) Credit Card Receivables which do not constitute an “account” (as defined in the UCC or, if applicable, the PPSA);

(b) Credit Card Receivables that have been outstanding for more than five (5) Business Days from the date of sale;

(c) Credit Card Receivables (i) that are not subject to a perfected first-priority (subject to Permitted Encumbrances having priority by operation of Law) Lien in favor of the Agent, or (ii) with respect to which a Loan Party does not have good, valid and marketable title thereto, free and clear of any Lien (other than Permitted Encumbrances);

(d) Credit Card Receivables which are disputed, are with recourse, or with respect to which a claim, counterclaim, offset or chargeback has been asserted (to the extent of such claim, counterclaim, offset or chargeback);

(e) Credit Card Receivables as to which the processor has the right under certain circumstances to require a Loan Party to repurchase the Accounts from such credit card processor;

(f) Credit Card Receivables due from an issuer or payment processor of the applicable credit card which is the subject of any bankruptcy or insolvency proceedings;

(g) Credit Card Receivables which are not a valid, legally enforceable obligation of the applicable issuer with respect thereto;

(h) Credit Card Receivables which do not conform to all representations, warranties or other provisions in the Loan Documents relating to Credit Card Receivables;

(i) Credit Card Receivables which are evidenced by "chattel paper" or an "instrument" of any kind unless such "chattel paper" or "instrument" is in the possession of the Agent, and to the extent necessary or appropriate, endorsed to the Agent; or

(j) Credit Card Receivables which the Agent determines in its reasonable discretion, acting in good faith, to be uncertain of collection or which do not meet such other reasonable eligibility criteria for Credit Card Receivables as the Agent may determine.

"Eligible In-Transit Inventory" means, as of any date of determination thereof, without duplication of other Eligible Inventory, In-Transit Inventory:

(a) which has been shipped from a foreign location for receipt by a Loan Party, but which has not yet been delivered to such Loan Party, which In-Transit Inventory has been in transit for forty-five (45) days or less from the date of shipment of such Inventory;

(b) for which the purchase order is in the name of a Loan Party and title and risk of loss has passed to such Loan Party;

(c) for which a document of title reasonably acceptable to the Agent has been issued, and in each case as to which the Agent has control (as defined in the UCC or the PPSA, as applicable) over, or been assigned or taken delivery of, the documents of title which evidence ownership of the subject Inventory (such as, if requested by the Agent, by the delivery of a Customs Broker/Carrier Agreement);

(d) which is insured to the reasonable satisfaction of the Agent (including, without limitation, if applicable, marine cargo insurance);

(e) for which payment of the purchase price has been made by a Loan Party or the purchase price is supported by a Commercial Letter of Credit; and

(f) which satisfies the conditions set forth in clause (iii) of the definition of Eligible Inventory;

provided that the Agent may, in its discretion, exclude any particular Inventory from the definition of "Eligible In-Transit Inventory" in the event the Agent reasonably determines, acting in good faith, that such Inventory is subject to any Person's right of reclamation, repudiation, stoppage in transit or any event has occurred or is reasonably anticipated by the Agent to arise which may otherwise adversely impact the ability of the Agent to realize upon such Inventory.

"Eligible Inventory" means, as of the date of determination thereof, without duplication, (i) Eligible In-Transit Inventory, provided that Eligible In-Transit Inventory shall not constitute more than twenty percent (20%) of the Eligible Inventory at any time, (ii) Eligible Letters of Credit, and (iii) items of Inventory of a Loan Party that are finished goods, merchantable and readily saleable to the public in the ordinary course of a Loan Party's business deemed by the Agent in its reasonable discretion, acting in good faith, to be eligible for inclusion in the calculation of the Tranche A Borrowing Base, Incremental Availability or the Canadian Borrowing Base, in each case, except as otherwise agreed by the Agent, which (A) complies with each of the representations and warranties respecting Inventory made by the Loan Parties in the Loan Documents, and (B) is not excluded as ineligible by virtue of one or more of the criteria set forth below. Except as otherwise agreed by the Agent, in its reasonable discretion, acting in good faith, the following items of Inventory shall not be included in Eligible Inventory:

- (a) Inventory that is not solely owned by a Loan Party or a Loan Party does not have good and valid title thereto;
- (b) Inventory that is leased by or is on consignment to a Loan Party or which is consigned by a Loan Party to a Person which is not a Loan Party;
- (c) Inventory (other than Eligible In-Transit Inventory) that is not located in the United States of America (excluding territories or possessions of the United States) or Canada at a location that is owned or leased by a Loan Party, except (i) Inventory in transit between such owned or leased locations, or (ii) to the extent that the Loan Parties have furnished the Agent with (A) any UCC financing statements, PPSA financing statements or other documents that the Agent may determine to be necessary to perfect its Lien on such Inventory at such location, and (B) a Collateral Access Agreement executed by the Person owning any such location on terms reasonably acceptable to the Agent;
- (d) Inventory that is located in a distribution center leased by a Loan Party unless the applicable lessor has delivered to the Agent a Collateral Access Agreement;
- (e) Inventory that is comprised of goods which (i) are damaged, defective, "seconds," or otherwise unmerchantable, (ii) are to be returned to the vendor, (iii) are obsolete or are custom items, work-in-process, raw materials, or that constitute samples, spare parts, promotional, marketing, labels, bags and other packaging and shipping materials or supplies used or consumed in a Loan Party's business, (iv) are seasonal in nature and which have been packed away for sale in the subsequent season, (v) not in compliance with all standards imposed by any Governmental Authority having regulatory authority over such Inventory, its use or sale, or (vi) are bill and hold goods;
- (f) Inventory that is not subject to a perfected first-priority (subject to Permitted Encumbrances having priority by operation of Law) Lien in favor of the Agent;
- (g) Inventory that is not insured in compliance with the provisions of Section 5.10 hereof;

(h) Inventory that has been sold but not yet delivered;

(i) Inventory that is subject to any licensing, patent, royalty, trademark, trade name or copyright agreement with any third party from which any Loan Party or any of its Subsidiaries has received written notice of a dispute in respect of any such agreement and as a result of such dispute, such Inventory is not saleable in the Agent's reasonable judgment; or

(j) Inventory acquired in a Permitted Acquisition or which is not of the type usually sold in the ordinary course of the Loan Parties' business, unless and until the Agent has completed or received (A) an appraisal of such Inventory from appraisers satisfactory to the Agent and establishes Inventory Reserves (if applicable) therefor, and otherwise agrees that such Inventory shall be deemed Eligible Inventory, and (B) such other due diligence as the Agent may require, all of the results of the foregoing to be reasonably satisfactory to the Agent.

"Eligible Letter of Credit" means, as of any date of determination thereof, a Commercial Letter of Credit which supports the purchase of Inventory, (a) which Inventory does not constitute Eligible In-Transit Inventory and for which no documents of title have then been issued; (b) which Inventory otherwise would constitute Eligible Inventory when purchased, (c) which Commercial Letter of Credit has an expiry within sixty (60) days of the date of initial issuance of such Commercial Letter of Credit, (d) which Commercial Letter of Credit provides that it may be drawn only after the Inventory is completed and after a document of title reasonably acceptable to the Agent has been issued for such Inventory reflecting a Borrower or the Agent as consignee of such Inventory, and (e) which will constitute Eligible In-Transit Inventory upon satisfaction of the requirements of clause (d) hereof.

"Eligible Real Estate" means the Real Estate of the Lead Borrower located at 188 Henry Adams Street, San Francisco, California, and other Real Estate of the Loan Parties acceptable to the Agent in its reasonable discretion, acting in good faith, and which, except as otherwise agreed by the Agent, in its discretion, satisfies all of the following conditions:

(a) A Loan Party owns such Real Estate in fee simple absolute;

(b) The Agent shall have received evidence that all actions that the Agent may reasonably deem necessary or appropriate in order to create valid first and subsisting Liens (subject only to Permitted Encumbrances (other than Encumbrances securing Indebtedness) which have priority over the Lien of the Agent by operation of Law) on the property described in the Mortgages has been taken.

(c) The Agent shall have received an appraisal (based upon Appraised Value) of such Real Estate complying with the requirements of FIRREA by a third party appraiser reasonably acceptable to the Agent and otherwise in form and substance reasonably satisfactory to the Agent; and

(d) The Real Estate Eligibility Requirements have been satisfied.

"Environmental Compliance Reserve" means, with respect to Eligible Real Estate, any reserve which the Agent, from time to time in its reasonable discretion, acting in good faith, establishes for estimable amounts that are reasonably likely to be expended by any of the Loan Parties in order for such Loan Party and its operations and property (a) to comply with any notice from a Governmental Authority asserting non-compliance with Environmental Laws, or (b) to correct any such non-compliance with Environmental Laws or to provide for any Environmental Liability.

“Environmental Laws” means any and all federal, state, provincial, municipal, local, and foreign statutes, laws, regulations, ordinances, rules, judgments, orders, decrees, permits, concessions, grants, franchises, licenses, agreements or governmental restrictions relating to pollution and the protection of the environment or the release of any materials into the environment, including those related to hazardous substances or wastes, air emissions and discharges to waste or public systems.

“Environmental Liability” means any liability, obligation, damage, loss, claim, action, suit, judgment, order, fine, penalty, fee, expense, or cost, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of any Borrower, any other Loan Party or any of their respective Subsidiaries directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal or presence of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equipment” has the meaning set forth in the UCC or the PPSA, as applicable.

“Equity Interests” means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, all of the securities convertible into or exchangeable for shares of capital stock of (or other ownership or profit interests in) such Person or warrants, rights or options for the purchase or acquisition from such Person of such shares (or such other interests), and all of the other ownership or profit interests in such Person (including partnership, member or trust interests therein), whether voting or nonvoting, and whether or not such shares, warrants, options, rights or other interests are outstanding on any date of determination.

“Equivalent CD\$ Amount” means, on any date, the rate at which Canadian Dollars may be exchanged into Dollars, determined by reference to the Bank of America-Canada Branch noon rate as published on the Reuters Screen BOFC on the immediately preceding Business Day. In the event that such rate does not appear on such Reuters page, “Equivalent CD\$ Amount” shall mean, on any date, the amount of Dollars into which an amount of Canadian Dollars may be converted or the amount of Canadian Dollars into which an amount of Dollars may be converted, in either case, at, in the case of the Canadian Loan Parties, the Agent’s spot buying rate in Toronto as at approximately 12:00 noon (Toronto time) on such date and, in the case of a Domestic Borrower, the Agent’s spot buying rate in New York as at approximately 12:00 noon (New York City time) on the immediately preceding Business Day.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Lead Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Lead Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Lead Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Sections 4041 or 4041A of ERISA,

or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any material liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Event of Default” has the meaning specified in Section 8.01.

“Excluded Taxes” means, with respect to the Agent, any Lender, the L/C Issuer or any other recipient of any payment to be made by or on account of any obligation of the Loan Parties hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located, (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which any Loan Party is located, (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Lead Borrower under Section 10.13 and other than a Canadian Lender), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new Lending Office) or is attributable to such Foreign Lender’s failure or inability (other than as a result of a Change in Law) to comply with Section 3.01(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Loan Parties with respect to such withholding tax pursuant to Section 3.01(a), (d) in the case of a Canadian Lender (other than the original Canadian Lenders hereunder), any withholding tax that is imposed on amounts payable to such Canadian Lender at the time such Canadian Lender becomes a party to this Agreement (or designates a new Lending Office) or is attributable to such Canadian Lender’s failure or inability (other than as a result of a Change in Law) to comply with Section 3.01(e), except to the extent that such Canadian Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Canadian Borrower with respect to such withholding tax pursuant to Section 3.01(a), (e) any U.S. federal, state or local backup withholding tax, and (f) any U.S. federal withholding tax imposed under FATCA.

“Executive Order” has the meaning set forth in Section 10.18.

“Existing Credit Agreement” has the meaning given such term in the recitals hereto.

“Existing Letters of Credit” means all Letters of Credit (as defined in the Existing Credit Agreement) outstanding under the Existing Credit Agreement on the Effective Date.

“Facility Guaranty” means the Guaranty made by the Guarantors in favor of the Agent and the applicable Credit Parties, in form reasonably satisfactory to the Agent.

“FATCA” means current Section 1471 through 1474 of the Code or any amended version or successor provision that is substantively similar and, in each case, any regulations promulgated thereunder and any interpretation and other guidance issued in connection therewith.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next

succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Agent.

“Fee Letter” means the letter agreement, dated June 10, 2011, among the Lead Borrower, the Agent and the Arranger.

“FIRREA” means the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended from time to time.

“Fiscal Month” means any fiscal month of any Fiscal Year, which month shall generally end on the last Saturday of each calendar month in accordance with the fiscal accounting calendar of the Loan Parties.

“Fiscal Quarter” means any fiscal quarter of any Fiscal Year, which quarters shall generally end on the last Saturday of each April, July, October and January of such Fiscal Year in accordance with the fiscal accounting calendar of the Loan Parties.

“Fiscal Year” means any period of twelve consecutive months ending on the last Saturday in January of any calendar year.

“Foreign Asset Control Regulations” has the meaning set forth in Section 10.18.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Lead Borrower is resident for tax purposes. For purposes of this definition, the United States, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“FRB” means the Board of Governors of the Federal Reserve System of the United States.

“Fronting Exposure” means, at any time there is a Defaulting Lender, (a) with respect to any L/C Issuer, such Defaulting Lender’s Applicable Percentage of the outstanding L/C Obligations in respect of such L/C Issuer other than such L/C Obligations as to which such Defaulting Lender’s participation obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof, and (b) with respect to the Swing Line Lender, such Defaulting Lender’s Applicable Percentage of Swing Line Loans other than Swing Line Loans as to which such Defaulting Lender’s participation obligation has been reallocated to other Lenders or Cash Collateralized in accordance with the terms hereof.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“GAAP” means, subject to Section 1.03(b), generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means the government of the United States, Canada or any other nation, or of any political subdivision thereof, whether state, provincial, municipal or local, and any

agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

“Guarantee” means, as to any Person, (a) any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation payable or performable by another Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation, (ii) to purchase or lease property, securities or services for the purpose of assuring the obligee in respect of such Indebtedness or other obligation of the payment or performance of such Indebtedness or other obligation, (iii) to maintain working capital, equity capital or any other financial statement condition or liquidity or level of income or cash flow of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation, or (iv) entered into for the purpose of assuring in any other manner the obligee in respect of such Indebtedness or other obligation of the payment or performance thereof or to protect such obligee against loss in respect thereof (in whole or in part), or (b) any Lien on any assets of such Person securing any Indebtedness or other obligation of any other Person, whether or not such Indebtedness or other obligation is assumed by such Person (or any right, contingent or otherwise, of any holder of such Indebtedness to obtain any such Lien). The amount of any Guarantee shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation, or portion thereof, in respect of which such Guarantee is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the guaranteeing Person in good faith. The term “Guarantee” as a verb has a corresponding meaning.

“Guarantor” means (i) the Domestic Loan Parties under the Effective Date Guaranty and (ii) each Subsidiary of the Lead Borrower (other than any CFC which is not a Canadian Subsidiary) that is required to execute and deliver a Facility Guaranty pursuant to Section 6.11.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants regulated pursuant to any Environmental Law, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes.

“Honor Date” has the meaning specified in [Section 2.03\(c\)\(i\)](#).

“Increase Effective Date” shall have the meaning provided therefor in Section 2.15(d).

“Incremental Availability” means, at any time of calculation, an amount equal to the product of (i) 10% *multiplied by* (ii) the Appraised Value of Eligible Inventory of the Domestic Borrowers, net of Inventory Reserves, *multiplied by* (iii) the Cost of Eligible Inventory of the Domestic Borrowers.

“Incremental Commitments” means, as to each Incremental Lender, its obligation to make Incremental Loans to the Domestic Borrowers pursuant to Article II, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Incremental Lender’s name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Incremental Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement. On the Effective Date, the aggregate Incremental Commitments equal \$17,500,000.

“Incremental Lenders” means Lenders having Incremental Commitments from time to time or at any time.

“Incremental Loan” means an extension of credit by an Incremental Lender to a Domestic Borrower (to the extent based on Incremental Availability) under Article II.

“Incremental Loan Cap” means, at any time of determination, the lesser of (a) the Incremental Commitments, and (b) Incremental Availability.

“Incremental Note” means a promissory note made by the Domestic Borrowers in favor of an Incremental Lender evidencing Incremental Loans made by such Incremental Lender, substantially in the form of Exhibit C-2.

“Indebtedness” means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

(a) all obligations of such Person for borrowed money and all obligations of such Person evidenced by bonds, debentures, notes, loan agreements or other similar instruments;

(b) the maximum amount of all direct or contingent obligations of such Person arising under letters of credit (including standby and commercial), bankers’ acceptances, bank guaranties, surety bonds and similar instruments;

(c) net obligations of such Person under any Swap Contract;

(d) all obligations of such Person to pay the deferred purchase price of property or services (other than trade accounts payable in the ordinary course of business and, in each case, not past due for more than 60 days);

(e) indebtedness (excluding prepaid interest thereon) secured by a Lien on property owned or being purchased by such Person (including indebtedness arising under conditional sales or other title retention agreements), whether or not such indebtedness shall have been assumed by such Person or is limited in recourse;

(f) all Attributable Indebtedness of such Person;

(g) all obligations of such Person to purchase, redeem, retire, defease or otherwise make any payment in respect of any Equity Interest in such Person or any other Person (including, without limitation, Disqualified Stock), or any warrant, right or option to acquire such Equity Interest, in each case, prior to the Maturity Date, valued, in the case of a redeemable preferred interest, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends; and

(h) all Guarantees of such Person in respect of any of the foregoing.

For all purposes hereof, the Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture (other than a joint venture that is itself a corporation or limited liability company) in which such Person is a general partner or a joint venturer, unless such Indebtedness is expressly made non-recourse to such Person. The amount of any net obligation under any Swap Contract on any date shall be deemed to be the Swap Termination Value thereof as of such date.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Indemnitees” has the meaning specified in Section 10.04(b).

“Information” has the meaning specified in Section 10.07.

“Intellectual Property” means all present and future: trade secrets, know-how and other proprietary information; trademarks, trademark applications, internet domain names, service marks, trade dress, trade names, business names, designs, logos, slogans (and all translations, adaptations, derivations and combinations of the foregoing) indicia and other source and/or business identifiers, and all registrations or applications for registrations which have heretofore been or may hereafter be issued thereon throughout the world; copyrights and copyright applications; (including copyrights for computer programs) and all tangible and intangible property embodying the copyrights, unpatented inventions (whether or not patentable); patents and patent applications; industrial design applications and registered industrial designs; license agreements related to any of the foregoing and income therefrom; books, records, writings, computer tapes or disks, flow diagrams, specification sheets, computer software, source codes, object codes, executable code, data, databases and other physical manifestations, embodiments or incorporations of any of the foregoing; all other intellectual property; and all common law and other rights throughout the world in and to all of the foregoing.

“Interest Payment Date” means, (a) as to any LIBOR Rate Loan or BA Equivalent Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; provided, however, that if any Interest Period for a LIBOR Rate Loan or BA Equivalent Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan (including a Swing Line Loan), Canadian Prime Rate Loan or U.S. Index Rate Loan, the first Business Day of each month and the Maturity Date.

“Interest Period” means, as to each LIBOR Rate Loan or BA Equivalent Loan, the period commencing on the date such LIBOR Rate Loan or BA Equivalent Loan is disbursed or Converted to or continued as a LIBOR Rate Loan or BA Equivalent Loan and ending on the date one, two, three or six months thereafter, as selected by the Lead Borrower or the Canadian Borrower, as applicable, in its Domestic Loan Notice or Canadian Loan Notice, as applicable; provided that:

(i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period;

(iii) no Interest Period shall extend beyond the Maturity Date; and

(iv) notwithstanding the provisions of clause (iii), no Interest Period shall have a duration of less than one (1) month, and if any Interest Period applicable to a LIBOR Borrowing or a BA Equivalent Borrowing would be for a shorter period, such Interest Period shall not be available hereunder.

For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent Conversion or continuation of such Borrowing.

“Internal Control Event” means a material weakness in, or fraud that involves management or other employees who have a significant role in, the Lead Borrower’s and/or its Subsidiaries’ internal controls over financial reporting.

“In-Transit Inventory” means Inventory of a Loan Party which is in the possession of a common carrier and is in transit from a foreign vendor of a Loan Party from a location outside of the continental United States or Canada to a location of a Loan Party that is within the continental United States or Canada.

“Inventory” has the meaning given that term in the UCC or the PPSA, as applicable, and shall also include, without limitation, all: (a) goods which (i) are leased by a Person as lessor, (ii) are held by a Person for sale or lease or to be furnished under a contract of service, (iii) are furnished by a Person under a contract of service, or (iv) consist of raw materials, work in process, or materials used or consumed in a business; (b) goods of said description in transit; (c) goods of said description which are returned, repossessed or rejected; and (d) packaging, advertising, and shipping materials related to any of the foregoing.

“Inventory Reserves” means such reserves as may be established from time to time by the Agent in its reasonable discretion, acting in good faith, with respect to the determination of the saleability, at retail, of the Eligible Inventory, which reflect such other factors as affect the market value of the Eligible Inventory or which reflect claims and liabilities that the Agent reasonably determines, acting in good faith, will need to be satisfied in connection with the realization upon the Inventory. Without limiting the generality of the foregoing, Inventory Reserves may, in the Agent’s reasonable discretion, acting in good faith, include (but are not limited to) reserves based on:

- (a) Obsolescence;
- (b) Seasonality;
- (c) Shrink;
- (d) Imbalance;
- (e) Change in Inventory character;
- (f) Change in Inventory composition;
- (g) Change in Inventory mix;
- (h) Mark-downs (both permanent and point of sale);
- (i) Retail mark-ons and mark-ups inconsistent with prior period practice and performance, industry standards, current business plans or advertising calendar and planned advertising events; and
- (j) Out-of-date and/or expired Inventory.

“Investment” means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of Equity Interests of another Person, (b) a loan, advance or capital contribution to, Guarantee or assumption of debt of, or purchase or other acquisition of any other debt or interest in, another Person, or (c) any Acquisition, or (d) any other

investment of money or capital. For purposes of covenant compliance, the amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

“Initial Public Offering” means a sale in a firm commitment underwritten public offering pursuant to a registration statement under the Securities Act of 1933, as amended (the “Act”) of shares of the common stock of the Lead Borrower or an Affiliate as a result of which offering and any subsequent registration of the common stock under Section 12 of the Exchange Act of 1934, as amended (the “Exchange Act”), the registrant in such offering is required to file periodic reports with the SEC under Section 12 or Section 15(d) of the Exchange Act.

“IRS” means the United States Internal Revenue Service.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

“Issuer Documents” means with respect to any Letter of Credit, the Letter Credit Application, and any other document, agreement and instrument entered into by any Borrower (or any Subsidiary) relating to any such Letter of Credit.

“Joinder Agreement” means an agreement, in form satisfactory to the Agent pursuant to which, among other things, a Person becomes a party to, and bound by the terms of, this Agreement and/or the other Loan Documents in the same capacity and to the same extent as either a Borrower or a Guarantor, as the Agent may determine.

“Judgment Currency” as defined in Section 10.22.

“Law” or “Laws” means each international, foreign, federal, state, provincial, municipal and local statute, treaty, rule, guideline, regulation, ordinance, code and administrative or judicial precedent or authority, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and each applicable administrative order, directed duty, request, license, authorization and permit of, and agreement with, any Governmental Authority, in each case whether or not having the force of law.

“L/C Advance” means, with respect to each Lender, such Lender’s funding of its participation in any L/C Borrowing in accordance with its Applicable Percentage.

“L/C Borrowing” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made or refinanced as a Canadian Borrowing or a Domestic Borrowing, as applicable.

“L/C Credit Extension” means the Domestic L/C Credit Extensions and the Canadian L/C Credit Extensions, as applicable.

“L/C Issuer” means, (a) with respect to Domestic Letters of Credit, Bank of America and, with respect to Canadian Letters of Credit, Bank of America-Canada Branch, or any successor issuer of Letters of Credit hereunder (which successor may only be a Lender selected by the Agent in its discretion), and (b) any other Lender reasonably acceptable to the Agent and the Lead Borrower. The L/C Issuer may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates or branches of the L/C

Issuer, in which case the term "L/C Issuer" shall include any such Affiliate or branch with respect to Letters of Credit issued by such Affiliate or branch.

"L/C Lenders" means the Tranche A Lenders and the Canadian Lenders, as applicable.

"L/C Obligations" means, as at any date of determination, the aggregate undrawn amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For purposes of computing the amounts available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.06. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of any Rule under the ISP or any Article of UCP 600, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

"Lead Borrower" means Restoration Hardware, Inc., a Delaware corporation.

"Lease" means any agreement, whether written or oral, no matter how styled or structured, pursuant to which a Loan Party is entitled to the use or occupancy of any real property for any period of time.

"Lender" means the Domestic Lenders, the Canadian Lenders and, as the context requires, includes the Swing Line Lender.

"Lending Office" means, as to any Lender, the office or offices of such Lender described as such in such Lender's Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Lead Borrower and the Agent.

"Letter of Credit" means each Banker's Acceptance, each Standby Letter of Credit and each Commercial Letter of Credit issued hereunder, and shall include the Existing Letters of Credit.

"Letter of Credit Application" means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by the L/C Issuer.

"Letter of Credit Expiration Date" means the day that is seven days prior to the Maturity Date then in effect (or, if such day is not a Business Day, the next preceding Business Day).

"Letter of Credit Fee" has the meaning specified in Section 2.03(i).

"Letter of Credit Sublimit" means the Canadian Letter of Credit Sublimit and the Domestic Letter of Credit Sublimit, as applicable.

"LIBOR Borrowing" means a Borrowing comprised of LIBOR Rate Loans.

"LIBOR Rate" means for any Interest Period with respect to a LIBOR Rate Loan, the rate per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the "LIBOR Rate" for such Interest Period shall be the rate per annum determined by the Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in

same day funds in the approximate amount of the LIBOR Rate Loan being made, continued or Converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America's London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

"LIBOR Rate Loan" means a Loan that bears interest at a rate based on the Adjusted LIBOR Rate.

"Lien" means (a) any mortgage, deed of trust, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory, constructive, deemed or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale, Capital Lease Obligation, Synthetic Lease Obligation, or other title retention agreement, any easement, servitude, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing) and (b) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Liquidation" means the exercise by the Agent of those rights and remedies accorded to the Agent under the Loan Documents and applicable Laws as a creditor of the Loan Parties with respect to the realization on the Collateral, including (after the occurrence and during the continuation of an Event of Default) the conduct by the Loan Parties acting with the consent of the Agent, of any public, private or "going-out-of-business", "store closing" or other similar sale or any other disposition of the Collateral for the purpose of liquidating the Collateral. Derivations of the word "Liquidation" (such as "Liquidate") are used with like meaning in this Agreement.

"Liquidation Percentage" means, for any Lender, a fraction, the numerator of which is the sum of such Lender's Domestic Commitments and Canadian Commitment on the Determination Date and the denominator of which is the Aggregate Commitments of all Lenders on the Determination Date.

"Loan" means an extension of credit by a Lender to a Borrower under Article II in the form of a Canadian Loan or a Domestic Loan (including a Swing Line Loan), as applicable.

"Loan Account" has the meaning assigned to such term in Section 2.11(a).

"Loan Cap" means, at any time of determination, the lesser of (a) the Domestic Commitments or (b) the Domestic Borrowing Base.

"Loan Documents" means this Agreement, each Note, each Issuer Document, the Fee Letter, all Borrowing Base Certificates, the Blocked Account Agreements, the Credit Card Notifications, the Security Documents, the Facility Guaranty, the Effective Date Guaranty, and any other instrument or agreement now or hereafter executed and delivered by any Loan Party in connection herewith, each as amended and in effect from time to time.

"Loan Parties" means, collectively, the Canadian Loan Parties and the Domestic Loan Parties.

"Material Adverse Effect" means (a) a material adverse change in, or a material adverse effect upon, the operations, business, properties, liabilities (actual or contingent) or condition (financial or otherwise) of any Loan Party or the Lead Borrower and its Subsidiaries taken as a whole; (b) a material impairment of the ability of any Loan Party to perform its obligations under any Loan Document to which it is a party; or (c) a material impairment of the rights and remedies of the Agent or the Lenders under any

Loan Document or a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Loan Document to which it is a party. In determining whether any individual event would result in a Material Adverse Effect, notwithstanding that such event in and of itself does not have such effect, a Material Adverse Effect shall be deemed to have occurred if the cumulative effect of such event and all other then existing events would result in a Material Adverse Effect.

“Material Contract” means, with respect to any Person, each contract to which such Person is a party that such Person would be required to file with the SEC were such Person a publicly reporting company.

“Material Indebtedness” means Indebtedness (other than the Obligations) of the Loan Parties in an aggregate principal amount exceeding \$3,000,000. For purposes of determining the amount of Material Indebtedness at any time, (a) the amount of the obligations in respect of any Swap Contract at such time shall be calculated at the Swap Termination Value thereof, (b) undrawn committed or available amounts shall be included, and (c) all amounts owing to all creditors under any combined or syndicated credit arrangement shall be included.

“Material Subsidiary” means any Subsidiary that (a) owns at least one percent (1.00%), or, together with all other Subsidiaries which are not Material Subsidiaries, five percent (5.00%) of the Consolidated assets of Lead Borrower, (b) generates at least one percent (1.00%), or, together with all other Subsidiaries which are not Material Subsidiaries, five percent (5.00%) of the Consolidated Net Income, (c) is the owner of Equity Interests of any Subsidiary described in either of the foregoing clauses (a) and (b), or (d) owns assets of the type included in the Borrowing Base.

“Maturity Date” means August 3, 2016.

“Maximum Rate” has the meaning provided therefor in Section 10.09.

“Measurement Period” means, at any date of determination, the most recently completed twelve Fiscal Months of the Lead Borrower.

“Moody’s” means Moody’s Investors Service, Inc. and any successor thereto.

“Mortgages” means each and every fee mortgage or deed of trust, security agreement and assignment by the Loan Party owning or holding the leasehold interest in the Real Estate encumbered thereby in favor of the Agent.

“Mortgage Policy” has the meaning specified in the definition of Real Estate Eligibility Requirements.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Lead Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Net Proceeds” means, with respect to any Disposition by any Loan Party, or a casualty or condemnation of property of any Loan Party, the excess, if any, of (i) the sum of cash and cash equivalents received in connection with such transaction (including any cash or cash equivalents received by way of deferred payment pursuant to, or by monetization of, a note receivable or otherwise, but only as and when so received) over (ii) the sum of (A) the principal amount of any Indebtedness that is secured by a Permitted Encumbrance, senior to the Agent’s Lien, on the applicable asset and which Indebtedness

is required to be repaid (or to establish an escrow for the future repayment thereof) in connection with such Disposition (other than Indebtedness under the Loan Documents), (B) the reasonable and customary out-of-pocket expenses incurred by such Loan Party in connection with such transaction (including, without limitation, appraisals, and brokerage, legal, title and tax expenses and commissions) paid by any Loan Party to third parties (other than Affiliates)).

“Non-Consenting Lender” has the meaning provided therefor in Section 10.01.

“Non-Extension Notice Date” has the meaning specified in Section 2.03(b)(iii).

“Note” means (a) a Canadian Note, (b) a Tranche A Note, (c) an Incremental Note, and (d) the Swing Line Note, as each may be amended, supplemented or modified from time to time.

“NPL” means the National Priorities List under CERCLA.

“Obligations” means (a) all advances to, and debts (including principal, interest, fees, costs, and expenses), liabilities, obligations, covenants, indemnities, and duties of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit (including payments in respect of reimbursement of disbursements, interest thereon and obligations to provide cash collateral therefor), whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest, fees, costs, expenses and indemnities that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest, fees costs, expenses and indemnities are allowed claims in such proceeding, and (b) any Other Liabilities. Without limiting the foregoing, the term “Obligations” includes all Canadian Liabilities.

“Organization Documents” means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity, and (d) in each case, all shareholder or other equity holder agreements, voting trusts and similar arrangements to which such Person is a party or which is applicable to its Equity Interests and all other arrangements relating to the Control or management of such Person.

“Other Canadian Liabilities” means any obligation of the Canadian Loan Parties on account of (a) any Cash Management Services furnished to any of the Canadian Loan Parties or any of their Subsidiaries and/or (b) any Bank Product furnished to any of the Canadian Loan Parties and/or any of their Subsidiaries.

“Other Domestic Borrowers” means each Domestic Subsidiary of the Lead Borrower that is not a Guarantor.

“Other Domestic Liabilities” means any obligation of the Domestic Loan Parties on account of (a) any Cash Management Services furnished to any of the Domestic Loan Parties or any of their Subsidiaries and/or (b) any Bank Product furnished to any of the Domestic Loan Parties and/or any of their Subsidiaries.

“Other Liabilities” means, collectively, Other Domestic Liabilities and Other Canadian Liabilities.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document, excluding, however, any such amounts imposed as a result of an assignment by a Lender of its Loan or Commitment.

“Outstanding Amount” means (i) with respect to Loans and Swing Line Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Loans and Swing Line Loans, as the case may be, occurring on such date; and (ii) with respect to any L/C Obligations on any date, the amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements by the Borrowers of Unreimbursed Amounts.

“Participant” has the meaning specified in Section 10.06(d).

“Participation Register” has the meaning provided therefor in Section 10.06(d).

“Payment Conditions” means, with respect to any specified transaction or payment, that, (a) no Default or Event of Default exists on the date of such transaction or payment or would arise as a result of entering into such transaction or the making of such payment, (b) after giving effect to such transaction or payment, the Pro Forma Availability Condition has been satisfied, (c) the Consolidated Fixed Charge Coverage Ratio, calculated on a trailing twelve month basis after giving pro forma effect to any specified transaction or payment, is equal to or greater than 1.0:1.0, and (d) prior thereto, the Loan Parties shall have delivered to the U.S. Agent evidence of satisfaction of the conditions contained in the foregoing clauses (b) and (c) on a basis (including, without limitation, giving due consideration to results for prior periods) reasonably satisfactory to the U.S. Agent.

“PBGC” means the Pension Benefit Guaranty Corporation.

“PCAOB” means the Public Company Accounting Oversight Board.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Lead Borrower or any ERISA Affiliate or to which the Lead Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“Permitted Acquisition” means an Acquisition in which all of the following conditions are satisfied:

(a) such Acquisition shall have been approved by the Board of Directors of the Person (or similar governing body if such Person is not a corporation) which is the subject of such Acquisition and such Person shall not have announced that it will oppose such Acquisition or shall not have commenced any action which alleges that such Acquisition shall violate applicable Law;

(b) the Lead Borrower shall have furnished the Agent with fifteen (15) days' prior written notice of such intended Acquisition and shall have furnished the Agent with a current draft of the Acquisition Documents (and final copies thereof as and when executed), a summary of any due diligence undertaken by the Loan Parties in connection with such Acquisition, appropriate financial statements of the Person which is the subject of such Acquisition, pro forma projected financial statements for the twelve (12) month period following such Acquisition after giving effect to such Acquisition (including balance sheets, cash flows and income statements by month for the acquired Person, individually, and on a Consolidated basis with all Loan Parties), and such other information as the Agent may have reasonably requested no later than fifteen (15) days prior to such Acquisition, all of which shall be in form reasonably satisfactory to the Agent;

(c) if proceeds of the Credit Extensions are being used to directly or indirectly finance all or any portion of such Acquisition and the Acquisition is an Acquisition of Equity Interests, the legal structure of the Acquisition shall be acceptable to the Agent in its reasonable discretion;

(d) all necessary legal and regulatory approvals with respect to such Acquisition shall have been obtained;

(e) after giving effect to the Acquisition, if the Acquisition is an Acquisition of Equity Interests, a Loan Party shall acquire and own, directly or indirectly, a majority of the Equity Interests in the Person being acquired and shall Control a majority of any voting interests or shall otherwise Control the governance of the Person being acquired;

(f) any assets acquired shall be utilized in, and if the Acquisition involves a merger, amalgamation, consolidation or acquisition of Equity Interests, the Person which is the subject of such Acquisition shall be engaged in, a business otherwise permitted to be engaged in by a Borrower pursuant to Section 7.09;

(g) if the Person which is the subject of such Acquisition will be maintained as a Subsidiary of a Loan Party, the requirements of Section 6.11 shall have been fulfilled with respect to such Subsidiary; and

(h) the Loan Parties shall have satisfied the Payment Conditions.

"Permitted Disposition" means any of the following:

(a) Dispositions of inventory in the ordinary course of business and Dispositions of cash to pay obligations of the Loan Parties in the ordinary course of business and not prohibited to be incurred hereunder;

(b) arm's length bulk sales or other dispositions of the Inventory of a Loan Party not in the ordinary course of business in connection with Permitted Store Closings, at arm's length;

(c) non-exclusive licenses of Intellectual Property of a Loan Party or any of its Subsidiaries in the ordinary course of business;

(d) licenses for the conduct of licensed departments within the Loan Parties' Stores in the ordinary course of business; provided that, if requested by the Agent, the Agent shall have entered into an intercreditor agreement with the Person operating such licensed department on terms and conditions reasonably satisfactory to the Agent;

(e) Dispositions of Equipment in the ordinary course of business that is substantially worn, damaged, obsolete or, in the judgment of a Loan Party, no longer useful or necessary in its business or that of any Subsidiary and, in the case of any Equipment material to such Person's business or operating, is replaced with similar property having at least equivalent value;

(f) Dispositions among the Loan Parties or by any Subsidiary to a Loan Party;

(g) Dispositions by any Subsidiary which is not a Loan Party to another Subsidiary that is not a Loan Party;

(h) sales of Real Estate of any Loan Party (or sales of any Equity Interests in any Person or Persons created to hold such Real Estate), including sale-leaseback transactions involving any such Real Estate pursuant to leases on market terms, as long as (A) such sale is made for fair market value, (B) with respect to any Eligible Real Estate, the Net Proceeds paid in cash are in an amount at least equal to the amount calculated pursuant to clause (c) of the definition of "Tranche A Borrowing Base" for such Eligible Real Estate, (C) in the case of any sale-leaseback transaction, the Agents shall have received from each such purchaser or transferee a Collateral Access Agreement and (D) no Default or Event of Default then exists or would arise therefrom; and

(i) transactions expressly permitted under Section 7.01, 7.02, 7.04, 7.06 or 7.07, in each case to the extent constituting a Disposition.

"Permitted Encumbrances" means:

(a) Liens imposed by law for Taxes that are not yet due or are being contested in compliance with Section 6.04;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by applicable Laws, arising in the ordinary course of business and securing obligations that are not overdue by more than thirty (30) days or are being contested in compliance with Section 6.04;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations, other than any Lien imposed by ERISA or any applicable Laws relating to a Canadian Pension Plan;

(d) deposits to secure the performance of bids, trade contracts and leases (other than Indebtedness), statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(e) Liens in respect of judgments that would not constitute an Event of Default under Section 8.01(h);

(f) easements, servitudes, covenants, conditions, restrictions, building code laws, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or materially interfere with the ordinary conduct of business of a Loan Party and such other minor title defects or survey matters that are

disclosed by current surveys that, in each case, do not materially interfere with the current use of the real property;

(g) Liens existing on the Effective Date and listed on Schedule 7.01 and any Permitted Refinancings thereof;

(h) Liens on fixed or capital assets acquired by any Loan Party which are permitted under clause (c) of the definition of Permitted Indebtedness so long as (i) such Liens and the Indebtedness secured thereby are incurred prior to or within ninety (90) days after such acquisition, (ii) the Indebtedness secured thereby does not exceed the cost of acquisition of such fixed or capital assets and (iii) such Liens shall not extend to any property or assets of the Loan Parties other than such fixed or capital assets and the products and proceeds thereof and books and records related thereto;

(i) Liens in favor of the Agent or others securing the Obligations;

(j) landlords' and lessors' Liens in respect of rent not in default;

(k) possessory Liens in favor of brokers and dealers arising in connection with the acquisition or disposition of Investments owned as of the Effective Date and Permitted Investments, provided that such liens (a) attach only to such Investments and (b) secure only obligations incurred in the ordinary course and arising in connection with the acquisition or disposition of such Investments and not any obligation in connection with margin financing;

(l) (i) Liens arising solely by virtue of any statutory or common law provisions relating to banker's liens, liens in favor of securities intermediaries, rights of setoff or similar rights and remedies as to deposit accounts or securities accounts or other funds maintained with depository institutions or securities intermediaries and

(ii) consensual Liens in favor of the applicable financial institution or broker on such accounts, and all funds or investment property credited thereto, solely to the extent arising pursuant to such financial institution's or broker's standard terms and conditions of account and securing only obligations with respect to such accounts owing to such financial institution or broker under such standard terms and conditions;

(m) Liens arising from precautionary UCC or PPSA filings regarding "true" operating leases or the consignment of goods to a Loan Party;

(n) voluntary Liens on property (other than property of the type included in the Canadian Borrowing Base or the Domestic Borrowing Base) in existence at the time such property is acquired or on such property of a Subsidiary of a Loan Party in existence at the time such Subsidiary is acquired; provided, that such Liens are not incurred in connection with or in anticipation of such acquisition and do not attach to any other assets of any Loan Party or any Subsidiary;

(o) Liens in favor of customs and revenues authorities imposed by applicable Laws arising in the ordinary course of business in connection with the importation of goods and securing obligations (i) that are not overdue by more than thirty (30) days, or (ii) that are being contested in compliance with Section 6.04;

(p) Liens referred to in Schedule B of the Mortgage Policies insuring the Mortgages; and

(q) Liens in favor of any holder of Indebtedness permitted pursuant to clause (j) of the definition of Permitted Indebtedness; provided that the Person holding such Liens shall have entered into an intercreditor and subordination agreement reasonably acceptable to the Agent.

“Permitted Holder” means a Person or group consisting of one or more of (a) Catterton Partners Management Company, (b) Tower Three Partners LLC and (c) any of the respective Affiliates of either Catterton Partners Management Company or Tower Three Partners LLC.

“Permitted Indebtedness” means each of the following:

- (a) Indebtedness outstanding on the Effective Date and listed on Schedule 7.03 and any Permitted Refinancing thereof;
- (b) Indebtedness consisting of Permitted Investments described in clause (g) of the definition thereof;
- (c) purchase money Indebtedness of any Loan Party to finance the acquisition of any personal property consisting solely of fixed or capital assets, including Capital Lease Obligations, and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and Permitted Refinancings thereof, provided, however, that the aggregate principal amount of Indebtedness permitted by this clause (c) shall not exceed \$30,000,000 at any time outstanding and further provided that, if requested by the Agent, the Loan Parties shall use commercially reasonable efforts to cause the holders of such Indebtedness to enter into a use and access agreement on terms reasonably satisfactory to the Agent;
- (d) Indebtedness incurred for the construction or acquisition or improvement of, or to finance or to refinance, any Real Estate owned by any Loan Party (including therein any Indebtedness incurred in connection with sale-leaseback transactions permitted hereunder and any Synthetic Lease Obligations), provided that, (A) with respect to any Eligible Real Estate, the Net Proceeds (with respect to any sale-leaseback transaction) or the net proceeds of any other Indebtedness, as applicable, paid in cash are in an amount at least equal to the amount calculated pursuant to clause (c) of the definition of “Tranche A Borrowing Base”, and (B) the Loan Parties shall use commercially reasonable efforts to cause the holders of such Indebtedness and the lessors under any sale-leaseback transaction to enter into a Collateral Access Agreement on terms reasonably satisfactory to the Agent;
- (e) contingent liabilities under surety bonds or similar instruments incurred in the ordinary course of business in connection with the construction or improvement of Stores;
- (f) obligations (contingent or otherwise) of any Loan Party or any Subsidiary thereof existing or arising under any Swap Contract, provided that such obligations are (or were) entered into by such Person in the ordinary course of business for the purpose of directly mitigating risks associated with fluctuations in interest rates or foreign exchange rates, and not for purposes of speculation or taking a “market view;”
- (g) Indebtedness in connection with any Permitted Acquisition (i) with respect to the deferred purchase price therefor; provided that such Indebtedness does not require the payment in cash of principal (other than in respect of working capital adjustments) prior to the Maturity Date, has a final maturity which extends beyond the Maturity Date, and is subordinated to the Obligations on terms reasonably acceptable to the Agent or (ii) consisting of any earn out or other

payment of contingent consideration tied to the post-closing performance of the acquired Person, business, asset or property, to the extent that the payment of the full amount of such earn out or other consideration was permissible at the date of the closing of such Permitted Acquisition;

(h) Indebtedness of any Person that becomes a Subsidiary of a Loan Party in a Permitted Acquisition, which Indebtedness is existing at the time such Person becomes a Subsidiary of a Loan Party (other than Indebtedness incurred solely in contemplation of such Person's becoming a Subsidiary of a Loan Party);

(i) the Obligations;

(j) Indebtedness not otherwise specifically described herein in an aggregate principal amount not to exceed \$100,000,000 at any time outstanding; provided that the weighted average life to maturity of such Indebtedness shall be at least six months following the Maturity Date and the documentation governing such Indebtedness shall otherwise be in form and substance reasonably satisfactory to the Agent; and provided further that if such Indebtedness is secured by a Lien, such Lien constitutes a Permitted Encumbrance permitted pursuant to clause (q) of the definition thereof; and

(k) Other unsecured Indebtedness not otherwise specifically described herein; provided that the weighted average life to maturity of such Indebtedness shall be at least six months following the Maturity Date.

"Permitted Investments" means each of the following:

(a) readily marketable obligations issued or directly and fully guaranteed or insured by the United States of America or any agency or instrumentality thereof having maturities of not more than 360 days from the date of acquisition thereof; provided that the full faith and credit of the United States of America is pledged in support thereof;

(b) commercial paper issued by any Person organized under the laws of any state of the United States of America and rated at least "Prime-1" (or the then equivalent grade) by Moody's or at least "A-1" (or the then equivalent grade) by S&P, in each case with maturities of not more than 180 days from the date of acquisition thereof;

(c) time deposits with, or insured certificates of deposit or bankers' acceptances of, any commercial bank that (i) (A) is a Lender or (B) is organized under the laws of the United States of America, any state thereof or the District of Columbia or is the principal banking subsidiary of a bank holding company organized under the laws of the United States of America, any state thereof or the District of Columbia, and is a member of the Federal Reserve System, (ii) issues (or the parent of which issues) commercial paper rated as described in clause (c) of this definition and (iii) has combined capital and surplus of at least \$1,000,000,000, in each case with maturities of not more than 180 days from the date of acquisition thereof;

(d) Fully collateralized repurchase agreements with a term of not more than thirty (30) days for securities described in clause (a) above (without regard to the limitation on maturity contained in such clause) and entered into with a financial institution satisfying the criteria described in clause (c) above or with any primary dealer and having a market value at the time that such repurchase agreement is entered into of not less than 100% of the repurchase obligation of such counterparty entity with whom such repurchase agreement has been entered into;

(e) Investments, classified in accordance with GAAP as current assets of the Loan Parties, in any money market fund, mutual fund, or other investment companies that are registered under the Investment Company Act of 1940, as amended, which are administered by financial institutions that have the highest rating obtainable from either Moody's or S&P, and which invest solely in one or more of the types of securities described in clauses (a) through (d) above;

(f) Investments existing on the Effective Date, and set forth on Schedule 7.02, but not any increase in the amount thereof or any other modification of the terms thereof;

(g) (i) Investments by any Loan Party and its Subsidiaries in their respective Subsidiaries outstanding on the Effective Date, (ii) additional Investments by any Loan Party and its Subsidiaries in Loan Parties, (iii) Investments by non-Loan Party Subsidiaries in other non-Loan Party Subsidiaries, (iv) up to \$7,000,000 (at any time outstanding) of Investments after the Effective Date in Subsidiaries incorporated or formed under the laws of France, the United Kingdom or any political subdivision thereof, and (v) Investments after the Effective Date by any Loan Party in non-Loan Party Subsidiaries in an amount not to exceed \$5,000,000 (at any time outstanding), or any greater amount if the Payment Conditions are satisfied;

(h) Investments consisting of extensions of credit in the nature of accounts receivable or notes receivable arising from the grant of trade credit in the ordinary course of business, and Investments received in satisfaction or partial satisfaction thereof from financially troubled account debtors to the extent reasonably necessary in order to prevent or limit loss;

(i) Guarantees constituting Permitted Indebtedness;

(j) so long as no Default or Event of Default has occurred and is continuing or would result from such Investment, Investments by any Loan Party in Swap Contracts permitted hereunder;

(k) Investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(l) advances to officers, directors and employees of the Loan Parties and Subsidiaries in the ordinary course of business in an amount not to exceed \$500,000 to any individual at any time or in an aggregate amount not to exceed \$2,500,000 at any time outstanding, for travel, entertainment, relocation and analogous ordinary business purposes;

(m) Investments constituting Permitted Acquisitions; and

(n) Other Investments not otherwise specifically described herein and not exceeding \$5,000,000 in the aggregate at any time outstanding;

provided, however, that notwithstanding the foregoing, (i) after the occurrence and during the continuance of a Cash Dominion Event, no additional Investments specified in clauses (a) through (e) and clause (p) or any reinvestment or rollover of any Investments specified in clauses (a) through (e) and clause (p) and outstanding prior to the occurrence and continuation of a Cash Dominion Event shall be permitted unless otherwise permitted pursuant to Section 2.05(g) or (h) hereof, as applicable, and (ii) such Investments shall be pledged to the Agent as additional collateral for the Obligations pursuant to such agreements as may be reasonably requested by the Agent.

“Permitted Overadvance” means an Overadvance made by the Agent, in its discretion, which:

- (a) Is made to maintain, protect or preserve the Collateral and/or the Credit Parties’ rights under the Loan Documents or which is otherwise for the benefit of the Credit Parties; or
- (b) Is made to enhance the likelihood of, or to maximize the amount of, repayment of any Obligation;
- (c) Is made to pay any other amount chargeable to any Loan Party hereunder; and
- (d) Together with all other Permitted Overadvances then outstanding, shall not (i) exceed ten percent (10%) of the combined Canadian Borrowing Base and Domestic Borrowing Base at any time or (ii) unless a Liquidation is occurring, remain outstanding for more than forty-five (45) consecutive Business Days, unless in each case, the Required Lenders otherwise agree;

provided however, that the foregoing shall not (i) modify or abrogate any of the provisions of Section 2.03 regarding the Tranche A Lenders’ and the Canadian Lenders’ obligations with respect to Letters of Credit or Section 2.04 regarding the Tranche A Lenders’ obligations with respect to Swing Line Loans, or (ii) result in any claim or liability against the Agent (regardless of the amount of any Overadvance) for Unintentional Overadvances, and such Unintentional Overadvances shall not reduce the amount of Permitted Overadvances allowed hereunder, and further provided that in no event shall the Agent make an Overadvance, if after giving effect thereto, the principal amount of the Credit Extensions would exceed the Aggregate Commitments (as in effect prior to any termination of the Commitments pursuant to Section 2.06 hereof).

“Permitted Refinancing” means, with respect to any Person, any Indebtedness issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund (collectively, to “Refinance”), the Indebtedness being Refinanced (or previous refinancings thereof constituting a Permitted Refinancing); provided, that (a) the principal amount (or accreted value, if applicable) of such Permitted Refinancing does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness so Refinanced (plus unpaid accrued interest and premiums thereon and underwriting discounts, defeasance costs, fees, commissions and expenses), (b) the weighted average life to maturity of such Permitted Refinancing is greater than or equal to the weighted average life to maturity of the Indebtedness being Refinanced (c) such Permitted Refinancing shall not require any scheduled principal payments due prior to the Maturity Date in excess of the scheduled principal payments due prior to such Maturity Date for the Indebtedness being Refinanced, (d) if the Indebtedness being Refinanced is subordinated in right of payment to the Obligations under this Agreement, such Permitted Refinancing shall be subordinated in right of payment to such Obligations on terms at least as favorable to the Credit Parties as those contained in the documentation governing the Indebtedness being Refinanced (e) no Permitted Refinancing shall have direct or indirect Loan Party or Subsidiary obligors who were not also obligors of the Indebtedness being Refinanced, or greater guarantees or security from Loan Parties or Subsidiaries, than the Indebtedness being Refinanced, and (f) such Permitted Refinancing shall be otherwise on terms, taken as a whole, not materially less favorable to the Loan Parties than those contained in the documentation governing the Indebtedness being Refinanced.

“Permitted Store Closings” means (a) Store closures and related Inventory dispositions which do not exceed in any Fiscal Year of the Lead Borrower and its Subsidiaries, ten (10%) percent of the number of the Loan Parties’ Stores as of the beginning of such Fiscal Year (net of new Store openings), provided that, subject to clause (b) below, the Loan Parties may close any Stores the leases of which have expired in accordance with their terms and which have not been renewed or extended; and (b) the related Inventory is either (i) moved to a distribution center or another retail location of the Loan Parties for

future sale in the ordinary course of business, or (ii) disposed of on-site by the applicable Loan Party, provided that all sales of Inventory in connection with Store closings (in a single transaction or series of related transactions) that exceed ten (10%) percent of the number of the Loan Parties' Stores as of the beginning of such Fiscal Year (net of new Store openings) shall be disposed of in accordance with liquidation agreements and with professional liquidators reasonably acceptable to the Agent, and provided further that all Net Proceeds received in connection with such Permitted Store Closings and related Dispositions of Inventory shall be applied to the Obligations in accordance with Section 2.05 hereto.

"Person" means any natural person, corporation, limited or unlimited liability company, trust, joint venture, association, company, partnership, limited partnership, Governmental Authority or other entity.

"Plan" means any "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) established by the Lead Borrower or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, any ERISA Affiliate.

"Platform" has the meaning specified in Section 6.02.

"PPSA" means the *Personal Property Security Act* (Ontario) and the regulations thereunder, as from time to time in effect; provided, however, if attachment, perfection or priority of the Agent's security interest in or the Agent's Lien on any Collateral are governed by the personal property security laws of any jurisdiction other than Ontario (including Quebec), PPSA shall mean those personal property security laws in such other jurisdiction, including the *Civil Code of Quebec*, for the purposes of the provisions hereof relating to such attachment, perfection or priority and for the definitions related to such provisions.

"Prepayment Event" means:

(a) Any Disposition (including pursuant to a sale and leaseback transaction) of any property or asset of a Loan Party (other than any Permitted Disposition described in clauses (a) or (f) of the definition thereof); or

(b) Any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of (and payments in lieu thereof), any property or asset of a Loan Party, unless (i) the proceeds therefrom are required to be paid to the holder of a Lien on such property or asset having priority over the Lien of the Agent or (ii) prior to the occurrence of a Cash Dominion Event, the proceeds therefrom are deposited into a segregated account and utilized for purposes of replacing or repairing the assets in respect of which such proceeds, awards or payments were received within 180 days of the occurrence of the damage to or loss of the assets being repaired or replaced.

"Pro Forma Availability Condition" shall mean, for any date of calculation (a) with respect to any transaction or payment subject to the Payment Conditions, the Pro Forma Excess Availability following, and after giving effect to, such transaction or payment, will be greater than the greater of (i) \$20,000,000 and (ii) fifteen percent (15%) of the Loan Cap, and (b) with respect to any Restricted Payment subject to the RP Conditions, the Pro Forma Excess Availability following, and after giving effect to, such transaction or payment, will be greater than the greater of (i) \$22,500,000 and (ii) fifteen percent (15%) of the Loan Cap.

"Pro Forma Excess Availability" shall mean, for any date of calculation, after giving pro forma effect to the transaction or payment or Restricted Payment then to be consummated, Domestic

Availability on the date of such transaction or payment and on a projected basis as of the end of each Fiscal Month during any subsequent projected twelve (12) Fiscal Months.

“Proceeds of Crime Act” means the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*(Canada), as amended from time to time, and including all regulations thereunder.

“Public Lender” has the meaning specified in Section 6.02.

“Real Estate” means all Leases and all land, together with the buildings, structures, parking areas, and other improvements thereon, now or hereafter owned by any Loan Party, including all easements, rights-of-way, and similar rights relating thereto and all leases, tenancies, and occupancies thereof.

“Real Estate Eligibility Requirements: means collectively, each of the following:

(a) The applicable Loan Party has executed and delivered to the Agent a Mortgage with respect to any Real Estate intended, by such Loan Party, to be included in Eligible Real Estate;

(b) Such Real Estate is used by a Loan Party for offices or as a Store or distribution center;

(c) As to any particular property, the Loan Party is in compliance in all material respects with the representations, warranties and covenants set forth in the Mortgage relating to such Real Estate;

(d) The Agent shall have received fully paid American Land Title Association Lender’s Extended Coverage title insurance policies or marked-up title insurance commitments having the effect of a policy of title insurance) (the “Mortgage Policies”) in form and substance, with the endorsements reasonably required by the Agent (to the extent available at commercially reasonable rates) and in amounts reasonably acceptable to the Agent, issued, coinsured and reinsured (to the extent required by the Agent) by title insurers reasonably acceptable to the Agent, insuring the Mortgages to be valid first and subsisting Liens on the property described therein, free and clear of all defects (including, but not limited to, mechanics’ and materialmen’s Liens) and encumbrances, excepting only Permitted Encumbrances having priority over the Lien of the Agent under Law;

(e) The Agent shall have received American Land Title Association/American Congress on Surveying and Mapping form surveys, for which all necessary fees (where applicable) have been paid, certified to the Agent and the issuer of the Mortgage Policies in a manner reasonably satisfactory to the Agent by a land surveyor duly registered and licensed in the states in which the property described in such surveys is located and reasonably acceptable to the Agent, showing all buildings and other improvements, the location of any easements, parking spaces, rights of way, building set-back lines and other dimensional regulations and the absence of encroachments, either by such improvements or on to such property, and other defects, other than encroachments and other defects reasonably acceptable to the Agent;

(f) (i) The Agent shall have received a Phase I Environmental Site Assessment in accordance with ASTM Standard E1527-05, in form and substance reasonably satisfactory to the Agent, from an environmental consulting firm reasonably acceptable to the Agent, which report shall identify recognized environmental conditions and shall to the extent possible quantify any related costs and liabilities, associated with such conditions and the Agent shall be satisfied with

the nature and amount of any such matters, and (ii) if requested by the Agent after receipt of a Phase I Environmental Site Assessment, such further environmental assessments or reports to the extent such further assessments or reports are recommended in the Phase I Environmental Site Assessment;

(g) The applicable Loan Party shall have delivered to the Agent evidence of flood insurance naming the Agent as mortgagee as required by the National Flood Insurance Program as set forth in the Flood Disaster Protection Act of 1973, as amended and in effect, which shall be reasonably satisfactory in form and substance to the Agent; and

(h) The applicable Loan Party shall have delivered such other information and documents as may be reasonably requested by the Agent, including, without limitation, such as may be necessary to comply with FIRREA.

“Realty Reserves” means such reserves as the Agent from time to time determines in the Agent’s reasonable discretion, acting in good faith, as being appropriate to reflect the impediments to the Agent’s ability to realize upon any Eligible Real Estate or to reflect claims and liabilities that the Agent determines will need to be satisfied in connection with the realization upon any Eligible Real Estate. Without limiting the generality of the foregoing, Realty Reserves may include (but are not limited to) (i) Environmental Compliance Reserves, (ii) reserves for (A) municipal taxes and assessments, (B) repairs and (C) remediation of title defects, and (iii) reserves for Indebtedness secured by Liens on Eligible Real Estate having priority over the Lien of the Agent.

“Register” has the meaning specified in Section 10.06(c).

“Registered Public Accounting Firm” has the meaning specified by the Securities Laws and shall be independent of the Lead Borrower and its Subsidiaries as prescribed by the Securities Laws.

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person’s Affiliates.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

“Reports” has the meaning provided in Section 9.12(b).

“Request for Credit Extension” means (a) with respect to a Borrowing, Conversion or continuation of Loans, a Domestic Loan Notice or a Canadian Loan Notice, as applicable, (b) with respect to an L/C Credit Extension, a Letter of Credit Application, and (c) with respect to a Swing Line Loan, a Swing Line Loan Notice.

“Required Lenders” means, as of any date of determination, Lenders holding more than 50% of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.02, Lenders holding in the aggregate more than 50% of the Total Outstandings (with the aggregate amount of each Lender’s risk participation and funded participation in L/C Obligations and Swing Line Loans being deemed “held” by such Lender for purposes of this definition); provided that the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

“Required Supermajority Lenders” means, as of any date of determination, Lenders holding more than 66.67% of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of the L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 8.02, Lenders holding in the aggregate more than 66.67% of the Total Outstandings (with the aggregate amount of each Lender’s risk participation and funded participation in L/C Obligations and Swing Line Loans being deemed “held” by such Lender for purposes of this definition); provided that the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Supermajority Lenders.

“Reserves” means all Inventory Reserves, Availability Reserves and Realty Reserves. The Agent shall have the right, at any time and from time to time after the Effective Date in its discretion to establish, modify or eliminate Reserves.

“Responsible Officer” means any chief financial officer or the chief executive officer, chief operating officer, chief administrative officer, president, treasurer or assistant treasurer of a Loan Party or any of the other individuals designated in writing to the Agent by an existing Responsible Officer of a Loan Party as an authorized signatory of any certificate or other document to be delivered hereunder. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

“Restricted Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock or other Equity Interest of any Person, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, defeasance, acquisition, cancellation or termination of any such capital stock or other Equity Interest, or on account of any return of capital to such Person’s stockholders, partners or members (or the equivalent of any thereof), or any option, warrant or other right to acquire any such dividend or other distribution or payment. Without limiting the foregoing, “Restricted Payments” with respect to any Person shall also include all payments made by such Person with any proceeds of a dissolution or liquidation of such Person.

“RP Conditions” means, at the time of determination with respect to any proposed Restricted Payment, that (a) no Default or Event of Default then exists or would arise as a result of the making of such Restricted Payment, (b) after giving effect to such Restricted Payment, the Pro Forma Availability Condition has been satisfied and the Consolidated Fixed Charge Coverage Ratio, calculated on a trailing twelve month basis after giving pro forma effect to such Restricted Payment, is equal to or greater than 1.1:1.0. Prior to undertaking any Restricted Payment which is subject to the Restricted Payment Conditions, the Loan Parties shall deliver to the Agent evidence of satisfaction of the conditions contained in clause (b) above on a basis (including, without limitation, giving due consideration to results for prior periods) reasonably satisfactory to the Agent.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto.

“Sarbanes-Oxley” means the Sarbanes-Oxley Act of 2002.

“SEC” means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions or any foreign Governmental Authority exercising similar functions.

“**Secondary Offering**” means a sale of common stock that occurs subsequent to an Initial Public Offering where such sale is registered under the Securities Act.

“**Securities Laws**” means the Securities Act of 1933, the Securities Exchange Act of 1934, Sarbanes-Oxley, and the applicable accounting and auditing principles, rules, standards and practices promulgated, approved or incorporated by the SEC or the PCAOB or any similar foreign applicable Laws.

“**Security Agreement**” means the Amended and Restated Security Agreement dated as of the Effective Date among the Domestic Loan Parties and the Agent.

“**Security Documents**” means the Security Agreement, the Blocked Account Agreements, the Mortgages, the Canadian Security Documents, the Credit Card Notifications, and each other security agreement or other instrument or document executed and delivered to the Agent pursuant to this Agreement or any other Loan Document granting a Lien to secure any of the Obligations.

“**Settlement Date**” has the meaning provided in Section 2.14(a).

“**Shareholders’ Equity**” means, as of any date of determination, consolidated shareholders’ equity of the Lead Borrower and its Subsidiaries as of that date determined in accordance with GAAP.

“**Shrink**” means Inventory which has been lost, misplaced, stolen, or is otherwise unaccounted for.

“**Solvent**” and “**Solvency**” means, with respect to any Person on a particular date, that on such date (a) at fair valuation, all of the properties and assets of such Person are greater than the sum of the debts, including contingent liabilities, of such Person, (b) the present fair saleable value of the properties and assets of such Person is not less than the amount that would be required to pay the probable liability of such Person on its debts as they become absolute and matured, (c) such Person is able to realize upon its properties and assets and pay its debts and other liabilities, contingent obligations and other commitments as they mature in the normal course of business, (d) such Person does not intend to, and does not believe that it will, incur debts beyond such Person’s ability to pay as such debts mature, and (e) such Person is not engaged in a business or a transaction, and is not about to engage in a business or transaction, for which such Person’s properties and assets would constitute unreasonably small capital after giving due consideration to the prevailing practices in the industry in which such Person is engaged. The amount of all guarantees at any time shall be computed as the amount that, in light of all the facts and circumstances existing at the time, can reasonably be expected to become an actual or matured liability.

“**Spot Rate**” means the exchange rate, as determined by the Agent, that is applicable to conversion of one currency into another currency, which is (a) the exchange rate reported by Bloomberg (or other commercially available source designated by the Agent) as of the end of the preceding business day in the financial market for the first currency; or (b) if such report is unavailable for any reason, the spot rate for the purchase of the first currency with the second currency as in effect during the preceding business day in the Agent’s principal foreign exchange trading office for the first currency.

“**Standby Letter of Credit**” means any Letter of Credit that is not a Commercial Letter of Credit and that (a) is used in lieu or in support of performance guaranties or performance, surety or similar bonds (excluding appeal bonds) arising in the ordinary course of business, (b) is used in lieu or in support of stay or appeal bonds, (c) supports the payment of insurance premiums for reasonably necessary casualty insurance carried by any of the Loan Parties, or (d) supports payment or performance for identified purchases or exchanges of products or services in the ordinary course of business.

“Stated Amount” means at any time the maximum amount for which a Letter of Credit may be honored.

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the FRB to which the Agent is subject with respect to the Adjusted LIBOR Rate, for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. LIBOR Rate Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Store” means any retail store (which may include any real property, fixtures, equipment, inventory and other property related thereto) operated, or to be operated, by any Loan Party.

“Subordinated Indebtedness” means Indebtedness which is expressly subordinated in right of payment to the prior payment in full of the Obligations and which is in form and on terms approved in writing by the Agent.

“Subsidiary” of a Person means a corporation, partnership, joint venture, limited or unlimited liability company or other business entity of which a majority of the Equity Interests having ordinary voting power for the election of directors or other governing body are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a “Subsidiary” or to “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of a Loan Party.

“Substantial Liquidation” shall mean either (a) the Liquidation of substantially all of the Collateral, or (b) the sale or other disposition of substantially all of the Collateral by the Loan Parties.

“Swap Contract” means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swaps and Derivatives Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement (any such master agreement, together with any related schedules, a “Master Agreement”), including any such obligations or liabilities under any Master Agreement.

“Swap Termination Value” means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s), and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap

Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include a Lender or any Affiliate or branch of a Lender).

“Swing Line Borrowing” means a borrowing of a Swing Line Loan pursuant to Section 2.04.

“Swing Line Lender” means Bank of America in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

“Swing Line Loan” has the meaning specified in Section 2.04(a).

“Swing Line Loan Notice” means a notice of a Swing Line Borrowing pursuant to Section 2.04(b), which, if in writing, shall be substantially in the form of Exhibit B.

“Swing Line Note” means the promissory note of the Borrowers substantially in the form of Exhibit C-4, payable to the order of the Swing Line Lender, evidencing the Swing Line Loans made by the Swing Line Lender.

“Swing Line Sublimit” means an amount equal to the lesser of (a) \$30,000,000 and (b) the Tranche A Commitments. The Swing Line Sublimit is part of, and not in addition to, the Tranche A Commitments.

“Syndication Agent” means Wells Fargo Capital Finance, LLC.

“Synthetic Lease Obligation” means the monetary obligation of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property (including sale and leaseback transactions), in each case, creating obligations that do not appear on the balance sheet of such Person but which, upon the application of any Debtor Relief Laws to such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Termination Date” means the earliest to occur of (i) the Maturity Date, (ii) the date on which the maturity of the Obligations is accelerated (or deemed accelerated) and the Commitments are irrevocably terminated (or deemed terminated) in accordance with Article VIII, or (iii) the termination of the Commitments in accordance with the provisions of Section 2.06 hereof.

“Termination Event” means (a) the whole or partial withdrawal of the Canadian Borrower or any Canadian Subsidiary from a Canadian Pension Plan during a plan year; or (b) the filing of a notice to terminate in whole or in part of a Canadian Pension Plan; or (c) the institution of proceedings by any Governmental Authority to terminate in whole or in part or have a trustee appointed to administer a Canadian Pension Plan.

“Total Availability” means the sum of the Tranche A Borrowing Base, the Canadian Borrowing Base and Incremental Availability.

“Total Outstandings” means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

“Trading with the Enemy Act” has the meaning set forth in Section 10.18.

“Tranche A Borrowing Base” means, at any time of calculation, an amount equal to:

(a) the face amount of Eligible Credit Card Receivables of the Domestic Borrowers, net of Receivables Reserves, multiplied by 90%;

plus

(b) the product of (i) 90% *multiplied by* (ii) the Appraised Value of Eligible Inventory of the Domestic Borrowers, net of Inventory Reserves, *multiplied by* (iii) the Cost of Eligible Inventory of the Domestic Borrowers;

plus

(c) the lesser of (i) \$10,000,000 and (ii) 50% multiplied by the Appraised Value of Eligible Real Estate;

minus

(d) without duplication of any Receivables Reserves or Inventory Reserves, the amount of all Availability Reserves then applicable to the Domestic Loan Parties.

“Tranche A Commitments” means, as to each Tranche A Lender, its obligation to (a) make Tranche A Loans to the Domestic Borrowers pursuant to Article II and (b) purchase participations in Domestic L/C Obligations and in Swing Line Loans, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Tranche A Lender’s name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Tranche A Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement. On the Effective Date, the aggregate Tranche A Commitments equal \$300,000,000.

“Tranche A Lenders” means Lenders having Tranche A Commitments from time to time or at any time.

“Tranche A Loan” means an extension of credit by a Tranche A Lender to a Domestic Borrower (to the extent based on Tranche A Availability) under Article II.

“Tranche A Loan Cap” means, at any time of determination, the lesser of (a) the Tranche A Commitments, minus the then Canadian Total Outstandings, and (b) the Tranche A Borrowing Base.

“Tranche A Note” means a promissory note made by the Domestic Borrowers in favor of a Tranche A Lender evidencing Tranche A Loans made by such Tranche A Lender, substantially in the form of Exhibit C-1.

“Type” means, with respect to any Loan or Borrowing, whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBOR Rate, the BA Rate, the Base Rate, the Canadian Prime Rate or the U.S. Index Rate.

“UCC” or “Uniform Commercial Code” means the Uniform Commercial Code as in effect from time to time in the State of New York; provided, however, that if a term is defined in Article 9 of the Uniform Commercial Code differently than in another Article thereof, the term shall have the meaning set

forth in Article 9; provided further that, if by reason of mandatory provisions of law, perfection, or the effect of perfection or non-perfection, of a security interest in any Collateral or the availability of any remedy hereunder is governed by the Uniform Commercial Code as in effect in a jurisdiction other than the State of New York, "Uniform Commercial Code" means the Uniform Commercial Code as in effect in such other jurisdiction for purposes of the provisions hereof relating to such perfection or effect of perfection or non-perfection or availability of such remedy, as the case may be.

"UCP 600" means the rules of the Uniform Customs and Practice for Documentary Credits, as most recently published by the International Chamber of Commerce and dated as of July 1, 2007 (or such later version thereof as may be in effect at the time of issuance).

"UFCA" has the meaning specified in Section 10.22(d).

"UFTA" has the meaning specified in Section 10.22(d).

"Unfunded Pension Liability" means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"Unintentional Overadvance" means an Overadvance which, to the Agent's knowledge, did not constitute an Overadvance when made but which has become an Overadvance resulting from changed circumstances beyond the control of the Credit Parties, including, without limitation, a reduction in the Appraised Value of property or assets included in the Canadian Borrowing Base or the Domestic Borrowing Base or misrepresentation by the Loan Parties.

"United States" and "U.S." mean the United States of America.

"Unreimbursed Amount" has the meaning specified in Section 2.03(c)(i).

"U.S. Concentration Account" has the meaning provided in Section 6.12(b).

"U.S. Index Rate" means for any day a fluctuating rate per annum equal to the highest of (a) the fluctuating rate of interest per annum equal to the rate of interest in effect for such day as publicly announced from time to time by Bank of America-Canada Branch as its "base rate", being its reference rate of interest for loans made in Dollars; (b) the Federal Funds Rate for such day, plus 0.50%; and (c) the LIBOR Rate for a 30 day interest period as determined on such day, plus 1.0%.

"U.S. Index Rate Loan" means a Canadian Loan made in Dollars that bears interest based on the U.S. Index Rate.

1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other

document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words "herein," "hereof" and "hereunder," and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including;" the words "to" and "until" each mean "to but excluding;" and the word "through" means "to and including."

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

(d) Any reference herein or in any other Loan Document to the satisfaction, repayment, or payment in full of the Obligations shall mean the repayment in Dollars or Canadian Dollars, as applicable, in full in cash or immediately available funds (or, in the case of contingent reimbursement obligations with respect to Letters of Credit and Bank Products (other than Swap Contracts), providing Cash Collateralization) of all of the Obligations (including the payment of any termination amount then applicable (or which would or could become applicable as a result of the repayment of the other Obligations) under Swap Contracts) other than (i) unasserted contingent indemnification Obligations, (ii) any Obligations relating to Bank Products (other than Swap Contracts) that, at such time, are allowed by the applicable Bank Product provider to remain outstanding without being required to be repaid or Cash Collateralized, and (iii) any Obligations relating to Swap Contracts that, at such time, are allowed by the applicable provider of such Swap Contracts to remain outstanding without being required to be repaid.

1.03 Accounting Terms

(a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, as in effect from time to time, applied in a manner consistent with that used in preparing the Audited Financial Statements, except as otherwise specifically prescribed herein.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Lead Borrower or the Required Lenders shall so request, the Agent, the Lenders and the Lead

Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Lead Borrower shall provide to the Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

(c) Transition from GAAP Accounting to IFRS Standards If the Loan Parties shall elect as of the end of any financial reporting period to prepare their financial statements in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board ("IFRS"), rather than GAAP, then, following delivery to the Agent of a completed Compliance Certificate attaching the information required to be delivered for such financial reporting period, the parties hereto shall use their best efforts to amend (in a manner mutually satisfactory to Lenders and Loan Parties) the thresholds or methods of calculation required by Section 7.16 (including any definitions or components applicable thereto) such that compliance therewith is neither more nor less burdensome (as determined by the Required Lenders in their sole discretion) to Loan Parties as a result of such conversion to IFRS and, thereafter, all references in the Loan Documents to GAAP shall be deemed references to IFRS.

1.04 Rounding. Any financial ratios required to be maintained by the Loan Parties pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Pacific time (daylight or standard, as applicable).

1.06 Letter of Credit Amounts. Unless otherwise specified, all references herein to the amount of a Letter of Credit at any time shall be deemed to be the Stated Amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms of any Issuer Documents related thereto, provides for one or more automatic increases in the Stated Amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum Stated Amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum Stated Amount is in effect at such time.

ARTICLE II THE COMMITMENTS AND CREDIT EXTENSIONS

2.01 Domestic Loans and Canadian Loans; Reserves. Subject to the terms and conditions set forth herein, each Lender severally agrees as follows:

(a) Each Tranche A Lender severally agrees to make Tranche A Loans to the Domestic Borrowers from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the lesser of (x) the amount of such Lender's Tranche A Commitment, or (y) such Lender's Applicable Percentage of the Tranche A Borrowing Base;

(b) Each Incremental Lender severally agrees to make Incremental Loans to the Domestic Borrowers from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the lesser of (x) the amount of such Lender's Incremental Commitment, or (y) such Lender's Applicable Percentage of Incremental Availability;

(c) Each Canadian Lender severally agrees to make Canadian Loans to the Canadian Borrower from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the lesser of (x) the amount of such Lender's Canadian Commitment, or (y) such Lender's Applicable Percentage of the Canadian Borrowing Base;

provided that, with respect to the foregoing, (i) after giving effect to any Borrowing, the Total Outstandings shall not exceed the Loan Cap, (ii) after giving effect to any Borrowing, the aggregate Outstanding Amount of the Loans of any Lender, plus such Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment, (iii) after giving effect to any Borrowing of Tranche A Loans, the aggregate Outstanding Amount of all Tranche A Loans plus all L/C Obligations relating to the Domestic Borrowers shall not exceed the Tranche A Loan Cap, (iv) after giving effect to any Borrowing of Incremental Loans, the aggregate Outstanding Amount of all Incremental Loans shall not exceed the Incremental Loan Cap, (v) after giving effect to any Canadian Borrowing, the aggregate Outstanding Amount of Canadian Total Outstandings shall not exceed Canadian Availability, (vi) after giving effect to any Tranche A Loan, the aggregate Outstanding Amount of the Tranche A Loans of any Tranche A Lender, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations relating to the Domestic Borrowers, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans, shall not exceed such Tranche A Lender's Tranche A Commitment, (vii) after giving effect to any Incremental Loan, the aggregate Outstanding Amount of the Incremental Loans of any Incremental Lender shall not exceed such Incremental Lender's Incremental Commitment, (viii) after giving effect to any Canadian Loan, the aggregate Outstanding Amount of the Canadian Loans of any Canadian Lender, plus such Canadian Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations with respect to the Canadian Borrower, shall not exceed such Canadian Lender's Canadian Commitment, (ix) the Outstanding Amount of all L/C Obligations owed by the Domestic Borrowers shall not at any time exceed the Domestic Letter of Credit Sublimit, and (x) the Outstanding Amount of all L/C Obligations owed by the Canadian Borrower shall not at any time exceed the Canadian Letter of Credit Sublimit. Within the limits of each Lender's Commitment, and subject to the other terms and conditions hereof, the Borrowers may borrow under this Section 2.01, prepay under Section 2.05, and reborrow under this Section 2.01. Loans may be Base Rate Loans, Canadian Prime Rate Loans, LIBOR Rate Loans, BA Equivalent Loans or U.S. Index Rate Loans, as further provided herein.

2.02 Borrowings, Conversions and Continuations of Loans.

(a) Domestic Loans (other than Swing Line Loans) shall be either Base Rate Loans or LIBOR Rate Loans as the Lead Borrower may request subject to and in accordance with this Section 2.02. Canadian Loans shall be either Canadian Prime Rate Loans or BA Equivalent Loans (if made in

Canadian Dollars) or LIBOR Rate Loans or U.S. Index Rate Loans (if made in Dollars) as the Canadian Borrower may request subject to and in accordance with this Section 2.02. All Swing Line Loans shall be only Base Rate Loans. Subject to the other provisions of this Section 2.02, Borrowings of more than one Type may be incurred at the same time.

(b) Each Borrowing, each Conversion of Loans from one Type to the other, and each continuation of LIBOR Rate Loans and BA Equivalent Loans shall be made upon the Lead Borrower's or Canadian Borrower's, as applicable, irrevocable notice to the Agent, which may be given by telephone. Each such notice must be received by the Agent not later than 11:00 a.m. (i) three Business Days prior to the requested date of any Borrowing of, Conversion to or continuation of LIBOR Rate Loans or BA Equivalent Loans or of any Conversion of LIBOR Rate Loans to Base Rate Loans or U.S. Index Rate Loans or of BA Equivalent Loans to Canadian Prime Rate Loans, as applicable, and (ii) one Business Day prior to the requested date of any Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans. Each telephonic notice by the Lead Borrower or the Canadian Borrower, as applicable, pursuant to this Section 2.02(b) must be confirmed promptly by delivery to the Agent of a written Domestic Loan Notice or Canadian Loan Notice, as applicable, appropriately completed and signed by a Responsible Officer of the Lead Borrower or the Canadian Borrower, as applicable. Each Borrowing of, Conversion to or continuation of LIBOR Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof, and each Borrowing of, Conversion to or continuation of BA Equivalent Loans shall be in a principal amount of CDS\$5,000,000 or a whole multiple of CDS\$1,000,000 in excess thereof. Except as provided in Sections 2.03(c) and 2.04(c), each Borrowing of or Conversion to Base Rate Loans, Canadian Prime Rate Loans, or U.S. Index Rate Loans, as applicable, shall be in such minimum amounts as the Agent may require. Each Domestic Loan Notice (whether telephonic or written) shall specify (i) whether the Lead Borrower is requesting a Domestic Borrowing, a Conversion of Domestic Loans from one Type to the other, or a continuation of LIBOR Rate Loans, (ii) whether the Lead Borrower is requesting a Borrowing of Tranche A Loans or Incremental Loans, (iii) the requested date of the Domestic Borrowing, Conversion or continuation, as the case may be (which shall be a Business Day), (iv) the principal amount of Domestic Loans to be borrowed, Converted or continued, (v) the Type of Domestic Loans to be borrowed or to which existing Domestic Loans are to be Converted, and (vi) if applicable, the duration of the Interest Period with respect thereto. If the Lead Borrower fails to specify a Type of Domestic Loan in a Domestic Loan Notice or if the Lead Borrower fails to give a timely notice requesting a Conversion or continuation, then the applicable Domestic Loans shall be made as, or Converted to, Base Rate Loans. Any such automatic Conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable LIBOR Rate Loans. If the Lead Borrower requests a Borrowing of, Conversion to, or continuation of LIBOR Rate Loans in any such Domestic Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month. Notwithstanding anything to the contrary herein, a Swing Line Loan may not be Converted to a LIBOR Rate Loan. Notwithstanding the foregoing or anything else to the contrary herein, the Lead Borrower shall not request, and the Tranche A Lenders shall be under no obligation to fund, any Tranche A Loans unless the Domestic Borrowers have borrowed the full amount of the Incremental Loan Cap. Each Canadian Loan Notice (whether telephonic or written) shall specify (i) whether the Canadian Borrower is requesting a Canadian Borrowing, a Conversion of Canadian Loans from one Type to the other, or a continuation of BA Equivalent Loans or LIBOR Rate Loans, (ii) the requested date of the Canadian Borrowing, Conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Canadian Loans to be borrowed, Converted or continued, (iv) the Type of Canadian Loans to be borrowed or to which existing Canadian Loans are to be Converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Canadian Borrower fails to specify a Type of Canadian Loan in a Canadian Loan Notice or if the Canadian Borrower fails to give a timely notice requesting a Conversion or continuation, then the applicable Canadian Loans shall be made as, or Converted to, Canadian Prime Rate Loans or U.S. Index Rate Loans, as applicable. Any such automatic Conversion to Canadian Prime Rate Loans or U.S. Index

Rate Loans, as applicable, shall be effective as of the last day of the Interest Period then in effect with respect to the applicable BA Equivalent Loans or LIBOR Rate Loans, as applicable. If the Canadian Borrower requests a Borrowing of, Conversion to, or continuation of BA Equivalent Loans or LIBOR Rate Loans in any such Canadian Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(c) Following receipt of a Domestic Loan Notice, the Agent shall promptly notify each Domestic Lender of the amount of its Applicable Percentage of the applicable Domestic Loans, and if no timely notice of a Conversion or continuation is provided by the Lead Borrower, the Agent shall notify each Domestic Lender of the details of any automatic Conversion to Base Rate Loans described in Section 2.02(b). Following receipt of a Canadian Loan Notice, the Agent shall promptly notify each Canadian Lender of the amount of its Applicable Percentage of the applicable Canadian Loans, and if no timely notice of a Conversion or continuation is provided by the Canadian Borrower, the Agent shall notify each Canadian Lender of the details of any automatic Conversion to Canadian Prime Rate Loans or U.S. Index Rate Loans, as applicable, described in Section 2.02(b). In the case of a Borrowing, each Lender shall make the amount of its Loan available to the Agent in immediately available funds at the Agent's Office, not later than 1:00 p.m. on the Business Day specified in the applicable Domestic Loan Notice or Canadian Loan Notice. Upon satisfaction of the applicable conditions set forth in Section 4.02 (and, if such Borrowing is the initial Credit Extension, Section 4.01), the Agent shall use reasonable efforts to make all funds so received available to the applicable Borrowers in like funds by no later than 4:00 p.m. on the day of receipt by the Agent either by (i) crediting the account of the Lead Borrower or the Canadian Borrower, as applicable, on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Agent by the Lead Borrower or the Canadian Borrower, as applicable; provided, however, that if, on the date the Domestic Loan Notice or Canadian Loan Notice, as applicable, with respect to such Borrowing is given by the Lead Borrower or the Canadian Borrower, as applicable, there are L/C Borrowings outstanding with respect to the Domestic Borrowers or the Canadian Borrower, as applicable, then the proceeds of such Borrowing, first, shall be applied to the payment in full of any such L/C Borrowings, and second, shall be made available to the applicable Borrowers as provided above.

(d) Notwithstanding anything to the contrary herein contained, all Loans to the Domestic Borrowers shall be Incremental Loans until the outstanding principal amount of such Incremental Loans equals the Incremental Loan Cap. If any Incremental Loan is prepaid in part pursuant to Section 2.05, any Loans to the Domestic Borrowers thereafter requested shall be Incremental Loans until the outstanding principal amount of Incremental Loans outstanding equals the Incremental Loan Cap.

(e) The Agent (as regards the Canadian Borrower, acting through the Bank of America-Canada Branch), without the request of the Lead Borrower or the Canadian Borrower, as applicable, may advance any interest, fee, service charge (including direct wire fees), expenses, or other payment to which any Credit Party is entitled from the Loan Parties pursuant hereto or any other Loan Document and may charge the same to the Loan Account notwithstanding that an Overadvance may result thereby. The Agent shall advise the Lead Borrower or the Canadian Borrower, as applicable, of any such advance or charge promptly after the making thereof. Such action on the part of the Agent shall not constitute a waiver of the Agent's rights and the Borrowers' obligations under Section 2.05(d). Any amount which is added to the principal balance of the Loan Account as provided in this Section 2.02(e) shall bear interest at the interest rate then and thereafter applicable to Base Rate Loans with respect to the Domestic Borrowers and Canadian Prime Rate Loans with respect to the Canadian Borrower.

(f) Except as otherwise provided herein, a LIBOR Rate Loan or a BA Equivalent Loan may be continued or Converted only on the last day of an Interest Period for such LIBOR Rate Loan

or BA Equivalent Loan, as applicable. During the existence of a Default or an Event of Default, no Loans may be requested as, Converted to or continued as LIBOR Rate Loans or BA Equivalent Loans without the Consent of the Required Lenders.

(g) The Agent shall promptly notify the Lead Borrower or the Canadian Borrower, as applicable, and the applicable Lenders of the interest rate applicable to any Interest Period for LIBOR Rate Loans or BA Equivalent Loans, as applicable, upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Agent shall notify the Lead Borrower and the Domestic Lenders of any change in Bank of America's prime rate used in determining the Base Rate promptly following the public announcement of such change. At any time that Canadian Prime Rate Loans or U.S. Index Rate Loans are outstanding, the Agent shall notify the Canadian Borrower and the Canadian Lenders of any change in Bank of America-Canada Branch's prime rate or base rate used in determining the Canadian Prime Rate or the U.S. Index Rate, as applicable, promptly following the public announcement of such change.

(h) After giving effect to all Borrowings, all Conversions of Loans from one Type to the other, and all continuations of Loans as the same Type, there shall not be more than eight (8) Interest Periods in effect with respect to LIBOR Rate Loans or two (2) Interest Periods in effect with respect to BA Equivalent Loans.

(i) The Agent, the Lenders, the Swing Line Lender and the L/C Issuer shall have no obligation to make any Loan or to provide any Letter of Credit if an Overadvance would result. The Agent may (as regards the Canadian Borrower, acting through the Bank of America-Canada Branch), in its discretion, make Permitted Overadvances without the consent of the Borrowers, the Lenders, the Swing Line Lender and the L/C Issuer and the Borrowers and each Lender and L/C Issuer shall be bound thereby. Any Permitted Overadvance that is a Domestic Loan may constitute a Swing Line Loan. A Permitted Overadvance is for the account of the Borrowers and shall constitute a Base Rate Loan or a Canadian Prime Rate Loan, as applicable, and an Obligation and shall be repaid by the Borrowers in accordance with the provisions of Section 2.05(d). The making of any such Permitted Overadvance on any one occasion shall not obligate the Agent or any Lender to make or permit any Permitted Overadvance on any other occasion or to permit such Permitted Overadvances to remain outstanding. The making by the Agent of a Permitted Overadvance shall not modify or abrogate any of the provisions of Section 2.03 regarding the Tranche A Lenders' and the Canadian Lenders' obligations to purchase participations with respect to Letter of Credits or of Section 2.04 regarding the Tranche A Lenders' obligations to purchase participations with respect to Swing Line Loans. The Agent shall not have any liability for, and no Loan Party or Credit Party shall have the right to, or shall, bring any claim of any kind whatsoever against the Agent with respect to Unintentional Overadvances regardless of the amount of any such Overadvance(s).

2.03 Letters of Credit.

(a) The Letter of Credit Commitment

(i) Subject to the terms and conditions set forth herein, (A) the L/C Issuer agrees, in reliance upon the agreements of the Tranche A Lenders and the Canadian Lenders set forth in this Section 2.03, (1) from time to time on any Business Day during the period from the Effective Date until the Letter of Credit Expiration Date, to issue Letters of Credit for the account of the Borrowers, and to amend or extend Letters of Credit previously issued by it, in accordance with Section 2.03(b) below, and (2) to honor drawings under the Letters of Credit; (B) the Tranche A Lenders severally agree to participate in Domestic Letters of Credit issued for the account of the Domestic Borrowers and any drawings thereunder; provided that after giving effect to any Domestic L/C Credit Extension with respect

to any Domestic Letter of Credit, (w) the Total Outstandings shall not exceed the Loan Cap, (x) the aggregate Outstanding Amount of the Tranche A Loans plus the Outstanding Amount of all L/C Obligations owing by the Domestic Borrowers shall not exceed the Tranche A Loan Cap, (y) the aggregate Outstanding Amount of the Domestic Loans of any Tranche A Lender, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans shall not exceed such Tranche A Lender's Domestic Commitment, and (z) the Outstanding Amount of the L/C Obligations owed by the Domestic Borrowers shall not exceed the Domestic Letter of Credit Sublimit; and (C) the Canadian Lenders severally agree to participate in Canadian Letters of Credit issued for the account of the Canadian Borrower and any drawings thereunder; provided that after giving effect to any Canadian L/C Credit Extension with respect to any Canadian Letter of Credit, (w) the Total Outstandings shall not exceed the Loan Cap, (x) the aggregate Outstanding Amount of the Canadian Loans plus the Outstanding Amount of all L/C Obligations owing by the Canadian Borrower shall not exceed Canadian Availability, (y) the aggregate Outstanding Amount of the Canadian Loans of any Canadian Lender, plus such Canadian Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, shall not exceed such Canadian Lender's Canadian Commitment, and (z) the Outstanding Amount of the L/C Obligations owed by the Canadian Borrower shall not exceed the Canadian Letter of Credit Sublimit. Each request by the Lead Borrower or the Canadian Borrower, as applicable, for the issuance or amendment of a Domestic Letter of Credit or a Canadian Letter of Credit, as applicable, shall be deemed to be a representation by the Domestic Borrowers or the Canadian Borrower, as applicable, that the Domestic L/C Credit Extension or Canadian L/C Credit Extension, as applicable, so requested complies with the conditions set forth in the provisos to the two preceding sentences, as applicable. Within the foregoing limits, and subject to the terms and conditions hereof, the Borrowers' ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrowers may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed. Any L/C Issuer (other than Bank of America or any of its Affiliates) shall notify the Agent in writing on each Business Day of all Letters of Credit issued on the prior Business Day by such L/C Issuer, provided that (A) until the Agent advises any such L/C Issuer that the provisions of Section 4.02 are not satisfied, or (B) the aggregate amount of the Letters of Credit issued in any such week exceeds such amount as shall be agreed by the Agent and the L/C Issuer, such L/C Issuer shall be required to so notify the Agent in writing only once each week of the Letters of Credit issued by such L/C Issuer during the immediately preceding week as well as the daily amounts outstanding for the prior week, such notice to be furnished on such day of the week as the Agent and such L/C Issuer may agree. All Existing Letters of Credit shall be deemed to have been issued pursuant hereto, and from and after the Effective Date shall be subject to and governed by the terms and conditions hereof.

(ii) The L/C Issuer shall not issue any Letter of Credit, if:

(A) subject to Section 2.03(b)(iii), the expiry date of such requested Standby Letter of Credit would occur more than twelve months after the date of issuance or last extension, unless the Required Lenders have approved such expiry date; or

(B) subject to Section 2.03(b)(iii), the expiry date of such requested Commercial Letter of Credit would occur more than 120 days after the date of issuance or last extension, unless the Required Lenders have approved such expiry date; or

(C) the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless either such Letter of Credit is Cash Collateralized on or prior to the date of issuance of such Letter of Credit (or such later date as to which the Agent may agree) or all the L/C Lenders have approved such expiry date.

(iii) The L/C Issuer shall not issue any Letter of Credit without the prior consent of the Agent, if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the L/C Issuer from issuing such Letter of Credit, or any Law applicable to the L/C Issuer or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the L/C Issuer shall prohibit, or request that the L/C Issuer refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the L/C Issuer with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the L/C Issuer is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon the L/C Issuer any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which the L/C Issuer in good faith deems material to it;

(B) the issuance of such Letter of Credit would violate one or more policies of the L/C Issuer applicable to letters of credit generally;

(C) such Letter of Credit is to be denominated in a currency other than Dollars or Canadian Dollars, provided that if the L/C Issuer, in its discretion, issues a Letter of Credit denominated in a currency other than Dollars or Canadian Dollars, all reimbursements by the applicable Borrowers of the honoring of any drawing under such Letter of Credit shall be paid in the currency in which such Letter of Credit was denominated;

(D) such Letter of Credit contains any provisions for automatic reinstatement of the Stated Amount after any drawing thereunder; or

(E) a default of any L/C Lender's obligations to fund under Section 2.03(e) exists or any L/C Lender is at such time a Defaulting Lender hereunder, unless the L/C Issuer has entered into satisfactory arrangements with the Borrowers or such L/C Lender to eliminate the L/C Issuer's risk with respect to such L/C Lender.

(iv) The L/C Issuer shall not amend any Letter of Credit if the L/C Issuer would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof or if the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(v) The L/C Issuer shall act on behalf of the L/C Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and the L/C Issuer shall have all of the benefits and immunities (A) provided to the Agent in Article IX with respect to any acts taken or omissions suffered by the L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and Issuer Documents pertaining to such Letters of Credit as fully as if the terms "Agent", as used in Article IX included the L/C Issuer with respect to such acts or omissions, and (B) as additionally provided herein with respect to the L/C Issuer.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Lead Borrower or the Canadian Borrower, as applicable, delivered to the L/C Issuer (with a copy to the Agent) in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of the Lead Borrower or the Canadian Borrower, as applicable. Such

Letter of Credit Application must be received by the L/C Issuer and the Agent not later than 11:00 a.m. at least two Business Days (or such other date and time as the Agent and the L/C Issuer may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the L/C Issuer may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the L/C Issuer (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the L/C Issuer may require. Additionally, the Lead Borrower or the Canadian Borrower, as applicable, shall furnish to the L/C Issuer and the Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the L/C Issuer or the Agent may require.

(ii) Promptly after receipt of any Letter of Credit Application, the L/C Issuer will confirm with the Agent (by telephone or in writing) that the Agent has received a copy of such Letter of Credit Application from the Lead Borrower or the Canadian Borrower, as applicable, and, if not, the L/C Issuer will provide the Agent with a copy thereof. Unless the L/C Issuer has received written notice from any L/C Lender, the Agent or any Loan Party, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article IV shall not then be satisfied or unless the L/C Issuer would not be permitted, or would have no obligation, at such time to issue such Letter of Credit under the terms hereof (by reason of the provisions of clause (ii) or (iii) of Section 2.03(a) or otherwise), then, subject to the terms and conditions hereof, the L/C Issuer shall, on the requested date, issue a Letter of Credit for the account of the applicable Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the L/C Issuer's usual and customary business practices. Immediately upon the issuance or amendment of each Domestic Letter of Credit, each Tranche A Lender shall be deemed to (without any further action), and hereby irrevocably and unconditionally agrees to, purchase from the L/C Issuer, without recourse or warranty, a risk participation in such Domestic Letter of Credit in an amount equal to the product of such Tranche A Lender's Applicable Percentage times the Stated Amount of such Domestic Letter of Credit. Upon any change in the Tranche A Commitments under this Agreement, it is hereby agreed that with respect to all L/C Obligations owing by the Domestic Borrowers, there shall be an automatic adjustment to the participations hereby created to reflect the new Applicable Percentages of the assigning and assignee Tranche A Lenders. Immediately upon the issuance or amendment of each Canadian Letter of Credit, each Canadian Lender shall be deemed to (without any further action), and hereby irrevocably and unconditionally agrees to, purchase from the L/C Issuer, without recourse or warranty, a risk participation in such Canadian Letter of Credit in an amount equal to the product of such Canadian Lender's Applicable Percentage times the Stated Amount of such Canadian Letter of Credit. Upon any change in the Canadian Commitments under this Agreement, it is hereby agreed that with respect to all L/C Obligations owing by the Canadian Borrower, there shall be an automatic adjustment to the participations hereby created to reflect the new Applicable Percentages of the assigning and assignee Canadian Lenders.

(iii) If the Lead Borrower or the Canadian Borrower, as applicable, so requests in any applicable Letter of Credit Application, the L/C Issuer may, in its sole and absolute discretion, agree to issue a Standby Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit the L/C Issuer to prevent any such extension at least once in each twelve-month period (commencing with

the date of issuance of such Standby Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Standby Letter of Credit is issued. Unless otherwise directed by the L/C Issuer, the Lead Borrower or the Canadian Borrower, as applicable, shall not be required to make a specific request to the L/C Issuer for any such extension. Once an Auto-Extension Letter of Credit has been issued, the applicable L/C Lenders shall be deemed to have authorized (but may not require) the L/C Issuer to permit the extension of such Standby Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the L/C Issuer shall not permit any such extension if (A) the L/C Issuer has determined that it would not be permitted, or would have no obligation, at such time to issue such Standby Letter of Credit in its revised form (as extended) under the terms hereof (by reason of the provisions of clause (ii) or (iii) of Section 2.03(a) or otherwise), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is five Business Days before the Non-Extension Notice Date (1) from the Agent that the Required Lenders have elected not to permit such extension or (2) from the Agent any Lender or the Lead Borrower or the Canadian Borrower, as applicable that one or more of the applicable conditions specified in Section 4.02 is not then satisfied, and in each such case directing the L/C Issuer not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the L/C Issuer will also deliver to the Lead Borrower or the Canadian Borrower, as applicable, and the Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the L/C Issuer shall notify the Lead Borrower or the Canadian Borrower, as applicable, and the Agent thereof not less than two (2) Business Days prior to the Honor Date (as defined below; provided, however, that any failure to give or delay in giving such notice shall not relieve the Domestic Borrowers or the Canadian Borrower, as applicable, of their obligation to reimburse the L/C Issuer and the applicable L/C Lenders with respect to any such payment. On the date of any payment by the L/C Issuer under a Letter of Credit (each such date, an "Honor Date"), the Domestic Borrowers or the Canadian Borrower, as applicable, shall be deemed to have requested a Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans, as applicable, to be disbursed on the Honor Date in an amount equal to the amount of such payment, but subject to the amount of the unutilized portion of the Tranche A Loan Cap or Canadian Availability, as applicable, and the conditions set forth in Section 4.02 (other than the delivery of a Domestic Loan Notice or Canadian Loan Notice, as applicable). In the event that such Borrowing cannot be made pursuant to the terms hereof, then not later than 11:00 a.m. on the Honor Date, the Domestic Borrowers or the Canadian Borrower, as applicable, shall reimburse the L/C Issuer through the Agent in an amount equal to the amount of such drawing. If the Domestic Borrowers or the Canadian Borrower, as applicable, fail(s) to so reimburse the L/C Issuer by such time, the Agent shall promptly notify each applicable L/C Lender of the Honor Date, the amount of the unreimbursed drawing (the "Unreimbursed Amount"), and the amount of such L/C Lender's Applicable Percentage thereof. Any notice given by the L/C Issuer or the Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each applicable L/C Lender shall upon any notice from the Agent pursuant to Section 2.03(c)(i) make funds available to such Agent for the account of the L/C Issuer at the Agent's Office in an amount equal to its Applicable Percentage of the Unreimbursed Amount not later than 1:00 p.m. on the Business Day specified in such notice by the Agent, whereupon, subject to the

provisions of Section 2.03(c)(iii), each applicable L/C Lender that so makes funds available shall be deemed to have made a Base Rate Loan, a Canadian Prime Rate Loan or a U.S. Index Rate Loan, as applicable, to the Domestic Borrowers or the Canadian Borrower, as applicable, in such amount. The Agent shall remit the funds so received to the L/C Issuer.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans, as applicable, because the conditions set forth in Section 4.02 cannot be satisfied or for any other reason, the Domestic Borrowers or the Canadian Borrower, as applicable, shall be deemed to have incurred from the L/C Issuer an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Default Rate. In such event, each L/C Lender's payment to the Agent for the account of the L/C Issuer pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such L/C Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until each applicable L/C Lender funds its Loan or L/C Advance pursuant to this Section 2.03(c) to reimburse the L/C Issuer for any amount drawn under any Letter of Credit, interest in respect of such L/C Lender's Applicable Percentage of such amount shall be solely for the account of the L/C Issuer.

(v) Each L/C Lender's obligation to make Loans or L/C Advances to reimburse the L/C Issuer for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such L/C Lender may have against the L/C Issuer, any Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default or Event of Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each L/C Lender's obligation to make Loans pursuant to this Section 2.03(c) is subject to the conditions set forth in Section 4.02 (other than delivery by the Lead Borrower of a Domestic Loan Notice or the Canadian Borrower of a Canadian Loan Notice, as applicable). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrowers to reimburse the L/C Issuer for the amount of any payment made by the L/C Issuer under any Letter of Credit, together with interest as provided herein.

(vi) If any L/C Lender fails to make available to the Agent for the account of the L/C Issuer any amount required to be paid by such L/C Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii), the L/C Issuer shall be entitled to recover from such L/C Lender (acting through the Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the L/C Issuer at a rate per annum equal to the greater of the Federal Funds Rate or the Bank of Canada Overnight Rate, as applicable, and a rate determined by the L/C Issuer in accordance with banking industry rules on interbank compensation plus any administrative, processing or similar fees customarily charged by the L/C Issuer in connection with the foregoing. If such L/C Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such L/C Lender's Loan included in the relevant Borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of the L/C Issuer submitted to any L/C Lender (through the Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations

(i) At any time after the L/C Issuer has made a payment under any Letter of Credit and has received from any L/C Lender its L/C Advance in respect of such payment in accordance with Section 2.03(c), if the Agent receives for the account of the L/C Issuer any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the applicable Borrowers or otherwise, including proceeds of cash collateral applied thereto by the Agent pursuant to Section 2.03(g)), the Agent will distribute to such L/C Lender its Applicable Percentage thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such L/C Lender's L/C Advance was outstanding) in the same funds as those received by the Agent.

(ii) If any payment received by the Agent for the account of the L/C Issuer pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 10.05 (including pursuant to any settlement entered into by the L/C Issuer in its discretion), each applicable L/C Lender shall pay to the Agent for the account of the L/C Issuer its Applicable Percentage thereof on demand of the Agent, plus interest thereon from the date of such demand to the date such amount is returned by such L/C Lender, at a rate per annum equal to the Federal Funds Rate or the Bank of America-Canada Overnight Rate, as applicable, from time to time in effect. The obligations of the L/C Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Obligations Absolute. The obligation of the Borrowers to reimburse the L/C Issuer for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrowers or any Subsidiary may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), the L/C Issuer or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the L/C Issuer under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the L/C Issuer under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law;

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrowers or any of their Subsidiaries; or

(vi) the fact that any Default or Event of Default shall have occurred and be continuing.

The Lead Borrower or the Canadian Borrower, as applicable, shall promptly examine a copy of each Domestic Letter of Credit or Canadian Letter of Credit, as applicable, and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Lead Borrower's or the Canadian Borrower's, as applicable, instructions or other irregularity, the Lead Borrower or the Canadian Borrower, as applicable, will immediately notify the L/C Issuer. The Borrowers shall be conclusively deemed to have waived any such claim against the L/C Issuer and its correspondents unless such notice is given as aforesaid.

(f) Role of L/C Issuer. Each L/C Lender and the Borrowers agree that, in paying any drawing under a Letter of Credit, the L/C Issuer shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the L/C Issuer, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of the L/C Issuer shall be liable to any L/C Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the L/C Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; (iii) any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit or any error in interpretation of technical terms; or (iv) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Issuer Document. The Borrowers hereby assume all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrowers' pursuing such rights and remedies as they may have against the beneficiary or transferee at law or under any other agreement. None of the L/C Issuer, the Agent, any of their respective Related Parties nor any correspondent, participant, or assignee of the L/C Issuer shall be liable or responsible to the Loan Parties for any of the matters described in clauses (i) through (iv) above, or for any action, neglect or omission under or in connection with any Letter of Credit or Issuer Documents, including, without limitation, the issuance or amendment of any Letter of Credit, the failure to issue or amend any Letter of Credit, or the honoring or dishonoring of any demand under any Letter of Credit, and such action or neglect or omission will be binding upon the Borrowers; provided that, anything in such clauses to the contrary notwithstanding, the Borrowers may have a claim against the L/C Issuer, and the L/C Issuer may be liable to the Borrowers, to the extent, but only to the extent, of any direct, as opposed to punitive, consequential or exemplary, damages suffered by the Borrowers which the Borrowers prove were caused by the L/C Issuer's willful misconduct or gross negligence. In furtherance and not in limitation of the foregoing, the L/C Issuer may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary (or the L/C Issuer may refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit and may disregard any requirement in a Letter of Credit that notice of dishonor be given in a particular manner and any requirement that presentation be made at a particular place or by a particular time of day), and the L/C Issuer shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason. The L/C Issuer shall not be responsible for the wording of any Letter of Credit (including, without limitation, any drawing conditions or any terms or conditions that are ineffective, ambiguous, inconsistent, unduly complicated or reasonably impossible to satisfy), notwithstanding any assistance the L/C Issuer may provide to the Borrowers with drafting or recommending text for any Letter of Credit Application or with the structuring of any transaction related to any Letter of Credit, and the Borrowers hereby acknowledge and agree that any such assistance will not constitute legal or

other advice by the L/C Issuer or any representation or warranty by the L/C Issuer that any such wording or such Letter of Credit will be effective. Without limiting the foregoing, the L/C Issuer may, as it deems appropriate, modify or alter and use in any Letter of Credit the terminology contained on the Letter of Credit Application for such Letter of Credit.

(g) Cash Collateral. Upon the request of the Agent if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Domestic Borrowers or the Canadian Borrower, as applicable, shall, in each case, immediately Cash Collateralize the then Outstanding Amount of all L/C Obligations owing by the Domestic Borrowers or the Canadian Borrower, as applicable. Sections 2.05 and 8.02(c) set forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03, Section 2.05 and Section 8.02(c), "Cash Collateralize" means to pledge and deposit with or deliver to the Agent for the benefit of the L/C Issuer and the Tranche A Lenders or the Canadian Lenders, as applicable, as collateral for the L/C Obligations, cash or deposit account balances in an amount equal to (i) with respect to the Domestic Borrowers, 103% of the Outstanding Amount of all L/C Obligations on account of Domestic L/C Credit Extensions, and (ii) with respect to the Canadian Borrower, 103% of the Outstanding Amount of all L/C Obligations on account of Canadian L/C Credit Extensions, in each case pursuant to documentation in form and substance satisfactory to the Agent and the L/C Issuer (which documents are hereby Consented to by the L/C Lenders). The Domestic Borrowers hereby grant to the Agent a Lien on all such cash, deposit accounts and all balances therein and all proceeds of the foregoing owned by the Domestic Borrowers to secure all Obligations, and the Canadian Borrower hereby grants to the Agent a Lien on all such cash, deposit accounts and all balances therein and all proceeds of the foregoing owned by the Canadian Borrower to secure all Canadian Liabilities. Such cash collateral shall be maintained in blocked, non-interest bearing deposit accounts at Bank of America. If at any time the Agent determines that any funds held as cash collateral are subject to any right or claim of any Person other than the Agent or that the total amount of such funds (i) held on behalf of the Domestic Letters of Credit is less than the aggregate Outstanding Amount of all L/C Obligations owing with respect to the Domestic L/C Credit Extensions, or (ii) held on behalf of the Canadian Letters of Credit is less than the aggregate Outstanding Amount of all L/C Obligations owing with respect to the Canadian L/C Credit Extensions, as applicable, the Domestic Borrowers or the Canadian Borrower, as applicable, will, forthwith upon demand by the Agent pay to the Agent as additional funds to be deposited as cash collateral, an amount equal to the excess of (x) such aggregate Outstanding Amount over (y) the total amount of funds, if any, then held as cash collateral that the Agent determines to be free and clear of any such right and claim. Upon the drawing of any Domestic Letter of Credit for which funds are on deposit as cash collateral, such funds shall be applied to reimburse the L/C Issuer and, to the extent not so applied, shall thereafter be applied to satisfy other Obligations. Upon the drawing of any Canadian Letter of Credit for which funds are on deposit as cash collateral, such funds shall be applied to reimburse the L/C Issuer and, to the extent not so applied, shall thereafter be applied to satisfy other Canadian Liabilities.

(h) Applicability of ISP and UCP. Unless otherwise expressly agreed by the L/C Issuer and the Lead Borrower or the Canadian Borrower, as applicable, when a Letter of Credit is issued (including any such agreement applicable to an Existing Letter of Credit), (i) the rules of the ISP shall apply to each Standby Letter of Credit, and (ii) the rules of the UCP shall apply to each Commercial Letter of Credit.

(i) Letter of Credit Fees. The Domestic Borrowers or the Canadian Borrower, as applicable, shall pay to the Agent for the account of each Tranche A Lender or Canadian Lender, as applicable, in accordance with its Applicable Percentage a Letter of Credit fee (the "Letter of Credit Fee") for each Letter of Credit equal to the Applicable Rate times the daily Stated Amount under each such Letter of Credit (whether or not such maximum amount is then in effect under such Letter of Credit). For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of

the Letter of Credit shall be determined in accordance with Section 1.06. Letter of Credit Fees shall be (i) due and payable on the tenth Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand, and (ii) computed on a quarterly basis in arrears. Notwithstanding anything to the contrary contained herein, while any Event of Default exists, all Letter of Credit Fees shall accrue at the Default Rate as provided in Section 2.08(b) hereof.

(j) Fronting Fee and Documentary and Processing Charges Payable to L/C Issuer. The Domestic Borrowers or the Canadian Borrower, as applicable, shall pay directly to the L/C Issuer for its own account a fronting fee (i) with respect to each Commercial Letter of Credit, at a rate equal to 0.125% per annum, computed on the amount of such Letter of Credit, and payable upon the issuance or amendment thereof, and (ii) with respect to each Standby Letter of Credit, at a rate equal to 0.125% per annum, computed on the daily amount available to be drawn under such Letter of Credit and on a quarterly basis in arrears. Such fronting fees shall be due and payable on the tenth Business Day after the end of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of the Letter of Credit shall be determined in accordance with Section 1.06. In addition, the Domestic Borrowers or the Canadian Borrower, as applicable, shall pay directly to the L/C Issuer for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of the L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(k) Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

2.04 Swing Line Loans.

(a) The Swing Line. Subject to the terms and conditions set forth herein, the Swing Line Lender may, in its discretion, in reliance upon the agreements of the other Tranche A Lenders set forth in this Section 2.04, make loans (each such loan, a "Swing Line Loan") to the Domestic Borrowers from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of the Swing Line Sublimit, notwithstanding the fact that such Swing Line Loans, when aggregated with the Applicable Percentage of the Outstanding Amount of Tranche A Loans and L/C Obligations of the Tranche A Lender acting as Swing Line Lender, may exceed the amount of such Lender's Tranche A Commitment; provided, however, that after giving effect to any Swing Line Loan, (i) the Total Outstandings shall not exceed Loan Cap, (ii) the aggregate Outstanding Amount of the Tranche A Loans, plus the Outstanding Amount of all L/C Obligations owing by the Domestic Borrowers, plus the Outstanding Amount of all Swing Line Loans shall not exceed the Tranche A Loan Cap, and (iii) the aggregate Outstanding Amount of the Tranche A Loans of any Tranche A Lender at such time, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations at such time, plus such Tranche A Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans at such time shall not exceed such Tranche A Lender's Commitment, and provided, further, that the Domestic Borrowers shall not use the proceeds of any Swing Line Loan to refinance any outstanding Swing Line Loan, and provided further that the Swing Line Lender may refuse, and such refusal shall not be deemed an abuse of the Swing Line Lender's discretion to make Swing Line Loans as provided herein, to make any Swing Line Loan at any time when any Tranche A Lender is at such time a Defaulting Lender hereunder, unless the Swing Line Lender has entered into satisfactory arrangements with the Lead Borrower or such Tranche A Lender to eliminate the Swing Line Lender's risk with respect to such Tranche A Lender. Within the foregoing limits, and subject to the other terms and conditions hereof, the Domestic Borrowers may borrow under this Section 2.04, prepay under Section

2.05, and reborrow under this Section 2.04. Each Swing Line Loan shall bear interest only at a rate based on the Base Rate. Immediately upon the making of a Swing Line Loan, each Tranche A Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Swing Line Lender a risk participation in such Swing Line Loan in an amount equal to the product of such Tranche A Lender's Applicable Percentage *multiplied* by the amount of such Swing Line Loan. The Swing Line Lender shall have all of the benefits and immunities (A) provided to the Agent in Article IX with respect to any acts taken or omissions suffered by the Swing Line Lender in connection with Swing Line Loans made by it or proposed to be made by it as if the term "Agent" as used in Article IX included the Swing Line Lender with respect to such acts or omissions, and (B) as additionally provided herein with respect to the Swing Line Lender.

(b) Borrowing Procedures. Each Swing Line Borrowing may, in the Swing Line Lender's discretion, be made upon the Lead Borrower's irrevocable notice to the Swing Line Lender and the Agent, which may be given by telephone. Each such notice must be received by the Swing Line Lender and the Agent not later than 11:00 a.m. on the requested borrowing date, and shall specify (i) the amount to be borrowed, which shall be a minimum of \$100,000, and (ii) the requested borrowing date, which shall be a Business Day. Each such telephonic notice must be confirmed promptly by delivery to the Swing Line Lender and the Agent of a written Swing Line Loan Notice, appropriately completed and signed by a Responsible Officer of the Lead Borrower. Promptly after receipt by the Swing Line Lender of any telephonic Swing Line Loan Notice, the Swing Line Lender will confirm with the Agent (by telephone or in writing) that the Agent has also received such Swing Line Loan Notice and, if not, the Swing Line Lender will notify the Agent (by telephone or in writing) of the contents thereof. Unless the Swing Line Lender has received notice (by telephone or in writing) from the Agent at the request of the Required Lenders prior to 2:00 p.m. on the date of the proposed Swing Line Borrowing (A) directing the Swing Line Lender not to make such Swing Line Loan as a result of the limitations set forth in the proviso to the first sentence of Section 2.04(a), or (B) that one or more of the applicable conditions specified in Article IV is not then satisfied, then, subject to the terms and conditions hereof, the Swing Line Lender may, not later than 4:00 p.m. on the borrowing date specified in such Swing Line Loan Notice, make the amount of its Swing Line Loan available to the Domestic Borrowers either by (i) crediting the account of the Lead Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Swing Line Lender by the Lead Borrower; provided, however, that if, on the date of the proposed Swing Line Loan, there are L/C Borrowings outstanding with respect to the Domestic Borrowers, then the proceeds of such Borrowing, first, shall be applied to the payment in full of any such L/C Borrowings, and second, shall be made available to the Domestic Borrowers as provided above.

(c) Refinancing of Swing Line Loans.

(i) The Swing Line Lender at any time in its sole and absolute discretion may request, on behalf of the Domestic Borrowers (which hereby irrevocably authorize the Swing Line Lender to so request on their behalf), that each Tranche A Lender make a Base Rate Loan in an amount equal to such Tranche A Lender's Applicable Percentage of the amount of Swing Line Loans then outstanding. Such request shall be made in writing (which written request shall be deemed to be a Domestic Loan Notice for purposes hereof) and in accordance with the requirements of Section 2.02, without regard to the minimum and multiples specified therein for the principal amount of Base Rate Loans, but subject to the unutilized portion of the Tranche A Loan Cap and the conditions set forth in Section 4.02. The Swing Line Lender shall furnish the Lead Borrower with a copy of the applicable Domestic Loan Notice promptly after delivering such notice to the Agent. Each Tranche A Lender shall make an amount equal to its Applicable Percentage of the amount specified in such Domestic Loan Notice available to the Agent in immediately available funds for the account of the Swing Line Lender at

the Agent's Office not later than 1:00 p.m. on the day specified in such Domestic Loan Notice, whereupon, subject to Section 2.04(c)(ii), each Tranche A Lender that so makes funds available shall be deemed to have made a Base Rate Loan to the Domestic Borrowers in such amount. The Agent shall remit the funds so received to the Swing Line Lender.

(ii) If for any reason any Swing Line Loan cannot be refinanced by such a Borrowing in accordance with Section 2.04(c)(i), the request for Base Rate Loans submitted by the Swing Line Lender as set forth herein shall be deemed to be a request by the Swing Line Lender that each of the Tranche A Lenders fund its risk participation in the relevant Swing Line Loan and each Tranche A Lender's payment to the Agent for the account of the Swing Line Lender pursuant to Section 2.04(c)(i) shall be deemed payment in respect of such participation.

(iii) If any Tranche A Lender fails to make available to the Agent for the account of the Swing Line Lender any amount required to be paid by such Tranche A Lender pursuant to the foregoing provisions of this Section 2.04(c) by the time specified in Section 2.04(c)(i), the Swing Line Lender shall be entitled to recover from such Tranche A Lender (acting through the Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Swing Line Lender in accordance with banking industry rules on interbank compensation plus any administrative, processing or similar fees customarily charged by the Swing Line Lender in connection with the foregoing. If such Tranche A Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Tranche A Lender's Tranche A Loan included in the relevant Borrowing or funded participation in the relevant Swing Line Loan, as the case may be. A certificate of the Swing Line Lender submitted to any Tranche A Lender (through the Agent) with respect to any amounts owing under this clause (iii) shall be conclusive absent manifest error.

(iv) Each Tranche A Lender's obligation to make Tranche A Loans or to purchase and fund risk participations in Swing Line Loans pursuant to this Section 2.04(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Tranche A Lender may have against the Swing Line Lender, the Borrowers or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default or an Event of Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Tranche A Lender's obligation to make Tranche A Loans pursuant to this Section 2.04(c) is subject to the conditions set forth in Section 4.02. No such funding of risk participations shall relieve or otherwise impair the obligation of the Domestic Borrowers to repay Swing Line Loans, together with interest as provided herein.

(d) Repayment of Participations.

(i) At any time after any Tranche A Lender has purchased and funded a risk participation in a Swing Line Loan, if the Swing Line Lender receives any payment on account of such Swing Line Loan, the Swing Line Lender will distribute to such Tranche A Lender its Applicable Percentage of such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Tranche A Lender's risk participation was funded) in the same funds as those received by the Swing Line Lender.

(ii) If any payment received by the Swing Line Lender in respect of principal or interest on any Swing Line Loan is required to be returned by the Swing Line Lender under any of the circumstances described in Section 10.05 (including pursuant to any settlement entered into by the Swing Line Lender in its discretion), each Tranche A Lender shall pay to the Swing Line Lender its Applicable

Percentage thereof on demand of the Agent, plus interest thereon from the date of such demand to the date such amount is returned, at a rate per annum equal to the Federal Funds Rate. The Agent will make such demand upon the request of the Swing Line Lender. The obligations of the Tranche A Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Interest for Account of Swing Line Lender. The Swing Line Lender shall be responsible for invoicing the Domestic Borrowers for interest on the Swing Line Loans. Until each Tranche A Lender funds its Base Rate Loan or risk participation pursuant to this Section 2.04 to refinance such Tranche A Lender's Applicable Percentage of any Swing Line Loan, interest in respect of such Applicable Percentage shall be solely for the account of the Swing Line Lender.

(f) Payments Directly to Swing Line Lender. The Domestic Borrowers shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Swing Line Lender.

2.05 Prepayments.

(a) The Borrowers may, upon irrevocable notice from the Lead Borrower or the Canadian Borrower, as applicable, to the Agent, at any time or from time to time voluntarily prepay Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Agent not later than 11:00 a.m. (A) three Business Days prior to any date of prepayment of LIBOR Rate Loans or BA Equivalent Loans and (B) on the date of prepayment of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans; (ii) any prepayment of LIBOR Rate Loans or BA Equivalent Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof; and (iii) any prepayment of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans shall be in a principal amount of \$500,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Loans to be prepaid and, if LIBOR Rate Loans or BA Equivalent Loans, the Interest Period(s) of such Loans. The Agent will promptly notify each Domestic Lender or Canadian Lender, as applicable, of its receipt of each such notice, and of the amount of such Lender's Applicable Percentage of such prepayment. If such notice is given by the Lead Borrower or the Canadian Borrower, as applicable, the Domestic Borrowers or the Canadian Borrower, as applicable, shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a LIBOR Rate Loan or a BA Equivalent Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05. Each such prepayment shall be applied to the Domestic Loans or Canadian Loans, as applicable, of the Lenders in accordance with their respective Applicable Percentages.

(b) The Domestic Borrowers may, upon irrevocable notice from the Lead Borrower to the Swing Line Lender (with a copy to the Agent), at any time or from time to time, voluntarily prepay Swing Line Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Swing Line Lender and the Agent not later than 1:00 p.m. on the date of the prepayment, and (ii) any such prepayment shall be in a minimum principal amount of \$100,000. Each such notice shall specify the date and amount of such prepayment. If such notice is given by the Lead Borrower, the Domestic Borrowers shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein.

(c) Notwithstanding the provisions of Section 2.05(a) which generally permit voluntary prepayments of the Domestic Loans, only if all Tranche A Loans are repaid in full may the

Domestic Borrowers prepay amounts owed with respect to the Incremental Loans, provided, however, that any such prepayment shall not reduce or terminate the Incremental Commitments.

(d) If for any reason the Total Outstandings at any time exceed (i) the lesser of the Aggregate Commitments or (ii) Total Availability, each as then in effect, the Borrowers shall immediately prepay the Loans and L/C Borrowings and Cash Collateralize the L/C Obligations (other than L/C Borrowings) in an aggregate amount equal to such excess; provided, however, that the Borrowers shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.05(d) unless after the prepayment in full of the Loans, the Total Outstandings exceed Total Availability as then in effect. In addition, (i) if at any time the amount of the Canadian Total Outstandings exceeds Canadian Availability, the Canadian Borrower will immediately prepay the Canadian Loans and L/C Borrowings relating to Canadian Letters of Credit and Cash Collateralize the L/C Obligations relating to Canadian Letters of Credit (other than L/C Borrowings) in an aggregate amount equal to such excess; provided, however, that the Canadian Borrower shall not be required to Cash Collateralize the L/C Obligations relating to Canadian Letters of Credit pursuant to this Section 2.05(d) unless after the prepayment in full of the Canadian Loans the Canadian Total Outstandings exceed Canadian Availability as then in effect, (ii) if at any time the amount of the Tranche A Loans plus the Domestic L/C Credit Extensions exceeds the Tranche A Loan Cap, the Domestic Borrowers will immediately prepay the Tranche A Loans and L/C Borrowings relating to Domestic Letters of Credit and Cash Collateralize the L/C Obligations relating to Domestic Letters of Credit (other than L/C Borrowings) in an aggregate amount equal to such excess; provided, however, that the Domestic Borrowers shall not be required to Cash Collateralize the L/C Obligations relating to Domestic Letters of Credit pursuant to this Section 2.05(d) unless after the prepayment in full of the Tranche A Loans the Domestic L/C Credit Extensions exceed the Tranche A Loan Cap as then in effect, and (iii) if at any time the amount of the Incremental Loans exceeds the Incremental Loan Cap, then an Availability Reserve shall be deemed to be immediately established under the Tranche A Borrowing Base in an amount equal to such excess.

(e) The Borrowers shall prepay the Loans and Cash Collateralize the L/C Obligations to the extent required pursuant to the provisions of Section 6.12 hereof.

(f) The Borrowers shall prepay the Loans and Cash Collateralize the L/C Obligations, irrespective of whether a Cash Dominion Event has occurred and is continuing, in an amount equal to the Net Proceeds received by a Loan Party on account of a Prepayment Event.

(g) Prepayments made by the Domestic Borrowers pursuant to Section 2.05(d), (e) and (f) above, first, shall be applied ratably to the L/C Borrowings relating to Domestic Letters of Credit and the Swing Line Loans, second, shall be applied ratably to the outstanding Tranche A Loans, third, shall be used to Cash Collateralize the remaining L/C Obligations with respect to Domestic Letters of Credit (except that with respect to Section 2.05(e) and (f), such Cash Collateralization shall be required only if an Event of Default is then continuing), fourth, shall be applied ratably to the outstanding Incremental Loans, fifth, shall be applied ratably to the L/C Borrowings relating to Canadian Letters of Credit, sixth, shall be applied ratably to the outstanding Canadian Loans, seventh, shall be used to Cash Collateralize the remaining L/C Obligations with respect to Canadian Letters of Credit (except that with respect to Section 2.05(e) and (f), such Cash Collateralization shall be required only if an Event of Default is then continuing), and eighth, the amount remaining, if any, after the prepayment in full of all L/C Borrowings, Swing Line Loans and Loans outstanding at such time and the Cash Collateralization of the remaining L/C Obligations (to the extent required hereunder) in full may be retained by the Borrowers for use in the ordinary course of its business. Upon the drawing of any Letter of Credit that has been Cash Collateralized, the funds held as Cash Collateral shall be applied (without any further action by or notice to or from the Borrowers or any other Loan Party) to reimburse the L/C Issuer or the L/C Lenders, as applicable.

(h) Prepayments made by the Canadian Borrower pursuant to Section 2.05(d), (e) and (f) above, first, shall be applied ratably to the L/C Borrowings relating to Canadian Letters of Credit, second, shall be applied ratably to the outstanding Canadian Loans, third, shall be used to Cash Collateralize the remaining L/C Obligations with respect to Canadian Letters of Credit (except that with respect to Section 2.05(e) and (f), such Cash Collateralization shall be required only if an Event of Default is then continuing) and fourth, the amount remaining, if any, after the prepayment in full of all L/C Borrowings relating to Canadian Letters of Credit and Canadian Loans outstanding at such time and the Cash Collateralization of the remaining L/C Obligations relating to Canadian Letters of Credit (to the extent required hereunder) in full may be retained by the Canadian Borrower for use in the ordinary course of its business. Upon the drawing of any Canadian Letter of Credit that has been Cash Collateralized, the funds held as Cash Collateral shall be applied (without any further action by or notice to or from the Canadian Borrower or any other Loan Party) to reimburse the L/C Issuer or the Canadian Lenders, as applicable.

2.06 Termination or Reduction of Commitments.

(a) The Domestic Borrowers may, upon irrevocable notice from the Lead Borrower to the Agent, terminate the Tranche A Commitments, the Domestic Letter of Credit Sublimit or the Swing Line Sublimit or from time to time permanently reduce the Tranche A Commitments, the Domestic Letter of Credit Sublimit or the Swing Line Sublimit; provided that (i) any such notice shall be received by the Agent not later than 11:00 a.m. five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$10,000,000 or any whole multiple of \$1,000,000 in excess thereof, (iii) the Domestic Borrowers shall not terminate or reduce (A) the Tranche A Commitments if, after giving effect thereto and to any concurrent prepayments hereunder, the Outstanding Amount of the sum of Tranche A Loans, L/C Obligations with respect to Domestic Letters of Credit and Swing Line Loans would exceed the Tranche A Commitments, (B) the Domestic Letter of Credit Sublimit if, after giving effect thereto, the Outstanding Amount of L/C Obligations with respect to Domestic Letters of Credit not fully Cash Collateralized hereunder would exceed the Domestic Letter of Credit Sublimit, and (C) the Swing Line Sublimit if, after giving effect thereto, and to any concurrent payments hereunder, the Outstanding Amount of Swing Line Loans hereunder would exceed the Swing Line Sublimit. If, after giving effect to any reduction of the Tranche A Commitments, the Domestic Letter of Credit Sublimit or the Swing Line Sublimit exceeds the amount of the remaining Tranche A Commitments, such Domestic Letter of Credit Sublimit or Swing Line Sublimit shall be automatically reduced by the amount of such excess.

(b) The Domestic Borrowers may, upon irrevocable notice from the Lead Borrower to the Agent, terminate the Incremental Commitments; provided that after giving pro forma effect to such termination and to any concurrent prepayments hereunder, the Payment Conditions have been satisfied. Any amount of the Incremental Loans so repaid may not be re-borrowed and any portion of the Incremental Commitments which are reduced or terminated may not be reinstated.

(c) The Canadian Borrower may, upon irrevocable notice from the Canadian Borrower to the Agent, terminate the Canadian Commitments or the Canadian Letter of Credit Sublimit or from time to time permanently reduce the Canadian Commitments or the Canadian Letter of Credit Sublimit; provided that (i) any such notice shall be received by the Agent not later than 11:00 a.m. five Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$1,000,000 or any whole multiple of \$500,000 in excess thereof, (iii) the Canadian Borrower shall not terminate or reduce (A) the Canadian Commitments if, after giving effect thereto and to any concurrent prepayments hereunder, the Canadian Total Outstandings would exceed the Canadian Commitments or (B) the Canadian Letter of Credit Sublimit if, after giving effect thereto, the Outstanding Amount of L/C Obligations with respect to Canadian Letters of Credit not fully Cash Collateralized

hereunder would exceed the Canadian Letter of Credit Sublimit. If, after giving effect to any reduction of the Canadian Commitments, the Canadian Letter of Credit Sublimit exceeds the amount of the remaining Canadian Commitments, such Canadian Letter of Credit Sublimit shall be automatically reduced by the amount of such excess. Any amount of the Canadian Loans so repaid may not be re-borrowed and any portion of the Canadian Commitments which are reduced or terminated may not be reinstated.

(d) The Agent will promptly notify the Tranche A Lenders, the Incremental Lenders or the Canadian Lenders, as applicable, of any termination or reduction of the Domestic Letter of Credit Sublimit, Canadian Letter of Credit Sublimit, Swing Line Sublimit or any Commitments under this Section 2.06. Upon any reduction of any Commitments, the Commitment of each Lender shall be reduced by such Lender's Applicable Percentage of such reduction amount. All fees (including, without limitation, commitment fees, and Letter of Credit Fees) and interest in respect of the Commitments accrued until the effective date of any termination of such Commitments shall be paid on the effective date of such termination.

2.07 Repayment of Loans.

(a) The Domestic Borrowers shall repay to the Domestic Lenders on the Termination Date the Domestic Total Outstandings on such date. The Canadian Borrower shall repay to the Canadian Lenders on the Termination Date the Canadian Total Outstandings on such date.

(b) To the extent not previously paid, the Domestic Borrowers shall repay the outstanding balance of the Swing Line Loans on the Termination Date.

2.08 Interest.

(a) Subject to the provisions of Section 2.08(b) below, (i) each LIBOR Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Adjusted LIBOR Rate for such Interest Period plus the Applicable Margin; (ii) each Base Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Margin; (iii) each BA Equivalent Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the BA Rate for such Interest Period plus the Applicable Margin; (iv) each Canadian Prime Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Canadian Prime Rate plus the Applicable Margin; (v) each U.S. Index Rate Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the U.S. Index Rate plus the Applicable Margin; and (vi) each Swing Line Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Margin.

(b) (i) If any Event of Default exists, then the Agent may, and upon the request of the Required Lenders shall, notify the Lead Borrower that all outstanding Obligations shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate and thereafter such Obligations shall bear interest at the Default Rate to the fullest extent permitted by Law.

(ii) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder

shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.09 Fees. In addition to certain fees described in Sections 2.03(i) and (j):

(a) Commitment Fee. The Domestic Borrowers shall pay to the Agent for the account of each Tranche A Lender in accordance with its Applicable Percentage, a commitment fee equal to the Commitment Fee Percentage *multiplied by* the actual daily amount by which the Tranche A Commitments exceed the sum of the Tranche A Loans, the L/C Obligations with respect to Domestic Letters of Credit and the outstanding Swing Line Loans. In addition, the Domestic Borrowers shall pay to the Agent for the account of each Incremental Lender in accordance with its Applicable Percentage, a commitment fee equal to the Commitment Fee Percentage *multiplied by* the actual daily amount by which the Incremental Commitments exceed the Outstanding Amount of the Incremental Loans. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Article IV is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Effective Date, and on the last day of the Availability Period.

(b) Other Fees. The Borrowers shall pay to the Arranger and the Agent for their own respective accounts fees in the amounts and at the times specified in the Fee Letter. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.10 Computation of Interest and Fees.

(a) All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America's "prime rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All computations of interest for BA Equivalent Loans and for Canadian Prime Rate Loans when the Canadian Prime Rate is determined by Bank of America-Canada Branch's "prime rate" and for U.S. Index Rate Loans when the U.S. Index Rate is determined pursuant to clause (a) thereof shall be made on the basis of a year of 365 days. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed. Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a), bear interest for one day. Each determination by the Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

(b) For the purposes of the *Interest Act (Canada)*, (i) whenever any interest or fees under this Agreement or any other Loan Document is calculated using a rate based on a year of 360 days, the rate determined pursuant to such calculation, when expressed as an annual rate, is equivalent to (x) the applicable rate, (y) multiplied by the actual number of days in the calendar year in which the period for which such interest is payable (or compounded) ends, and (z) divided by 360, (ii) the principle of deemed reinvestment of interest does not apply to any interest calculation under this Agreement, and (iii) the rates of interest stipulated in this Agreement are intended to be nominal rates and not effective rates or yields.

2.11 Evidence of Debt.

(a) The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by the Agent (the "Loan Account") in the ordinary course of business. In addition, each Lender may record in such Lender's internal records, an appropriate notation evidencing the date and amount of each Loan from such Lender, each payment and prepayment of principal of any such Loan, and each payment of interest, fees and other amounts due in connection with the Obligations due to such Lender. The accounts or records maintained by the Agent and each Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by the Lenders to the Borrowers and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrowers hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Agent in respect of such matters, the accounts and records of the Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Agent, the Borrowers shall execute and deliver to such Lender (through the Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto. Upon receipt of an affidavit of a Lender as to the loss, theft, destruction or mutilation of such Lender's Note and upon cancellation of such Note, the Borrowers will issue, in lieu thereof, a replacement Note in favor of such Lender, in the same principal amount thereof and otherwise of like tenor.

(b) In addition to the accounts and records referred to in Section 2.11(a), each L/C Lender and the Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such L/C Lender of participations in Letters of Credit and Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Agent and the accounts and records of any L/C Lender in respect of such matters, the accounts and records of the Agent shall control in the absence of manifest error.

2.12 Payments Generally; Agent's Clawback.

(a) General. All payments to be made by the Borrowers shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by the Borrowers hereunder shall be made to the Agent for the account of the respective Lenders to which such payment is owed, at the Agent's Office in Dollars or Canadian Dollars, as applicable, and in immediately available funds not later than 2:00 p.m. on the date specified herein. All payments in respect of Base Rate Loans, U.S. Index Rate Loans and LIBOR Rate Loans shall be made in Dollars, and all payments in respect of Canadian Prime Rate Loans and BA Equivalent Loans shall be made in Canadian Dollars. The Agent will promptly distribute to each Lender its Applicable Percentage (or other applicable share as provided herein) of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Agent after 2:00 p.m. shall, at the option of the Agent, be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment (other than with respect to payment of a LIBOR Loan or a BA Equivalent Loan) to be made by the Borrowers shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Agent. Unless the Agent shall have received notice from a Lender prior to the proposed date of any Borrowing of LIBOR Rate Loans or BA Equivalent Loans (or in the case of any Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans, prior to 12:00 noon on the date of such Borrowing) that such Lender will not

make available to the Agent such Lender's share of such Borrowing, the Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 (or in the case of a Borrowing of Base Rate Loans, Canadian Prime Rate Loans or U.S. Index Rate Loans, that such Lender has made such share available in accordance with and at the time required by Section 2.02) and may, in reliance upon such assumption, make available to the Borrowers a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Agent, then the applicable Lender and the applicable Borrowers severally agree to pay to the Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the applicable Borrowers to but excluding the date of payment to the Agent at (A) in the case of a payment to be made by such Lender, the greater of the Federal Funds Rate or the Bank of America-Canada Overnight Rate, as applicable, and a rate determined by the Agent in accordance with banking industry rules on interbank compensation plus any administrative processing or similar fees customarily charged by the Agent in connection with the foregoing, (B) in the case of a payment to be made by the Domestic Borrowers, the interest rate applicable to Base Rate Loans, and (C) in the case of a payment to be made by the Canadian Borrower, the interest rate applicable to Canadian Prime Rate Loans. If the Borrowers and such Lender shall pay such interest to the Agent for the same or an overlapping period, the Agent shall promptly remit to the Borrowers the amount of such interest paid by the Borrowers for such period. If such Lender pays its share of the applicable Borrowing to the Agent, then the amount so paid shall constitute such Lender's Loan included in such Borrowing. Any payment by the Borrowers shall be without prejudice to any claim the Borrowers may have against a Lender that shall have failed to make such payment to the Agent.

(ii) Payments by Borrowers; Presumptions by Agent. Unless the Agent shall have received notice from the Lead Borrower or the Canadian Borrower, as applicable, prior to the time at which any payment is due to the Agent for the account of the Lenders or the L/C Issuer hereunder that the applicable Borrowers will not make such payment, the Agent may assume that the Borrowers have made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the applicable Lenders or the L/C Issuer, as the case may be, the amount due. In such event, if the Borrowers have not in fact made such payment, then each of the applicable Lenders or the L/C Issuer, as the case may be, severally agrees to repay to the Agent forthwith on demand the amount so distributed to such Lender or the L/C Issuer, in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Agent at the greater of the Federal Funds Rate or the Bank of Canada Overnight Rate, as applicable, and a rate determined by the Agent in accordance with banking industry rules on interbank compensation.

A notice of the Agent to any Lender or the Lead Borrower or the Canadian Borrower, as applicable, with respect to any amount owing under this Section 2.12(b) shall be conclusive, absent manifest error.

(c) Failure to Satisfy Conditions Precedent. If any Lender makes available to the Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to the applicable Borrowers by the Agent because the conditions to the applicable Credit Extension set forth in Article IV are not satisfied or waived in accordance with the terms hereof (subject to the provisions of the last paragraph of Section 4.02 hereof), the Agent shall return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several. The obligations of the Tranche A Lenders hereunder to make Tranche A Loans, to fund participations in Domestic Letters of Credit and Swing Line Loans and to make payments hereunder are several and not joint. The obligations of the Incremental Lenders hereunder to make Incremental Loans are several and not joint. The obligations of the Canadian

Lenders hereunder to make Canadian Loans and to fund participations in Canadian Letters of Credit and to make payments hereunder are several and not joint. The failure of any Lender to make any Loan, to fund any such participation or to make any payment hereunder on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Loan, to purchase its participation or to make its payment hereunder.

(e) Funding Source. Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.13 Sharing of Payments by Lenders. If any Credit Party shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of, interest on, or other amounts with respect to, any of the Obligations resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Obligations greater than its pro rata share thereof as provided herein (including as in contravention of the priorities of payment set forth in Section 8.03), then the Credit Party receiving such greater proportion shall (a) notify the Agent of such fact, and (b) purchase (for cash at face value) participations in the Obligations or the Canadian Liabilities, as applicable, of the other applicable Credit Parties, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the applicable Credit Parties ratably and in the priorities set forth in Section 8.03, provided that:

(i) if any such participations or subparticipations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations or subparticipations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

(ii) the provisions of this Section shall not be construed to apply to (x) any payment made by the Loan Parties pursuant to and in accordance with the express terms of this Agreement or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or subparticipations in L/C Obligations or Swing Line Loans to any assignee or participant, other than to the Borrowers or any Subsidiary thereof (as to which the provisions of this Section shall apply).

Each Loan Party consents to the foregoing and agrees, to the extent it may effectively do so under Law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Loan Party rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Loan Party in the amount of such participation.

2.14 Settlement Amongst Lenders

(a) The amount of each Lender's Applicable Percentage of outstanding Loans (including outstanding Swing Line Loans), shall be computed weekly (or more frequently in the Agent's discretion) and shall be adjusted upward or downward based on all Loans (including Swing Line Loans) and repayments of Loans (including Swingline Loans) received by the Agent as of 3:00 p.m. on the first Business Day (such date, the "Settlement Date") following the end of the period specified by the Agent.

(b) The Agent shall deliver to each of the applicable Lenders promptly after a Settlement Date a summary statement of the amount of outstanding Loans and Swing Line Loans (if applicable) for the period and the amount of repayments received for the period. As reflected on the

summary statement, (i) the Agent shall transfer to each applicable Lender its Applicable Percentage of repayments, and (ii) each Lender shall transfer to the Agent (as provided below) or the Agent shall transfer to each Lender, such amounts as are necessary to ensure that, after giving effect to all such transfers, the amount of Loans made by each Lender shall be equal to such Lender's Applicable Percentage of all Loans outstanding as of such Settlement Date. If the summary statement requires transfers to be made to the Agent by the Lenders and is received prior to 1:00 p.m. on a Business Day, such transfers shall be made in immediately available funds no later than 3:00 p.m. that day; and, if received after 1:00 p.m., then no later than 3:00 p.m. on the next Business Day. The obligation of each Lender to transfer such funds is irrevocable, unconditional and without recourse to or warranty by the Agent. If and to the extent any Lender shall not have so made its transfer to the Agent such Lender agrees to pay to the Agent forthwith on demand such amount, together with interest thereon, for each day from such date until the date such amount is paid to the Agent equal to the greater of the Federal Funds Rate or the Bank of Canada Overnight Rate, as applicable, and a rate determined by the Agent in accordance with banking industry rules on interbank compensation plus any administrative, processing, or similar fees customarily charged by the Agent in connection with the foregoing.

2.15 Increase in Commitments.

(a) Request for Increase. Provided no Default or Event of Default then exists or would arise therefrom, upon notice to the Agent (which shall promptly notify the Tranche A Lenders), the Lead Borrower may from time to time request an increase in the Tranche A Commitments by an amount (for all such requests) not exceeding \$100,000,000; provided that (i) any such request for an increase shall be in a minimum amount of \$25,000,000, and (ii) the Lead Borrower may make a maximum of four (4) such requests. At the time of sending such notice, the Lead Borrower (in consultation with the Agent) shall specify the time period within which each Tranche A Lender is requested to respond (which shall in no event be less than ten Business Days from the date of delivery of such notice to the Tranche A Lenders).

(b) Lender Elections to Increase. Each Tranche A Lender shall notify the Agent within such time period whether or not it agrees to increase its Tranche A Commitment and, if so, whether by an amount equal to, greater than, or less than its Applicable Percentage of such requested increase. Any Tranche A Lender not responding within such time period shall be deemed to have declined to increase its Tranche A Commitment.

(c) Notification by Agent: Additional Lenders. The Agent shall notify the Lead Borrower and each Tranche A Lender of the Tranche A Lenders' responses to each request made hereunder. To achieve the full amount of a requested increase and subject to the approval of the Agent, the L/C Issuer and the Swing Line Lender (which approvals shall not be unreasonably withheld), to the extent that the existing Tranche A Lenders decline to increase their Tranche A Commitments, or decline to increase their Tranche A Commitments to the amount requested by the Lead Borrower, the Arranger, in consultation with the Lead Borrower, will use its reasonable efforts to arrange for other Eligible Assignees to become a Tranche A Lender hereunder and to issue commitments in an amount equal to the amount of the increase in the Tranche A Commitments requested by the Lead Borrower and not accepted by the existing Tranche A Lenders (and the Lead Borrower may also invite additional Eligible Assignees to become Tranche A Lenders) (collectively, the "Additional Commitment Lenders"), *provided, however*, that without the consent of the Agent, at no time shall the Tranche A Commitment of any Additional Commitment Lender be less than \$5,000,000.

(d) Effective Date and Allocations. If the Tranche A Commitments are increased in accordance with this Section, the Agent, in consultation with the Lead Borrower, shall determine the effective date (the "Increase Effective Date") and the final allocation of such increase. The Agent shall

promptly notify the Lead Borrower and the Tranche A Lenders of the final allocation of such increase and the Increase Effective Date and on the Increase Effective Date (i) the Tranche A Commitments under, and for all purposes of, this Agreement shall be increased by the aggregate amount of such Commitment Increases, and (ii) Schedule 2.01 shall be deemed modified, without further action, to reflect the revised Tranche A Commitments and Applicable Percentages of the Tranche A Lenders.

(e) Conditions to Effectiveness of Increase. As a condition precedent to such increase, (i) the Lead Borrower shall deliver to the Agent a certificate of each Domestic Loan Party dated as of the Increase Effective Date (in sufficient copies for each Tranche A Lender) signed by a Responsible Officer of such Domestic Loan Party (A) certifying and attaching the resolutions adopted by such Domestic Loan Party approving or consenting to such increase, and (B) in the case of the Domestic Borrowers, certifying that, before and after giving effect to such increase, (1) the representations and warranties contained in Article V and the other Loan Documents are true and correct on and as of the Increase Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date, and except that for purposes of this Section 2.15, the representations and warranties contained in Section 5.05(a) and (b) shall be deemed to refer to the most recent statements furnished pursuant to Section 6.01(a) and (b), and (2) no Default or Event of Default exists or would arise therefrom, (ii) the Borrowers, the Agent, and any Additional Commitment Lender shall have executed and delivered a joinder to the Loan Documents in such form as the Agent shall reasonably require; (iii) the Borrowers shall have paid such fees and other compensation to the Additional Commitment Lenders as the Lead Borrower and such Additional Commitment Lenders shall agree; (iv) the Borrowers shall have paid such arrangement fees to the Arranger as the Lead Borrower and the Agent may agree; (v) if requested by the Agent, the Domestic Borrowers shall deliver an opinion or opinions, in form and substance reasonably satisfactory to the Agent, from counsel to the Domestic Borrowers reasonably satisfactory to the Agent and dated such date; (vi) the Domestic Borrowers and the Additional Commitment Lender shall have delivered such other instruments, documents and agreements as the Agent may reasonably have requested; and (vii) no Default or Event of Default exists. The Domestic Borrowers shall prepay any Tranche A Loans outstanding on the Increase Effective Date (and pay any additional amounts required pursuant to Section 3.05) to the extent necessary to keep the outstanding Tranche A Loans ratable with any revised Applicable Percentages arising from any nonratable increase in the Tranche A Commitments under this Section.

(f) Conflicting Provisions. This Section shall supersede any provisions in Sections 2.13 or 10.01 to the contrary.

**ARTICLE III
TAXES, YIELD PROTECTION AND ILLEGALITY;
APPOINTMENT OF LEAD BORROWER**

3.01 Taxes.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Loan Parties hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if the Loan Parties shall be required by Law to deduct, withhold or remit any Indemnified Taxes (including any Other Taxes) from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions, withholdings and remittances (including deductions, withholdings and remittances applicable to additional sums payable under this Section) the Agent, Lenders or L/C Issuer, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Loan Parties shall make such deductions, withholdings and remittances and (iii) the Loan

Parties shall timely pay or remit the full amount deducted or withheld to the relevant Governmental Authority in accordance with Law.

(b) Payment of Other Taxes by the Borrowers. Without limiting the provisions of Section 3.01(a) above, the Borrowers shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with Law.

(c) Indemnification by the Loan Parties. (i) The Loan Parties shall indemnify the Agent, each Lender and the L/C Issuer, within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) paid, withheld or remitted by the Agent, such Lender or the L/C Issuer, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Lead Borrower or the Canadian Borrower by a Lender or the L/C Issuer (with a copy to the Agent), or by the Agent on its own behalf or on behalf of the Agent, a Lender or the L/C Issuer, shall be conclusive absent manifest error.

(ii) Without limiting the provisions of Section 3.01(a) or (b), (A) the Borrowers will not be required to indemnify any Foreign Lender, or pay any additional amount to such Foreign Lender, pursuant to Section 3.01(a), (b) or (c), in respect of Taxes to the extent that the obligation to pay or indemnify such additional amounts would not have arisen but for the failure of such Foreign Lender to comply with the provisions of Section 3.01(f), and (B) each Credit Party will, and does hereby, indemnify the Borrowers and Agents, and will make payment in respect thereof within ten days after demand therefor, against any and all Taxes and any and all related losses, claims, liabilities, penalties, interest and expenses (including the fees, charges and disbursements of any counsel for the Borrowers or Agents) incurred by or asserted against any Borrower or Agent by any Governmental Authority as a result of the failure by such Credit Party to deliver, or as a result of the inaccuracy, inadequacy or deficiency of, any documentation required to be delivered by such Credit Party to the Borrowers or Agents pursuant to Section 3.01(f). Each Credit Party hereby authorizes Agents to set off and apply any and all amounts at any time owing to such Credit Party under this Agreement or any other Loan Document against any amount due to Agents under this Section 3.01(c)(ii). The agreements in this Section 3.01(c)(ii) will survive the resignation and/or replacement of Agents, any assignment of rights by, or the replacement of, a Credit Party, the termination of the Commitments and the repayment, satisfaction or discharge of all other Obligations.

(d) Evidence of Payments. As soon as practicable after any payment or remittance of Indemnified Taxes or Other Taxes by the Loan Parties to a Governmental Authority, the Lead Borrower or the Canadian Borrower, as applicable, shall deliver to the Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or remittance or other evidence of such payment or remittance reasonably satisfactory to the Agent.

(e) Status of Lenders. For all Tax purposes of this Agreement, including this Section 3.01, it is assumed that (i) the Domestic Lenders will lend to the Domestic Borrowers and not to the Canadian Borrower and (ii) the Canadian Lenders will lend to the Canadian Borrower and not to the Domestic Borrowers. Any Foreign Lender other than a Canadian Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in

which any Domestic Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Lead Borrower (with a copy to the Agent), at the time or times prescribed by Law or reasonably requested by the Lead Borrower or the Agent, such properly completed and executed documentation prescribed by Law as will permit such payments to be made without withholding or at a reduced rate of withholding. Such delivery shall be provided on the Effective Date and on or before such documentation expires or becomes obsolete or after the occurrence of an event requiring a change in the documentation most recently delivered. In addition, any Lender, if requested by the Lead Borrower or the Canadian Borrower, as applicable, or the Agent shall deliver such other documentation prescribed by Law or reasonably requested by the Lead Borrower or the Canadian Borrower, as applicable, or the Agent as will enable the Lead Borrower or the Canadian Borrower, as applicable, or the Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

(f) Tax Documentation. Without limiting the generality of the foregoing, in the event that any Domestic Borrower is resident for tax purposes in the United States, any Foreign Lender (other than a Canadian Lender) shall deliver to the Lead Borrower and the Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Lead Borrower or the Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) duly completed copies of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States is a party,

(ii) duly completed copies of Internal Revenue Service Form W-8ECI,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) a certificate to the effect that such Foreign Lender is not (A) a “bank” within the meaning of section 881(c)(3)(A) of the Code, (B) a “10 percent shareholder” of the Domestic Borrowers within the meaning of section 881(c)(3)(B) of the Code, or (C) a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code and (y) duly completed copies of Internal Revenue Service Form W-8BEN, or

(iv) any other form prescribed by Law as a basis for claiming exemption from or a reduction in United States Federal withholding tax duly completed together with such supplementary documentation as may be prescribed by Law to permit the Lead Borrower to determine the withholding or deduction required to be made.

(g) Treatment of Certain Refunds. If the Agent, any Lender or the L/C Issuer determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Loan Parties or with respect to which the Loan Parties have paid additional amounts pursuant to this Section, it shall pay to the applicable Loan Parties an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrowers under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Agent, such Lender or the L/C Issuer, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Loan Parties, upon the request of the Agent, such Lender or the L/C Issuer, agree to repay the amount paid over to the applicable Loan Parties (plus any penalties, interest or other charges imposed by the relevant

Governmental Authority) to the Agent, such Lender or the L/C Issuer in the event that the Agent, such Lender or the L/C Issuer is required to repay such refund to such Governmental Authority. This Section 3.01(g) shall not be construed to require the Agent, any Lender or the L/C Issuer to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Loan Parties or any other Person.

3.02 Illegality. If any Lender determines that any Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund LIBOR Rate Loans or BA Equivalent Loans, or to determine or charge interest rates based upon the LIBOR Rate or the BA Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Lead Borrower or the Canadian Borrower, as applicable, through the Agent any obligation of such Lender to make or continue LIBOR Rate Loans or BA Equivalent Loans, as applicable, or to Convert Base Rate Loans or U.S. Index Rate Loans to LIBOR Rate Loans or to Convert Canadian Prime Rate Loans to BA Equivalent Loans shall be suspended until such Lender notifies the Agent and the Lead Borrower or the Canadian Borrower, as applicable, that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the applicable Borrowers shall, upon demand from such Lender (with a copy to the Agent), prepay or, if applicable, Convert all LIBOR Rate Loans of such Lender to Base Rate Loans or U.S. Index Rate Loans, as applicable, or Convert all BA Equivalent Loans of such Lender to Canadian Prime Rate Loans, as applicable, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such LIBOR Rate Loans or BA Equivalent Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such LIBOR Rate Loans or BA Equivalent Loans. Upon any such prepayment or Conversion, the applicable Borrowers shall also pay accrued interest on the amount so prepaid or Converted.

3.03 Inability to Determine Rates. If the Required Lenders determine that for any reason in connection with any request for a LIBOR Rate Loan or a BA Equivalent Loan or a Conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank market for the applicable amount and Interest Period of such LIBOR Rate Loan or Canadian Dollar bankers' acceptances are not being transacted in the Canadian interbank market for the applicable amount and Interest Period of such BA Equivalent Loan, (b) adequate and reasonable means do not exist for determining the LIBOR Rate or the BA Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan or BA Equivalent Loan, or (c) the LIBOR Rate or BA Rate for any requested Interest Period with respect to a proposed LIBOR Rate Loan or BA Equivalent Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Agent will promptly so notify the Lead Borrower or the Canadian Borrower, as applicable, and each applicable Lender. Thereafter, the obligation of the applicable Lenders to make or maintain LIBOR Rate Loans or BA Equivalent Loans shall be suspended until the Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Lead Borrower or the Canadian Borrower, as applicable, may revoke any pending request for a Borrowing of, Conversion to or continuation of LIBOR Rate Loans or BA Equivalent Loans or, failing that, will be deemed to have Converted such request into a request for a Borrowing of Base Rate Loans, U.S. Index Rate Loans or Canadian Prime Rate Loans, as applicable, in the amount specified therein.

3.04 Increased Costs; Reserves on LIBOR Rate Loans and BA Equivalent Loans.

(a) Increased Costs Generally. Except to the extent addressed by Section 3.01, if any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in the LIBOR Rate) or the L/C Issuer;

(ii) subject any Lender or the L/C Issuer to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any LIBOR Rate Loan or BA Equivalent Loan made by it, or change the basis of taxation of payments to such Lender or the L/C Issuer in respect thereof; or

(iii) impose on any Lender or the L/C Issuer or the London interbank market any other condition, cost or expense affecting this Agreement or LIBOR Rate Loans or BA Equivalent Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any LIBOR Rate Loan or BA Equivalent Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender or the L/C Issuer of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or the L/C Issuer hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or the L/C Issuer, the applicable Loan Parties will pay to such Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or the L/C Issuer, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or the L/C Issuer determines that any Change in Law affecting such Lender or the L/C Issuer or any Lending Office of such Lender or such Lender's or the L/C Issuer's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the L/C Issuer's capital or on the capital of such Lender's or the L/C Issuer's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the L/C Issuer, to a level below that which such Lender or the L/C Issuer or such Lender's or the L/C Issuer's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or the L/C Issuer's policies and the policies of such Lender's or the L/C Issuer's holding company with respect to capital adequacy), then from time to time the applicable Loan Parties will pay to such Lender or the L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or the L/C Issuer or such Lender's or the L/C Issuer's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender or the L/C Issuer setting forth the amount or amounts necessary to compensate such Lender or the L/C Issuer or its holding company, as the case may be, as specified in Section 3.04(a) or (b) and delivered to the Lead Borrower or the Canadian Borrower, as applicable, shall be conclusive absent manifest error; provided that such amount shall be consistent with return metrics applied in determining amounts that such Lender or L/C Issuer has required other similarly situated borrowers or obligors to pay with respect to such increased costs or reduced returns. The applicable Loan Parties shall pay such Lender or the L/C Issuer, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or the L/C Issuer to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's or the L/C Issuer's right to demand such compensation, provided that, notwithstanding the provisions of Section 3.04(a) and (b), the Loan Parties shall not be required to compensate a Lender or the L/C Issuer pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than six months prior to the date that such Lender or the L/C Issuer, as the case may be, notifies the Lead Borrower or the Canadian Borrower, as applicable, of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the L/C Issuer's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the six-month period referred to above shall be extended to include the period of retroactive effect thereof), and provided further that the Lender or the L/C Issuer claiming compensation therefor shall apply consistent return metrics applied to other similarly situated borrowers or obligors with respect to such increased costs or reductions.

(e) Reserves on LIBOR Rate Loans. The Domestic Borrowers or the Canadian Borrower, as applicable, shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each LIBOR Rate Loan equal to the actual costs of such reserves allocated to such Loan by such Lender (as determined by such Lender in good faith, which determination shall be conclusive), which shall be due and payable on each date on which interest is payable on such Loan, provided the Lead Borrower or the Canadian Borrower, as applicable, shall have received at least 10 days' prior notice (with a copy to the Agent) of such additional interest from such Lender. If a Lender fails to give notice 10 days prior to the relevant Interest Payment Date, such additional interest shall be due and payable 10 days from receipt of such notice.

3.05 Compensation for Losses. Upon demand of any Lender (with a copy to the Agent) from time to time, the applicable Borrowers shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, Conversion, payment or prepayment of any Loan other than a Base Rate Loan, U.S. Index Rate Loan or Canadian Prime Rate Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Borrowers (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or Convert any Loan other than a Base Rate Loan, U.S. Index Rate Loan or Canadian Prime Rate Loan on the date or in the amount notified by the Lead Borrower or the Canadian Borrower, as applicable; or

(c) any assignment of a LIBOR Rate Loan or a BA Equivalent Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Lead Borrower or the Canadian Borrower, as applicable, pursuant to Section 10.13;

including any loss of anticipated profits and any loss or expense arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained; provided that no Borrower shall be obligated to pay any of the foregoing amounts incurred in connection with such Lender becoming or being a Defaulting

Lender. The applicable Borrowers shall also pay any customary administrative fees charged by such Lender in connection with the foregoing.

For purposes of calculating amounts payable by the Borrowers to the Lenders under this Section 3.05, each Lender shall be deemed (i) to have funded each LIBOR Rate Loan made by it at the LIBOR Rate for such Loan by a matching deposit or other borrowing in the London interbank market for a comparable amount and for a comparable period, whether or not such LIBOR Rate Loan was in fact so funded and (ii) to have funded each BA Equivalent Loan made by it at the BA Rate for such Loan by a matching discounting, acceptance or other Borrowing or transaction in the Canadian interbank market for bankers' acceptances for a comparable period, whether or not such BA Equivalent Loan was in fact so discounted or accepted.

3.06 Mitigation Obligations; Replacement of Lenders.

(a) Designation of a Different Lending Office. If any Lender requests compensation under Section 3.04, or the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender gives a notice pursuant to Section 3.02, then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04, as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02, as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Domestic Borrowers or the Canadian Borrower, as applicable, hereby agree to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 3.04, or if the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, the Borrowers may replace such Lender in accordance with Section 10.13.

3.07 Survival. All of the Borrowers' obligations under this Article III shall survive termination of the Aggregate Commitments and repayment of all other Obligations hereunder.

3.08 Designation of Lead Borrower as Domestic Borrowers' Agent.

(a) Each Domestic Borrower hereby irrevocably designates and appoints the Lead Borrower as such Domestic Borrower's agent to obtain Domestic Credit Extensions, the proceeds of which shall be available to each Domestic Borrower for such uses as are permitted under this Agreement. As the disclosed principal for its agent, each Domestic Borrower shall be obligated to each Domestic Credit Party on account of Domestic Credit Extensions so made as if made directly by the applicable Domestic Credit Party to such Domestic Borrower, notwithstanding the manner by which such Domestic Credit Extensions are recorded on the books and records of the Lead Borrower and of any other Domestic Borrower. In addition, each Domestic Loan Party other than the Domestic Borrowers hereby irrevocably designates and appoints the Lead Borrower as such Domestic Loan Party's agent to represent such Domestic Loan Party in all respects under this Agreement and the other Loan Documents.

(b) Each Borrower recognizes that credit available to it hereunder is in excess of and on better terms than it otherwise could obtain on and for its own account and that one of the reasons therefor is its joining in the credit facility contemplated herein with all other Borrowers. Consequently, each Borrower hereby assumes and agrees to discharge all Obligations of each of the other Borrowers; provided that the Canadian Borrower shall be liable only for the Canadian Liabilities.

(c) The Lead Borrower shall act as a conduit for each Domestic Borrower (including itself, as a "Domestic Borrower") on whose behalf the Lead Borrower has requested a Domestic Credit Extension. Neither the Agent nor any other Domestic Credit Party shall have any obligation to see to the application of such proceeds therefrom.

ARTICLE IV CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

4.01 Conditions to Effectiveness. The effectiveness of this Agreement and the other Loan Documents is subject to satisfaction of the following conditions precedent:

(a) The Agent's receipt of the following, each of which shall be originals, telecopies or other electronic image scan transmission (e.g., "pdf" or "tif" via e-mail) (followed promptly by originals) unless otherwise specified, each dated the Effective Date (or, in the case of certificates of governmental officials, a recent date before the Effective Date) and each in form and substance satisfactory to the Agent:

(i) counterparts of this Agreement each properly executed by a Responsible Officer of the signing Loan Party and the Lenders sufficient in number for distribution to the Agent, each Lender and the Lead Borrower;

(ii) a Note executed by the applicable Borrowers in favor of each Lender requesting a Note;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Agent may require evidencing (A) the authority of each Loan Party to enter into this Agreement and the other Loan Documents to which such Loan Party is a party or is to become a party and (B) the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party or is to become a party;

(iv) copies of each Loan Party's Organization Documents and such other documents and certifications as the Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that each Loan Party is validly existing, in good standing and qualified to engage in business in each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification, except to the extent that failure to so qualify in such jurisdiction could not reasonably be expected to have a Material Adverse Effect;

(v) a favorable opinion of Morrison & Foerster LLP, United States counsel to the Loan Parties, and of Blake, Cassels & Graydon LLP, Canadian counsel to the Loan

Parties, addressed to the Agent and each Lender, as to such matters concerning the Loan Parties and the Loan Documents as the Agent may reasonably request;

(vi) a certificate of a Responsible Officer of the Lead Borrower certifying (A) that the conditions specified in Sections 4.02(a) and (b) have been satisfied, (B) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect, (C) to the Solvency of the Loan Parties as of the Effective Date after giving effect to the transactions contemplated hereby, and (D) either that (1) no consents, licenses or approvals are required in connection with the execution, delivery and performance by such Loan Party and the validity against such Loan Party of the Loan Documents to which it is a party, or (2) that all such consents, licenses and approvals have been obtained and are in full force and effect;

(vii) evidence that all insurance required to be maintained pursuant to the Loan Documents and all endorsements in favor of the Agent required under the Loan Documents have been obtained and are in effect;

(viii) the Security Documents and certificates evidencing any stock being pledged thereunder, together with undated stock powers executed in blank, each duly executed by the applicable Loan Parties;

(ix) the Fee Letter, duly executed by the Lead Borrower;

(x) (A) an appraisal (based on net liquidation value) by a third party appraiser acceptable to the Agent of all Inventory of the Borrowers, the results of which are satisfactory to the Agent, and (B) a written report regarding the results of a commercial finance examination of the Loan Parties, which shall be satisfactory to the Agent;

(xi) results of searches or other evidence reasonably satisfactory to the Agent (in each case dated as of a date reasonably satisfactory to the Agent) indicating the absence of Liens on the assets of the Loan Parties, except for Permitted Encumbrances and Liens for which termination statements and releases, satisfactions and discharges of any Mortgages, PPSA estoppel letters and releases or subordination agreements satisfactory to the Agent are being tendered concurrently with such extension of credit or other arrangements satisfactory to the Agent for the delivery of such termination statements and releases, satisfactions and discharges have been made;

(xii) (A) all documents and instruments, including Uniform Commercial Code financing statements and PPSA financing statement registrations, required by law or reasonably requested by the Agents to be filed, registered or recorded to create or perfect the first priority (subject to Permitted Encumbrances having priority by operation of Law) Liens intended to be created under the Loan Documents and all such documents and instruments shall have been so filed, registered or recorded to the satisfaction of the Agents, (B) copies of Credit Card Notifications, which shall have been executed on behalf of such Loan Party and delivered to such Loan Party's credit card clearinghouses and processors listed on Schedule 5.21(b), (C) Blocked Account Agreements entered into with the applicable Blocked Account Banks, and (D) control agreements with respect to the Loan Parties' securities and investment accounts have been obtained;

(xiii) evidence that all other actions that the Agent may deem necessary or desirable in order to create valid first and subsisting Liens on the property described in the Mortgages has been taken;

(xiv) an appraisal of each of the properties described in the Mortgages complying with the requirements of FIRREA by a third party appraiser acceptable to the Agent and otherwise in form and substance satisfactory to the Agent; and

(xv) such other assurances, certificates, documents, consents or opinions as the Agent reasonably may require.

(b) After giving effect to the transactions contemplated hereby and any Credit Extensions to be made on the Effective Date, Domestic Availability shall be not less than \$30,000,000.

(c) The Agent shall have received a Borrowing Base Certificate dated the Effective Date, relating to the month ended on June 30, 2011, and executed by a Responsible Officer of the Lead Borrower.

(d) The Agent shall be reasonably satisfied that any financial statements delivered to it and the Lenders fairly present the business and financial condition of the Loan Parties and that there has been no Material Adverse Effect since January 31, 2011.

(e) The Agent and the Lenders shall have received and be satisfied with (i) updated quarterly projections of the Borrowers and (ii) not more than fifteen (15) days prior to the Effective Date, financial statements for the Fiscal Month most recently ended, in each case in form and substance acceptable to the Agent.

(f) There shall not be pending any litigation or other proceeding, the result of which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

(g) There shall not have occurred any default of any Material Contract of any Loan Party which could reasonably be expected to have a Material Adverse Effect.

(h) The consummation of the transactions contemplated hereby shall not violate any Law or any Organization Document.

(i) All fees required to be paid to the Agent or the Arranger on or before the Effective Date shall have been paid in full, and all fees required to be paid to the Lenders on or before the Effective Date shall have been paid in full.

(j) The Borrowers shall have paid all fees, charges and disbursements of counsel to the Agent to the extent invoiced prior to or on the Effective Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the Effective Date (provided that such estimate shall not thereafter preclude a final settling of accounts between the Borrowers and the Agent).

(k) The Agent and the Lenders shall have received all documentation and other information required by regulatory authorities under applicable "know your customer" and anti-

money laundering rules and regulations, including without limitation, the USA PATRIOT Act and the AML Legislation.

(l) No material changes in governmental regulations or policies affecting any Loan Party or any Credit Party shall have occurred prior to the Effective Date.

Without limiting the generality of the provisions of Section 9.04, for purposes of determining compliance with the conditions specified in this Section 4.01, each Lender that has signed this Agreement shall be deemed to have Consented to, approved or accepted or to be satisfied with, each document or other matter required thereunder to be Consented to or approved by or acceptable or satisfactory to a Lender unless the Agent shall have received notice from such Lender prior to the proposed Effective Date specifying its objection thereto.

4.02 Conditions to all Credit Extensions. The obligation of each Lender to honor any Request for Credit Extension (other than a Domestic Loan Notice or Canadian Loan Notice requesting only a Conversion of Loans to the other Type, or a continuation of LIBOR Rate Loans or BA Equivalent Loans) and of each L/C Issuer to issue each Letter of Credit is subject to the following conditions precedent:

(a) The representations and warranties of each Loan Party contained in Article V or in any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct on and as of the date of such Credit Extension, except (i) to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date, (ii) in the case of any representation and warranty qualified by materiality, they shall be true and correct in all respects and (iii) for purposes of this Section 4.02, the representations and warranties contained in Section 5.05(a) and (b) shall be deemed to refer to the most recent statements furnished pursuant to Section 6.01(a) and (b), respectively.

(b) No Default or Event of Default shall exist, or would result from such proposed Credit Extension or from the application of the proceeds thereof.

(c) The Agent and, if applicable, the L/C Issuer or the Swing Line Lender shall have received a Request for Credit Extension in accordance with the requirements hereof.

(d) No event or circumstance which could reasonably be expected to result in a Material Adverse Effect shall have occurred.

Each Request for Credit Extension (other than a Domestic Loan Notice or Canadian Loan Notice requesting only a Conversion of Loans to the other Type or a continuation of LIBOR Rate Loans or BA Equivalent Loans) submitted by the Lead Borrower or the Canadian Borrower, as applicable, shall be deemed to be a representation and warranty by the Borrowers that the conditions specified in Sections 4.02(a), (b) and (d) have been satisfied on and as of the date of the applicable Credit Extension. The conditions set forth in this Section 4.02 are for the sole benefit of the Credit Parties but until the Required Lenders otherwise direct the Agent to cease making Loans and issuing Letters of Credit, the Lenders will fund their Applicable Percentage of all Loans and L/C Advances and participate in all Swing Line Loans and Letters of Credit whenever made or issued, which are requested by the Lead Borrower or the Canadian Borrower, as applicable, and which, notwithstanding the failure of the Loan Parties to comply with the provisions of this Article IV, agreed to by the Agent provided, however, the making of any such Loans or the issuance of any Letters of Credit shall not be deemed a modification or waiver by any Credit

Party of the provisions of this Article IV on any future occasion or a waiver of any rights or the Credit Parties as a result of any such failure to comply.

ARTICLE V
REPRESENTATIONS AND WARRANTIES

To induce the Credit Parties to enter into this Agreement and to make Loans and to issue Letters of Credit hereunder, each Loan Party represents and warrants to the Agent and the other Credit Parties that:

5.01 Existence, Qualification and Power. Each Loan Party and each Subsidiary thereof (a) is a corporation, limited or unlimited liability company, partnership or limited partnership, duly incorporated, organized or formed, validly existing and, where applicable, in good standing under the Laws of the jurisdiction of its incorporation, organization or formation, (b) has all requisite power and authority and all requisite governmental licenses, permits, authorizations, consents and approvals to (i) own or lease its assets and carry on its business and (ii) execute, deliver and perform its obligations under the Loan Documents to which it is a party, and (c) is duly qualified and is licensed and, where applicable, in good standing under the Laws of each jurisdiction where its ownership, lease or operation of properties or the conduct of its business requires such qualification or license; except in each case referred to in clause (b)(i) or (c), to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect. Schedule 5.01 annexed hereto sets forth, as of the Effective Date, each Loan Party's and Subsidiary's name as it appears in official filings in its jurisdiction of incorporation or organization, organization type, organization number, if any, issued by its jurisdiction of incorporation or organization, and its federal employer identification number or similar number in a foreign jurisdiction.

5.02 Authorization; No Contravention. The execution, delivery and performance by each Loan Party of each Loan Document to which such Person is or is to be a party, has been duly authorized by all necessary corporate or other organizational action, and does not and will not (a) contravene the terms of any of such Person's Organization Documents; (b) conflict with or result in any breach, termination, or contravention of, or constitute a default under, or require any payment to be made under (i) any Material Contract or any Material Indebtedness to which such Person is a party or affecting such Person or the properties of such Person or any of its Subsidiaries or (ii) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which such Person or its property is subject; (c) result in or require the creation of any Lien upon any asset of any Loan Party (other than Liens in favor of the Agent under the Security Documents); or (d) violate any material Law.

5.03 Governmental Authorization; Other Consents. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, any Loan Party of this Agreement or any other Loan Document, except for (a) the perfection or maintenance of the Liens created under the Security Documents or (b) such as have been obtained or made and are in full force and effect.

5.04 Binding Effect. This Agreement has been, and each other Loan Document, when delivered, will have been, duly executed and delivered by each Loan Party that is party thereto. This Agreement constitutes, and each other applicable Loan Document when so delivered will constitute, a legal, valid and binding obligation of such Loan Party, enforceable against each Loan Party that is party thereto in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

5.05 Financial Statements; No Material Adverse Effect.

(a) The Audited Financial Statements (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; (ii) fairly present the financial condition of the Lead Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein; and (iii) show all Material Indebtedness and other liabilities, direct or contingent, of the Lead Borrower and its Subsidiaries as of the date thereof, including liabilities for taxes, material commitments and Indebtedness.

(b) The unaudited Consolidated balance sheet of the Lead Borrower and its Subsidiaries dated April 30, 2011, and the related Consolidated statements of income or operations, Shareholders' Equity and cash flows for the fiscal quarter ended on that date (i) were prepared in accordance with GAAP consistently applied throughout the period covered thereby, except as otherwise expressly noted therein, and (ii) fairly present the financial condition of the Lead Borrower and its Subsidiaries as of the date thereof and their results of operations for the period covered thereby, subject, in the case of clauses (i) and (ii), to the absence of footnotes and to normal year-end audit adjustments.

(c) Since the date of the Audited Financial Statements, there has been no event or circumstance, either individually or in the aggregate, that has had or could reasonably be expected to have a Material Adverse Effect.

(d) To the best knowledge of the Lead Borrower, no Internal Control Event exists or has occurred since the date of the Audited Financial Statements that has resulted in or could reasonably be expected to result in a misstatement in any material respect, (i) in any financial information delivered to the Agent or the Lenders, (ii) of the Canadian Borrowing Base or the Domestic Borrowing Base, (iii) of covenant compliance calculations provided hereunder or (iv) of the assets, liabilities, financial condition or results of operations of the Lead Borrower and its Subsidiaries on a Consolidated basis.

(e) The Consolidated forecasted balance sheet and statements of income and cash flows of the Lead Borrower and its Subsidiaries delivered pursuant to Section 6.01(d) were prepared in good faith on the basis of the assumptions stated therein, which assumptions were fair in light of the conditions existing at the time of delivery of such forecasts, and represented, at the time of delivery, the Loan Parties' best estimate of its future financial performance.

5.06 Litigation. There are no actions, suits, proceedings, claims or disputes pending or, to the knowledge of the Loan Parties after due and diligent investigation, threatened in writing or contemplated, at law, in equity, in arbitration or before any Governmental Authority, by or against any Loan Party or any of its Subsidiaries or against any of its properties or revenues that (a) purport to affect or pertain to this Agreement or any other Loan Document, or any of the transactions contemplated hereby, or (b) either

individually or in the aggregate, if determined adversely, could reasonably be expected to have a Material Adverse Effect.

5.07 No Default. No Loan Party or any Subsidiary is in default under or with respect to, or party to, any Material Contract or any Material Indebtedness. No Default or Event of Default has occurred and is continuing or would result from the consummation of the transactions contemplated by this Agreement or any other Loan Document.

5.08 Ownership of Property; Liens

(a) Each of the Loan Parties has marketable title in fee simple to or valid leasehold interests in, all Real Estate necessary or used in the ordinary conduct of its business, except for such defects in title as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect. Each of the Loan Parties has good and marketable title to, valid leasehold interests in, or valid licenses to use all personal property and assets material to the ordinary conduct of its business.

(b) Schedule 5.08(b)(1) sets forth the address (including street address, county and state or province) of all Real Estate (excluding Leases) that is owned by the Loan Parties, together with a list of the holders of any mortgage or other Lien thereon as of the Effective Date. Each Loan Party has good, marketable and insurable fee simple title to the Real Estate owned by such Loan Party or such Subsidiary, free and clear of all Liens, other than Permitted Encumbrances. Schedule 5.08(b)(2) sets forth the address (including street address, county and state or province) of all Leases of the Loan Parties, together with the name of each lessor and its contact information with respect to each such Lease as of the Effective Date. Each of such Leases is in full force and effect and the Loan Parties are not in default of the terms thereof.

(c) Schedule 7.01 sets forth a complete and accurate list of all Liens on the property or assets of each Loan Party on the Effective Date, showing the lienholder thereof, the principal amount of the obligations secured thereby and the property or assets of such Loan Party subject thereto. The property of each Loan Party is subject to no Liens, other than Permitted Encumbrances.

(d) Schedule 7.02 sets forth a complete and accurate list of each Investment held by any Loan Party on the Effective Date, showing as of the Effective Date the amount, obligor or issuer and maturity, if any, thereof.

(e) Schedule 7.03 sets forth a complete and accurate list of all Indebtedness of each Loan Party on the Effective Date, showing as of the Effective Date the amount, obligor or issuer and maturity thereof.

5.09 Environmental Compliance.

(a) No Loan Party (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability, except, in each case, as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) None of the properties currently, or, to the best knowledge of the Loan Parties, formerly, owned or operated by any Loan Party is listed or proposed for listing on the NPL or on the CERCLIS or any analogous foreign, state, provincial, municipal or local list; there are no and never have been any underground or above-ground storage tanks or any surface impoundments, septic tanks, pits, sumps or lagoons in which Hazardous Materials are being or have been treated, stored or disposed on any property currently owned or operated by any Loan Party or, to the best of the knowledge of the Loan Parties, on any property formerly owned or operated by any Loan Party; there is no asbestos or asbestos-containing material on any property currently owned or operated by any Loan Party; and Hazardous Materials have not been released, discharged or disposed of on any property currently or formerly owned or operated by any Loan Party.

(c) No Loan Party is undertaking, and no Loan Party has completed, either individually or together with other potentially responsible parties, any investigation or assessment or remedial or response action relating to any actual or threatened release, discharge or disposal of Hazardous Materials at any site, location or operation, either voluntarily or pursuant to the order of any Governmental Authority or the requirements of any Environmental Law; and all Hazardous Materials generated, used, treated, handled or stored at, or transported to or from, any property currently or formerly owned or operated by any Loan Party have been disposed of in a manner not reasonably expected to result in material liability to any Loan Party.

5.10 Insurance. The properties of the Loan Parties are insured with financially sound and reputable insurance companies which are not Affiliates of the Loan Parties, in such amounts, with such deductibles and covering such risks (including, without limitation, workmen's compensation, public liability, business interruption and property damage insurance) as are customarily carried by companies engaged in similar businesses and owning similar properties in localities where the Loan Parties operates. Schedule 5.10 sets forth a description of all insurance maintained by or on behalf of the Loan Parties as of the Effective Date. As of the Effective Date, each insurance policy listed on Schedule 5.10 is in full force and effect and all premiums in respect thereof that are due and payable have been paid.

5.11 Taxes. The Loan Parties have filed all federal, state, provincial and other material tax returns and reports required to be filed, and have paid all federal, state, provincial and other material taxes, assessments, fees and other governmental charges levied or imposed upon them or their properties, income or assets otherwise due and payable, except those which are being contested in good faith by appropriate proceedings being diligently conducted, for which adequate reserves have been provided in accordance with GAAP, as to which Taxes no Lien has been filed or seizure or garnishment made and which contest effectively suspends the collection of the contested obligation and the enforcement of any Lien or other right or remedy securing such obligation. There is no proposed tax assessment against any Loan Party that would, if made, have a Material Adverse Effect. No Loan Party or any Subsidiary thereof is a party to any tax sharing agreement.

5.12 ERISA Compliance; Canadian Pension Plans.

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code and other Federal or state Laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter or opinion letter from the IRS or the remedial amendment period for such Plan has not expired and, to the best knowledge of the Lead Borrower, nothing has occurred which would prevent, or cause the loss of, such qualification. The

Domestic Loan Parties and each ERISA Affiliate have made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan. No Lien imposed under the Code or ERISA exists or is likely to arise on account of any Plan.

(b) There are no pending or, to the best knowledge of the Lead Borrower, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan that could reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or violation of the fiduciary responsibility rules with respect to any Plan that has resulted or could reasonably be expected to result in a Material Adverse Effect.

(c) (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no Pension Plan has any Unfunded Pension Liability that could reasonably be expected to have a Material Adverse Effect; (iii) neither any Domestic Loan Party nor any ERISA Affiliate has incurred, or reasonably expects to incur, any material liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) neither any Domestic Loan Party nor any ERISA Affiliate has incurred, or reasonably expects to incur, any material liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such material liability) under Sections 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) neither any Domestic Loan Party nor any ERISA Affiliate has engaged in a transaction that could reasonably be subject to Sections 4069 or 4212(c) of ERISA.

(d) No Canadian Loan Party maintains or is required to contribute to any Canadian Pension Plan.

5.13 Subsidiaries; Equity Interests. As of the Effective Date, the Loan Parties have no Subsidiaries other than those specifically disclosed in Part (a) of Schedule 5.13, which Schedule sets forth the legal name, jurisdiction of incorporation or formation and authorized Equity Interests of each such Subsidiary. All of the outstanding Equity Interests in the Loan Parties and the Subsidiaries have been validly issued, are fully paid and non-assessable and are owned in the amounts specified on Part (a) of Schedule 5.13 free and clear of all Liens except for Permitted Encumbrances arising by operation of Law. Except as set forth in Schedule 5.13, there are no outstanding rights to purchase any Equity Interests in any Subsidiary. As of the Effective Date, the Loan Parties have no equity investments in any other corporation or entity other than those specifically disclosed in Part (b) of Schedule 5.13. The copies of the Organization Documents of each Loan Party and each amendment thereto provided pursuant to Section 4.01 are true and correct copies of each such document as of the Effective Date, each of which is valid and in full force and effect as of the Effective Date.

5.14 Margin Regulations; Investment Company Act.

(a) No Loan Party is engaged or will be engaged, principally or as one of its important activities, in the business of purchasing or carrying margin stock (within the meaning of Regulation U issued by the FRB), or extending credit for the purpose of purchasing or carrying margin stock. None of the proceeds of the Credit Extensions shall be used directly or indirectly for any purpose that violates Regulations T, U, or X issued by the FRB.

(b) None of the Loan Parties, any Person Controlling any Loan Party, or any Subsidiary is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

5.15 Disclosure. Each Loan Party has disclosed to the Agent and the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. No report, financial statement, certificate or other information furnished (whether in writing or orally) by or on behalf of any Loan Party to the Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or under any other Loan Document (in each case, as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, the Loan Parties represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

5.16 Compliance with Laws. Each of the Loan Parties is in compliance in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

5.17 Intellectual Property; Licenses, Etc.

The Loan Parties own, or possess the right to use, all of the Intellectual Property, licenses, permits and other authorizations that are reasonably necessary for the operation of their respective businesses, to avoid conflict with the rights of any other Person. To the best knowledge of the Lead Borrower, no slogan or other advertising device, product, process, method, substance, part or other material now employed, or now contemplated to be employed, by any Loan Party infringes upon any rights held by any other Person. No claim or litigation regarding any of the foregoing is pending or, to the best knowledge of the Lead Borrower, threatened in writing, which, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

5.18 Labor Matters.

There are no strikes, lockouts, slowdowns or other material labor disputes against any Loan Party pending or, to the knowledge of any Loan Party, threatened in writing. The hours worked by and payments made to employees of the Loan Parties comply with the Fair Labor Standards Act and any other applicable federal, state, provincial, municipal, local or foreign Law dealing with such matters. No Loan Party has incurred any liability or obligation under the Worker Adjustment and Retraining Act or similar state, provincial or foreign Law. All payments due from any Loan Party, or for which any claim may be made against any Loan Party, on account of wages and employee health and welfare insurance and other benefits, have been paid or properly accrued in accordance with GAAP as a liability on the books of such Loan Party. Except as set forth on Schedule 5.18, no Loan Party is a party to or bound by any collective bargaining agreement, management agreement, employment agreement, bonus, restricted stock, stock option, or stock appreciation plan or agreement or any similar plan, agreement or arrangement. There are no representation proceedings pending or, to any Loan Party's knowledge, threatened in writing to be filed with the National Labor Relations Board, and no labor organization or group of employees of any Loan Party has made a pending demand for recognition. There are no complaints, unfair labor practice charges, grievances, arbitrations, unfair employment practices charges or any other claims or complaints against any Loan Party pending or, to the knowledge of any Loan Party, threatened in writing to be filed

with any Governmental Authority or arbitrator based on, arising out of, in connection with, or otherwise relating to the employment or termination of employment of any employee of any Loan Party. The consummation of the transactions contemplated by the Loan Documents will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which any Loan Party is bound.

5.19 Security Documents.

(a) The Security Agreement creates in favor of the Agent, for the benefit of the Credit Parties, a legal, valid, continuing and enforceable Lien on the Collateral (as defined in the Security Agreement), the enforceability of which is subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law. The financing statements, releases and other filings are in appropriate form and have been or will be filed in the offices specified in Schedule II of the Security Agreement. Upon (i) the filing of UCC financing statements, naming the Agent as secured party, Domestic Loan Parties as debtors and such Collateral as collateral, in the offices of the Secretaries of States of the States in which the Domestic Loan Parties are incorporated or formed, the Agent will have a perfected Lien on, and security interest in, to and under all right, title and interest of the Domestic Loan Parties in all such Collateral that may be perfected by the filing of a UCC financing statement, (ii) the obtaining of "control" (as defined in the UCC) of any such Collateral, the Agent will have a perfected Lien on, and security interest in, to and under all right, title and interest of the Domestic Loan Parties in all such Collateral that may be perfected by obtaining control, in each case prior and superior in right to any other Person (other than holders of Permitted Encumbrances having priority by operation of Law).

(b) When the Security Agreement (or a short form thereof) is filed in the United States Patent and Trademark Office, the United States Copyright Office and the Canadian Intellectual Property Office and when financing statements, releases and other filings in appropriate form are filed in the offices specified on Schedule II of the Security Agreement, the Agent shall have a fully perfected Lien on, and security interest in, all right, title and interest of the applicable Loan Parties in the Intellectual Property Collateral (as defined in the Security Agreement or the Canadian Security Documents, as applicable) in which a security interest may be perfected by filing, recording or registering a security agreement, financing statement or analogous document in the United States Patent and Trademark Office, the United States Copyright Office or the Canadian Intellectual Property Office, as applicable, in each case prior and superior in right to any other Person (it being understood that subsequent recordings in the United States Patent and Trademark Office, the United States Copyright Office and the Canadian Intellectual Property Office may be necessary to perfect a Lien on registered trademarks, trademark applications and copyrights acquired by the applicable Loan Parties after the Effective Date).

(c) The Canadian Security Documents create in favor of the Agent, for the benefit of the Canadian Credit Parties, a legal, valid, continuing and enforceable security interest in the Collateral (as defined in the Canadian Security Documents), the enforceability of which is subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law. The financing statements, releases and other filings are in appropriate form and have been filed in the offices specified in Schedule II of the General Security Agreement forming part of the Canadian Security Documents. Upon such filings, the Agent will have a perfected Lien on, and security interest in, to and under all right, title and interest of the grantors thereunder in all Collateral that may be perfected under the PPSA (in effect on the date this representation is made) by filing, recording or registering a financing statement or analogous document (including without limitation the proceeds of such Collateral

subject to the limitations relating to such proceeds in the PPSA), in each case prior and superior in right to any other Person (other than holders of Permitted Encumbrances having priority by operation of Law).

(d) The Mortgages create in favor of the Agent, for the benefit of the Credit Parties, a legal, valid, continuing and enforceable Lien in the Mortgaged Property (as defined in the Mortgages), the enforceability of which is subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law. Upon the filing or recording of the Mortgages with the appropriate Governmental Authorities, the Agent will have a perfected Lien on, and security interest in, to and under all right, title and interest of the grantors thereunder in all Mortgaged Property that may be perfected by such filing (including without limitation the proceeds of such Mortgaged Property), in each case prior and superior in right to any other Person.

5.20 Solvency

After giving effect to the transactions contemplated by this Agreement, and before and after giving effect to each Credit Extension, the Loan Parties, on a Consolidated basis, are Solvent. No transfer of property has been or will be made by any Loan Party and no obligation has been or will be incurred by any Loan Party in connection with the transactions contemplated by this Agreement or the other Loan Documents with the intent to hinder, delay, or defraud either present or future creditors of any Loan Party.

5.21 Deposit Accounts; Credit Card Arrangements.

(a) Annexed hereto as Schedule 5.21(a) is a list of all DDAs maintained by the Loan Parties as of the Effective Date, which Schedule includes, with respect to each DDA (i) the name and address of the depository; (ii) the account number(s) maintained with such depository; (iii) a contact person at such depository, and (iv) the identification of each Blocked Account Bank.

(b) Annexed hereto as Schedule 5.21(b) is a list describing all arrangements as of the Effective Date to which any Loan Party is a party with respect to the processing and/or payment to such Loan Party of the proceeds of any credit card charges and debit card charges for sales made by such Loan Party.

5.22 Brokers. No broker or finder brought about the obtaining, making or closing of the Loans or transactions contemplated by the Loan Documents, and no Loan Party or Affiliate thereof has any obligation to any Person in respect of any finder's or brokerage fees in connection therewith.

5.23 Customer and Trade Relations. There exists no actual or, to the knowledge of any Loan Party, threatened in writing, termination or cancellation of, or any material adverse modification or change in the business relationship of any Loan Party with any supplier material to its operations.

5.24 Material Contracts. Schedule 5.24 sets forth all Material Contracts to which any Loan Party is a party or is bound as of the Effective Date. The Loan Parties are not in breach or in default in any material respect of or under any Material Contract and have not received any notice of the intention of any other party thereto to terminate any Material Contract.

5.25 Casualty. Neither the businesses nor the properties of any Loan Party or any of its Subsidiaries are affected by any fire, explosion, accident, strike, lockout or other labor dispute, drought, storm, hail, earthquake, embargo, act of God or of the public enemy or other casualty (whether or not covered by insurance) that, either individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect.

ARTICLE VI AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied (other than contingent indemnification claims for which a claim has not been asserted), or any Letter of Credit shall remain outstanding, the Loan Parties shall, and shall (except in the case of the covenants set forth in Sections 6.01, 6.02, and 6.03) cause each Subsidiary to:

6.01 Financial Statements. Deliver to the Agent, in form and detail satisfactory to the Agent:

(a) as soon as available, but in any event within 90 days after the end of each Fiscal Year of the Lead Borrower, a Consolidated and consolidating balance sheet of the Lead Borrower and its Subsidiaries as at the end of such Fiscal Year, and the related consolidated and consolidating statements of income or operations, Shareholders' Equity and cash flows for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail and prepared in accordance with GAAP, such consolidated statements to be audited and accompanied by a report and unqualified opinion of a Registered Public Accounting Firm of nationally recognized standing reasonably acceptable to the Agent, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit, and such consolidating statements to be certified by a Responsible Officer of the Lead Borrower to the effect that such statements are fairly stated in all material respects when considered in relation to the consolidated financial statements of the Lead Borrower and its Subsidiaries;

(b) as soon as available, but in any event within 45 days after the end of each Fiscal Quarter of each Fiscal Year of the Lead Borrower, a Consolidated balance sheet of the Lead Borrower and its Subsidiaries as at the end of such Fiscal Quarter, and the related consolidated statements of income or operations, Shareholders' Equity and cash flows for such Fiscal Quarter and for the portion of the Lead Borrower's Fiscal Year then ended, setting forth in each case in comparative form the figures for (A) such period set forth in the projections delivered pursuant to Section 6.01(d) hereof, (B) the corresponding Fiscal Quarter of the previous Fiscal Year and (C) the corresponding portion of the previous Fiscal Year, all in reasonable detail, certified by a Responsible Officer of the Lead Borrower as fairly presenting the financial condition, results of operations, Shareholders' Equity and cash flows of the Lead Borrower and its Subsidiaries as of the end of such Fiscal Quarter in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes;

(c) as soon as available, but in any event within 30 days after the end of each of the Fiscal Months of each fiscal year of the Lead Borrower, a consolidated balance sheet of the Lead

Borrower and its Subsidiaries as at the end of such Fiscal Month, and the related consolidated statements of income or operations, Shareholders' Equity and cash flows for such Fiscal Month, and for the portion of the Lead Borrower's Fiscal Year then ended, setting forth in each case in comparative form the figures for (A) such period set forth in the projections delivered pursuant to Section 6.01(d) hereof; (B) the corresponding Fiscal Month of the previous Fiscal Year and (C) the corresponding portion of the previous fiscal year, all in reasonable detail, certified by a Responsible Officer of the Lead Borrower as fairly presenting the financial condition, results of operations, Shareholders' Equity and cash flows of the Lead Borrower and its Subsidiaries as of the end of such Fiscal Month in accordance with GAAP, subject only to normal year-end audit adjustments and the absence of footnotes;

(d) as soon as available, but in any event no more than 60 days after the end of each Fiscal Year of the Lead Borrower, forecasts prepared by management of the Lead Borrower, in form satisfactory to the Agent, of Canadian Availability, Domestic Availability and Total Availability, a statement of the projected number of Stores to be opened and closed by the Borrowers, and the consolidated balance sheets and statements of income or operations and cash flows of the Lead Borrower and its Subsidiaries on a monthly basis for the immediately following Fiscal Year (including the fiscal year in which the Maturity Date occurs).

6.02 Certificates; Other Information. Deliver to the Agent, in form and detail satisfactory to the Agent:

(a) concurrently with the delivery of the financial statements referred to in Sections 6.01(a) and (b) and (c), a duly completed Compliance Certificate signed by a Responsible Officer of the Lead Borrower;

(b) on the first Monday of each Fiscal Month (or, if such day is not a Business Day, on the next succeeding Business Day), or more frequently as the Borrowers may elect, a Borrowing Base Certificate showing the Canadian Borrowing Base and the Domestic Borrowing Base as of the close of business as of the last day of the immediately preceding Fiscal Month, each Borrowing Base Certificate to be certified as complete and correct by a Responsible Officer of the Lead Borrower; provided that at any time that an Accelerated Borrowing Base Delivery Event has occurred and is continuing, such Borrowing Base Certificate shall be delivered on Monday of each week (or, if Monday is not a Business Day, on the next succeeding Business Day), as of the close of business on the immediately preceding Saturday;

(c) promptly upon receipt, copies of any detailed audit reports or management letters submitted to the board of directors (or the audit committee of the board of directors) of any Loan Party by its Registered Public Accounting Firm in connection with the accounts or books of the Loan Parties or any Subsidiary, or any audit of any of them, including, without limitation, specifying any Internal Control Event;

(d) promptly after the same are available, copies of each annual report, proxy or financial statement or other report or communication sent to the stockholders of the Loan Parties, and copies of all annual, regular, periodic and special reports and registration statements which any Loan Party may file or be required to file with the SEC under Section 13 or 15(d) of the Securities Exchange Act of 1934 or with any Canadian national securities exchange;

(e) the financial and collateral reports described on Schedule 6.02 hereto, at the times set forth in such Schedule;

(f) as soon as available, but in any event within 30 days after the end of each Fiscal Year of the Loan Parties, a report summarizing the insurance coverage (specifying type, amount and carrier) in effect for each Loan Party and its Subsidiaries;

(g) promptly after the Agent's request therefor, copies of all Material Contracts and documents evidencing Material Indebtedness;

(h) promptly, and in any event within five Business Days after receipt thereof by any Loan Party or any Subsidiary thereof, copies of each material notice or other material correspondence received from any Governmental Authority (including, without limitation, the SEC (or comparable agency in Canada or any other applicable non-U.S. jurisdiction) concerning any proceeding with, or investigation or possible investigation or other inquiry by such Governmental Authority regarding financial or other operational results of any Loan Party or any Subsidiary thereof or any other matter which, if adversely determined, could reasonably be expected to have a Material Adverse Effect; and

(i) promptly, such additional information regarding the business affairs, financial condition or operations of any Loan Party or any Subsidiary, or compliance with the terms of the Loan Documents, as the Agent or any Lender may from time to time reasonably request.

Documents required to be delivered pursuant to Section 6.01(a), (b), or (c) or Section 6.02(d) (to the extent any such documents are included in materials otherwise filed with the SEC) may be delivered electronically and if so delivered, shall be deemed to have been delivered on the date (i) on which the Lead Borrower posts such documents, or provides a link thereto on the Lead Borrower's website on the Internet at the website address listed on Schedule 10.02; or (ii) on which such documents are posted on the Lead Borrower's behalf on an Internet or intranet website, if any, to which each Lender and the Agent have access (whether a commercial, third-party website or whether sponsored by the Agent); provided that: (A) the Lead Borrower shall deliver paper copies of such documents to the Agent until a written request to cease delivering paper copies is given by the Agent and (B) the Lead Borrower shall notify the Agent (by telecopier or electronic mail) of the posting of any such documents and provide to the Agent by electronic mail electronic versions (i.e., soft copies) of such documents. The Agent shall not have any obligation to request the delivery or to maintain copies of the documents referred to above, and in any event shall have no responsibility to monitor compliance by the Loan Parties with any such request for delivery, and each Lender shall be solely responsible for requesting delivery to it or maintaining its copies of such documents.

The Loan Parties hereby acknowledge that (a) the Agent and/or the Arranger will make available to the Lenders and the L/C Issuer materials and/or information provided by or on behalf of the Loan Parties hereunder (collectively, "Borrower Materials") by posting the Borrower Materials on IntraLinks or another similar electronic system (the "Platform") and (b) certain of the Lenders may be "public-side" Lenders (i.e., Lenders that do not wish to receive material non-public information with respect to the Loan Parties or their securities) (each, a "Public Lender"). The Loan Parties hereby agree that they will use commercially reasonable efforts to identify that portion of the Borrower Materials that may be distributed to the Public Lenders and that (w) all such Borrower Materials shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Borrower Materials "PUBLIC," the Loan Parties shall be deemed to have authorized the Agent, the Arranger, the L/C Issuer and the Lenders to treat such Borrower Materials as not containing any material non-public information (although it may be sensitive and proprietary) with respect to the Loan Parties or their securities for purposes of United States or Canada federal, provincial and state securities laws (provided, however, that to the extent such Borrower Materials constitute Information, they shall be treated as set forth in Section 10.07); (y) all Borrower

Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor"; and (z) the Agent and the Arranger shall be entitled to treat any Borrower Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor."

6.03 Notices. Promptly notify the Agent:

- (a) of the occurrence of any Default or Event of Default;
- (b) following such Loan Party's obtaining knowledge of any matter that has resulted or could reasonably be expected to result in a Material Adverse Effect,
- (c) following such Loan Party's obtaining knowledge of any "event of default" or similar event under, a Material Contract or with respect to Material Indebtedness of any Loan Party or any Subsidiary thereof;
- (d) of the occurrence of any ERISA Event or Termination Event;
- (e) of any material change in accounting policies or financial reporting practices by any Loan Party or any Subsidiary thereof;
- (f) of any change in any Loan Party's senior executive officers;
- (g) of the discharge by any Loan Party of its present Registered Public Accounting Firm or any withdrawal or resignation by such Registered Public Accounting Firm;
- (h) of any collective bargaining agreement or other labor contract to which a Loan Party becomes a party, or the application for the certification of a collective bargaining agent;
- (i) following such Loan Party's obtaining knowledge of the filing of any Lien for unpaid Taxes against any Loan Party or the receipt by any Loan Party of a notice to pay or garnishment for unpaid Taxes;
- (j) of any Prepayment Event;
- (k) of any written notice of a dispute received by such Loan Party with respect to any licensing, patent, royalty, trademark, trade name or copyright agreement with any third party regarding the threatened termination of such agreement; and
- (l) of any failure by any Loan Party to pay rent beyond any applicable cure or grace period provided in the applicable lease at (i) any of the Loan Parties' distribution centers or warehouses; (ii) twenty (20%) or more of such Loan Party's Store locations or (iii) any of such Loan Party's locations if such failure would be reasonably likely to result in a Material Adverse Effect.

Each notice pursuant to this Section shall be accompanied by a statement of a Responsible Officer of the Lead Borrower setting forth details of the occurrence referred to therein and stating what action the Lead Borrower has taken and proposes to take with respect thereto.

6.04 Payment of Obligations. Pay and discharge as the same shall become due and payable, all its obligations and liabilities, including (a) all tax liabilities, assessments and governmental charges or levies upon it or its properties or assets, (b) all lawful claims (including, without limitation, claims of landlords, warehousemen, customs brokers, freight forwarders, consolidators, and carriers) which, if unpaid, would by Law become a Lien upon its property other than a Permitted Encumbrance; and (c) all Material Indebtedness, as and when due and payable, but subject to any subordination provisions contained in any instrument or agreement evidencing such Indebtedness, except, in each case, where (i) the validity or amount thereof is being contested in good faith by appropriate proceedings, (ii) such Loan Party has set aside on its books adequate reserves with respect thereto in accordance with GAAP, (iii) such contest effectively suspends collection of the contested obligation and enforcement of any Lien securing such obligation, (iv) no Lien has been filed with respect thereto and (v) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect. Nothing contained herein shall be deemed to limit the rights of the Agents with respect to determining Reserves pursuant to this Agreement.

6.05 Preservation of Existence, Etc.

(a) Preserve, renew and maintain in full force and effect its legal existence and good standing under the Laws of the jurisdiction of its organization or formation except in a transaction permitted by Section 7.05 or 7.06 and except for the dissolution, liquidation, winding up or cessation of existence of any Subsidiary that is not a Material Subsidiary; (b) take all reasonable action to maintain all rights, privileges, permits, licenses and franchises necessary or desirable in the normal conduct of its business, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and (c) preserve or renew all of its Intellectual Property, except to the extent such Intellectual Property is no longer used or useful in the conduct of the business of the Loan Parties.

6.06 Maintenance of Properties. (a) Maintain, preserve and protect all of its material properties and equipment necessary in the operation of its business in good working order and condition, ordinary wear and tear excepted; and (b) make all necessary repairs thereto and renewals and replacements thereof except where the failure to do so could not reasonably be expected to have a Material Adverse Effect.

6.07 Maintenance of Insurance

(a) Maintain with financially sound and reputable insurance companies reasonably acceptable to the Agent and not Affiliates of the Loan Parties, insurance with respect to its properties and business against loss or damage of the kinds customarily insured against by Persons engaged in the same or similar business and operating in the same or similar locations or as is required by Law, of such types and in such amounts as are customarily carried under similar circumstances by such other Persons and as are reasonably acceptable to the Agent.

(b) Maintain for themselves and their Subsidiaries, a Directors and Officers insurance policy, and a "Blanket Crime" policy including employee dishonesty, forgery or alteration, theft, disappearance and destruction, robbery and safe burglary, property, and computer fraud coverage with responsible companies in such amounts as are customarily carried by business entities engaged in similar businesses similarly situated, and will upon request by the Agent furnish the Agent certificates evidencing renewal of each such policy.

(c) Cause fire and extended coverage policies maintained with respect to any Collateral to be endorsed or otherwise amended to include (i) a non-contributing mortgage clause (regarding improvements to Real Estate) and lenders' loss payable clause (regarding

personal property), in form and substance satisfactory to the Agent, which endorsements or amendments shall provide that, unless otherwise directed by the Agent, the insurer shall pay all proceeds otherwise payable to the Loan Parties under the policies directly to the Agent, (ii) a provision to the effect that none of the Loan Parties, Credit Parties or any other Person shall be a co-insurer and (iii) such other provisions as the Agent may reasonably require from time to time to protect the interests of the Credit Parties.

(d) Cause commercial general liability policies to be endorsed to name the Agent as an additional insured.

(e) Cause business interruption policies to name the Agent as a loss payee and to be endorsed or amended to include (i) a provision that, from and after the Effective Date, unless otherwise directed by the Agent, the insurer shall pay all proceeds otherwise payable to the Loan Parties under the policies directly to the Agent, (ii) a provision to the effect that none of the Loan Parties, the Agent, or any other party shall be a co-insurer and (iii) such other provisions as the Agent may reasonably require from time to time to protect the interests of the Credit Parties.

(f) Cause each such policy referred to in this Section 6.07 to also provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium except upon not less than ten (10) days' prior written notice thereof by the insurer to the Agent (giving the Agent the right to cure defaults in the payment of premiums) or (ii) for any other reason except upon not less than thirty (30) days' prior written notice thereof by the insurer to the Agent.

(g) Deliver to the Agent, prior to the cancellation, modification or non-renewal of any such policy of insurance, a copy of a renewal or replacement policy (or other evidence of renewal of a policy previously delivered to the Agent, including an insurance binder) together with evidence satisfactory to the Agent of payment of the premium therefor.

(h) If at any time the area in which any Eligible Real Estate are located is designated (i) a "flood hazard area" in any Flood Insurance Rate Map published by the Federal Emergency Management Agency (or any successor agency), obtain flood insurance in such total amount as is reasonable and customary for companies engaged in the business of operating supermarkets, and otherwise comply with the National Flood Insurance Program as set forth in the Flood Disaster Protection Act of 1973, as amended from time to time, or (ii) a "Zone 1" area, obtain earthquake insurance in such total amount as is reasonable and customary for companies engaged in a similar situated business.

(i) Permit any representatives that are designated by the Agent to inspect the insurance policies maintained by or on behalf of the Loan Parties and, subject to Section 6.10(a), to inspect books and records related thereto and any properties covered thereby.

None of the Credit Parties, or their agents or employees shall be liable for any loss or damage insured by the insurance policies required to be maintained under this Section 6.07. Each Loan Party shall look solely to its insurance companies or any other parties other than the Credit Parties for the recovery of such loss or damage and such insurance companies shall have no rights of subrogation against any Credit Party or its agents or employees. If, however, the insurance policies do not provide waiver of subrogation rights against such parties, as required above, then the Loan Parties hereby agree, to the extent permitted by law, to waive their right of recovery, if any, against the Credit Parties and their agents and employees. The designation of any form, type or amount of insurance coverage by any Credit Party under this Section 6.07 shall in no event be deemed a representation, warranty or advice by such Credit Party that such

insurance is adequate for the purposes of the business of the Loan Parties or the protection of their properties.

6.08 Compliance with Laws. Comply in all material respects with the requirements of all Laws and all orders, writs, injunctions and decrees applicable to it or to its business or property, except in such instances in which (a) such requirement of Law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves have been set aside and maintained by the Loan Parties in accordance with GAAP; (b) such contest effectively suspends enforcement of the contested Laws, and (c) the failure to comply therewith could not reasonably be expected to have a Material Adverse Effect.

6.09 Books and Records; Accountants.

(a) Maintain proper books of record and account, in which full, true and correct entries in conformity with GAAP consistently applied shall be made of all financial transactions and matters involving the assets and business of the Loan Parties or such Subsidiary, as the case may be; and (ii) maintain such books of record and account in material conformity with all applicable requirements of any Governmental Authority having regulatory jurisdiction over the Loan Parties or such Subsidiary, as the case may be.

(b) At all times retain a Registered Public Accounting Firm which is reasonably satisfactory to the Agent.

6.10 Inspection Rights.

(a) Permit representatives and independent contractors of the Agent to visit and inspect any of its properties, to examine its corporate, financial and operating records, and make copies thereof or abstracts therefrom, and to discuss its affairs, finances and accounts with its directors, officers, and Registered Public Accounting Firm, all at the expense of the Loan Parties and at such reasonable times during normal business hours and as often as may be reasonably desired, upon reasonable advance notice to the Lead Borrower or the Canadian Borrower, as applicable; provided, however, that when a Default or an Event of Default exists the Agent (or any of its representatives or independent contractors) may do any of the foregoing at the expense of the Loan Parties at any time during normal business hours and without advance notice.

(b) Upon the request of the Agent after reasonable prior notice, permit the Agent or professionals (including investment bankers, consultants, accountants, and lawyers) retained by the Agent to conduct commercial finance examinations and other evaluations, including, without limitation, of (i) the Lead Borrower's or the Canadian Borrower's, as applicable, practices in the computation of the Canadian Borrowing Base and the Domestic Borrowing Base (ii) the assets included in the Canadian Borrowing Base and the Domestic Borrowing Base and related financial information such as, but not limited to, sales, gross margins, payables, accruals and reserves, and (iii) the Loan Parties' business plan, forecasts and cash flows. The Loan Parties shall pay the fees and expenses of the Agent and such professionals with respect to (i) while no Event of Default shall have occurred and be continuing, one commercial finance examination during any twelve month period; provided that (A) if Domestic Availability at any time is less than 50% of the Loan Cap but greater than or equal to the greater of (x) 15% of the Loan Cap and (y) \$20,000,000, the Loan Parties shall pay such fees and expenses for two commercial finance examinations during any twelve month period, and (B) if Domestic Availability is less than the greater of (x) 15% of the Loan Cap and (y) \$20,000,000, the Loan Parties shall pay such fees

and expenses for three commercial finance examinations in any twelve month period, and (ii) all such commercial finance examinations, if required by Law or if an Event of Default shall have occurred and be continuing. Notwithstanding the foregoing, the Agent shall cause at least one commercial finance examination to be conducted during each twelve month period following the Effective Date at the expense of the Loan Parties, and may cause additional commercial finance examinations to be undertaken as it in its discretion deems necessary or appropriate, at its own expense.

(c) Upon the request of the Agent after reasonable prior notice, permit the Agent or professionals (including appraisers) retained by the Agent to conduct appraisals of the Inventory Collateral, including, without limitation, the Inventory included in the Canadian Borrowing Base and Domestic Borrowing Base. The Loan Parties shall pay the fees and expenses of the Agent and such professionals with respect to (i) while no Event of Default shall have occurred and be continuing, one appraisal during any twelve month period; provided that, (A) if Domestic Availability at any time is less than 50% of the Loan Cap but greater than or equal to the greater of (x) 15% of the Loan Cap and (y) \$20,000,000, the Loan Parties shall pay such fees and expenses for two appraisals during any twelve month period, and (B) if Domestic Availability is less than the greater of (x) 15% of the Loan Cap and (y) \$20,000,000, the Loan Parties shall pay such fees and expenses for three appraisals in any twelve month period, and (ii) all such appraisals, if required by Law or if an Event of Default shall have occurred and be continuing. Notwithstanding the foregoing, the Agent shall cause at least one Inventory appraisal to be conducted during each twelve month period following the Effective Date at the expense of the Loan Parties, and may cause additional appraisals to be undertaken as it in its discretion deems necessary or appropriate, at its own expense.

(d) Upon the request of the Agent after reasonable prior notice, permit the Agent or professionals (including appraisers) retained by the Agent to conduct appraisals of the Eligible Real Estate. The Loan Parties shall pay the fees and expenses of the Agent and such professionals with respect to (i) while no Event of Default shall have occurred and be continuing, up to one appraisal during any twelve month period, and (ii) all such appraisals, if required by Law or if an Event of Default shall have occurred and be continuing. Notwithstanding the foregoing, the Agent may cause additional appraisals of Eligible Real Estate to be undertaken as it in its discretion deems necessary or appropriate, at its own expense.

(e) Permit the Agent, from time to time, to engage a geohydrologist, an independent engineer or other qualified consultant or expert, reasonably acceptable to the Agent, at the expense of the Loan Parties, to undertake Phase I environmental site assessments during the term of this Agreement of the Eligible Real Estate, provided that such assessments may only be undertaken (i) during the continuance of a Default or an Event of Default, or (ii) if a Loan Party receives any notice or obtains knowledge of (A) any potential or known release of any Hazardous Materials at or from any Eligible Real Estate, notification of which must be given to any Governmental Authority under any Environmental Law, or notification of which has, in fact, been given to any Governmental Authority, or (B) any complaint, order, citation or notice with regard to air emissions, water discharges, or any other environmental health or safety matter affecting any Loan Party or any Eligible Real Estate from any Person (including, without limitation, the Environmental Protection Agency). Environmental assessments may include detailed visual inspections of the Real Estate, including, without limitation, any and all storage areas, storage tanks, drains, dry wells and leaching areas, and the taking of soil samples, surface water samples and ground water samples, as well as such other investigations or analyses as are reasonably necessary for a determination of the compliance of the Real Estate and the use and operation thereof with all applicable Environmental Laws. The Borrowers will, and will cause each of their Subsidiaries to, cooperate in all respects with the Agent and such third parties to enable such assessment and evaluation to be timely completed in a manner reasonably satisfactory to the Agent.

6.11 Additional Loan Parties. Notify the Agent at the time that any Person becomes a Subsidiary, and promptly thereafter (and in any event within fifteen (15) days): (a) cause such Subsidiary, if it is a Material Subsidiary that is not a CFC (other than a Canadian Subsidiary guaranteeing Canadian Liabilities), (i) to become, at the Agent's option, a Borrower or Guarantor by executing and delivering to the Agent a Joinder to the Loan Documents, or such other documents as the Agent shall deem appropriate for such purpose, (ii) to grant a Lien to the Agent on such Subsidiary's assets of the same type that constitute Collateral to secure the Obligations, and (iii) deliver to the Agent documents of the types referred to in Sections 4.01(a)(iii) and (iv) and favorable opinions of counsel to such Subsidiary (which shall cover, among other things, the legality, validity, binding effect and enforceability of the documentation referred to in clause (i)), and (b) if any Equity Interests or Indebtedness of such Subsidiary are owned by or owing to any Loan Party, to the extent that such Equity Interests or Indebtedness are not already Collateral, to pledge such Equity Interests and promissory notes evidencing such Indebtedness (except that, if such Subsidiary is a CFC, the Equity Interests of such Subsidiary to be pledged by any Domestic Loan Party shall be limited to 65% of the outstanding voting Equity Interests of such Subsidiary and 100% of the non-voting Equity Interests of such Subsidiary, in each case in form, content and scope reasonably satisfactory to the Agent. In no event shall compliance with this Section 6.11 waive or be deemed a waiver or Consent to any transaction giving rise to the need to comply with this Section 6.11 if such transaction was not otherwise expressly permitted by this Agreement or constitute or be deemed to constitute, with respect to any Subsidiary, an approval of such Person as a Borrower or permit the inclusion of any acquired assets in the computation of the Canadian Borrowing Base or Domestic Borrowing Base.

6.12 Cash Management.

(a) ACH or wire transfer no less frequently than daily (and whether or not there are then any outstanding Obligations) to a Blocked Account all amounts on deposit in each DDA (net of any minimum balance, not to exceed \$2,500.00, as may be required to be kept in the subject DDA by the depository institution at which such DDA is maintained) and all payments due from credit card processors.

(b) (i) After the occurrence and during the continuance of a Cash Dominion Event, cause the ACH or wire transfer by the Domestic Loan Parties to the concentration account maintained at Bank of America or with another Domestic Lender reasonably satisfactory to the Agent with whom a Blocked Account Agreement has been executed (the "U.S. Concentration Account"), and (ii) after the occurrence and during the continuance of an Event of Default, cause the ACH or wire transfer by the Canadian Loan Parties to the concentration account maintained at Bank of America-Canada Branch or with another Canadian Lender reasonably satisfactory to the Agent with whom a Blocked Account Agreement has been executed (the "Canadian Concentration Account"), as applicable, in each case no less frequently than daily (and whether or not there are then any outstanding Obligations), all cash receipts and collections received by each applicable Loan Party from all sources, including, without limitation, the following:

(i) all available cash receipts from the sale of Inventory (including without limitation, proceeds of credit card charges) and other assets (whether or not constituting Collateral);

(ii) all proceeds of collections of Accounts;

(iii) all Net Proceeds, and all other cash payments received by a Loan Party from any Person or from any source or on account of any Disposition or other transaction or event, including, without limitation, any Prepayment Event;

(iv) the then contents of each DDA (net of any minimum balance, not to exceed \$10,000.00, as may be required to be kept in the subject DDA by the depository institution at which such DDA is maintained); and

(v) the then entire ledger balance of each Blocked Account (net of any minimum balance, not to exceed \$10,000.00, as may be required to be kept in the subject Blocked Account by the Blocked Account Bank).

(c) Each of the U.S. Concentration Account and the Canadian Concentration Account shall at all times be under the sole dominion and control of the Agent. The Loan Parties hereby acknowledge and agree that (i) the Loan Parties have no right of withdrawal from the U.S. Concentration Account or the Canadian Concentration Account, (ii) the funds on deposit in the U.S. Concentration Account shall at all times be collateral security for all of the Obligations and the funds on deposit in the Canadian Concentration Account shall at all times be collateral security for all of the Canadian Liabilities, (iii) the funds on deposit in the U.S. Concentration Account shall be applied to the Obligations as provided in this Agreement and (iv) the funds on deposit in the Canadian Concentration Account shall be applied to the Canadian Liabilities as provided in this Agreement. In the event that, notwithstanding the provisions of this Section 6.12, any Loan Party receives or otherwise has dominion and control of any such cash receipts or collections, such receipts and collections shall be held in trust by such Loan Party for the Agent shall not be commingled with any of such Loan Party's other funds or deposited in any account of such Loan Party and shall, not later than the Business Day after receipt thereof, be deposited into the U.S. Concentration Account or the Canadian Concentration Account, as applicable, or dealt with in such other fashion as such Loan Party may be instructed by the Agent.

(d) Upon the request of the Agent, cause bank statements and/or other reports to be delivered to the Agent not less often than monthly, accurately setting forth all amounts deposited in each Blocked Account to ensure the proper transfer of funds as set forth above.

6.13 Information Regarding the Collateral

(a) Furnish to the Agent (x) at least fifteen (15) days prior written notice of any change in: (i) any Loan Party's name; (ii) the location of any Loan Party's registered or chief executive office or its principal place of business; (iii) any Loan Party's organizational structure or jurisdiction of incorporation or formation; or (iv) any Loan Party's Federal Taxpayer Identification Number or organizational identification number assigned to it by its state or other jurisdiction of organization and (y) not later than thirty (30) days after any change in the location of any office of any Loan Party office in which it maintains books or records relating to Collateral owned by it or any office or facility at which Collateral owned by it is located (including the establishment of any such new office or facility), notice thereof. The Loan Parties shall not effect or permit any change referred to in the preceding sentence unless all filings have been made under the UCC, the PPSA or otherwise that are required in order for the Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral for its own benefit and the benefit of the other applicable Credit Parties with the priority required by the Security Documents.

(b) Should any of the information on any of the Schedules hereto become inaccurate or misleading in any material respect as a result of changes after the Effective Date, advise the Agent in writing of such revisions or updates as may be necessary or appropriate to update or correct the same.

From time to time as may be reasonably requested by the Agent, the Lead Borrower shall supplement each Schedule hereto, or any representation herein or in any other Loan Document, with respect to any matter arising after the Effective Date that, if existing or occurring on the Effective Date, would have been required to be set forth or described in such Schedule or as an exception to such representation or that is necessary to correct any information in such Schedule or representation which has been rendered inaccurate thereby (and, in the case of any supplements to any Schedule, such Schedule shall be appropriately marked to show the changes made therein). Notwithstanding the foregoing, no supplement or revision to any Schedule or representation shall be deemed the Credit Parties' consent to the matters reflected in such updated Schedules or revised representations; nor shall any such supplement or revision to any Schedule or representation be deemed the Credit Parties' waiver of any Default or Event of Default resulting from the matters disclosed therein.

6.14 Physical Inventories.

(a) Cause not less than one physical inventory to be undertaken, at the expense of the Loan Parties, in each twelve month period consistent with past practices, conducted by such inventory takers as are satisfactory to the Agent and following such methodology as is consistent with the methodology used in the immediately preceding inventory or as otherwise may be satisfactory to the Agent. The Agent, at the expense of the Loan Parties, may participate in and/or observe each scheduled physical count of Inventory which is undertaken on behalf of any Loan Party. The Borrowers shall provide the Agent with the preliminary Inventory levels at each of the Borrowers' Stores within ten (10) days following the completion of such physical inventory. The Lead Borrower, within 60 days following the completion of such inventory, shall provide the Agent with a reconciliation of the results of such inventory (as well as of any other physical inventory or cycle counts undertaken by a Loan Party) and shall post such results to the Loan Parties' stock ledgers and general ledgers, as applicable.

(b) Permit the Agent, in its discretion, if any Default or Event of Default exists, to cause additional such inventories to be taken as the Agent determines (each, at the expense of the Loan Parties).

6.15 Environmental Laws.

(a) Conduct its operations and keep and maintain its Real Estate in material compliance with all Environmental Laws; (b) obtain and renew all environmental permits necessary for its operations and properties; and (c) implement any and all investigation, remediation, removal and response actions that are appropriate or necessary to maintain the value and marketability of the Real Estate or to otherwise comply with Environmental Laws pertaining to the presence, generation, treatment, storage, use, disposal, transportation or release of any Hazardous Materials on, at, in, under, above, to, from or about any of its Real Estate, provided, however, that neither a Loan Party nor any of its Subsidiaries shall be required to undertake any such cleanup, removal, remedial or other action to the extent that its obligation to do so is being contested in good faith and by proper proceedings and adequate reserves have been set aside and are being maintained by the Loan Parties with respect to such circumstances in accordance with GAAP.

6.16 Further Assurances.

(a) Execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements and other documents), that may be required under any Law, or which the Agent may reasonably request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created or intended to be created by the Security Documents or the validity or priority of

any such Lien, all at the expense of the Loan Parties. The Loan Parties also agree to provide to the Agent, from time to time upon request, evidence satisfactory to the Agent as to the perfection of the Liens created or intended to be created by the Security Documents.

(b) If any material assets are acquired by any Loan Party after the Effective Date (other than assets constituting Collateral under the Security Documents that become subject to the Lien under the Security Documents upon acquisition thereof), notify the Agent thereof, and the Loan Parties will cause such assets to be subjected to a Lien securing the Obligations and will take such actions as shall be necessary or shall be requested by the Agent to grant and perfect such Liens, including actions described in Section 6.16(a), all at the expense of the Loan Parties. In no event shall compliance with this Section 6.16(b) waive or be deemed a waiver or Consent to any transaction giving rise to the need to comply with this Section 6.16(b) if such transaction was not otherwise expressly permitted by this Agreement or any other Loan Document or constitute or be deemed to constitute Consent to the inclusion of any acquired assets in the computation of the Canadian Borrowing Base and the Domestic Borrowing Base.

(c) Upon the request of the Agent, cooperate with the Agent to cause each of its customs brokers, freight forwarders, consolidators and/or carriers to deliver an agreement (including, without limitation, a Customs Broker/Carrier Agreement) to the Agent covering such matters and in such form as the Agent may reasonably require.

6.17 Compliance with Terms of Leaseholds.

Except as otherwise expressly permitted hereunder, (a) make all payments and otherwise perform all obligations in respect of all Leases to which any Loan Party or any of its Subsidiaries is a party, keep such Leases in full force and effect (b) not allow such Leases to lapse or be terminated or any rights to renew such Leases to be forfeited or cancelled except in the ordinary course of business, consistent with past practices, (c) notify the Agent of any default by any party with respect to such Leases and cooperate with the Agent in all respects to cure any such default, and (d) cause each of its Subsidiaries to do the foregoing, except, in any case, where the failure to do so, either individually or in the aggregate, could not be reasonably likely to have a Material Adverse Effect.

6.18 Material Contracts. (a) Perform and observe all the terms and provisions of each Material Contract to be performed or observed by it, (b) maintain each such Material Contract in full force and effect except to the extent such Material Contract is no longer used or useful in the conduct of the business of the Loan Parties in the ordinary course of business, consistent with past practices, (c) enforce each such Material Contract in accordance with its terms, and, (d) upon request of the Agent, make such demands and requests for information and reports or for action from any other party to each such Material Contract as any Loan Party or any of its Subsidiaries is entitled to make under such Material Contract, and (e) cause each of its Subsidiaries to do the foregoing, except, in any case, where the failure to do so, either individually or in the aggregate, could not be reasonably likely to have a Material Adverse Effect.

ARTICLE VII NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied (other than contingent indemnification claims for which a claim has not been asserted), or any Letter of Credit shall remain outstanding, no Loan Party shall, nor shall it permit any Material Subsidiary to, directly or indirectly:

7.01 Liens. Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired or sign or file under the UCC, the PPSA or any similar Law or statute of any jurisdiction a financing statement that names any Loan Party or any Subsidiary thereof as debtor; sign or suffer to exist any security agreement authorizing any Person thereunder to file such financing statement; sell any of its property or assets subject to an understanding or agreement (contingent or otherwise) to repurchase such property or assets with recourse to it or any of its Subsidiaries; or assign or otherwise transfer any accounts or other rights to receive income, other than, as to all of the above, Permitted Encumbrances.

7.02 Investments. Make any Investments, except Permitted Investments.

7.03 Indebtedness; Disqualified Stock; Equity Issuances

(a) Create, incur, assume, guarantee, suffer to exist or otherwise become or remain liable with respect to, any Indebtedness, except Permitted Indebtedness;

(b) issue Disqualified Stock; or

(c) issue and sell any other Equity Interests other than those issued by (A) any Subsidiary of the Lead Borrower to the Lead Borrower or any other Subsidiary of the Lead Borrower, to the extent not prohibited by Section 7.02 from being acquired by the applicable acquirer, or (B) the Lead Borrower, if such Equity Interests are in the form of common stock or other securities that do not require the making of any Restricted Payment on such Equity Interests, whether in the form of mandatory distributions, dividends or payments upon mandatory redemption other than redemption at the option of the Lead Borrower (unless such Restricted Payments are to be made solely in additional shares of Equity Interests, in lieu of cash), (C) by the Lead Borrower to any officer, director, employee or consultant of the Lead Borrower or any of its Subsidiaries pursuant to employment agreements, stock options, stock incentive or stock ownership plans, or (D) so long as no Event of Default has occurred and is continuing or would result therefrom, the Lead Borrower in an Initial Public Offering or Secondary Offering.

7.04 Fundamental Changes. Merge, dissolve, liquidate, consolidate or amalgamate with or into another Person, (or agree to do any of the foregoing), except that, so long as no Default or Event of Default shall have occurred and be continuing prior to or immediately after giving effect to any action described below or would result therefrom:

(a) any Subsidiary which is not a Loan Party may merge or amalgamate with (i) a Loan Party, provided that the Loan Party shall be the continuing or surviving Person, or (ii) any one or more other Subsidiaries which are not Loan Parties, provided that when any wholly-owned Subsidiary is merging or amalgamating with another Subsidiary, the wholly-owned Subsidiary shall be the continuing or surviving Person;

(b) any Subsidiary which is a Loan Party may merge or amalgamate into any Subsidiary which is a Loan Party or into a Borrower, provided that in any merger or amalgamation involving a Borrower, a Borrower shall be the continuing or surviving Person;

(c) in connection with a Permitted Acquisition, any Subsidiary of a Loan Party may merge or amalgamate with or into or consolidate with any other Person or permit any other Person to merge with or into or consolidate with it; provided that (i) the Person surviving such merger or amalgamation shall be a wholly-owned Subsidiary of a Loan Party and such Person shall become a Loan Party in accordance with the provisions of Section 6.11 hereof, and (ii) in the case of any such merger or amalgamation to which any Loan Party is a party, such Loan Party is the surviving Person; and

(d) any CFC that is not a Loan Party may merge into any CFC that is not a Loan Party.

7.05 Dispositions. Make any Disposition or enter into any agreement to make any Disposition, except Permitted Dispositions.

7.06 Restricted Payments. Declare or make, directly or indirectly, any Restricted Payment, or incur any obligation (contingent or otherwise) to do so, except that each of the following shall be permitted so long as no Default or Event of Default shall have occurred and be continuing prior, or immediately after giving effect, to the following, or would result therefrom:

(a) each Subsidiary of a Loan Party may make Restricted Payments to any Loan Party;

(b) the Loan Parties and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other common Equity Interests of such Person;

(c) the Lead Borrower may make Restricted Payments on account of employee stock repurchase programs or other similar programs in an amount not to exceed \$5,000,000 in any Fiscal Year; and

(d) if the RP Conditions are satisfied, the Loan Parties may make other Restricted Payments.

7.07 Prepayments of Indebtedness. Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner any Indebtedness, or make any payment in violation of any subordination terms of any Subordinated Indebtedness, except (a) as long as no Default or Event of Default then exists, regularly scheduled or mandatory repayments, repurchases, redemptions or defeasances of (i) Permitted Indebtedness (other than Subordinated Indebtedness), and (ii) Subordinated Indebtedness in accordance with the subordination terms thereof, (b) voluntary prepayments, repurchases, redemptions or defeasances of (i) Permitted Indebtedness (but excluding on account of any Subordinated Indebtedness) as long as the Payment Conditions are satisfied, and (ii) Subordinated Indebtedness in accordance with the subordination terms thereof and as long as the Payment Conditions are satisfied, and (c) Permitted Refinancings of any such Indebtedness.

7.08 Change in Nature of Business

Engage in any line of business substantially different from the business conducted by the Loan Parties and their Subsidiaries on the Effective Date or any business reasonably related or incidental thereto.

7.09 Transactions with Affiliates. Enter into, renew, extend or be a party to any transaction of any kind with any Affiliate of any Loan Party, whether or not in the ordinary course of business, other than on fair and reasonable terms substantially as favorable to the Loan Parties or such Subsidiary as would be obtainable by the Loan Parties or such Subsidiary at the time in a comparable arm's length transaction with a Person other than an Affiliate, provided that the foregoing restriction shall not apply to (a) a transaction between or among the Loan Parties, (b) advances for commissions, travel and other similar purposes in the ordinary course of business to directors, officers and employees, (c) the issuance of Equity Interests in the Lead Borrower to any officer, director, employee or consultant of the Lead Borrower or any of its Subsidiaries, (d) the payment of reasonable fees and out-of-pocket costs to directors, and compensation and employee benefit arrangements paid to, and indemnities provided for the benefit of, directors, officers or employees of the Lead Borrower or any of its Subsidiaries, (e) any issuances of securities (other than any such issuances not permitted hereunder) or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment agreements, stock options and stock ownership plans (in each case in respect of Equity Interests in the Lead Borrower), (f) as long as no Event of Default then exists or would arise therefrom, the payment at any time prior to or contemporaneously with the Initial Public Offering of any management or other similar fees pursuant to that certain Amended and Restated Management Services Agreement, dated as of June 2009, by and between the Lead Borrower, Home Holdings, LLC, Catterton Management Company, LLC, Tower Three Partners LLC and GJK Capital Advisors, LLC and (g) the Initial Public Offering or any Secondary Offering.

7.10 Burdensome Agreements. Enter into or permit to exist any Contractual Obligation (other than this Agreement or any other Loan Document) that (a) limits the ability (i) of any Subsidiary to make Restricted Payments or other distributions to any Loan Party or to otherwise transfer property to or invest in a Loan Party, (ii) of any Subsidiary to Guarantee the Obligations, (iii) of any Subsidiary to make or repay loans to a Loan Party, or (iv) of the Loan Parties or any Subsidiary to create, incur, assume or suffer to exist Liens on property of such Person in favor of the Agent; provided, however, that this clause (iv) shall not prohibit any negative pledge incurred or provided in favor of any holder of Indebtedness permitted under clauses (c) or (d) of the definition of Permitted Indebtedness solely to the extent any such negative pledge relates to the property financed by or the subject of such Indebtedness; or (b) requires the grant of a Lien to secure an obligation of such Person if a Lien is granted to secure another obligation of such Person.

7.11 Use of Proceeds. Use the proceeds of any Credit Extension, whether directly or indirectly, and whether immediately, incidentally or ultimately, (a) for any purpose that would violate Regulations T, U or X of the FRB, or (b) for any purposes other than (i) the acquisition of working capital assets in the ordinary course of business, (ii) to finance Capital Expenditures of the Loan Parties, and (iii) for general corporate purposes, in each case to the extent expressly permitted under Law and the Loan Documents.

7.12 Amendment of Material Documents.

Amend, modify or waive any of a Loan Party's rights under (a) its Organization Documents in a manner materially adverse to the Credit Parties, or (b) any Material Contract or Material Indebtedness (other than on account of any Permitted Refinancing thereof), in each case to the extent that such amendment, modification or waiver would result in a Default or Event of Default under any of the Loan Documents, would be materially adverse to the Credit Parties, or otherwise would be reasonably likely to have a Material Adverse Effect.

7.13 Fiscal Year.

Change the Fiscal Year of any Loan Party, or the accounting policies or reporting practices of the Loan Parties, except as required by GAAP.

7.14 Deposit Accounts; Credit Card Processors.

Open new DDAs unless the Loan Parties shall have delivered to the Agent appropriate Blocked Account Agreements. No Loan Party shall maintain any bank accounts or enter into any agreements with credit card processors other than the ones expressly contemplated herein or in Section 6.12 hereof.

7.15 Consolidated Fixed Charge Coverage Ratio.

During the continuance of a Covenant Compliance Event, permit the Consolidated Fixed Charge Coverage Ratio, calculated as of the last day of each month on a trailing twelve months basis, to be less than 1.0:1.0.

7.16 Canadian Pension Plans.

No Canadian Loan Party shall become party to, or maintain or contribute to, any Canadian Pension Plan which is a defined benefit pension plan, or fail to make all required contributions to any Canadian Pension Plan when due.

ARTICLE VIII EVENTS OF DEFAULT AND REMEDIES

8.01 Events of Default. Any of the following shall constitute an Event of Default:

(a) Non-Payment. The Borrowers or any other Loan Party fails (i) to pay when and as required to be paid herein, any amount of principal of any Loan or any L/C Obligation, or deposit any funds as Cash Collateral in respect of L/C Obligations, or (ii) pay within three days after the same becomes due, any interest on any Loan or any L/C Obligation, or any fee due hereunder, or (iii) pay within five days after the same becomes due, any other amount payable hereunder or under any other Loan Document; or

(b) Specific Covenants. (i) Any Loan Party fails to perform or observe any term, covenant or agreement contained in any of Sections 6.01, 6.02, 6.03, 6.05, 6.07, 6.10, 6.11, 6.12, or 6.13 or Article VII; or

(c) Other Defaults. Any Loan Party fails to perform or observe any other covenant or agreement (not specified in Section 8.01(a) or (b) above) contained in any Loan Document on its part to be performed or observed and such failure continues for 15 days; or

(d) Representations and Warranties. Any representation, warranty, certification or statement of fact made or deemed made by or on behalf of any Loan Party herein, in any other Loan Document, shall be incorrect or misleading in any material respect when made or deemed made; or

(e) Cross-Default. (i) Any Loan Party (A) fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Material Indebtedness, or (B) fails to observe or perform any other agreement or condition relating to any such Material Indebtedness or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the holder or holders of such Material Indebtedness or the beneficiary or beneficiaries of any Guarantee thereof (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to be demanded or to become due or to be repurchased, prepaid, defeased or redeemed (automatically or otherwise), or an offer to repurchase, prepay, defease or redeem such Indebtedness to be made, prior to its stated maturity or such Guarantee to become payable or cash collateral in respect thereof to be demanded; or (ii) there occurs under any Swap Contract an Early Termination Date (as defined in such Swap Contract) resulting from (A) any event of default under such Swap Contract as to which a Loan Party or any Subsidiary thereof is the Defaulting Party (as defined in such Swap Contract) or (B) any Termination Event (as so defined) under such Swap Contract as to which a Loan Party or any Subsidiary thereof is an Affected Party (as so defined) and, in either event, the Swap Termination Value owed by the Loan Party or such Subsidiary as a result thereof is greater than \$1,000,000 or

(f) Insolvency Proceedings, Etc. Any Loan Party or any of its Subsidiaries (other than any CFC that is not a Material Subsidiary) institutes or consents to the institution of any proceeding under any Debtor Relief Law, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, interim receiver, trustee, monitor, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its property; or a proceeding shall be commenced or a petition filed, without the application or consent of such Person, seeking or requesting the appointment of any receiver, interim receiver, trustee, monitor, custodian, conservator, liquidator, rehabilitator or similar officer is appointed and the appointment continues undischarged, undismissed or unstayed for 45 calendar days or an order or decree approving or ordering any of the foregoing shall be entered; or any proceeding under any Debtor Relief Law relating to any such Person or to all or any material part of its property is instituted without the consent of such Person and continues undismissed or unstayed for 45 calendar days, or an order for relief is entered in any such proceeding; or

(g) Inability to Pay Debts; Attachment. (i) Any Loan Party or any Material Subsidiary thereof becomes unable or admits in writing its inability or fails generally to pay its debts as they become due, or (ii) any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of any such Person and is not released, vacated or fully bonded within 10 days after its issuance or levy; or

(h) Judgments. There is entered against any Loan Party or any Material Subsidiary thereof (i) one or more judgments or orders for the payment of money in an aggregate amount

(as to all such judgments and orders) exceeding \$3,000,000 (to the extent not covered by independent third-party insurance as to which the insurer is rated at least "A" by A.M. Best Company, has been notified of the potential claim and does not dispute coverage), or (ii) any one or more non-monetary judgments that have, or could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect and, in either case, (A) enforcement proceedings are commenced by any creditor upon such judgment or order, or (B) there is a period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, is not in effect; or

(i) ERISA; Canadian Pension Plans. (i)(A) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of any Loan Party under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC which would reasonably be likely to result in a Material Adverse Effect, or (B) a Loan Party or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan which failure would reasonably likely result in a Material Adverse Effect, or (C) a Termination Event occurs which would reasonably likely result in a Material Adverse Effect, or (ii) any event or condition similar to those specified in clause (i) hereof shall occur or exist with respect to any Canadian Pension Plan, which, in the reasonable judgment of the Agent, would have a Material Adverse Effect, or if any Canadian Loan Party becomes party to, or maintains or contributes to, any Canadian Pension Plan which is a defined benefit pension plan, or if any Canadian Loan Party is in default with respect to payments to a Canadian Pension Plan or any Lien arises (save for contribution amounts not yet due) in connection with any Canadian Pension Plan; or

(j) Invalidity of Loan Documents. (i) Any provision of any Loan Document, at any time after its execution and delivery and for any reason, ceases to be in full force and effect other than as expressly permitted under the Loan Documents; or any Loan Party or any other Affiliate thereof contests in any manner the validity or enforceability of any provision of any Loan Document; or any Loan Party denies that it has any or further liability or obligation under any provision of any Loan Document, or purports to revoke, terminate or rescind any provision of any Loan Document or seeks to avoid, limit or otherwise adversely affect any Lien purported to be created under any Security Document; or (ii) any Lien purported to be created under any Security Document shall cease to be, or shall be asserted by any Loan Party or any other Person not to be, a valid and perfected Lien on any Collateral, with the priority required by the applicable Security Document; or

(k) Change of Control. There occurs any Change of Control; or

(l) Cessation of Business. Except as otherwise expressly permitted hereunder, the Loan Parties, taken as a whole, shall take any action to suspend the operation of their business in the ordinary course, liquidate all or a material portion of their assets or Store locations, or employ an agent or other third party to conduct a program of closings, liquidations or "Going-Out-Of-Business" sales of any material portion of their business; or

(m) Loss of Collateral. There occurs any uninsured loss to any material portion of the Collateral of the type included in the Borrowing Base; or

(n) Breach of Contractual Obligation. Any Loan Party or any Subsidiary thereof fails to make any payment when due (whether by scheduled maturity, required prepayment, acceleration, demand, or otherwise) in respect of any Material Contract or fails to observe or

perform any other agreement or condition relating to any such Material Contract or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event occurs, the effect of which default or other event is to cause, or to permit the counterparty to such Material Contract to terminate such Material Contract; or

(o) Indictment. (i) Any Loan Party is (A) criminally indicted or convicted of a felony for fraud or dishonesty in connection with the Loan Parties' business, or (B) charged by a Governmental Authority under any law that would reasonably be expected to lead to forfeiture of any material portion of Collateral, or (ii) any director or senior officer of any Loan Party is (A) criminally indicted or convicted of a felony or indictable offense for fraud or dishonesty in connection with the Loan Parties' business, unless such director or senior officer promptly resigns or is removed or replaced or (B) charged by a Governmental Authority under any law that would reasonably be expected to lead to forfeiture of any material portion of Collateral;

(p) Subordination. (i) The subordination provisions of the documents evidencing or governing any Subordinated Indebtedness (the "Subordinated Provisions") shall, in whole or in part, terminate, cease to be effective or cease to be legally valid, binding and enforceable against any holder of the applicable Subordinated Indebtedness; or (ii) any Borrower or any other Loan Party shall, directly or indirectly, disavow or contest in any manner (A) the effectiveness, validity or enforceability of any of the Subordination Provisions, (B) that the Subordination Provisions exist for the benefit of the Credit Parties, or (C) that all payments of principal of or premium and interest on the applicable Subordinated Indebtedness, or realized from the liquidation of any property of any Loan Party, shall be subject to any of the Subordination Provisions.

8.02 Remedies Upon Event of Default. If any Event of Default occurs and is continuing, the Agent may, or, at the request of the Required Lenders shall, take any or all of the following actions:

(a) declare the Commitments of each Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions to be terminated, whereupon such Commitments and obligations shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other Obligations to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Loan Parties;

(c) require that the Loan Parties Cash Collateralize the L/C Obligations; and

(d) whether or not the maturity of the Obligations shall have been accelerated pursuant hereto, proceed to protect, enforce and exercise all rights and remedies of the Credit Parties under this Agreement, any of the other Loan Documents or Law, including, but not limited to, by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement and the other Loan Documents or any instrument pursuant to which the Obligations are evidenced, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Credit Parties;

provided, however, that upon the occurrence of any Default or Event of Default with respect to any Loan Party or any Subsidiary thereof under Section 8.01(f), the obligation of each Lender to make Loans and any obligation of the L/C Issuer to make L/C Credit Extensions shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of the Loan Parties to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of the Agent or any Lender.

No remedy herein is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of Law.

8.03 Application of Funds.

(a) After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received from the Domestic Loan Parties or from the Collateral owned by the Domestic Loan Parties on account of the Obligations shall be applied by the Agent in the following order:

First, to payment of that portion of the Obligations (excluding the Other Liabilities and the Canadian Liabilities) constituting fees, indemnities, Credit Party Expenses and other amounts (including fees, charges and disbursements of counsel to the Agent and amounts payable under Article III) payable to the Agent;

Second, to payment of that portion of the Obligations (excluding the Other Liabilities and the Canadian Liabilities) constituting indemnities, Credit Party Expenses, and other amounts (other than principal, interest and fees) payable to the Lenders and the L/C Issuer (including amounts payable under Article III), ratably among them in proportion to the amounts described in this clause Second payable to them;

Third, to the extent not previously reimbursed by the Lenders, to payment to the Agent of that portion of the Obligations constituting principal and accrued and unpaid interest on any Permitted Overadvances;

Fourth, to the extent that Swing Line Loans have not been refinanced by a Domestic Loan, payment to the Swing Line Lender of that portion of the Obligations constituting accrued and unpaid interest on the Swing Line Loans;

Fifth, to the extent that Swing Line Loans have not been refinanced by a Domestic Loan, to payment to the Swing Line Lender of that portion of the Obligations constituting unpaid principal of the Swing Line Loans;

Sixth, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Tranche A Loans, L/C Borrowings with respect to Domestic Letters of Credit, and fees (including Letter of Credit Fees) owing to the Tranche A Lenders, ratably among the Tranche A Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Sixth payable to them;

Seventh, to payment of that portion of the Obligations constituting unpaid principal of the Tranche A Loans and L/C Borrowings with respect to Domestic Letters of Credit, ratably among the Tranche A Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Seventh held by them;

Eighth, to the Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Domestic Letters of Credit;

Ninth, to payment of that portion of the Obligations constituting accrued and unpaid interest on the Incremental Loans, ratably among the Incremental Lenders in proportion to the respective amounts described in this clause Ninth payable to them;

Tenth, to payment of that portion of the Obligations constituting unpaid principal of the Incremental Loans, ratably among the Incremental Lenders in proportion to the respective amounts described in this clause Tenth held by them;

Eleventh, to payment of that portion of the Canadian Liabilities (excluding the Other Liabilities) constituting fees, indemnities, Credit Party Expenses and other amounts (including amounts payable under Article III) payable to the Agent;

Twelfth, to payment of that portion of the Canadian Liabilities (excluding the Other Liabilities) constituting indemnities, Credit Party Expenses, and other amounts (other than principal, interest and fees) payable to the Canadian Lenders and the L/C Issuer (including Credit Party Expenses to the respective Canadian Lenders and the L/C Issuer and amounts payable under Article III), ratably among them in proportion to the amounts described in this clause Twelfth payable to them;

Thirteenth, to payment of that portion of the Canadian Liabilities constituting accrued and unpaid interest on the Canadian Loans, L/C Borrowings with respect to Canadian Letters of Credit, and fees (including Letter of Credit Fees) owing to the Canadian Lenders, ratably among the Canadian Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Thirteenth payable to them;

Fourteenth, to payment of that portion of the Canadian Liabilities constituting unpaid principal of the Canadian Loans and L/C Borrowings with respect to Canadian Letters of Credit, ratably among the Canadian Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Fourteenth held by them;

Fifteenth, to the Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Canadian Letters of Credit;

Sixteenth, to payment of all other Obligations (including without limitation the cash collateralization of unliquidated indemnification obligations as provided in Section 10.04(g), but excluding any Other Liabilities), ratably among the Credit Parties in proportion to the respective amounts described in this clause Sixteenth held by them;

Seventeenth, to payment of that portion of the Obligations arising from Cash Management Services, ratably among the Credit Parties in proportion to the respective amounts described in this clause Seventeenth held by them;

Eighteenth, to payment of all other Obligations arising from Bank Products, ratably among the Credit Parties in proportion to the respective amounts described in this clause Eighteenth held by them; and

Last, the balance, if any, after all of the Obligations have been indefeasibly paid in full, to the Loan Parties or as otherwise required by Law.

Subject to Section 2.03(c), amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clauses Eighth and Fifteenth above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above.

(b) After the exercise of remedies provided for in Section 8.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set forth in the proviso to Section 8.02), any amounts received from the Canadian Loan Parties or from the Collateral owned by the Canadian Loan Parties on account of the Obligations shall be applied by the Agent in the following order:

First, to payment of that portion of the Canadian Liabilities (excluding the Other Canadian Liabilities) constituting fees, indemnities, Credit Party Expenses and other amounts (including amounts payable under Article III) payable to the Agent;

Second, to payment of that portion of the Canadian Liabilities (excluding the Other Canadian Liabilities) constituting indemnities, Credit Party Expenses, and other amounts (other than principal, interest and fees) payable to the Canadian Lenders and the L/C Issuer (including amounts payable under Article III), ratably among them in proportion to the amounts described in this clause Second payable to them;

Third, to payment of that portion of the Canadian Liabilities constituting accrued and unpaid interest on the Canadian Loans, L/C Borrowings with respect to Canadian Letters of Credit, and fees (including Letter of Credit Fees) owing to the Canadian Lenders, ratably among the Canadian Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Third payable to them;

Fourth, to payment of that portion of the Canadian Liabilities constituting unpaid principal of the Canadian Loans and L/C Borrowings with respect to Canadian Letters of Credit, and to pay any amounts owing with respect to Canadian Liabilities, ratably among the Canadian Lenders and the L/C Issuer in proportion to the respective amounts described in this clause Fourth held by them;

Fifth, to the Agent for the account of the L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Canadian Letters of Credit;

Sixth, to payment of all other Canadian Liabilities (including without limitation the cash collateralization of unliquidated indemnification obligations as provided in Section 10.04(g), but excluding any Other Canadian Liabilities), ratably among the Canadian Credit Parties in proportion to the respective amounts described in this clause Sixth held by them;

Seventh, to payment of that portion of the Canadian Liabilities arising from Cash Management Services, ratably among the Canadian Credit Parties in proportion to the respective amounts described in this clause Seventh held by them;

Eighth, to payment of all other Canadian Liabilities arising from Bank Products, ratably among the Canadian Credit Parties in proportion to the respective amounts described in this clause Eighth held by them; and

Last, the balance, if any, after all of the Canadian Liabilities have been indefeasibly paid in full, to the Canadian Loan Parties or as otherwise required by Law.

Subject to Section 2.03(c), amounts used to Cash Collateralize the aggregate undrawn amount of Canadian Letters of Credit pursuant to clause Fifth above shall be applied to satisfy drawings under such Canadian Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Canadian Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Canadian Liabilities, if any, in the order set forth above.

ARTICLE IX THE AGENT

9.01 Appointment and Authority.

(a) Each of the Lenders (in its capacity as a Lender), the Swing Line Lender and the L/C Issuer hereby irrevocably appoints Bank of America to act on its behalf as the administrative agent and collateral agent hereunder and under the other Loan Documents and authorizes the Agent to take such actions on its behalf and to exercise such powers as are delegated to the Agent by the terms hereof or thereof (including, without limitation, acquiring, holding and enforcing any and all Liens on Collateral granted by any of the Loan Parties to secure any of the Obligations), together with such actions and powers as are reasonably incidental thereto.

(b) The provisions of this Article are solely for the benefit of the Agent, the Lenders and the L/C Issuer, and no Loan Party or any Subsidiary thereof shall have rights as a third party beneficiary of any of such provisions.

9.02 Rights as a Lender. The Person serving as the Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though they were not the Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Loan Parties or any Subsidiary or other Affiliate thereof as if such Person were not the Agent hereunder and without any duty to account therefor to the Lenders.

9.03 Exculpatory Provisions. The Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default or Event of Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Agent to liability or that is contrary to any Loan Document or Law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Loan Parties or any of its Affiliates or branches that is communicated to or obtained by the Person serving as the Agent or any of its Affiliates or branches in any capacity.

The Agent shall not be liable for any action taken or not taken by it (i) with the Consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 10.01 and 8.02) or (ii) in the absence of its own gross negligence or willful misconduct as determined by a final and non-appealable judgment of a court of competent jurisdiction.

The Agent shall not be deemed to have knowledge of any Default or Event of Default unless and until notice describing such Default or Event of Default is given to the Agent by the Loan Parties, a Lender or the L/C Issuer. In the event that the Agent obtains such actual knowledge or receives such a notice, the Agent shall give prompt notice thereof to each of the other applicable Credit Parties. Upon the occurrence of a Default or an Event of Default, the Agent shall take such action with respect to such Default or Event of Default as shall be reasonably directed by the Applicable Lenders. Unless and until the Agent shall have received such direction, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to any such Default or Event of Default as it shall deem advisable in the best interest of the Credit Parties. In no event shall the Agent be required to comply with any such directions to the extent that the Agent believes that its compliance with such directions would be unlawful.

The Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default or Event of Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or the creation, perfection or priority of any Lien purported to be created by the Security Documents, (v) the value or the sufficiency of any Collateral, or (vi) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Agent.

9.04 Reliance by Agent.

The Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including, but not limited to, any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Agent

also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or the L/C Issuer, the Agent may presume that such condition is satisfactory to such Lender or the L/C Issuer unless the Agent shall have received written notice to the contrary from such Lender or the L/C Issuer prior to the making of such Loan or the issuance of such Letter of Credit. The Agent may consult with legal counsel (who may be counsel for any Loan Party), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

9.05 Delegation of Duties. The Agent may perform any and all of their respective duties and exercise their respective rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Agent. The Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as the Agent may request.

9.06 Resignation of Agent. The Agent may at any time give written notice of its resignation to the Lenders, the L/C Issuer and the Lead Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, in consultation with the Lead Borrower, to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may on behalf of the Lenders and the L/C Issuer, appoint a successor Agent meeting the qualifications set forth above; provided that if the Agent shall notify the Lead Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any Collateral held by the Agent on behalf of the Lenders or the L/C Issuer under any of the Loan Documents, the retiring Agent shall continue to hold such collateral security until such time as a successor Agent is appointed) and (2) all payments, communications and determinations provided to be made by, to or through the Agent shall instead be made by or to each Lender and the L/C Issuer directly, until such time as the Required Lenders appoint a successor Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Agent, and the retiring Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrowers to a successor Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Lead Borrower and such successor. After the retiring Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 10.04 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Agent was acting as Agent hereunder.

9.07 Non-Reliance on Agent and Other Lenders. Each Lender and the L/C Issuer acknowledges that it has, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and the L/C Issuer also acknowledges that it will, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder. Except as provided in Section 9.12, the Agent shall not have any duty or responsibility to provide any Credit Party with any other credit or other information concerning the affairs, financial condition or business of any Loan Party that may come into the possession of the Agent.

9.08 No Other Duties, Etc.

Anything herein to the contrary notwithstanding, none of the Bookrunners, Arrangers, Syndication Agent or Documentation Agent listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity as an Agent, a Lender or the L/C Issuer hereunder.

9.09 Agent May File Proofs of Claim. In case of the pendency of any proceeding under any Debtor Relief Law or any other judicial proceeding relative to any Loan Party, the Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Agent shall have made any demand on the Loan Parties) shall be entitled and empowered, by intervention in such proceeding or otherwise

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders, the L/C Issuer, the Agent, and the other Credit Parties (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders, the L/C Issuer, the Agent, such Credit Parties and their respective agents and counsel and all other amounts due the Lenders, the L/C Issuer the Agent, and such Credit Parties under Sections 2.03(i), 2.03(j) and 2.03(k) as applicable, 2.09 and 10.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender and the L/C Issuer to make such payments to the Agent and, if the Agent shall consent to the making of such payments directly to the Lenders and the L/C Issuer, to pay to the Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Agent and its agents and counsel, and any other amounts due the Agent under Sections 2.09 and 10.04.

Nothing contained herein shall be deemed to authorize the Agent to authorize or consent to or accept or adopt on behalf of any Lender or the L/C Issuer any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or the L/C Issuer or to

authorize the Agent to vote in respect of the claim of any Lender or the L/C Issuer in any such proceeding.

9.10 Collateral and Guaranty Matters. The Credit Parties irrevocably authorize the Agent, at its option and in its discretion,

(a) to release any Lien on any property granted to or held by the Agent under any Loan Document (i) upon termination of the Aggregate Commitments and payment in full of all Obligations (other than contingent indemnification obligations for which no claim has been asserted) and the expiration, termination or Cash Collateralization of all Letters of Credit, (ii) that is Disposed of or to be Disposed of as part of or in connection with any Permitted Disposition, or (iii) if approved, authorized or ratified in writing by the Applicable Lenders in accordance with Section 10.01;

(b) to subordinate any Lien on any property granted to or held by the Agent under any Loan Document to the holder of any Lien on such property that is permitted by clause (h) of the definition of Permitted Encumbrances; and

(c) to release any Guarantor from its obligations under the Facility Guaranty if such Person ceases to be a Subsidiary as a result of a transaction permitted hereunder.

Upon request by the Agent at any time, the Applicable Lenders will confirm in writing the Agent's authority to release or subordinate its interest in particular types or items of property, or to release any Guarantor from its obligations under the Facility Guaranty pursuant to this Section 9.10. In each case as specified in this Section 9.10, the Agent will, at the Loan Parties' expense, execute and deliver to the applicable Loan Party such documents as such Loan Party may reasonably request to evidence the release of such item of Collateral from the Liens of the Security Documents or to subordinate its interest in such item, or to release such Guarantor from its obligations under the Facility Guaranty, in each case in accordance with the terms of the Loan Documents and this Section 9.10.

9.11 Notice of Transfer.

The Agent may deem and treat a Lender party to this Agreement as the owner of such Lender's portion of the Obligations for all purposes, unless and until, and except to the extent, an Assignment and Acceptance shall have become effective as set forth in Section 10.06.

9.12 Reports and Financial Statements.

By signing this Agreement, each Lender:

(a) agrees to furnish the Agent after the occurrence and during the continuance of a Cash Dominion Event (and thereafter at such frequency as the Agent may reasonably request) with a summary of all Other Liabilities due or to become due to such Lender. In connection with any distributions to be made hereunder, the Agent shall be entitled to assume that no amounts are due to any Lender on account of Other Liabilities unless the Agent has received written notice thereof from such Lender;

(b) is deemed to have requested that the Agent furnish, and the Agent agrees to furnish, such Lender, promptly after they become available, copies of all Borrowing Base Certificates and financial statements required to be delivered by the Lead Borrower hereunder

and all commercial finance examinations and appraisals of the Collateral received by the Agent (collectively, the “**Reports**”);

(c) expressly agrees and acknowledges that the Agent makes no representation or warranty as to the accuracy of the Reports, and shall not be liable for any information contained in any Report;

(d) expressly agrees and acknowledges that the Reports are not comprehensive audits or examinations, that the Agent or any other party performing any audit or examination will inspect only specific information regarding the Loan Parties and will rely significantly upon the Loan Parties’ books and records, as well as on representations of the Loan Parties’ personnel;

(e) agrees to keep all Reports confidential in accordance with the provisions of Section 10.07 hereof; and

(f) without limiting the generality of any other indemnification provision contained in this Agreement, agrees: (i) to hold the Agent and any such other Lender preparing a Report harmless from any action the indemnifying Lender may take or conclusion the indemnifying Lender may reach or draw from any Report in connection with any Credit Extensions that the indemnifying Lender has made or may make to the Borrowers, or the indemnifying Lender’s participation in, or the indemnifying Lender’s purchase of, a Loan or Loans; and (ii) to pay and protect, and indemnify, defend, and hold the Agent and any such other Lender preparing a Report harmless from and against, the claims, actions, proceedings, damages, costs, expenses, and other amounts (including attorney costs) incurred by the Agent and any such other Lender preparing a Report as the direct or indirect result of any third parties who might obtain all or part of any Report through the indemnifying Lender.

9.13 Agency for Perfection.

Each Lender hereby appoints each other Lender as agent for the purpose of perfecting Liens for the benefit of the Agent and the Lenders, in assets which, in accordance with Article 9 of the UCC, with the PPSA or with any other Law of the United States or Canada can be perfected only by possession or control. Should any Lender (other than the Agent) obtain possession or control of any such Collateral, such Lender shall notify the Agent thereof, and, promptly upon the Agent’s request therefor shall deliver such Collateral to the Agent or otherwise deal with such Collateral in accordance with the Agent’s instructions.

9.14 Indemnification of Agent. Without limiting the obligations of Loan Parties hereunder, the Lenders shall indemnify the Agent, the L/C Issuer and any Related Party, as the case may be ratably according to their Applicable Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Agent, the L/C Issuer and their Related Parties in any way relating to or arising out of this Agreement or any other Loan Document or any action taken or omitted to be taken by the Agent, the L/C Issuer and their Related Parties in connection therewith; provided, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent’s, the L/C Issuer’s and their Related Parties’ gross negligence or willful misconduct as determined by a final and nonappealable judgment of a court of competent jurisdiction.

9.15 Relation among Lenders. The Lenders are not partners or co-venturers, and no Lender shall be liable for the acts or omissions of, or (except as otherwise set forth herein in case of the Agent) authorized to act for, any other Lender.

9.16 Defaulting Lender.

(a) Adjustments. Notwithstanding anything to the contrary contained in this Agreement, if for any reason any Lender shall become a Defaulting Lender or otherwise shall fail or refuse to abide by its obligations under this Agreement, then, until such time as that Lender is no longer a Defaulting Lender, to the extent permitted by Law, in addition to the rights and remedies that may be available to the other Credit Parties and the Loan Parties:

(i) Waivers and Amendments. Such Defaulting Lender's right to approve or disapprove any amendment, waiver or consent with respect to this Agreement shall be restricted as set forth in Section 10.01.

(ii) Reallocation of Payments. Any payment of principal, interest, fees or other amounts received by the Agent for the account of that Defaulting Lender (whether voluntary or mandatory, at maturity, pursuant to Article VIII or otherwise, and including any amounts made available to the Agent by that Defaulting Lender pursuant to Section 10.08), will be applied at such time or times as may be determined by Agent as follows: *FIRST*, to the payment of any amounts owing by that Defaulting Lender to the Agent hereunder; *SECOND*, to the payment on a *pro rata* basis of any amounts owing by that Defaulting Lender to the applicable L/C Issuer or Swing Line Lender hereunder; *THIRD*, if so determined by the Agent or requested by the L/C Issuer or Swing Line Lender, to be held as cash collateral for future funding obligations of that Defaulting Lender of any participation in any Letter of Credit or Swing Line Loan; *FOURTH*, as the Borrowers may request (so long as no Default or Event of Default exists), to the funding of any Loan in respect of which that Defaulting Lender has failed to fund its portion thereof as required by this Agreement, as determined by the Agent; *FIFTH*, if so determined by the Agent and the Borrowers and subject to Section 2.03(g), to be held in an interest bearing deposit account and released in order to satisfy obligations of that Defaulting Lender to fund Loans under this Agreement; *SIXTH*, to the payment of any amounts owing to the Lenders, the L/C Issuer or Swing Line Lender as a result of any judgment of a court of competent jurisdiction obtained by any Lender, such L/C Issuer or Swing Line Lender against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; *SEVENTH*, so long as no Default or Event of Default exists, to the payment of any amounts owing to the Borrowers as a result of any judgment of a court of competent jurisdiction obtained by the Borrowers against that Defaulting Lender as a result of that Defaulting Lender's breach of its obligations under this Agreement; and *EIGHTH*, to that Defaulting Lender or as otherwise directed by a court of competent jurisdiction; provided that if (1) such payment is a payment of the principal amount of any Loans or L/C Borrowings in respect of which that Defaulting Lender has not fully funded its appropriate share and (2) such Loans or L/C Borrowings were made at a time when the conditions set forth in Section 4.02 were satisfied or waived, such payment will be applied solely to pay the Loans of, and L/C Borrowings owed to, all non-Defaulting Lenders on a *pro rata* basis prior to being applied to the payment of any Loans of, or L/C Borrowings owed to, that Defaulting Lender. Any payments, prepayments or other amounts paid or payable to a Defaulting Lender that are applied (or held) to pay amounts owed by a Defaulting Lender or to post cash collateral pursuant to this Section 9.16 (a)(ii) will be deemed paid to and redirected by that Defaulting Lender, and each Lender irrevocably consents hereto.

(iii) Certain Fees. A Defaulting Lender shall not be entitled to receive any commitment fee pursuant to Section 2.09 for any period during which that Lender is a Defaulting Lender (and the Borrowers shall not be required to pay any such fee that otherwise would have been required to have been paid to such Defaulting Lender).

(iv) Reallocation of Applicable Percentages to Reduce Fronting Exposure. During any period in which there is a Defaulting Lender, for purposes of computing the amount of the obligation of each non-Defaulting Lender to acquire, refinance or fund participations in Letters of Credit or Swing Line Loans pursuant to Sections 2.03 and 2.04 the Applicable Percentage of each non-Defaulting Lender that is a Lender will be computed without giving effect to the Commitment of that Defaulting Lender; provided, that, (A) each such reallocation will be given effect only if, at the date the applicable Lender becomes a Defaulting Lender, no Default or Event of Default exists and (B) each such reallocation will be given effect only to the extent that, after giving effect to such reallocation, each non-Defaulting Lender's Applicable Percentage of the Defaulting Lender's aggregate Fronting Exposure will not exceed the positive difference, if any, of (1) the Commitment of that non-Defaulting Lender minus (2) the sum of (x) the aggregate Outstanding Amount of the Loans of that non-Defaulting Lender, (y) that non-Defaulting Lender's Applicable Percentage of the then Outstanding Amount of any L/C Obligations, and (z) that non-Defaulting Lender's Applicable Percentage of the then Outstanding Amount of any Swing Line Loans.

(a) Defaulting Lender Cure. If the Borrowers, the Agent, L/C Issuer and Swing Line Lender agree in writing in their sole discretion that a Defaulting Lender should no longer be deemed to be a Defaulting Lender, the Agent will so notify the parties hereto, whereupon as of the effective date specified in such notice and subject to any conditions set forth therein (which may include arrangements with respect to any cash collateral), that Lender will, to the extent applicable, purchase that portion of outstanding Loans of the other Lenders or take such other actions as the Agent may determine to be necessary to cause the Loans and funded and unfunded participations in Letters of Credit and Swing Line Loans to be held on a pro rata basis by the Lenders in accordance with their Applicable Percentage (without giving effect to Section 9.16(a)(iv)), whereupon that Lender will cease to be a Defaulting Lender; provided that no adjustments will be made retroactively with respect to fees accrued or payments made by or on behalf of the Borrowers while that Lender was a Defaulting Lender; and provided, further, that except to the extent otherwise expressly agreed by the affected parties, no change hereunder from Defaulting Lender to Lender will constitute a waiver or release of any claim of any party hereunder arising from that Lender's having been a Defaulting Lender.

9.17 Risk Participation.

(a) Upon the earlier of Substantial Liquidation (so long as the Canadian Commitments have been terminated) or the Determination Date, if all Canadian Liabilities have not been repaid in full, then the Domestic Lenders shall purchase (by way of a participation) from the Canadian Lenders (on the date of Substantial Liquidation or the Determination Date, as applicable) such portion of the Canadian Liabilities so that each Lender shall, after giving effect to any such purchases, hold its Liquidation Percentage of all outstanding Canadian Liabilities and all other Obligations.

(b) Upon the earlier of Substantial Liquidation or the Determination Date, if all Obligations of the Domestic Borrowers (excluding those Obligations relating to the Canadian Liabilities) have not been repaid in full, then the Canadian Lenders shall purchase from the Domestic Lenders (on the date of Substantial Liquidation or the Determination Date, as applicable) such portion of such Obligations so that each Lender shall, after giving effect to any

such purchases, hold its Liquidation Percentage of all outstanding Obligations of the Domestic Borrowers and the Canadian Liabilities.

(c) All purchases of Obligations under this Section 9.17 shall be at par, for cash, with no premium, discount or reduction.

(d) No Lender shall be responsible for any default of any other Lender in respect of any other Lender's obligations under this Section 9.17, nor shall the obligations of any Lender hereunder be increased as a result of such default of any other Lender. Each Lender shall be obligated to the extent provided herein regardless of the failure of any other Lender to fulfill its obligations hereunder.

(e) Each Lender shall execute such instruments, documents and agreements and do such other actions as may be necessary or proper in order to carry out more fully the provisions and purposes of this Section 9.17 and the purchase of Obligations or the Canadian Liabilities, as applicable, as provided herein.

(f) The obligations of each Lender under this Section 9.17 are irrevocable and unconditional and shall not be subject to any qualification or exception whatsoever including, without limitation, lack of validity or enforceability of this Agreement or any of the Loan Documents or the existence of any claim, setoff, defense or other right which any Loan Party may have at any time against any of the Lenders.

(g) No fees required to be paid on any assignment pursuant to Section 10.06 of this Agreement shall be payable in connection with any assignment under this Section 9.17.

ARTICLE X MISCELLANEOUS

10.01 Amendments, Etc.

(a) (a) No amendment or waiver of any provision of this Agreement or any other Loan Document, and no Consent to any departure by any Loan Party therefrom, shall be effective unless in writing signed by the Agent, with the Consent of the Required Lenders, and the Lead Borrower or the applicable Loan Party, as the case may be, and each such waiver or Consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

(i) increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 8.02) without the written Consent of such Lender;

(ii) as to any Lender, postpone any date fixed by this Agreement or any other Loan Document for (i) any scheduled payment (including the Maturity Date) of principal, interest, fees or other amounts due hereunder or under any of the other Loan Documents without the written Consent of such Lender, or (ii) any scheduled or mandatory reduction or termination of the Aggregate Commitments hereunder or under any other Loan Document, without the written Consent of such Lender;

(iii) as to any Lender, reduce the principal of, or the rate of interest specified herein on, any Loan or L/C Borrowing held by such Lender, or (subject to clause (iv) of the second proviso to this Section 10.01) any fees or other amounts payable hereunder or

under any other Loan Document to or for the account of such Lender, without the written Consent of such Lender; provided, however, that only the Consent of the Required Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Borrowers to pay interest or Letter of Credit Fees at the Default Rate;

(iv) as to any Lender, change Section 2.13 or Section 8.03 in a manner that would alter the pro rata sharing of payments required thereby without the written Consent of such Lender;

(v) change any provision of this Section or the definition of "Required Lenders", "Required Supermajority Lenders" or any other provision hereof or of any Loan Document specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or under any other Loan Document or make any determination or grant any consent hereunder or thereunder, without the written Consent of each Lender;

(vi) except as expressly permitted hereunder or under any other Loan Document, release, or limit the liability of, any Loan Party without the written Consent of each Lender;

(vii) except for Permitted Dispositions or as provided in Section 9.10, release all or substantially all of the Collateral from the Liens of the Security Documents without the written Consent of each Lender;

(viii) increase any advance rate percentage set forth in the definition of the terms "Canadian Borrowing Base", "Tranche A Borrowing Base" or "Incremental Borrowing Base" without the written Consent of each Lender; or otherwise change the definition of the terms "Canadian Borrowing Base", "Tranche A Borrowing Base" or "Incremental Borrowing Base" or any component definition thereof if as a result thereof the amounts available to be borrowed by the Borrowers would be increased without the written Consent of the Required Supermajority Lenders; *provided that* the foregoing shall not limit the discretion of the Agent to change, establish or eliminate any Reserves;

(ix) modify the definition of Permitted Overadvance so as to increase the amount thereof or, except as otherwise provided in such definition, the time period for which a Permitted Overadvance may remain outstanding without the written Consent of each Lender; and

(x) except as expressly permitted herein or in any other Loan Document, subordinate the Obligations hereunder or the Liens granted hereunder or under the other Loan Documents, to any other Indebtedness or Lien, as the case may be without the written Consent of each Lender;

and, provided further, that (i) no amendment, waiver or Consent shall, unless in writing and signed by the L/C Issuer in addition to the Lenders required above, affect the rights or duties of the L/C Issuer under this Agreement or any Issuer Document relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or Consent shall, unless in writing and signed by the Swing Line Lender in addition to the Lenders required above, affect the rights or duties of the Swing Line Lender under this Agreement; (iii) no amendment, waiver or Consent shall, unless in writing and signed by the Agent in addition to the Lenders required above, affect the rights or duties of the Agent under this Agreement or any other Loan Document; and (iv) the Fee Letter may be amended, or rights or privileges thereunder waived, in a

writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or Consent hereunder (and any amendment, waiver or consent which by its terms requires the Consent of all Lenders or each affected Lender may be effected with the Consent of the applicable Lenders other than Defaulting Lenders), except that (x) the Commitment of any Defaulting Lender may not be increased or extended without the Consent of such Defaulting Lender and (y) any waiver, amendment or modification requiring the Consent of all Lenders or each affected Lender that by its terms affects any Defaulting Lender more adversely than other affected Lenders shall require the consent of such Defaulting Lender.

(b) Notwithstanding anything to the contrary in this Agreement or any other Loan Document, (x) no provider or holder of any Bank Products or Cash Management Services shall have any voting or approval rights hereunder (or be deemed a Lender) solely by virtue of its status as the provider or holder of such agreements or products or the Obligations owing thereunder, nor shall the consent of any such provider or holder be required (other than in their capacities as Lenders, to the extent applicable) for any matter hereunder or under any of the other Loan Documents, including as to any matter relating to the Collateral or the release of Collateral or any Loan Party, and (y) any Loan Document may be amended and waived with the consent of the Agent at the request of the Borrower without the need to obtain the consent of any other Lender if such amendment or waiver is delivered in order (i) to comply with local Law or advice of local counsel, (ii) to cure ambiguities or defects or (iii) to cause any Loan Document to be consistent with this Agreement and the other Loan Documents.

(c) If any Lender does not Consent (a "Non-Consenting Lender") to a proposed amendment, waiver, consent or release with respect to any Loan Document that requires the Consent of each Lender and that has been approved by the Required Lenders, the Lead Borrower may replace such Non-Consenting Lender in accordance with Section 10.13; provided that such amendment, waiver, consent or release can be effected as a result of the assignment contemplated by such Section (together with all other such assignments required by the Lead Borrower to be made pursuant to this paragraph).

10.02 Notices; Effectiveness; Electronic Communications.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in Section 10.02(b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Loan Parties, the Agent, the L/C Issuer or the Swing Line Lender, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 10.02; and

(ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next Business Day for the recipient). Notices delivered

through electronic communications to the extent provided in Section 10.02(b) below, shall be effective as provided in such Section 10.02(b).

(b) Electronic Communications. Notices and other communications to the Lenders and the L/C Issuer hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Agent provided that the foregoing shall not apply to notices to any Lender or the L/C Issuer pursuant to Article II if such Lender or the L/C Issuer, as applicable, has notified the Agent that it is incapable of receiving notices under such Article by electronic communication. The Agent or the Lead Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Agent otherwise prescribes, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE BORROWER MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Agent or any of their Related Parties (collectively, the "Agent Parties") have any liability to any Loan Party, any Lender, the L/C Issuer or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Loan Parties' or the Agent's transmission of Borrower Materials through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of the Agent Party; provided, however, that in no event shall any Agent Party have any liability to any Loan Party, any Lender, the L/C Issuer or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. Each of the Loan Parties, the Agent, the L/C Issuer and the Swing Line Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Lead Borrower, the Agent, the L/C Issuer and the Swing Line Lender. In addition, each Lender agrees to notify the Agent from time to time to ensure that the Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(e) Reliance by Agent, L/C Issuer and Lenders. The Agent, the L/C Issuer and the Lenders shall be entitled to rely and act upon any notices (including telephonic Loan Notices and Swing Line Loan Notices) purportedly given by or on behalf of the Loan Parties even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. The Loan Parties shall indemnify the Agent, the L/C Issuer, each Lender and the Related Parties of each of them from all losses, costs, expenses and liabilities resulting from the reliance by such Person on each notice purportedly given by or on behalf of the Loan Parties. All telephonic notices to and other telephonic communications with the Agent may be recorded by the Agent and each of the parties hereto hereby consents to such recording.

10.03 No Waiver; Cumulative Remedies. No failure by any Credit Party to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder or under any other Loan Document preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges provided herein and in the other Loan Documents are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default or Event of Default, regardless of whether any Credit Party may have had notice or knowledge of such Default or Event of Default at the time.

10.04 Expenses; Indemnity; Damage Waiver.

(a) Costs and Expenses. The Borrowers shall pay all Credit Party Expenses, provided that the Canadian Borrower shall only pay Credit Party Expenses owing to the Canadian Credit Parties.

(b) Indemnification by the Loan Parties. The Loan Parties shall indemnify the Agent (and any sub-agent of the Agent), each other Credit Party, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless (on an after tax basis) from, any and all losses, claims, causes of action, damages, liabilities, settlement payments, costs, and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any third party or by any Borrower or any other Loan Party arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, the consummation of the transactions contemplated hereby or thereby, or the administration of this Agreement and the other Loan Documents, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the L/C Issuer to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit, any bank advising or confirming a Letter of Credit and any other Person seeking to enforce the rights of a Borrower, beneficiary, transferee, or assignee or Letter of Credit proceeds or the holder of an instrument or document related to any Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by any Loan Party or any of its Subsidiaries, or any Environmental Liability related in any way to any Loan Party or any of its Subsidiaries, (iv) any claims of, or amounts paid by any Credit Party to, a Blocked Account Bank or other Person which has entered into a control agreement with any Credit Party hereunder, or (v) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by

any Borrower or any other Loan Party or any of the Loan Parties' directors, shareholders or creditors, and regardless of whether any Indemnitee is a party thereto, in all cases, whether or not caused by or arising, in whole or in part, out of the comparative, contributory or sole negligence of the Indemnitee; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by a Borrower or any other Loan Party against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if the Borrowers or such Loan Party has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

(c) Waiver of Consequential Damages, Etc. To the fullest extent permitted by Law, the Loan Parties shall not assert, and hereby waive, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed to such unintended recipients by such Indemnitee through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby other than for direct or actual damages resulting from the gross negligence or willful misconduct of such Indemnitee as determined by a final and nonappealable judgment of a court of competent jurisdiction.

(d) Payments. All amounts due under this Section shall be payable on demand therefor.

(e) Survival. The agreements in this Section shall survive the resignation of any of the Agent and the L/C Issuer, the assignment of any Commitment or Loan by any Lender, the replacement of any Lender, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all the other Obligations.

10.05 Payments Set Aside. To the extent that any payment by or on behalf of the Loan Parties is made to any Credit Party, or any Credit Party exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by such Credit Party in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and the L/C Issuer severally agrees to pay to the Agent upon demand its Applicable Percentage (without duplication) of any amount so recovered from or repaid by the Agent plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate or the Bank of America-Canada Overnight Rate, as applicable, from time to time in effect. The obligations of the Lenders and the L/C Issuer under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

10.06 Successors and Assigns.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that no Loan Party may assign or otherwise transfer any of its rights or obligations hereunder or under any other Loan Document without the prior written Consent of the Agent and each Lender and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of Section 10.06(b), (ii) by way of participation in accordance with the provisions of Section 10.06(d), or (iii) by way of pledge or assignment of a security interest subject to the restrictions of Section 10.06(f) (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in Section 10.06(d) and, to the extent expressly contemplated hereby, the Related Parties of each of the Credit Parties) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment(s) and the Loans (including for purposes of this Section 10.06(b), participations in L/C Obligations and in Swing Line Loans) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender or an Approved Fund with respect to a Lender, no minimum amount need be assigned; and

(B) in any case not described in Section 10.06(b)(i)(A), the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Agent and, so long as no Default or Event of Default has occurred and is continuing, the Lead Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignments from members of an Assignee Group to a single Eligible Assignee (or to an Eligible Assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met;

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Loans or the Commitment assigned, except that this clause (ii) shall not apply to the Swing Line Lender's rights and obligations in respect of Swing Line Loans;

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by Section 10.06(b)(i)(B) and, in addition:

(A) the consent of the Lead Borrower (such consent not to be unreasonably withheld or delayed) shall be required unless (1) a Default or Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund with respect to such Lender; and

(B) the consent of the Agent, the L/C Issuer and the Swing Line Lender (such consent not to be unreasonably withheld or delayed) shall be required for assignments in respect of any Commitment if such assignment is to a Person that is not a Lender, an Affiliate of such Lender or an Approved Fund with respect to such Lender; and

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500, provided, however, that the Agent may, in its sole discretion, elect to waive such processing and recordation fee in the case of any assignment. The assignee, if it shall not be a Lender, shall deliver to the Agent an Administrative Questionnaire.

Subject to acceptance and recording thereof by the Agent pursuant to Section 10.06(c), from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, and 10.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the applicable Borrowers (at their expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 10.06(b) shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 10.06(d).

(c) Register. The Agent, acting solely for this purpose as an agent of the Borrowers, shall maintain at the Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, absent manifest error, and the Loan Parties, the Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Lead Borrower and any Lender at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Loan Parties or the Agent, sell participations to any Person (other than a natural person or the Loan Parties or any of the Loan Parties' Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including such Lender's participations in L/C Obligations and/or Swing Line Loans) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Loan Parties, the Agent, the Lenders and the L/C Issuer shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any Participant shall agree in writing to comply with all confidentiality obligations set forth in Section 10.07 as if such Participant was a Lender hereunder.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 10.01 that affects such Participant. Subject to Section 10.06(e) of this Section, the Loan Parties agree that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 10.06(b). To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 10.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.13 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.01 or 3.04 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Lead Borrower's prior written consent. A Participant that would be a Foreign Lender (other than a Canadian Lender) if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Lead Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Loan Parties, to comply with Section 3.01(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

(h) Resignation as L/C Issuer or Swing Line Lender after Assignment or Resignation. Notwithstanding anything to the contrary contained herein, if at any time Bank of America assigns all of its Commitment and Loans pursuant to Section 10.06(b) above, or resigns as the Agent in accordance with the provisions of Section 9.06, Bank of America may, (i) upon 30 days' notice to the Lead Borrower and the Lenders, resign as L/C Issuer and/or (ii) with duplication of any notice required under Section 9.06, upon 30 days' notice to the Lead Borrower, resign as Swing Line Lender. In the event of any such resignation as L/C Issuer or Swing Line Lender, the Lead Borrower shall be entitled to appoint from among the Lenders a successor L/C Issuer or Swing Line Lender hereunder; provided, however, that no failure by the Lead Borrower to appoint any such successor shall affect the resignation of Bank of America as L/C Issuer or Swing Line Lender, as the case may be. If Bank of America resigns as L/C Issuer, it shall retain all the rights, powers, privileges and duties of the L/C Issuer hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as L/C Issuer and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Loans or Canadian Prime Rate Loans or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)). Upon the appointment of a successor L/C Issuer and/or Swing Line Lender, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring L/C

Issuer or Swing Line Lender, as the case may be, and (b) the successor L/C Issuer shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to Bank of America to effectively assume the obligations of Bank of America with respect to such Letters of Credit.

(i) **Defaulting Lenders.** In connection with any assignment of rights and obligations of any Defaulting Lender hereunder, no such assignment shall be effective unless and until, in addition to the other conditions thereto set forth herein, the parties to the assignment shall make such additional payments to the Agent in an aggregate amount sufficient, upon distribution thereof as appropriate (which may be outright payment, purchases by the assignee of participations or subparticipations, or other compensating actions, including funding, with the consent of the Borrowers and the Agent, the applicable pro rata share of Loans previously requested but not funded by the Defaulting Lender, to each of which the applicable assignee and assignor hereby irrevocably consent), to (x) pay and satisfy in full all payment liabilities then owed by such Defaulting Lender to the Agent or any Lender hereunder (and interest accrued thereon) and (y) acquire (and fund as appropriate) its full pro rata share of all Loans and participations in Letters of Credit in accordance with its pro rata share. Notwithstanding the foregoing, in the event that any assignment of rights and obligations of any Defaulting Lender hereunder shall become effective under applicable Law without compliance with the provisions of this paragraph, then the assignee of such interest shall be deemed to be a Defaulting Lender for all purposes of this Agreement until such compliance occurs

10.07 Treatment of Certain Information; Confidentiality. Each of the Credit Parties agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates, Approved Funds, and to its and its Affiliates' and Approved Funds' respective partners, directors, officers, employees, agents, funding sources, attorneys, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority), (c) to the extent required by Laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any Swap Contract relating to any Loan Party and its obligations, (g) with the consent of the Lead Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to any Credit Party or any of their respective Affiliates on a non-confidential basis from a source other than the Loan Parties.

For purposes of this Section, "Information" means all information received from the Loan Parties or any Subsidiary thereof relating to the Loan Parties or any Subsidiary thereof or their respective businesses, other than any such information that is available to any Credit Party on a non-confidential basis prior to disclosure by the Loan Parties or any Subsidiary thereof, provided that, in the case of information received from any Loan Party or any Subsidiary after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Credit Parties acknowledges that (a) the Information may include material non-public information concerning the Loan Parties or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with Law, including Federal, state and provincial securities Laws.

10.08 Right of Setoff. If an Event of Default shall have occurred and be continuing or if any Lender shall have been served with a trustee process or similar attachment relating to property of a Loan Party, each Lender, the L/C Issuer and each of their respective Affiliates is hereby authorized at any time and from time to time, after obtaining the prior written consent of the Agent or the Required Lenders, to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) or other property at any time held and other obligations (in whatever currency) at any time owing by such Lender, the L/C Issuer or any such Affiliate to or for the credit or the account of the Borrowers or any other Loan Party against any and all of the Obligations now or hereafter existing under this Agreement or any other Loan Document to such Lender or the L/C Issuer, regardless of the adequacy of the Collateral, and irrespective of whether or not such Lender or the L/C Issuer shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrowers or such Loan Party may be contingent or unmatured or are owed to a branch or office of such Lender or the L/C Issuer different from the branch or office holding such deposit or obligated on such indebtedness; provided, that in the event that any Defaulting Lender shall exercise any such right of setoff, (x) all amounts so set off shall be paid over immediately to the Agent for further application in accordance with the provisions of Section 9.16 and, pending such payment, shall be segregated by such Defaulting Lender from its other funds and deemed held in trust for the benefit of the Agent and the Lenders, and (y) the Defaulting Lender shall provide promptly to the Agent a statement describing in reasonable detail the Obligations owing to such Defaulting Lender as to which it exercised such right of setoff. The rights of each Lender, the L/C Issuer and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender, the L/C Issuer or their respective Affiliates may have. Each Lender and the L/C Issuer agrees to notify the Lead Borrower or the Canadian Borrower, as applicable, and the Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

10.09 Interest Rate Limitation. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by Law (the "Maximum Rate"). If the Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrowers. In determining whether the interest contracted for, charged, or received by the Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

10.10 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall

constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Agent and when the Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by teletype, pdf or other electronic transmission shall be as effective as delivery of a manually executed counterpart of this Agreement.

10.11 Survival. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Credit Parties, regardless of any investigation made by any Credit Party or on their behalf and notwithstanding that any Credit Party may have had notice or knowledge of any Default or Event of Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding. Further, the provisions of Sections 3.01, 3.04, 3.05 and 10.04 and Article IX shall survive and remain in full force and effect regardless of the repayment of the Obligations, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof. In connection with the termination of this Agreement and the release and termination of the Lien on the Collateral, the Agent may require such indemnities and collateral security as they shall reasonably deem necessary or appropriate to protect the Credit Parties against (x) loss on account of credits previously applied to the Obligations that may subsequently be reversed or revoked, (y) any obligations that may thereafter arise with respect to the Other Liabilities, and (z) any Obligations that may thereafter arise under Section 10.04 hereof.

10.12 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

10.13 Replacement of Lenders. If any Lender requests compensation under Section 3.04, or if the Borrowers are required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender is a Defaulting Lender or a Non-Consenting Lender, then the Borrowers may, at their sole expense and effort, upon notice to such Lender and the Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 10.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

- (a) the Borrowers shall have paid to the Agent the assignment fee specified in Section 10.06(b);

(b) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and L/C Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 3.05) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrowers (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01, such assignment will result in a reduction in such compensation or payments thereafter; and

(d) such assignment does not conflict with Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrowers to require such assignment and delegation cease to apply.

10.14 Governing Law; Jurisdiction; Etc.

(a) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF, BUT INCLUDING SECTION 5-1401 OF THE NEW YORK GENERAL OBLIGATIONS LAW.

(b) SUBMISSION TO JURISDICTION. EACH LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN THE BOROUGH OF MANHATTAN AND OF THE UNITED STATES DISTRICT COURT OF THE STATE OF NEW YORK SITTING THEREIN, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE LOAN PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY LAW, IN SUCH FEDERAL COURT. EACH OF THE LOAN PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT ANY CREDIT PARTY MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST ANY LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. EACH LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE LOAN PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 10.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW.

(e) ACTIONS COMMENCED BY LOAN PARTIES. EACH LOAN PARTY AGREES THAT ANY ACTION COMMENCED BY ANY LOAN PARTY ASSERTING ANY CLAIM OR COUNTERCLAIM ARISING UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT SHALL BE BROUGHT SOLELY IN A COURT OF THE STATE OF NEW YORK SITTING IN THE BOROUGH OF MANHATTAN OR ANY FEDERAL COURT SITTING THEREIN AS THE AGENT MAY ELECT IN ITS SOLE DISCRETION AND CONSENTS TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS WITH RESPECT TO ANY SUCH ACTION.

10.15 Waiver of Jury Trial. EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.16 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby, the Loan Parties each acknowledge and agree that: (i) the credit facility provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm's-length commercial transaction between the Loan Parties, on the one hand, and the Credit Parties, on the other hand, and each of the Loan Parties is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (ii) in connection with the process leading to such transaction, each Credit Party is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Loan Parties or any of their respective Affiliates, stockholders, creditors or employees or any other Person; (iii) none of the Credit Parties has assumed or will assume an advisory, agency or fiduciary responsibility in favor of the Loan Parties with respect to any of the transactions contemplated hereby or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether any of the Credit Parties has advised or is currently advising any Loan Party or any of its Affiliates on other matters) and none of the Credit Parties has any obligation to any Loan Party or any of its Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; (iv) the Credit Parties and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Loan Parties and their respective Affiliates, and none of the Credit Parties has any obligation to disclose any of such interests by virtue of any

advisory, agency or fiduciary relationship; and (v) the Credit Parties have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby (including any amendment, waiver or other modification hereof or of any other Loan Document) and each of the Loan Parties has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate. Each of the Loan Parties hereby waives and releases, to the fullest extent permitted by law, any claims that it may have against each of the Credit Parties with respect to any breach or alleged breach of agency or fiduciary duty.

10.17 USA PATRIOT Act Notice. Each Lender that is subject to the Act (as hereinafter defined) and the Agent (for itself and not on behalf of any Lender) hereby notifies the Loan Parties that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “Act”), it is required to obtain, verify and record information that identifies each Loan Party, which information includes the name and address of each Loan Party and other information that will allow such Lender or the Agent, as applicable, to identify each Loan Party in accordance with the Act. Each Loan Party is in compliance, in all material respects, with the Patriot Act. No part of the proceeds of the Loans will be used by the Loan Parties, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

10.18 Foreign Asset Control Regulations. Neither of the advance of the Loans nor the use of the proceeds of any thereof will violate the Trading With the Enemy Act (50 U.S.C. § 1 et seq., as amended) (the “Trading With the Enemy Act”) or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) (the “Foreign Assets Control Regulations”) or any enabling legislation or executive order relating thereto (which for the avoidance of doubt shall include, but shall not be limited to (a) Executive Order 13224 of September 21, 2001 Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the “Executive Order”) and (b) the Act. Furthermore, none of the Borrowers or their Affiliates (a) is or will become a “blocked person” as described in the Executive Order, the Trading With the Enemy Act or the Foreign Assets Control Regulations or (b) engages or will engage in any dealings or transactions, or be otherwise associated, with any such “blocked person” or in any manner violative of any such order.

10.19 Canadian Anti-Money Laundering Legislation.

(a) Each Loan Party acknowledges that, pursuant to the Proceeds of Crime Act and other applicable anti-money laundering, anti-terrorist financing, government sanction and “know your client” laws (collectively, including any guidelines or orders thereunder, “AML Legislation”), the Lenders may be required to obtain, verify and record information regarding the Loan Parties and their respective directors, authorized signing officers, direct or indirect shareholders or other Persons in control of the Loan Parties, and the transactions contemplated hereby. Each Loan Party shall promptly provide all such information, including supporting documentation and other evidence, as may be reasonably requested by any Lender or any prospective assignee or participant of a Lender, the L/C Issuer, or the Agent, in order to comply with any applicable AML Legislation, whether now or hereafter in existence.

(b) If the Agent has ascertained the identity of any Loan Party or any authorized signatories of the Loan Parties for the purposes of applicable AML Legislation, then the Agent:

(i) shall be deemed to have done so as an agent for each Lender, and this Agreement shall constitute a “written agreement” in such regard between each Lender and the Agent within the meaning of the applicable AML Legislation; and

(ii) shall provide to each Lender copies of all information obtained in such regard without any representation or warranty as to its accuracy or completeness.

Notwithstanding the preceding sentence and except as may otherwise be agreed in writing, each of the Lenders agrees that the Agent has no obligation to ascertain the identity of the Loan Parties or any authorized signatories of the Loan Parties on behalf of any Lender, or to confirm the completeness or accuracy of any information it obtains from any Loan Party or any such authorized signatory in doing so.

10.20 Time of the Essence. Time is of the essence of the Loan Documents.

10.21 Press Releases.

(a) Each Credit Party executing this Agreement agrees that neither it nor its Affiliates will in the future issue any press releases or other public disclosure using the name of the Agent or its Affiliates or referring to this Agreement or the other Loan Documents without at least two (2) Business Days’ prior notice to the Agent and without the prior written consent of the Agent unless (and only to the extent that) such Credit Party or Affiliate is required to do so under Law and then, in any event, such Credit Party or Affiliate will consult with the Agent before issuing such press release or other public disclosure.

(b) Each Loan Party consents to the publication by the Agent or any Lender of advertising material relating to the financing transactions contemplated by this Agreement using any Loan Party’s name, product photographs, logo or trademark. The Agent or such Lender shall provide a draft reasonably in advance of any advertising material to the Lead Borrower for review and comment prior to the publication thereof. The Agent reserves the right to provide to industry trade organizations information necessary and customary for inclusion in league table measurements.

10.22 Judgment Currency.

If, for purposes of obtaining judgment in any court, it is necessary to convert a sum from the currency provided under a Loan Document (“Agreement Currency”) into another currency, the Spot Rate shall be used as the rate of exchange. Notwithstanding any judgment in a currency (“Judgment Currency”) other than the Agreement Currency, a Loan Party shall discharge its obligation in respect of any sum due under a Loan Document only if, on the Business Day following receipt by the Agent of payment in the Judgment Currency, the Agent can use the amount paid to purchase the sum originally due in the Agreement Currency. If the purchased amount is less than the sum originally due, such Loan Party agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the Agent and the other Credit Parties against such loss. If the purchased amount is greater than the sum originally due, the Agent shall return the excess amount to such Loan Party (or to the Person legally entitled thereto).

10.23 Additional Waivers.

(a) To the fullest extent permitted by Law, the obligations of each Loan Party shall not be affected by (i) the failure of any Credit Party to assert any claim or demand or to enforce or exercise any right or remedy against any other Loan Party under the provisions of this Agreement, any

other Loan Document or otherwise, (ii) any rescission, waiver, amendment or modification of, or any release from any of the terms or provisions of, this Agreement or any other Loan Document, or (iii) the failure to perfect any Lien on, or the release of, any of the Collateral or other security held by or on behalf of the Agent or any other Credit Party.

(b) The obligations of each Loan Party shall not be subject to any reduction, limitation, impairment or termination for any reason (other than the indefeasible payment in full in cash of the Obligations after the termination of the Commitments), including any claim of waiver, release, surrender, alteration or compromise of any of the Obligations, and shall not be subject to any defense or setoff, counterclaim, recoupment or termination whatsoever by reason of the invalidity, illegality or unenforceability of any of the Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Loan Party hereunder shall not be discharged or impaired or otherwise affected by the failure of the Agent or any other Credit Party to assert any claim or demand or to enforce any remedy under this Agreement, any other Loan Document or any other agreement, by any waiver or modification of any provision of any thereof, any default, failure or delay, willful or otherwise, in the performance of any of the Obligations, or by any other act or omission that may or might in any manner or to any extent vary the risk of any Loan Party or that would otherwise operate as a discharge of any Loan Party as a matter of Law or equity (other than the indefeasible payment in full in cash of all the Obligations after the termination of the Commitments).

(c) To the fullest extent permitted by Law, each Loan Party waives any defense based on or arising out of any defense of any other Loan Party or the unenforceability of the Obligations or any part thereof from any cause, or the cessation from any cause of the liability of any other Loan Party, other than the indefeasible payment in full in cash of all the Obligations and the termination of the Commitments. The Agent and the other Credit Parties may, at their election, foreclose on any security held by one or more of them by one or more judicial or non-judicial sales, accept an assignment of any such security in lieu of foreclosure, compromise or adjust any part of the Obligations, make any other accommodation with any other Loan Party, or exercise any other right or remedy available to them against any other Loan Party, without affecting or impairing in any way the liability of any Loan Party hereunder except to the extent that all the Obligations have been indefeasibly paid in full in cash and the Commitments have been terminated; provided that the Canadian Borrower shall be liable only for the Canadian Liabilities and the Collateral granted by the Canadian Borrower shall secure only the Canadian Liabilities. Each Loan Party waives any defense arising out of any such election even though such election operates, pursuant to Law, to impair or to extinguish any right of reimbursement or subrogation or other right or remedy of such Loan Party against any other Loan Party, as the case may be, or any security.

(d) The Obligations are the joint and several obligation of each Loan Party; provided that the Canadian Loan Parties shall be liable only for the Canadian Liabilities. Upon payment by any Loan Party of any Obligations, all rights of such Loan Party against any other Loan Party arising as a result thereof by way of right of subrogation, contribution, reimbursement, indemnity or otherwise shall in all respects be subordinate and junior in right of payment to the prior indefeasible payment in full in cash of all the Obligations and the termination of the Commitments. In addition, any indebtedness of any Loan Party now or hereafter held by any other Loan Party is hereby subordinated in right of payment to the prior indefeasible payment in full of the Obligations and no Loan Party will demand, sue for or otherwise attempt to collect any such indebtedness. If any amount shall erroneously be paid to any Loan Party on account of (i) such subrogation, contribution, reimbursement, indemnity or similar right or (ii) any such indebtedness of any Loan Party, such amount shall be held in trust for the benefit of the Credit Parties and shall forthwith be paid to the Agent to be credited against the payment of the Obligations, whether matured or unmatured, in accordance with the terms of this Agreement and the other Loan Documents. Subject to the foregoing, to the extent that any Domestic Borrower shall, under this

Agreement as a joint and several obligor, repay any of the Obligations constituting Loans made to another Borrower hereunder or other Obligations incurred directly and primarily by any other Borrower (an "Accommodation Payment"), then the Domestic Borrower making such Accommodation Payment shall be entitled to contribution and indemnification from, and be reimbursed by, each of the other Domestic Borrowers in an amount, for each of such other Domestic Borrowers, equal to a fraction of such Accommodation Payment, the numerator of which fraction is such other Domestic Borrower's Allocable Amount and the denominator of which is the sum of the Allocable Amounts of all of the Domestic Borrowers. As of any date of determination, the "Allocable Amount" of each Domestic Borrower shall be equal to the maximum amount of liability for Accommodation Payments which could be asserted against such Domestic Borrower hereunder without (a) rendering such Domestic Borrower "insolvent" within the meaning of Section 101 (31) of the Bankruptcy Code, Section 2 of the Uniform Fraudulent Transfer Act ("UFTA") or Section 2 of the Uniform Fraudulent Conveyance Act ("UFCA"), (b) leaving such Domestic Borrower with unreasonably small capital or assets, within the meaning of Section 548 of the Bankruptcy Code, Section 4 of the UFTA, or Section 5 of the UFCA, or (c) leaving such Domestic Borrower unable to pay its debts as they become due within the meaning of Section 548 of the Bankruptcy Code or Section 4 of the UFTA, or Section 5 of the UFCA. Further, to the extent that any Domestic Borrower shall, under this Agreement as a joint and several obligor, repay any of the Obligations constituting Loans made to the Canadian Borrower hereunder or other Obligations incurred directly and primarily by any the Canadian Borrower, then, in addition to any rights of contribution it may have from other Domestic Borrowers, such Domestic Borrower shall be entitled to contribution and indemnification from, and be reimbursed by, the Canadian Borrower in the amount of such payment.

10.24 No Strict Construction.

The parties hereto have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties hereto and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provisions of this Agreement.

10.25 Attachments.

The exhibits, schedules and annexes attached to this Agreement are incorporated herein and shall be considered a part of this Agreement for the purposes stated herein, except that in the event of any conflict between any of the provisions of such exhibits and the provisions of this Agreement, the provisions of this Agreement shall prevail.

10.26 Limitation of Canadian Borrower Liability.

Notwithstanding anything to the contrary herein contained, the liability of the Canadian Loan Parties hereunder and under any other Loan Documents shall be limited to the Canadian Liabilities and the Canadian Loan Parties shall have no liability whatsoever under the Loan Documents with respect to any other Obligations of the Domestic Borrowers or the other Domestic Loan Parties.

10.27 Amendment and Restatement.

This Agreement, together with the Security Agreement, is an amendment and restatement of the Existing Credit Agreement, it being acknowledged and agreed that as of the Effective Date all obligations outstanding under or in connection with the Existing Credit Agreement and any of the other Loan Documents (such obligations, collectively, the "Existing Obligations") constitute obligations under this Agreement. This Agreement is in no way intended to constitute a novation of the Existing Credit Agreement or the Existing Obligations. With respect to (i) any date or time period occurring and ending

prior to the Effective Date, the Existing Credit Agreement and the other Loan Documents shall govern the respective rights and obligations of any party or parties hereto also party thereto and shall for such purposes remain in full force and effect; and (ii) any date or time period occurring or ending on or after the Effective Date, the rights and obligations of the parties hereto shall be governed by this Agreement (including, without limitation, the exhibits and schedules hereto) and the other Loan Documents. From and after the Effective Date, any reference to the Existing Credit Agreement in any of the other Loan Documents executed or issued by and/or delivered to any one or more parties hereto pursuant to or in connection therewith shall be deemed to be a reference to this Agreement, and the provisions of this Agreement shall prevail in the event of any conflict or inconsistency between such provisions and those of the Existing Credit Agreement.

10.28 Language.

The parties herein have expressly requested that this Agreement and all related documents be drawn up in the English language. A la demande expresse des parties aux présentes, cette convention et tout document y afférent ont été rédigés en langue anglaise.

BANK OF AMERICA, N.A., as Agent, a Tranche A Lender,
an Incremental Lender, a Term Lender, L/C Issuer and Swing Line
Lender

By: /s/ Mark D. Twomey

Name: Mark D. Twomey

Title: SVP - Director

WELLS FARGO BANK, NATIONAL ASSOCIATION, as a
Tranche A Lender and L/C Issuer

By: /s/ Adam B. Davis

Name: Adam B. Davis

Title: Vice President

By: /s/ Joe Scaglione

Name: Joe Scaglione

Title: Senior Vice President

UNION BANK, N.A., as a Tranche A Lender

By: /s/ Theresa L. Rocha

Name: Theresa L. Rocha

Title: Vice President

UNION BANK, CANADA BRANCH

By: /s/ Anne Collins

Name: Anne Collins

Title: Vice President

1393754.4

RESTORATION HARDWARE

December 21, 2011

Jim Stewart
1428 Livingston Avenue
Pacifica, California 94044

Re: Transition Agreement

Dear Jim:

This letter (the "Agreement") confirms our mutual agreement concerning your transition from employment with Restoration Hardware, Inc. (the "Company").

Transition Period: We have agreed that your employment with the Company will terminate on January 27, 2012 (the "Separation Date"). You will be compensated at your current monthly base salary of \$35,416.67 for work performed in December 2011 and January 2012. You have been approved for a one week (5 business days) vacation in January, for which you will apply accrued but unused vacation time. If you do not have sufficient accrued vacation time, the remainder of your vacation time would be unpaid.

Separation Date: On the Separation Date, you will be paid your final paycheck, including any unpaid salary amounts and any accrued, but unused, vacation time. You will be eligible to continue your medical insurance coverage under COBRA, and will receive information from our plan administrator describing this conversion election. If you seek reimbursement of any business expenses, you agree to submit your final expense reimbursement statement by no later than the Separation Date, along with receipts or other supporting documentation. The Company will reimburse valid business expenses in accordance with its standard expense reimbursement policies.

Transition Services: Following the Separation Date, the Company may elect to engage you as a temporary employee to perform up to ten (10) days of transition services ("Transition Services") at the written request of the Company's Co-Chief Executive Officer overseeing the Company's finance organization, which is Carlos Alberini. You agree to submit a written invoice at the end of each calendar week in which you perform Transition Services, itemizing the hours worked during that week. The Company will compensate you at the same rate of pay as you currently receive, which for these purposes would be approximately \$205 per hour, less applicable withholdings, for Transition Services. You acknowledge that, as a temporary employee, you will not be eligible for any benefits provided to the Company's regular employees, including without limitation any bonus or incentive compensation, retirement plan

participation, or vacation or other paid leave benefits. Time worked will be evidenced by communications from you to Human Resources via email, with a copy to Carlos.

Transition Bonus: In consideration of the general release of claims and other agreements contained in this Agreement, the Company will pay you a bonus in the amount of One Hundred and Fifty Thousand Dollars (\$150,000), less applicable withholdings (the "Transition Bonus") provided that you provide services to the Company through the Separation Date. The Transition Bonus would be paid on the Company's first regular payroll date following the Separation Date.

TROP Units: Upon your execution of this Agreement, you acknowledge and agree that you currently hold no vested incentive units granted to you under the Home Holdings, LLC 2008 Team Resto Ownership Plan (as amended from time to time) (the "Plan") and all currently unvested time-based and performance based incentive units under the Plan are hereby cancelled, and you shall have no further rights or interests in such incentive units.

Release of Claims: In exchange for the Transition Bonus and other benefits provided herein, you completely release the Company, its affiliated, related, parent or subsidiary entities, and its and their present and former directors, officers, and employees (the "Released Parties") from any and all claims you may now have or have ever had against any of them, whether known or unknown¹, including, but not limited to, any claims arising under Title VII of the Civil Rights Act of 1964, the California Fair Employment and Housing Act, the Age Discrimination in Employment Act, or any other claims for violation of any federal, state, or municipal laws, and any and all claims for attorneys' fees and costs. The parties intend for this release to be enforced to the fullest extent permitted by law. You understand that you are not waiving any right or claim that cannot be waived as a matter of law, such as workers' compensation or unemployment insurance benefits.

Confidential Information: You acknowledge and agree:

(a) That you have not revealed, and subsequent to the execution of this Agreement you will not at any time reveal, either directly or indirectly, to any person, company, business, firm or corporation, nor use for your own purposes, any trade secret, proprietary information or any confidential information about the Company, its service, its customers, or its methods of doing business;

¹ You further agree that because this release specifically covers known and unknown claims, you waive your rights under Section 1542 of the California Civil Code or under any other comparable law. Section 1542 of the California Civil Code states as follows: "A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor."

(b) In the event that you breach your covenants under this this Agreement, the Company's obligation to pay or provide any then unpaid portion of the Transition Bonus immediately shall cease.

(c) For the purposes of this paragraph, it is understood that the term "the Company" includes all operations and profit centers of the Company and/or its respective parents, subsidiaries and affiliates, including without limitation Home Holdings, LLC and Restoration Hardware Holdings, Inc.

Nothing in this Agreement supersedes or in any way abrogates the Proprietary Information and Inventions Agreement that you signed as a condition of your employment with the Company.

Post-Employment Cooperation: Following your departure, you agree to make yourself reasonably available to the Company to answer questions and provide other assistance related to the transition of your management responsibilities. You also agree to cooperate with the Company in its investigation or defense of any legal proceeding, investigation, or action. Should this requirement involve any significant amount of your time such as attending a deposition or participating in meetings, you will be entitled to compensation for your time which shall be paid to you based upon the Transition Services hourly rate specified above.

Miscellaneous: This Agreement contains all of our agreements and understandings and fully supersedes any prior agreements or understandings that we may have had regarding your employment with the Company or its termination, with the exception of the Proprietary Information and Inventions Agreement that you signed as a condition of employment. This Agreement is governed by California law and may be amended only in a written document signed by both parties. If any term in this Agreement is unenforceable, the remainder of this Agreement will remain enforceable. This Agreement does not modify the at-will nature of your employment with the Company. Except for the separation terms proposed in this Agreement, you will not be entitled to any compensation, benefits or other perquisites of employment after today.

Consideration and Revocation Periods: Please note that you have 21 days to consider this Agreement (but may sign it at any time before hand if you so desire) and that you can consult an attorney in doing so. In addition, you can revoke this Agreement within 7 days of signing it by sending me a certified letter to that effect. This Agreement shall not become effective or enforceable until the 7-day revocation period has expired.

If you have any questions, please feel free to call me. We appreciate your continued assistance during this transition.

Very truly yours,

/s/ Carlos Alberini

Carlos Alberini

ACCEPTED AND AGREED:

Dated: December 21, 2011

/s/ Jim Stewart

Jim Stewart

List of Direct and Indirect Subsidiaries of Restoration Hardware Holdings, Inc.

<u>Name</u>	<u>Jurisdiction of Incorporation</u>
Restoration Hardware, Inc.	Delaware
Restoration Hardware Canada, Inc.	British Columbia, Canada
Restoration Hardware International Limited	Hong Kong
Restoration Hardware (Shanghai) Consulting Limited	People's Republic of China
RHG Management, LLC	Maryland
The Michaels Furniture Company, Inc.	California

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Amendment No. 4 to the Registration Statement on Form S-1 of Restoration Hardware Holdings, Inc. of our report dated April 26, 2012 relating to the financial statements of Restoration Hardware, Inc., except for the change in the presentation of comprehensive income discussed in Note 3, as to which the date is June 25, 2012 which appears in such Registration Statement. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP
San Francisco, CA
June 25, 2012

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the use in this Amendment No. 4 to the Registration Statement on Form S-1 of Restoration Hardware Holdings, Inc. of our report dated April 26, 2012 relating to the balance sheets of Restoration Hardware Holdings, Inc., which appears in such Registration Statement. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP

San Francisco, CA
June 25, 2012

June 26, 2012

VIA EDGAR AND HAND DELIVERY

Mara L. Ransom
Assistant Director
Division of Corporation Finance
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-7010

Re: *Restoration Hardware Holdings, Inc.*
Amendment No. 3 to Registration Statement on Form S-1
Filed May 25, 2012
File No. 333-176767

Dear Ms. Ransom:

On behalf of Restoration Hardware Holdings, Inc. (the “Company”), this letter responds to your letter, dated June 18, 2012 (the “Comment Letter”), regarding the above-referenced Amendment No. 3 (“Amendment No. 3”) to Registration Statement on Form S-1 (the “Registration Statement”), filed on May 25, 2012. Each of your comments is set forth below, followed by the corresponding response. For ease of reference, the headings and numbered paragraphs below correspond to the headings and numbered comments in the Comment Letter. Each response of the Company is set forth in ordinary type beneath the corresponding comment of the Staff of the Division of Corporation Finance (the “Staff”) from the Comment Letter appearing in bold type. The page references in our responses are to the revised prospectus included in Amendment No. 4 to the Registration Statement (“Amendment No. 4”), which is being filed today by electronic submission. References herein to “we” and “our” refer to Restoration Hardware Holdings, Inc. and its consolidated subsidiaries unless otherwise noted.

General

- 1. We note your indication in your cover letter and related disclosure that you believe you qualify as an “emerging growth company.” Considering it appears that the first sale of Restoration Hardware’s common equity securities pursuant to an effective registration statement occurred before December 8, 2011, we do not believe you are eligible to qualify as an emerging growth company, as defined in Section 101(d) of the Jumpstart Our Business Startups Act. In this regard, we consider you to be Restoration Hardware’s successor. Please revise your registration statement accordingly. Refer to Question 24 of the Generally Applicable Questions on Title I of the Jumpstart Our Business Startups Act.**

Answer: We respectfully advise the Staff that the Company believes that it is not a “successor” for Exchange Act reporting purposes, and accordingly it should be eligible to be an emerging growth company as defined in the JOBS Act. However, in order to proceed with the review process in a timely manner, the Company has elected not to rely on any of the provisions of the JOBS Act. Accordingly, the Company has amended the relevant disclosures throughout the prospectus regarding emerging growth company status and reliance upon the JOBS Act, and has inserted all disclosures that are required for non-emerging growth companies, which primarily consist of a Compensation Discussion and Analysis section.

- 2. Also, please tell us whether you relied upon Section 5(d) of the Securities Act to provide potential investors that are qualified institutional buyers or institutional accredited investors any written materials. Similarly, please also tell us whether any research reports about you have been published or distributed in reliance upon Section 2(a)(3) of the Securities Act of 1933 added by Section 105(a) of the Jumpstart Our Business Startups Act by any broker or dealer that is participating or will participate in your offering.**

Answer: We acknowledge the Staff’s comment and respectfully advise the Staff that we have not provided any potential investors that are qualified institutional buyers or institutional accredited investors with any written materials. We also respectfully advise the Staff that we are not aware of any research reports about us that have been published or distributed in reliance upon Section 2(a)(3) of the Securities Act of 1933 by any broker or dealer that is participating or will participate in our offering.

Prospectus Summary, page 1

Our Company, page 1

- 3. We note your references in this section and in the “Our Competitive Strengths” section on page 2 to market share gains and to continuing to “rapidly grow [y]our market share.” Please disclose the basis for these statements and any recent**

increases in market share, with a view to explaining to investors how your market share has changed in recent periods. Please also disclose the basis for your statement regarding your “superior sales growth.”

Answer: We have revised the disclosure on pages 1, 81 and 82 of Amendment No. 4 in response to the Staff’s comment to make clear that market share gains and superior sales growth are being determined by way of reference to general industry growth rates. We are supplementally providing data obtained from the U.S. Census Bureau regarding sales data for the furniture and home furnishing segment. These data show that our sales have grown significantly more than the industry generally, which we believe indicates that our market share has grown.

- 4. Please explain what you mean by the statement that your brand is “disrupting” the current home furnishings market and describe the impact on the home furnishings market of any such disruption. Please also provide the basis for your statement that your “ability to innovate, curate and integrate products, categories, services and businesses with a completely authentic and distinctive point of view” is “unique.”**

Answer: We have revised the disclosure on pages 1, 2, 81 and 82 of Amendment No. 4 in response to the Staff’s comment.

Our Growth Strategy, page 3

Transform Our Real Estate Platform, page 3

- 5. Please disclose the basis for your belief that you have the opportunity to double your selling square footage in the U.S. and Canada over the next 7 to 10 years, including whether the basis for this belief is attributable to any third-party research or to management’s internal estimates. If the statement is based upon management’s belief, please include an explanation for the basis of such belief. If the information is based upon third-party research, please disclose the source of the information in your filing and provide copies of these documents to us, appropriately marked to highlight the sections relied upon and cross-referenced to your prospectus.**

Answer: We have revised the disclosure on pages 3 and 84 of Amendment No. 4 in response to the Staff’s comment. This statement is based on management’s analysis of the market opportunity to introduce the Company’s larger format full line Design Gallery store. Management has identified 50 key metropolitan areas in which it can open new full-line Design Galleries and has estimated the growth in selling square footage that can be achieved in those markets. Execution of this plan over the next 7 to 10 years would double our selling square footage in the U.S. and Canada.

Expand Our Offering and Increase Our Market Share, page 3

- 6. We note the disclosure at the top of page 4 that you plan to test “new business opportunities such as Art & Culture and Hospitality.” In an appropriate place in your prospectus, please briefly describe these lines of business. If the “Hospitality”**

business to which you refer on page 4 is different from the contract business that serves hospitality clients to which you refer on page 88, please differentiate as appropriate.

Answer: We have revised the disclosure on pages 4, 26, 40, 85 and 93 of Amendment No. 4 in response to the Staff's comment.

The Offering, page 10

Voting Rights, page 10

7. **In this section or the Description of Capital Stock section, please briefly describe the circumstances in which the law requires holders of your Class A and Class B common stock to vote separately.**

Answer: We have revised the disclosure on page 139 of Amendment No. 4 in response to the Staff's comment.

Capitalization, page 43

8. **Refer to comment 31 of your response letter dated October 21, 2011. As previously requested, please revise footnote 2 to disclose the amount of unrecognized compensation expense related to the unvested restricted shares of your common stock that will be issued under the Replacement Plan. Please separately disclose the amount of expense associated with your unvested restricted shares of Class B common stock.**

Answer: We have revised the disclosure on page 45 of Amendment No. 4 to reflect the separate disclosure of expense associated with the unvested restricted shares of Class B common stock in response to the Staff's comment. We acknowledge the Staff's comment in all other respects and inform the Staff that the Company will complete the information in footnote 2 on page 45 in a subsequent amendment to reflect such information following its final determination of the price range for the offering.

9. **We note you plan to issue options to purchase shares in connection with this offering to your Co-Chief Executive Officers at an exercise price yet to be determined. Please disclose the amount of any compensation expense that will be associated with these options.**

Answer: We have revised the disclosure on page 120 of Amendment No. 4 in response to the Staff's comment. We further inform the Staff that the Company will include numerical information in the revised disclosure in a subsequent amendment when such information is available based upon the price range of the offering.

Selected Historical Consolidated Financial and Operating Data, page 47

- 10. Refer to footnote 10 on page 49 where you state you use Adjusted EBITDA “to make budgeting decisions.” Please expand your disclosure to specify the nature of the budgets that you use Adjusted EBITDA. If you are using Adjusted EBITDA as a liquidity measure, please tell us how your presentation complies with Item 10(e) of Regulation S-K or revise as necessary. In this regard your reconciliation from EBITDA to Adjusted EBITDA includes numerous recurring items that require cash settlement.**

Answer: We have revised the disclosure on pages 17, 50 and 56 of Amendment No. 4 in response to the Staff’s comment. We do not use Adjusted EBITDA as a liquidity measure or a measure of free cash flow.

- 11. Please expand your tabular presentation of Other Financial and Operating Data to include cash flows from operating, investing and financing activities for each period presented. Refer to Non-GAAP Financial Measures Compliance and Disclosure Interpretations Question 102.06.**

Answer: We have revised the disclosure on pages 17, 50 and 56 of Amendment No. 4 to clarify that we use Adjusted EBITDA as a key profitability target in our annual and other budgets, which we determine in part based on our operational performance as reflected by Adjusted EBITDA. In addition, we respectfully inform the Staff that we do not use Adjusted EBITDA as a liquidity measure and so have not updated the disclosure in that regard.

Management’s Discussion and Analysis, page 51

Fiscal 2011 Compared to Fiscal 2010, page 58

Net Revenues, page 58

- 12. Revise your disclosure to discuss the changes in the number of your retail stores. In this regard, explain the underlying reasons for the decrease in stores.**

Answer: We have revised the disclosure on pages 60, 62 and 64 of Amendment No. 4 in response to the Staff’s comment.

Gross Profit, page 58

- 13. We note the increase in your gross margin related to “improved product margins.” Revise your disclosure to explain in further detail which products exhibited better product margins. In this regard, tell us what consideration you gave to disclosing the gross margin separately for furniture and non-furniture products.**

Answer: We have revised the disclosure on pages 60, 62, 63, 64 and 65 of Amendment No. 4 to further clarify the primary drivers leading to the increase in our gross margin. The increased leverage on our fixed occupancy costs of 310 basis points was the primary reason for the improvement in our gross margin. Product margins were a small component of the overall change and contributed only 30 basis points to change in gross margin.

Liquidity and Capital Resources, page 64

- 14. We note your response to comment 46 in our letter dated October 7, 2011 and your disclosure on page 64 regarding your planned capital expenditures for fiscal 2012. Please also disclose the sources(s) of such capital expenditures. Additionally, please briefly discuss the anticipated amount and source(s) of your future capital expenditures. Refer to Item 303(a)(2) of Regulation S-K. In this regard, we note your statement on page 3 that you have the opportunity to double your current selling square footage in the next 7-10 years.**

Answer: We have revised the disclosure on page 68 of Amendment No. 4 in response to the Staff's comment. As noted in the first sentence in "Management's Discussion and Analysis of Financial Condition and Results of Operation—Liquidity and Capital Resources—General," our primary sources of liquidity are our cash flows from operations and our revolving line of credit and term loan and we expect to use such sources to fund our future capital expenditures.

- 15. Please expand your discussion to include the \$12.4 million capital contribution adjustments to cash provided by operating activities of \$17.1 million.**

Answer: We have revised the disclosure on page 69 of Amendment No. 4 in response to the Staff's comment.

Stock-Based Compensation, page 71

- 16. Refer to comments 55 and 15 of your response letters dated October 21, 2011, and December 8, 2011, respectively. We re-issue our prior comments. Further, please reconcile for us the grants of time-based and performance-based units on page 73 to the amounts disclosed in footnote 11 beginning on page F-26. Lastly, tell us why the weighted average grant date fair value of your performance-based units decreased in fiscal 2011 from fiscal 2010.**

Answer: We acknowledge the Staff's comments 55 and 15 in our response letters dated October 21, 2011, and December 8, 2011, respectively, and advise the Staff that we have not yet determined the proposed IPO price range, nor have the underwriters discussed an estimated price range for our stock in the IPO with us. We will advise the Staff when a proposed price range has been established. We also acknowledge the Staff's request for additional disclosures regarding any difference between the fair values of our recently issued performance based units and the estimated IPO price and we will revise the Registration Statement in a subsequent amendment to reflect such information following its final determination. This subsequent amendment will be filed in sufficient time to permit the Staff to review the disclosures before the distribution of any preliminary prospectuses.

We have revised the table on page 78 to reconcile the presentation of the grants of time-based and performance-based units on page 78 with the presentation of unit grants in the tables in footnote 11 beginning on page F-29. We note that the 325,000 units that were modified on September 8, 2011 as referenced in footnote 2 of the table on page 78

are counted as being granted once in such table, but these grants in the tables in footnote 11 beginning on page F-29 are counted as having been granted twice (and forfeited/cancelled once) because the modifications were deemed to constitute new grants for accounting purposes. In addition, the table on page 78 present grants since January 1, 2011, while the tables in footnote 11 beginning on page F-29 present grants made on a fiscal year basis (e.g., from January 30, 2011 through January 28, 2012).

As disclosed on pages 114 and 115 of Amendment No. 4, the performance-based units granted to Mr. Alberini in fiscal year 2010 would continue to vest after the IPO for 36 months to the extent unvested at the time of the IPO, while the performance-based units granted to other Company employees in fiscal year 2011 would be cancelled for no consideration to the extent unvested at the time of the IPO. This difference in the terms of the performance-based units granted in fiscal year 2010 to Mr. Alberini from the performance-based units granted in fiscal year 2011 to other Company employees results in a weighted average grant date fair value of the Company's performance-based units granted in fiscal 2010 that is higher than the weighted average grant date fair value of the Company's performance-based units granted in fiscal 2011.

Index to Consolidated Financial Statements, page F-1

17. Please update your financial statements for your first fiscal 2012 quarter. Refer to Rule 3-12 of Regulation S-X.

Answer: We have revised the disclosure throughout Amendment No. 4 to include our financial statements for our first fiscal 2012 quarter.

We will provide you with marked copies of Amendment No. 4 to expedite your review.

If you have any questions, please do not hesitate to call Gavin Grover at (415) 268-7113 or Stewart McDowell at (415) 393-8322.

Very truly yours,

/s/ Gavin B. Grover
Gavin B. Grover

/s/ Stewart L. McDowell
Stewart L. McDowell

cc: Gary G. Friedman, Restoration Hardware Holdings, Inc.
Carlos E. Alberini, Restoration Hardware Holdings, Inc.
Frederick G. Silny, Restoration Hardware Holdings, Inc.
Karen Boone, Restoration Hardware Holdings, Inc.
Robert Babula, Securities and Exchange Commission
Donna Di Silvio, Securities and Exchange Commission
Lisa Kohl, Securities and Exchange Commission