

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

FORM 10-K

(Mark One)

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

For the fiscal year ended February 2, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 001-35720

**RESTORATION HARDWARE HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
15 Koch Road, Suite J  
Corte Madera, CA  
(Address of principal executive offices)

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

94925  
(Zip Code)

Registrant's telephone number, including area code: (415) 924-1005  
Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.0001 par value  
(Title of class)

New York Stock Exchange, Inc.  
(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of July 28, 2012, the last business day of the registrant's most recently completed second quarter, there was no established public market for the registrant's common stock. The registrant's common stock began trading on the New York Stock Exchange on November 2, 2012. As of February 2, 2013, the aggregate value of the registrant's common stock held by non-affiliates was approximately \$214.9 million, based on the number of shares held by non-affiliates as of February 2, 2013 and the closing price of the registrant's common stock on the New York Stock Exchange on February 2, 2013.

As of April 16, 2013, 38,108,092 shares of registrant's common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its 2013 Annual Meeting of Stockholders are incorporated by reference in Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended February 2, 2013.

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND MARKET DATA**

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

Forward-looking statements are subject to risk and uncertainties that may cause actual results to differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed in *Item 1A—Risk Factors*, *Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations*, and elsewhere in this annual report. All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements, as well as other cautionary statements. You should evaluate all forward-looking statements made in this annual report in the context of these risks and uncertainties.

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

**PART I**

**Item 1. Business**

**Overview**

We believe RH 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. We evolved our brand to become RH, positioning our Company to curate a lifestyle beyond the four walls of the home. 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 February 2, 2013, we operated a total of 71 retail stores, consisting of 65 Galleries, 3 Full Line Design Galleries and 3 Baby & Child Galleries, as well as 13 outlet stores throughout the United States and Canada. In fiscal 2012, we distributed approximately 32.7 million Source Books, and our websites logged over 18.9 million unique visits.

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

- From fiscal 2010 to fiscal 2012, we increased our net revenues 54% to \$1,193 million, our adjusted EBITDA 135% to \$96.6 million and our adjusted EBITDA margin by 280 basis points to 8.1%.
- From fiscal 2010 to fiscal 2012, we increased our adjusted net income by \$34.7 million from \$3.0 million to \$37.7 million. Over the same time period, our GAAP net loss increased from \$7.1 million to \$12.8 million.
- We have achieved 12 consecutive quarters of double-digit net revenue growth through our fiscal quarter ended February 2, 2013. We achieved this growth as we reduced our store base from 95 retail locations as of January 30, 2010 to 71 locations as of February 2, 2013.

See “Selected Historical Consolidated Financial and Operating Data” for a discussion of adjusted EBITDA, and a reconciliation of adjusted EBITDA to net income (loss). See “Basis of Presentation and Results of Operations” within *Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations* for a discussion of adjusted net income and a reconciliation of adjusted net income to net income (loss).

**Our Competitive Strengths**

We attribute our success to the following competitive strengths:

*Our Market-Redefining Luxury Brand.* We believe RH 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, 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.

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*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 *RH 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 size our product assortments to the potential of the market and to size our stores to the potential of the 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 apps for smartphones and tablets. 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

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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. The leadership team led by our Chief Executive Officer, Carlos Alberini, has significant expertise across all of our core functions, including brand management, product development, sourcing, supply chain, merchandising, finance and operations. 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. We also benefit from the vision and advice of Gary Friedman, who serves as our Chairman Emeritus, Creator and Curator. 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. We believe our high-performance culture and team are key drivers of our success and position 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 our existing retail footprint to a portfolio focused on Full Line Design Galleries. Our Full Line Design Galleries are sized based on the market potential and the size of our assortment. As of February 2, 2013, we had three Full Line Design Galleries that averaged approximately 21,800 selling square feet, more than three times the size of our average Gallery. Our Full Line Design Galleries allow 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 more than double our current selling square footage in the United States and Canada over the next 5 to 10 years as we transform our real estate platform by opening Full Line Design Galleries in these 50 identified markets.

We opened our first three Full Line Design Galleries in Los Angeles in June 2011, Houston in November 2011 and Scottsdale in November 2012. In the Los Angeles and Houston markets, store demand increased by approximately 90% and 60%, respectively, and direct demand increased by approximately 30% and 45%, respectively, in the first full year of operations of those Full Line Design Galleries. In the Scottsdale market, we experienced an approximate 80% increase in store demand and an approximate 75% increase in direct demand during the months from the store's opening in November 2012 through the end of fiscal 2012. In April 2013 we opened our fourth Full Line Design Gallery in Boston. We plan to open new Full Line Design Galleries in Indianapolis, Greenwich and Atlanta. In addition, we have identified locations, and are in active lease discussions, in approximately 20 markets including New York City, Chicago, Miami, Denver, Dallas and San Diego.

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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 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 have continued this strong level of innovation with a number of initiatives, including in: (i) indoor and outdoor furniture, where we continued to broaden our assortments in upholstery, dining and occasional, as well as introduced new finishes in our living, dining and bedroom collections; (ii) rugs, where we continued to significantly enhance our collection developed by Ben Soleimani of Mansour Rug, a 4th generation family-owned rug business known for its innovative designs; (iii) lighting, where we significantly expanded our assortment; and (iv) baby and child products, where we continued to expand our assortments in furniture, textiles and décor. We also introduced our collection of smaller living space furnishings, and custom window shades and blinds.

We are continuing to introduce select new product categories where we can offer a dominant merchandise assortment consistent with our brand positioning in other product categories. We recently launched two new collections through distinct Source Books: Tableware, our collection of dinnerware, flatware and table linens, and Objects of Curiosity, our collection of unique decorative accessories and objects for the home.

We have a successful record of new category introductions, including Outdoor in Spring 2006, Baby & Child in Spring 2008, Outdoor & Garden in Spring 2010 and Small Spaces in Spring 2012. 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.

- *Expand Services.* We plan to provide our customers with a growing range of services designed to enhance the customer experience and optimize sales. We have introduced interior design services, providing our customers with complimentary in-store and in-home design consultations. As of February 2, 2013, we had 39 interior designers in 25 locations, and plan to expand this program. Based on the results achieved to date, 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 introduction of Tableware and Objects of Curiosity.
- *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. For example, in 2013 we plan to launch our Contemporary Art business, with our first freestanding art gallery in the Chelsea Arts District in New York, as well as an e-commerce platform. 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.

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

- *Real Estate Positioning.* Our stores are a critical branding vehicle. 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 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 80% of our product assortment at the time of publication. This strategy contributed to an 81% increase in the number of catalog pages circulated and a 30% increase in net revenues for our direct business in fiscal 2012.
- *Digital 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 introduced apps for smartphones and tablets, which provide an additional means for our customers to browse 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, Town and Country* and *DuJour*. 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. 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 in locations that tend to have lower lease costs per square foot and reducing non-selling backroom space. 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. In addition, because our Full Line Design Galleries are destinations for customers, we believe that they will allow us to improve margins by obtaining more favorable lease arrangements with landlords. We have a well-developed, scalable infrastructure that is positioned to support our revenue growth without a proportionate increase in operating expenses. We also believe that our margins can further benefit over time from the introduction of new, higher-margin product categories, reduced product costs based on greater volumes with our vendors, and opportunities to optimize our shipping expenses.



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### **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**

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 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 twelve 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

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on product leadership. We built the *RH 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 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. In Spring 2011, 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. 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 Mr. Alberini to our team as well as other senior leaders in merchandising, product development, finance, information technology and inventory planning who bring extensive experience in their respective fields.

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 RH:

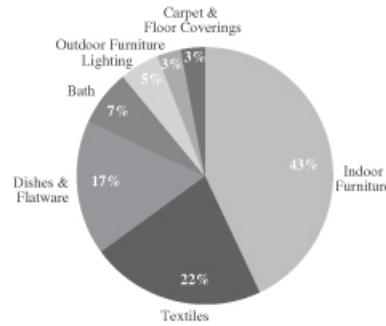
	<u>Old Restoration Hardware</u>	<u>New RH</u>
<b>Merchandise Strategy</b>	Nostalgic, discovery items	Category dominance, integrated lifestyle presentation
<b>Product Development</b>	Internally designed and developed (12 – 18 months lead time)	Externally discovered and curated (3 – 9 months lead time)
<b>Go-to-Market Strategy</b>	Conventional channel-focused marketing	Fully integrated market-based, multi-channel strategy
<b>Retail Strategy</b>	Multiple small locations in a given market showcasing narrow and redundant assortment	Consolidated markets, generally featuring larger locations showcasing broader assortment

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	Old Restoration Hardware	New RH
<b>Direct Strategy</b>	84-page catalog; limited mailing list; nascent e-commerce platform	Over 1,600 pages across our Interiors, Outdoor, Baby & Child, Objects of Curiosity, Small Spaces and Tableware Source Books; broader mailing list; established e-commerce platform
<b>Sourcing</b>	Traditional agent buying structure	Highly collaborative direct vendor relationships
<b>Supply Chain &amp; Systems</b>	Channel-specific architecture	Fully integrated multi-channel platform

**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 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.



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 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.

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### 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 RH 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>
<b>Furniture</b>	<ul style="list-style-type: none"><li>• Bedroom</li><li>• Dining</li><li>• Upholstery</li><li>• Home Office</li><li>• Media</li><li>• Cabinets</li></ul>	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, Maison and Rosette. 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. For Spring 2013, we collaborated with artisans Luay Al-Rawi and Victoria Sala to introduce a new line of aged wood dining and occasional tables. In addition, we added distressed white and antique taupe finishes to many of our wooden furnishings, to complement the natural, brown and ebony finishes we currently carry.
<b>Lighting</b>	<ul style="list-style-type: none"><li>• Ceiling</li><li>• Table</li><li>• Floor</li><li>• Wall</li><li>• Outdoor</li></ul>	Our lighting designs and reproductions draw from architectural and historical pieces. In Spring 2013, we introduced the Vaille crystal and chain chandelier as well as the 19th century French Empire chain chandelier. We carry a comprehensive assortment of floor, table, wall and ceiling lighting.
<b>Textiles</b>	<ul style="list-style-type: none"><li>• Bed Linens</li><li>• Bath Linens</li><li>• Drapery</li><li>• Rugs</li><li>• Pillows &amp; Throws</li></ul>	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 Lagae Belgian linen, Thai Silk and vintage velvet. We have further expanded our rug collections in Fall 2012 based on the successful introduction in Fall 2011 of rugs designed by Ben Soleimani of Mansour Rug. In Fall 2012, we introduced an exclusive line of custom roman shades and wood blinds with our partner The Shade Store, and a bespoke garment-dyed bed linen assortment designed by Matthew Lenoci.

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<u>Category</u>	<u>Select Products Offered</u>	<u>Select Product Highlights</u>
<b>Bathware</b>	<ul style="list-style-type: none"><li>• Faucets</li><li>• Hardware</li><li>• Furniture</li><li>• Sinks</li></ul>	Our bath faucets are 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. In Spring 2013, we added distressed white and antique taupe to our wood bath furniture collections in addition to our natural, coffee and ebony finishes.
<b>Décor</b>	<ul style="list-style-type: none"><li>• Decorative Accessories</li><li>• Home Accessories</li><li>• Wall Art</li><li>• Gifts</li></ul>	Our décor assortment is centered around beautiful accents for the home in objects, frames, candlelight and wall art. Our holiday assortment features vintage inspired ornaments and carefully curated gifts. In Spring 2013, we introduced our 128 page Objects of Curiosity Source Book, partnering with talented artisans around the globe to showcase our collection of unique decorative accessories and objects for the home.
<b>Tableware</b>	<ul style="list-style-type: none"><li>• Dinnerware</li><li>• Serveware</li><li>• Glassware</li><li>• Flatware</li><li>• Entertaining</li><li>• Table Linens</li></ul>	We debuted our Tableware collection in Spring 2013 with an 80 page Source Book. This collection features plates in round, square and coupe shapes made of authentic Chinese porcelain, presented in four translucent colored glazes. In addition, we are offering English silver from Sheffield, German Crystal stemware from Riedel, washed Belgian linens in 20 colors, and horn and bone flatware. We plan on showcasing our Tableware assortment in our stores later this year.
<b>Outdoor &amp; Garden</b>	<ul style="list-style-type: none"><li>• Furniture</li><li>• Textiles</li><li>• Lighting</li><li>• Accessories</li><li>• Fire</li><li>• Shade</li></ul>	We carry 30 collections of outdoor furniture that feature teak, metal and all-weather wicker available in custom finishes. We partner with Perennials and Sunbrella to create a collection of outdoor fabrics for our cushions and umbrellas. In Spring 2013, we partnered with Copenhagen designer Søren Rose to introduce the Aspen furniture collection made from French oak timbers. Our Garden collection is focused on completing the outdoor space with statuary, fire tables, garden structures, containers and lanterns.
<b>Baby &amp; Child</b>	<ul style="list-style-type: none"><li>• Furniture</li><li>• Bedding</li><li>• Window Coverings</li><li>• Flooring</li><li>• Lighting</li><li>• Décor</li></ul>	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.

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, as well as introduced new finishes in our living, dining and bedroom collections; (ii) rugs, where we continue to significantly enhance our collection developed by Ben Solcimani of Mansour Rug, a 4th generation, family rug business known for its innovative

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designs; (iii) lighting, where we have significantly expanded our assortment; and (iv) baby and child products, where we continue to expand our assortments in furniture, textiles and décor. We have also introduced our collection of smaller living space furnishings, and custom window shades and blinds.

We are continuing to introduce select new product categories where we can offer a dominant merchandise assortment consistent with our brand positioning in other product categories. We recently launched two new collections through distinct Source Books: Tableware, our collection of dinnerware, flatware and table linens, and Objects of Curiosity, our collection of unique decorative accessories and objects for the home.

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 Small Spaces in Spring 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 *RH 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 2012, sales of products originating in our stores represented 54% of our net revenues, while sales from our direct business represented 46% of our net revenues. We believe our channels complement each other and our customers' buying decisions are influenced by their experiences across more than one of our sales channels. We encourage our customers to shop across our channels and have

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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 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 February 2, 2013, our customer database contained 14.0 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. We believe there is substantial opportunity for us to grow these businesses.

### **Stores**

#### *Retail Stores*

As of February 2, 2013, we operated a total of 71 retail stores throughout the United States and Canada, consisting of 65 Galleries, 3 Full Line Design Galleries and 3 Baby & Child 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, which, as of February 2, 2013, averaged approximately 21,800 selling square feet, (2) our Gallery format, which, as of February 2, 2013, averaged approximately 6,800 selling square feet, and (3) our Baby & Child Gallery format. We are transforming our real estate portfolio from our existing retail footprint to a portfolio based on Full Line Design Galleries 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. Our three stand-alone Baby & Child Galleries are located in Corte Madera (California), Houston, and Santa Monica. We anticipate that our Full Line Design Galleries will include dedicated Baby & Child retail space and, in addition, we will continue to evaluate potential opportunities for additional Baby & Child Galleries as stand-alone locations in other markets.

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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 presentation 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.

On average, our Gallery stores display less than 20% of our current assortment. 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. Our newer, larger store model, the Full Line Design Gallery, 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 RH brand. Our current strategy is to size these new Full Line Design Galleries based on the potential of the market and the size of our assortment. Landlords are currently offering us leases with more favorable terms that are typically available only to anchor tenants. We believe that we can structure these types of anchor tenant leases in a number of high-profile retail shopping centers. We expect that these leases will result in more predictable timing, higher developer contribution to our build-outs, and lower rents.

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 key metropolitan markets where we can open new Full Line Design Galleries. We opened our first three Full Line Design Galleries in Los Angeles in June 2011, Houston in November 2011 and Scottsdale in November 2012. In the Los Angeles and Houston markets, store demand increased by approximately 90% and 60%, respectively, and direct demand increased by approximately 30% and 45%, respectively, in the first full year of operations of those Full Line Design Galleries. In the Scottsdale market, we experienced an approximate 80% increase in store demand and an approximate 75% increase in direct demand during the months from the store's opening in November 2012 through the end of fiscal 2012. In April 2013, we opened our fourth Full Line Design Gallery in Boston. We plan to open new Full Line Design Galleries in Indianapolis, Greenwich and Atlanta. In addition, we have identified locations, and are in active lease discussions, in approximately 20 markets including New York City, Chicago, Miami, Denver, Dallas and San Diego. 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.

The table below highlights certain information regarding our retail stores open during the three years ended February 2, 2013.

	Fiscal Year		
	2012	2011	2010
Stores open at beginning of period	74	91	95
Stores opened	5	5	4
Stores closed	(8)	(22)	(8)
Stores open at end of period	<u>71</u>	<u>74</u>	<u>91</u>

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. 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.



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The following list shows the number of retail stores in each U.S. state and each Canadian province where we operate as of February 2, 2013:

<u>Location</u>	<u>Store</u>	<u>Location</u>	<u>Store</u>	<u>Location</u>	<u>Store</u>
Alabama	1	Massachusetts	2	Rhode Island	1
Arizona	1	Michigan	1	Tennessee	1
California	17	Minnesota	1	Texas	6
Colorado	1	Missouri	2	Utah	1
Connecticut	2	New Jersey	2	Virginia	2
Florida	4	New York	3	Washington	1
Georgia	1	North Carolina	2	District of Columbia	1
Illinois	3	Ohio	3	Alberta	2
Indiana	1	Oklahoma	1	British Columbia	1
Louisiana	1	Oregon	1	Ontario	2
Maryland	1	Pennsylvania	2		
				<b>Total</b>	<b><u>71</u></b>

### *Outlet Stores*

As of February 2, 2013, we operated 13 outlet stores in 12 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 Interiors, Outdoor, Baby & Child, Objects of Curiosity, Small Spaces and Tableware. 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 assortment. We refer to these larger catalogs as Source Books. For example, our Spring 2013 Source Books presented over 80% of our product assortment at the time of publication. We have found that when we display a greater merchandise assortment in our catalogs, we experience increased sales across all of our channels. 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 *RH 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.

### *E-Commerce*

Our primary websites, [www.restorationhardware.com](http://www.restorationhardware.com) and [www.rh.com](http://www.rh.com), provide our customers with the ability to purchase our merchandise online. In May 2008, we launched [www.rhbabyandchild.com](http://www.rhbabyandchild.com), an e-commerce enabled website devoted to our children's furnishings category. In May 2011, we launched apps for smartphones and tablets that enable customers to browse our growing product assortment.

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Our e-commerce platform provides simplicity and ease of use while allowing customers to experience the RH lifestyle reflected in our catalogs and throughout our stores. We update our websites on a regular basis to reflect product availability and special offers. In fiscal 2012, our websites logged over 18.9 million unique visits, an increase of 32% over fiscal 2011.

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 websites 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 14.0 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 RH 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. Our catalogs and targeted emails further reinforce the RH 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 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*, *House Beautiful*, *Veranda*, *Town and Country*, *DuJour* 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. In fiscal 2012, we sourced approximately 75% of our purchase dollar volume from approximately 35 vendors. In fiscal 2012, one vendor accounted for approximately 11% of our purchase dollar volume. Based on total dollar volume of purchases for fiscal 2012, approximately 78% of our products were sourced in Asia, the majority of which originated from China, 15% from the United States 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. Over the last several years, we engaged in a sourcing initiative to develop closer relationships with our vendors in order to achieve better efficiencies and

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further improve our product development process. Through this process, 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 seven facilities, each of which serves all of our sales channels:

- Our West Jefferson, Ohio facility is approximately 805,000 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 the surrounding area. We are planning to expand into an additional 400,000 square feet in May 2013.
- 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 Baltimore and Washington, D.C. metropolitan areas.
- Our North East, Maryland facility is approximately 1,200,000 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.
- Our Mira Loma, California facility 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 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 is approximately 114,000 square feet. It serves as a furniture delivery hub for the greater New York/New Jersey metropolitan area.
- Our Houston, Texas facility is approximately 71,000 square feet. It serves as a furniture delivery hub for the greater Houston metropolitan area and eastern Texas region.

In addition, we recently entered into a lease in connection with a planned distribution center in Grand Prairie, Texas which is approximately 860,000 square feet. This new facility will support our furniture merchandise distribution for our Central and Southern regions within the United States and is expected to commence operations in the second half of 2013. This location will also house our new customer service call center. To support the startup of the Grand Prairie distribution center, we have also entered into a short-term lease in the Ft. Worth, Texas area for 300,000 square feet of distribution space. We intend to exit this interim facility shortly after commencing operations at the Grand Prairie facility.

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 operate portions of our home delivery services in five key markets to leverage operating costs and improve our customers' service experience, while reducing returns and damage to our products. We plan to continue this trend of in-sourcing these services in additional markets over time, including three in 2013, while managing deliveries in other markets through third-party vendors.

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

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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 2013 designed to improve our fulfillment and delivery logistics performance 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 several 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;
- Installing new web-based store systems, including 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.

Over the next several years, we intend to further enhance our IT infrastructure to support our growth. Key initiatives include:

- Further upgrading our multi-channel ordering, supply chain and inventory management systems to maximize operating efficiencies;
- Enhancing our in-store, web and mobile commerce capabilities with state-of-the art technology to optimize the customer shopping experience; and
- Continuing our expansion of business intelligence capabilities and data warehouse management to optimize information for timely decision making.

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.

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### **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, as well as with mail order catalogs and online retailers focused on home furnishings.

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 February 2, 2013, we had approximately 3,100 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” and “RH” trademarks and certain variations thereon, such as the Restoration Hardware and RH logos, 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,” “rh.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.

### **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.

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### **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.

### **Where You Can Find More Information**

We are required to file annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended, with the SEC. 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>.

We maintain public internet sites at [www.restorationhardware.com](http://www.restorationhardware.com) and [www.rh.com](http://www.rh.com) and make available, free of charge, through these sites our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers, as well as any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also put on our websites the charters for our Board of Directors' Audit Committee, Compensation Committee and Nominating Committee, as well as our Code of Business Conduct, our Corporate Governance Guidelines and Code of Ethics governing our chief executive and senior financial officers and other related materials. The information on our websites is not part of this annual report.

Our Investor Relations Department can be contacted at Restoration Hardware, Inc., 15 Koch Road, Suite J, Corte Madera, CA 94925, Attention: Investor Relations; telephone: 415-945-3500; e-mail: [investorrelations@rh.com](mailto:investorrelations@rh.com).

### **Item 1A. Risk Factors**

*Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks actually occurs, our business, financial condition, results of operations, and future prospects could be materially and adversely affected. In that event, the trading price of our common stock could decline, and you could lose part or all of your investment.*

### **Risks Related to Our Business**

***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 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

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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 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 decrease 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 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 our Full Line Design Galleries may vary in different markets and store locations. Similarly, the level of customer response to our Source Book 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, these developments 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.

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### ***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. The housing market may be commencing a recovery after a prolonged downtrend, and rising levels of home purchases and remodelings, in turn, may increase consumer spending on home furnishings. However, the overall economic outlook remains uncertain and there can be no assurance that any economic or housing recovery will be sustained or that our business will continue to perform well even in a stronger housing market.

### ***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 experiencing rapid growth and undertaking a large number of new business initiatives. For example, we have developed and continue to refine and enhance our 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 also continue to add new product categories and to expand product assortments. For example, we introduced our new Tableware category in Spring 2013. We are currently contemplating other new product lines and extensions and complementary brand-enhancing businesses, 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. Further, we continue to evolve our Source Book strategy. We may incur costs for these new initiatives before we realize any corresponding revenue.

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. 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.

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

We do not own or operate any manufacturing facilities. We instead purchase all of our merchandise from a large number of vendors, many of which are the sole sources for particular products. Our growth strategy includes expanding the amount of products we sell, and our performance depends on our ability to purchase our merchandise in sufficient quantities at competitive prices. However, many of our key products are produced by artisans, specialty vendors and other vendors that may have limited production capacity. In addition, some of our vendors are small and undercapitalized firms. A number of our vendors, particularly our artisan vendors, may



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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 2012, we purchased approximately 85% of our merchandise from vendors that are located abroad. Our ability to obtain desired merchandise in sufficient quantities could be impaired by events that adversely affect our vendors or the locations in which they operate, such as difficulties or problems associated with our vendors' operations, business, finances, labor, economic environment, 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 most 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 which purchase products in significantly greater volume. Our competitors may enter into arrangements with suppliers that could impair our ability to sell those suppliers' 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 timely manner. In addition, our vendors' limited capitalization or liquidity may mean that a vendor that has

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supplied defective merchandise will not be able to refund the purchase price to us or pay us any penalties or damages associated with any defects.

In addition, our vendors may not adhere to our quality control standards, and we might not identify a quality 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.

***Our former Chairman and Co-Chief Executive Officer, Gary Friedman, resigned from these positions and as a director of the Company last year. There can be no assurance that these developments will not have an adverse impact on us.***

Our former Chairman and Co-Chief Executive Officer, Gary Friedman, resigned from these positions and as a director of the Company, effective October 20, 2012, following an investigation by a special committee of non-management directors of the board assisted by independent counsel prompted by disclosure that Mr. Friedman and a Company employee were engaged in a personal relationship, described by the parties as consensual. The investigation concluded that Mr. Friedman engaged in activities that were inconsistent with the board of directors' expectations for executive conduct as previously communicated by the board of directors and failed to comply with certain Company policies. We incurred \$4.8 million of expenses related to the investigation. There can be no assurance that we will not incur expenses or claims in the future related to the conduct that was the subject of the investigation or similar conduct that has occurred in the past or, given Mr. Friedman's continued involvement with the Company in his new roles, may occur in the future.

In connection with his resignation as Chairman, Co-Chief Executive Officer and a director, Mr. Friedman and the Company entered into an advisory services agreement that provides for Mr. Friedman to advise the Company in a role described as the Creator and Curator with respect to product development, merchandising and other creative matters. In addition, in connection with our initial public offering, Home Holdings agreed to invest \$5 million, consisting of \$2.5 million in an initial tranche and \$2.5 million in one or more additional tranches, directly or indirectly, in Hierarchy, LLC ("Hierarchy"), a recently formed entity in which Mr. Friedman has a controlling interest. If requested by Home Holdings and agreed to by us, we may make such subsequent tranche investments. We will have the right to acquire all or a portion of Home Holdings' interest in Hierarchy between the second and third anniversaries of our initial public offering, at the greater of the then fair market value and the price paid by Home Holdings. Further, Home Holdings has assigned to us its right of first offer and co-sale right over the sale by Mr. Friedman of his interests in Hierarchy, its right of first offer over the sale of Hierarchy or any of its lines of business and its preemptive rights on issuances of additional interests in Hierarchy. Unless otherwise agreed by Home Holdings, for two years from the date of the Hierarchy operating agreement, Hierarchy's lines of business will be limited to apparel and apparel related businesses. In addition, Hierarchy will be permanently prohibited from entering into lines of business in which we are engaged and certain lines of business in which we may become engaged (other than luggage, which Hierarchy may enter into after such two year period). The agreements among Hierarchy, Home Holdings, Mr. Friedman and the Company contemplate that we will enter into an agreement to provide Hierarchy with back office, logistics, supply chain and administrative support, with pricing determined based on the fair market value of such services. We also transferred to Hierarchy our minimal apparel-related assets at fair market value. Mr. Friedman is also a significant stockholder in the Company and will continue to advise the board of directors in an observer capacity, with the honorary title of Chairman Emeritus.

Mr. Friedman's leadership and creative talents were important contributors to the Company's performance during his tenure as our Chairman and Co-Chief Executive Officer. While we believe that Mr. Alberini, the current sole Chief Executive Officer, and the other management team members can continue to effectively lead the Company, and we expect to continue to benefit from Mr. Friedman's contributions as the Company's Creator and Curator on an advisory basis, and as Chairman Emeritus, there can be no assurance that the absence of Mr. Friedman in his former roles will not have an adverse impact on us.

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### ***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 Chief Executive Officer, Carlos Alberini. In addition, the leadership and creative talents of Gary Friedman, our Chairman Emeritus, who currently serves as our Creator and Curator on an advisory basis, have been and are expected to continue to be important contributors to our performance. The loss of the services of our key personnel or advisor 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.

Mr. Alberini's and Mr. Friedman's equity ownership in our Company may give them a substantial amount of personal wealth. As a result, it may be difficult for us to continue to retain and motivate them, and this wealth could affect their decisions about whether or not they continue to perform services for us. If we do not succeed in retaining and motivating Mr. Alberini and Mr. Friedman, we may be unable to achieve our historical growth rates.

Competition for qualified employees and personnel in the retail industry is intense. We may be unable to retain other existing personnel that are important to our business or hire additional qualified personnel. 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 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 have increased and will continue to increase in fiscal 2013 and succeeding fiscal periods as we open additional Full Line Design Galleries, which may require us to undertake upgrades to historical buildings or construction of new buildings. During fiscal 2012, we spent \$27.8 million for capital expenditures related to new stores and remodeling, and we incurred \$21.3 million of additional capital expenditures related to supply chain investments and systems infrastructure. We anticipate our capital expenditure requirements to be approximately \$95 million to \$100 million for fiscal 2013. 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 we have relied upon leases with landlords for our other locations to date. 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.

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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 February 2, 2013, we had borrowed \$82.5 million under the revolving line of credit and had \$188.5 million available for borrowing. 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 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 within the time frames we initially target 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;

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- 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 or local permit delays and cost overruns in connection with the opening of new stores or the expansion or further remodeling of existing 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.

We have experienced delays in opening some new stores within the time frames we initially targeted, and may continue to experience such delays in the future. 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 those listed above 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.

***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 2012, we recorded net revenues of \$292.9 million and \$398.1 million in the second and fourth fiscal quarters or 24.6% and 33.4%, respectively, of our fiscal 2012 net revenue. In fiscal 2012, our gross profit for the second and fourth quarters was \$114.1 million and \$145.2 million or 26.1% and 33.3% of our fiscal 2012 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 operation may fluctuate on a seasonal basis and relative to corresponding periods in prior years. We may take certain pricing, merchandising 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. For example, we periodically engage in sales promotional activities that are designed to increase our sales but can have the effect of reducing our gross margins. These initiatives and promotional activities 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 our 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 Small Spaces. We also have introduced other merchandise categories that enhance the customer experience in our Full Line Design Galleries, including fresh cut flowers, magazines and tea. We plan further brand-enhancing offerings, such as the planned introduction of our Contemporary Art business, or a café, wine bar or restaurant adjacent to, or inside of, select Full Line Design Galleries. We are incubating a number of other new ideas for potential expansion of our business, some of which may become new core categories or new store concepts 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 common stock.

***Competition in the home furnishings sector of the retail market may adversely affect our future financial performance.***

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 with mail order catalogs and online retailers 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

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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 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 service 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 service 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.

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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 service 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, reduced the size of our furniture delivery hub in Tracy, California and have entered into a lease in connection with a planned distribution center in Grand Prairie, Texas. We are also planning to expand into an additional 400,000 square feet at our West Jefferson, Ohio distribution center in May 2013, and in-sourcing three home furniture delivery facilities in 2013. 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 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 and demand, general economic conditions, labor costs, competition, import duties, tariffs, anti-dumping duties, 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 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 2012 we purchased approximately 85% of our merchandise from vendors located outside the United States, including 78% 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, anti-dumping duties 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, anti-dumping duties and quotas, loss



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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 and subject us to boycotts by our customers or activist groups, any of which could negatively affect our business and operating results.

### ***We extend unsecured credit to our vendors.***

Some of our vendors have limited cash flows and/or access to capital and require us to advance payments in order for them to be able to meet our supply requirements. We typically advance a portion of the payments to be made to such vendors under our purchase orders prior to the delivery of the ordered products. These advance payments are unsecured. These vendors may become insolvent and their failure to repay our advances, and any related failure to deliver products to us, could have a material adverse impact on our results of operations.

### ***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 our product shipments to our stores and to our customers outside of certain areas. Our utilization of their delivery services for 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, a significant number of our customer orders are placed through our websites. 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. We are not fully compliant with Payment Card Industry, or PCI, Data Security Standards and there can be no assurance that in the future we will be able to

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operate our facilities and our customer service and sales operations in accordance with PCI or other industry recommended practices. We intend to obtain compliance with PCI Data Security Standards and will incur additional expenses to attain and maintain PCI compliance. Further, there is increased litigation over personally identifiable information and we may be subject to one or more claims or lawsuits related to intentional or unintentional exposure of our customer's personally identifiable information. 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. 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, fines, litigation and liability and could seriously disrupt our operations and harm our reputation, any of which could adversely affect our business. In addition to the possibility of fines, lawsuits and other claims, we could be required to change our business practices or modify our service offerings in connection with the protection of personally identifiable information, which could have a material adverse effect on our business.

In addition, states and the federal government have enacted additional laws and regulations to protect consumers against identity theft, including laws governing treatment of personally identifiable information. 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 within the past five years 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.

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

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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. In 2012, we significantly expanded the page counts of our catalogs, increased the number of households receiving our catalogs and reduced the number of catalog mailings. 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.

***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

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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 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 and/or our management 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 and/or our management 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 collection of reproductions, claims related to our employment practices, claims of intellectual property infringement, including with respect to trademarks and trade dress, and claims asserting unfair competition and unfair business practices by third parties. In addition, from time to time, we are subject to product liability and personal injury claims for the products that we sell and the stores we operate. Subject to certain exceptions, our purchase orders generally require the vendor to indemnify us against any product liability claims; however, if the vendor does not have insurance or becomes insolvent, we may not be indemnified. In addition, we could face a wide variety of employee claims against us, including general discrimination, privacy, labor and employment, ERISA and disability claims. Any claims could result in litigation against us and could also result in regulatory proceedings being brought against us by various federal and state agencies that regulate our business, including the 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. Our Chief Executive Officer, Mr. Alberini was employed by Guess?, Inc., which has been subject to a tax audit and assessment proceeding in Italy. There is a related proceeding by a prosecutor in Italy that has been initiated with respect to several current and former members of the Guess Europe management team as well as Mr. Alberini. There can be no assurance as to the exact timing or outcome of the Italian prosecutorial proceeding or that it will not require Mr. Alberini to devote substantial time in addressing this matter prior to its final resolution. Guess?, Inc. has reported a settlement of this tax proceeding in Italy and we expect that the related proceeding regarding Mr. Alberini will be resolved favorably. Litigation and other claims and regulatory proceedings against us or our management 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.

***Intellectual property claims by third parties or our failure or inability to protect our intellectual property rights could diminish the value of our brand and weaken our competitive position.***

Third parties have and may in the future assert intellectual property claims against us, particularly as we expand our business to include new products and product categories and move into other geographic markets. 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 and prevent us from selling some of our products. In addition, resolution of claims may require us to redesign our

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products, license rights from third parties or cease using those rights altogether, which could have a material adverse impact on our business, financial condition or results of operations.

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 also 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. If we are unable to protect and maintain our intellectual property rights, the value of our brand could be diminished and our competitive position could 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 seven 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

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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 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 applicable U.S. federal and state or foreign laws and regulations, such as the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery, anti-corruption and anti-kickback laws.***

We source substantially all 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. Additionally, we have expanded our business-to-business sales. The foreign and U.S. laws and regulations that are applicable to our operations are complex and may increase the costs of regulatory compliance, or limit or restrict the products or services we sell or subject our business to the possibility of regulatory actions or proceedings. The United States Foreign Corrupt Practices Act, and other similar laws and regulations, generally prohibit companies and their intermediaries from making improper payments to foreign governmental officials for the purpose of obtaining or retaining business. While our policies mandate compliance with applicable laws and regulations, including anti-bribery laws and other anti-corruption 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 a net loss of \$7.1 million in fiscal 2010. We achieved profitability in fiscal 2011 with net income of \$20.6 million. We experienced a GAAP net loss of \$12.8 million in fiscal 2012 as a result of certain non-recurring and other items. We may experience net losses in the future, and we cannot assure you that we will return to 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 the United States and certain foreign jurisdictions. We record income 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

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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 our initial public offering may impact the timing of the utilization of our net operating loss carryforwards. 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 quarter of 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. 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. 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. No such related charges were recorded in fiscal 2012.

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***If we are unable to implement and maintain effective internal control over financial reporting in the future, the accuracy and timeliness of our financial reporting may be adversely affected.***

We recently initiated steps to implement, evaluate, and test our internal control over financial reporting. We have not completed these procedures and until these controls are fully implemented and tested there is a possibility that a material misstatement would not be prevented or detected on a timely basis. We are not currently required to comply with Section 404 of the Sarbanes-Oxley Act of 2002, as amended (the "Sarbanes-Oxley Act"), and are therefore not currently required to make an assessment of the effectiveness of our internal controls. Our first assessment of the effectiveness of our internal controls will be included within our Annual Report on Form 10-K for the year ending February 1, 2014. During the evaluation and testing processes, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting beginning with our Annual Report on Form 10-K for the year ending February 1, 2014. Even if our management concludes that our internal control over financial reporting is effective, our independent registered public accounting firm may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated, or reviewed, or if it interprets the relevant requirements differently from us. Material weaknesses may be identified during the audit process or at other times. During the course of the evaluation, documentation, or attestation, we or our independent registered public accounting firm may identify weaknesses and deficiencies that we may not be able to remedy in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with Section 404.

Our reporting obligations as a public company will place a significant strain on our management and our operational and financial resources and systems for the foreseeable future. If we fail to timely achieve and maintain the adequacy of our internal control over financial reporting, we may not be able to produce reliable financial reports. Our failure to achieve and maintain effective internal control over financial reporting could prevent us from filing our periodic reports on a timely basis, which could result in the loss of investor confidence in the reliability of our financial statements, harm our business, and negatively impact the trading price of our common stock.

***We incur new costs as a newly public company, and our management is required to devote substantial time to new compliance matters.***

As a newly public company, we incur significant legal, accounting, and other expenses, including costs resulting from public company reporting obligations under the Exchange Act and the rules and regulations regarding corporate governance practices, including those under the Sarbanes-Oxley Act, the Dodd-Frank Act, and the listing requirements of the stock exchange on which our securities are listed. Our management and other personnel need to devote a substantial amount of time to ensure that we comply with all of these requirements. The reporting requirements, rules, and regulations increase our legal and financial compliance costs and make some activities more time-consuming and costly.

These rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These factors could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, particularly to serve on our audit and compensation committees, or as executive officers.



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### **Risks Related to Ownership of Our Common Stock**

#### ***Our common stock price may be volatile or may decline regardless of our operating performance.***

The market price for our common stock may be volatile. As a retailer, our results are significantly affected by factors outside our control, particularly consumer spending and consumer confidence, which can significantly affect our stock price. In addition, the market price of our common stock may fluctuate significantly in response to a number of other factors, including those described elsewhere in this “Risk Factors” section, 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.

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.

Our filings and public disclosures have attracted the attention of a hedge fund manager whose investment strategies we believe include making investments that increase in value when stock prices decline. The fund manager has informed us of the fund’s negative view of our Company and business and has threatened to publicize those views. There can be no assurance that this fund manager will not attempt to influence the broader investment community or otherwise attempt to disparage our Company or our brand, which could negatively affect our stock price.

#### ***Substantial future sales of our 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 common stock in the public market, or the perception that these sales could occur, could adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional shares. As of the completion of our initial public offering, we had 36,971,500 shares of common stock issued. These shares of common stock are freely tradable without restriction under the Securities Act of 1933, as amended (the “Securities Act”), except for any shares of our common stock that are held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities

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Act, which are 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, Catterton and Tower Three have registration rights whereby Home Holdings, Catterton or Tower Three can require us to register under the Securities Act any shares owned by Home Holdings, Catterton or Tower Three as of the date of our initial public offering. If our existing stockholders sell substantial amounts of our 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 common stock, even if there is no relationship between such sales and the performance of our business.

We, our executive officers and directors, Home Holdings and certain other stockholders 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 our initial public offering, without first obtaining written consent of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman, Sachs & Co., representatives of the underwriters of our initial public offering.

All of our shares of common stock outstanding as of the date of our initial public offering may be sold in the public market by existing stockholders 180 days after the date of our initial public offering, subject to applicable contractual limitations and limitations imposed under federal securities laws.

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 contain provisions that may make the acquisition of our Company more difficult without the approval of our board of directors. These provisions:

- 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 a majority of the voting power of our outstanding common stock, 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 also contains a provision that provides us with protections similar to Section 203 of the Delaware General Corporation Law (“DGCL”), and prevents 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 from the date such person acquired such common stock unless board or stockholder approval is obtained prior to the acquisition, except that Catterton, Tower Three and Glenhill and any persons to whom Catterton, Tower Three and Glenhill 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

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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.

***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 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, realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

***Home Holdings, Catterton and Tower Three continue to have significant influence over us, including over decisions that require the approval of stockholders, and their interests in our business may be different from yours.***

Home Holdings owns approximately 25.9 million shares, or 66.7%, of our outstanding common stock (including outstanding restricted shares). Of that amount, Catterton beneficially owns approximately 11.8 million shares, or 30.3%, of our outstanding common stock, Tower Three beneficially owns approximately 11.1 million shares, or 28.6%, of our outstanding common stock and Glenhill beneficially owns approximately 3.0 million shares, or 7.8%, of our outstanding common stock.

Home Holdings, and through Home Holdings, Catterton, Tower Three and Glenhill, have significant influence over our reporting and corporate management and affairs and are able to control certain matters requiring stockholder approval. It is possible that the interests of our Principal Equity Holders may in some circumstances conflict with the interests of our other stockholders, including you. We have entered into a stockholders agreement with Home Holdings that provides for certain approval rights for Home Holdings and designation of directors by Home Holdings. The stockholders agreement provides that, for so long as Home Holdings and the Principal Equity Holders hold a majority of the voting power of our outstanding common stock, Home Holdings shall have the right to nominate a majority of the members of our board of directors and as long as Home Holdings and the Principal Equity Holders hold at least 30% of the voting power of our outstanding common stock, Home Holdings shall have the right to nominate two members of our board of directors. For so long as Home Holdings and the Principal Equity Holders own a majority of the voting power of our outstanding common stock, 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 as not being subject to this provision) without the affirmative vote of the Catterton and Tower Three designated directors. In addition, for so long as Home Holdings and the Principal Equity Holders hold at least 30% of the voting power of our outstanding common stock, certain actions may not be taken without the approval of Home Holdings. The stockholders agreement (and our certificate of incorporation) also provides for a waiver of the corporate opportunity doctrine with respect to Home Holdings and its affiliates, including the Principal Equity Holders. If Home Holdings or its affiliates, including the Principal Equity Holders, participate in any such corporate opportunity, Thomas Mottola and Barry Sternlicht, two of our directors, will also be afforded a waiver of the corporate opportunity doctrine in connection with any participation by them in any such corporate opportunity.

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 common stock, even if such amount represents less than a majority, Home Holdings and our Principal Equity Holders will continue to be able to strongly influence our decisions.

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The concentration of ownership in the hands of our Principal Equity Holders 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 common stock as part of a sale of our Company and might ultimately affect the market price of our common stock.

*We are a “controlled company” within the meaning of the New York Stock Exchange (“NYSE”) listing requirements and, as a result, 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.

We intend to utilize these exemptions afforded to a “controlled company.” Accordingly, you do not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the NYSE.

### **Item 1B. Unresolved Staff Comments**

None.

### **Item 2. Properties**

We leased approximately 935,000 gross square feet for our 65 Galleries, 3 Full Line Design Galleries, 3 Baby & Child Galleries and 13 outlet stores that were open as of February 2, 2013. The initial lease term of our retail stores is generally 10 – 15 years. Certain leases contain renewal options for up to 20 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 35,000 square feet for offsite storage.

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### *Leased Properties*

The following table summarizes the location and size of our leased distribution centers and corporate facilities occupied as of February 2, 2013:

<b>Location</b>	<b>Purpose</b>	<b>Lease Expiration</b>	<b>Occupied Square Footage (Approximate)</b>
<i>Distribution Centers</i>			
North East, Maryland	Distribution center	February 2028	1,200,000
Mira Loma, California	Distribution center / Home delivery	June 2020	886,000
West Jefferson, Ohio	Distribution center / Home delivery	April 2028	805,000
Baltimore, Maryland	Distribution center / Home delivery	June 2014	508,000
Ft. Worth, Texas	Distribution center	(1)	300,000
Tracy, California	Home delivery	September 2016	151,000
Avenel, New Jersey	Home delivery	November 2016	114,000
Houston, Texas	Home delivery	August 2018	71,000

### *Corporate Facilities*

Corte Madera, California	Corporate headquarters	(2)	240,000
Richmond, California	Warehouse	September 2022	200,000
San Rafael, California	Warehouse	July 2013	10,000

- (1) Relates to a short-term lease agreement to support the startup of our new distribution center in Grand Prairie, Texas which is expected to commence operations in the second half of 2013. We intend to exit this interim facility shortly after commencing operations at the Grand Prairie facility.
- (2) Lease agreements for our corporate headquarters expire between July 2013 and September 2022. Includes approximately 15,000 square feet of warehouse space.

### *Owned Properties*

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.

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**Item 3. Legal Proceedings**

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

**Item 4. Mine Safety Disclosures**

Not applicable.

PART II

**Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market Information and Dividend Policy**

Our common stock began trading on the NYSE, under the symbol “RH” on November 2, 2012. The price range per share of common stock presented below represent the highest and lowest closing prices for our common stock on the NYSE for each full quarterly period since our initial public offering.

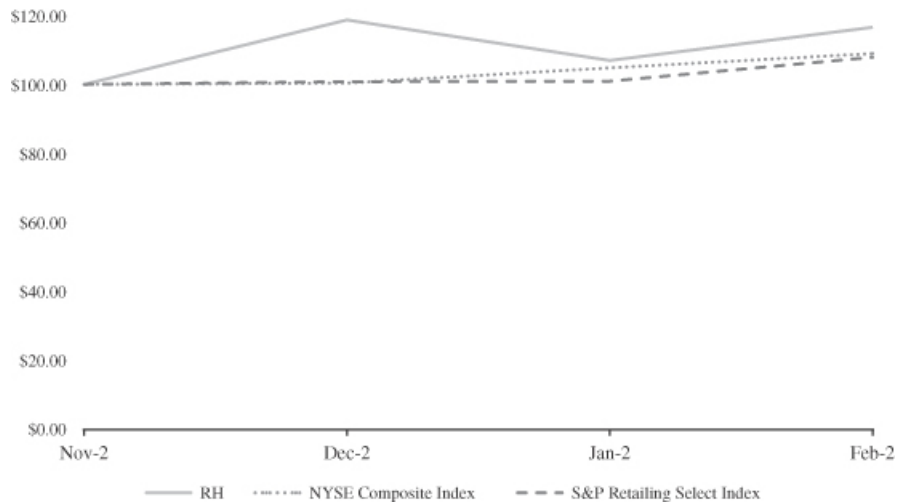
	<u>Highest</u>	<u>Lowest</u>
<b>Fiscal 2012</b>		
Fourth Quarter (from November 2, 2012)	\$37.99	\$31.10

The number of stockholders of record of our common stock as of April 16, 2013 was 114. This number excludes stockholders whose stock is held in nominee or street name by brokers. No dividends have been declared or paid on our common stock. We do not currently anticipate that we will pay any cash dividends on our common stock in the foreseeable future.

**Stock Performance Graph**

*This performance graph shall not be deemed “soliciting material” or to be “filed” with the SEC for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of Restoration Hardware Holdings, Inc. under the Securities Act of 1933, as amended, or the Exchange Act.*

The following graph and table compare the cumulative total stockholder return for our common stock during the period from November 2, 2012 (the date our common stock commenced trading on the NYSE) through February 2, 2013 in comparison to the NYSE Composite Index and the S&P Retailing Select Index, our peer group index. The graph and the table below assume that \$100 was invested at the market close on November 2, 2012 in the common stock of Restoration Hardware Holdings, Inc., the NYSE Composite Index and the S&P Retailing Select Index. Data for the NYSE Composite Index and the S&P Retailing Select Index assumes reinvestments of dividends. The comparisons in the graph and table are required by the SEC and are not intended to be indicative of possible future performance of our common stock.



	11/2/2012	12/2/2012	1/2/2013	2/2/2013
Restoration Hardware Holdings, Inc.	100.00	118.65	106.85	116.50
NYSE Composite Index	100.00	100.31	104.82	108.87
S&P Retailing Select Index	100.00	100.80	100.85	107.88

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### **Unregistered Sale of Equity Securities and Issuer Purchases of Equity Securities**

On November 1, 2012, Restoration Hardware Holdings, Inc. issued additional shares to Home Holdings, and Restoration Hardware Holdings, Inc. acquired all of the outstanding shares of Restoration Hardware, Inc. from Home Holdings. In addition, shares of our common stock were issued to the participants of the Team Resto Ownership Plan in replacement of prior unit awards under the Team Resto Ownership Plan. As a result of these transactions, as of November 1, 2012 (before giving effect to the initial public offering), 32,188,891 shares of our common stock were outstanding.

### **Use of Proceeds from the Initial Public Offering**

On November 1, 2012, our Registration Statement on Form S-1, as amended (File No. 333-176767), was declared effective, pursuant to which we registered the offering and sale of 4,782,609 shares of common stock by Restoration Hardware Holdings, Inc., the associated sale of 381,723 shares of common stock by selling stockholders, and the sale pursuant to the underwriters' over-allotment option of an additional 774,650 shares of common stock by selling stockholders, at a price of \$24.00 per share. On November 7, 2012, Restoration Hardware Holdings, Inc. sold all 4,782,609 shares of common stock for an aggregate offering price of approximately \$114.8 million, the selling stockholders sold 1,156,373 shares of common stock, including 774,650 shares pursuant to the underwriters' over-allotment option, for an aggregate offering price of approximately \$27.8 million, and the offering terminated. Merrill Lynch, Pierce, Fenner & Smith Incorporated, Goldman, Sachs & Co., Robert W. Baird & Co. Incorporated, William Blair & Company, L.L.C., Piper Jaffray & Co. and Stifel, Nicolaus & Company, Incorporated acted as the underwriters.

As a result of the initial public offering, we raised approximately \$97.7 million in net proceeds after deducting underwriting discounts and commissions of approximately \$8.1 million and estimated expenses in connection with the offering of \$9.1 million. We did not receive any proceeds from the sale of stock by the selling stockholders. On November 7, 2012, we made payments of \$75.7 million on Restoration Hardware, Inc.'s revolving line of credit and repaid Restoration Hardware, Inc.'s outstanding term loan of \$15.0 million in full. Such payments were funded by the proceeds received as a result of the initial public offering. No payments were made by us to directors, officers or persons owning ten percent or more of our common stock or to their associates, or to our affiliates, other than payments of \$7.0 million in the aggregate made on November 7, 2012, to pay management fees to affiliates of Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement that terminated upon consummation of the initial public offering.

### **Item 6. Selected Consolidated Financial Data**

The following tables present Restoration Hardware Holdings, 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. On November 7, 2012, Restoration Hardware Holdings, Inc. completed an initial public offering and acquired all of the outstanding shares of capital stock of Restoration Hardware, Inc. In connection with the initial public offering, common stock of Restoration Hardware Holdings, Inc. was issued in replacement of prior unit awards under the Team Resto Ownership Plan. These transactions are referred to as the "Reorganization." Restoration Hardware Holdings, Inc. 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 as the "Acquisition." As a result of the Acquisition, a new basis of accounting was created beginning June 17, 2008. The period prior to the Acquisition is referred to as the "Predecessor" period and the periods after the Acquisition are referred to as the "Successor" periods. The Predecessor period presented



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includes the period from February 3, 2008 through June 16, 2008, reflecting approximately 19 weeks of operations, and the Successor periods 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 period.

The selected consolidated financial data as of February 2, 2013 and January 28, 2012 and for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011, were derived from consolidated financial statements included in *Item 8—Financial Statements and Supplementary Data*. The selected consolidated financial data as of January 29, 2011 and as of and for the periods ended January 30, 2010, January 31, 2009 and June 16, 2008, were derived from consolidated financial statements for such years not included herein.

In the third quarter of fiscal 2012, we changed our accounting policy for recognizing stock-based compensation expense which has been applied retrospectively to the periods presented below. For further discussion, see footnote 1 to the table below.

The selected historical consolidated data presented below should be read in conjunction with *Item 1A—Risk Factors*, *Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations*, our consolidated financial statements and the notes to our consolidated financial statements.

	Successor				Period from June 17, 2008 Through January 31, 2009	Predecessor Period from February 3, 2008 Through June 16, 2008
	Year Ended					
	February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010		
(dollars in thousands, excluding share, per share and per square foot data)						
<b>Statement of Operations Data:</b>						
Net revenues	\$ 1,193,046	\$ 958,084	\$ 772,752	\$ 625,685	\$ 498,581	\$ 195,437
Cost of goods sold	756,597	601,735	501,132	412,629	308,448	140,088
Gross profit	436,449	356,349	271,620	213,056	190,133	55,349
Selling, general and administrative expenses <sup>(1)</sup>	505,485	329,506	274,836	238,889	213,011	75,396
Income (loss) from operations	(69,036)	26,843	(3,216)	(25,833)	(22,878)	(20,047)
Interest expense	(5,776)	(5,134)	(3,150)	(3,241)	(4,907)	(2,731)
Income (loss) before income taxes	(74,812)	21,709	(6,366)	(29,074)	(27,785)	(22,778)
Income tax expense (benefit) <sup>(2)</sup>	(62,023)	1,121	685	(423)	(201)	508
Net income (loss)	\$ (12,789)	\$ 20,588	\$ (7,051)	\$ (28,651)	\$ (27,584)	\$ (23,286)
Weighted-average number of basic and diluted shares outstanding	9,428,828	468	100	100	100	38,969,000
Basic and diluted net income (loss) per share	\$ (1.36)	\$ 43,991	\$ (70,510)	\$ (286,510)	\$ (275,840)	\$ (0.60)

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	Successor					Predecessor Period from February 3, 2008 Through June 16, 2008
	Year Ended				Period from June 17, 2008 Through January 31, 2009	
	February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010		

(dollars in thousands, excluding share, per share and per square foot data)

**Other Financial and Operating Data:**

Growth in net revenues:						
Stores <sup>(3)</sup>	20%	22%	15%	(6)%	—	—
Direct	30%	27%	37%	(15)%	—	—
Total	25%	24%	24%	(10)%	—	—
Retail <sup>(4)</sup> :						
Comparable store sales change <sup>(5)</sup>	28%	25%	19%	(7)%	(8)%	(12)%
Retail stores open at end of period	71	74	91	95	99	100
Total leased square footage at end of period (in thousands)	768	808	970	1,015	1,057	1,061
Total leased selling square footage at end of period (in thousands) <sup>(6)</sup>	501	516	613	642	670	671
Retail sales per leased selling square foot <sup>(7)</sup>	\$ 1,143	\$ 846	\$ 635	\$ 525	\$ 406	\$ 147
Direct:						
Catalogs circulated (in thousands) <sup>(8)</sup>	32,712	26,052	46,507	31,336	26,831	13,771
Catalog pages circulated (in millions) <sup>(8)</sup>	16,029	8,848	6,260	4,418	3,507	2,168
Direct as a percentage of net revenues <sup>(9)</sup>	46%	44%	43%	39%	41%	43%
Capital expenditures	\$ 49,058	\$ 25,593	\$ 39,907	\$ 2,024	\$ 13,428	\$ 3,821
Adjusted EBITDA <sup>(10)</sup>	\$ 96,571	\$ 80,154	\$ 41,097	\$ 17,596	\$ 4,386	\$ (8,219)

Successor

February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010	January 31, 2009
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(in thousands)

**Balance Sheet Data:**

Cash and cash equivalents	\$ 8,354	\$ 8,512	\$ 13,364	\$ 13,186	\$ 8,603
Working capital (excluding cash and cash equivalents) <sup>(11)</sup>	267,905	156,506	103,894	57,058	102,850
Total assets	789,613	586,810	501,991	431,528	494,773
Line of credit	82,501	107,502	111,837	57,442	110,696
Term loan	—	14,798	—	—	—
Total debt (including current portion) <sup>(12)</sup>	87,029	131,040	116,995	61,652	117,515
Total stockholders' equity	451,611	250,463	215,804	221,079	238,670

- (1) In the third quarter of fiscal 2012, we changed our policy for recognizing stock-based compensation expense from the graded method of accounting to the straight-line method of accounting for our pre-Reorganization time-based units (or service-only awards). This change in accounting had the same impact on our selling,

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general and administrative expenses and net income (loss) for all periods presented. The table below presents the impact to our net income (loss) as a result of this change in accounting policy. The impact to fiscal 2009 was immaterial and there was no impact for years prior to 2009. See Note 3—*Change in Accounting Principle—Stock-Based Compensation* to our audited consolidated financial statements.

	Year Ended	
	January 28, 2012	January 29, 2011
	(in thousands)	
Net income (loss)—as reported	\$ 20,341	\$ (8,074)
Change in accounting policy adjustment	247	1,023
Net income (loss)—as revised	<u>\$ 20,588</u>	<u>\$ (7,051)</u>

- (2) As of the end of fiscal 2012, our U.S. operations achieved a position of cumulative profits (adjusted for permanent differences) for the most recent three-year period. We concluded that this record of cumulative profitability in recent years, coupled with our business plan for profitability in future periods, provided assurance that our future tax benefits more likely than not would be realized. Accordingly, in the three and twelve months ended February 2, 2013, we released all of our U.S. valuation allowance of \$57.2 million against net deferred tax assets.
- (3) Stores data represents retail stores plus outlet stores.
- (4) Retail data has been calculated based upon our retail stores, and excludes our 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. If a store is closed for seven days during a month, that month will be excluded from comparable store sales. Comparable store net revenues exclude revenues from outlet stores. Because fiscal 2012 was a 53-week year, comparable store sales percentage for fiscal 2012 excludes the extra week of sales.
- (6) Leased selling square footage is retail space at our stores used to sell our products. Leased selling square footage excludes backrooms at retail stores used for storage office space or similar matters. Leased selling square footage excludes exterior sales space located outside a store, such as courtyards, gardens and rooftops. Leased selling square footage for fiscal 2012, fiscal 2011 and fiscal 2010 includes approximately 4,500 square feet related to one owned store location.
- (7) Retail sales per leased selling square foot is calculated by dividing total net revenues for all retail stores, comparable and non-comparable, by the average leased selling square footage for the period.
- Average leased selling square footage for the 2008 Predecessor period is calculated by adding the average leased selling 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 leased selling square footage for the period May 4, 2008, through June 16, 2008, is calculated by taking the total leased selling square footage at the beginning of the period plus the total leased selling square footage at the end of the period and dividing by two.
- Average leased selling square footage for the 2008 Successor period is calculated by adding the average leased selling 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 leased selling square footage for the period June 17, 2008, through August 2, 2008, is calculated by taking the total leased selling square footage at the beginning of the period plus the total leased selling square footage at the end of the period and dividing by two.
- (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.
- (9) Direct revenues include sales through our catalogs and websites.
- (10) EBITDA and adjusted EBITDA are supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We define EBITDA as consolidated net income (loss) before

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depreciation and amortization, interest expense and provision for income taxes. We define adjusted EBITDA as consolidated net income (loss) before depreciation and amortization, interest expense and provision for income taxes, adjusted for the impact of certain non-recurring and other items that we do not consider representative of our ongoing operating performance.

We believe that EBITDA and adjusted EBITDA are useful measures of operating performance, as they eliminate expenses that are not reflective of the underlying business performance, facilitate a comparison of our operating performance on a consistent basis from period-to-period and provide for a more complete understanding of factors and trends affecting our business. We also use adjusted EBITDA as one of the primary methods for planning and forecasting overall expected performance and for evaluating on a quarterly and annual basis actual results against such expectations, and as the basis of our Management Incentive Plan (“MIP”), which is our cash based-incentive compensation program designed to motivate and reward annual performance for eligible employees. 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.

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) or net income (loss) per share 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. In addition, these non-GAAP measures exclude certain non-recurring and other charges.

In evaluating these non-GAAP measures, 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 these non-GAAP measures. Our presentation of these non-GAAP measures 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 these non-GAAP only supplementally. These non-GAAP measures are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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A reconciliation of net income (loss) to EBITDA and adjusted EBITDA is set forth below:

	Successor				Period from June 17, 2008 Through January 31, 2009	Predecessor <sup>(a)</sup> Period from February 3, 2008 Through June 16, 2008
	Year Ended					
	February 2, 2013	January 28, 2012	January 29, 2011	January 30, 2010		
	(in thousands)					
Net income (loss)	\$ (12,789)	\$ 20,588	\$ (7,051)	\$ (28,651)	\$ (27,584)	\$ (23,286)
Depreciation and amortization	26,748	29,186	31,263	43,065	50,222	7,934
Interest expense	5,776	5,134	3,150	3,241	4,907	2,731
Income tax expense (benefit)	(62,023)	1,121	685	(423)	(201)	508
EBITDA	(42,288)	56,029	28,047	17,232	27,344	(12,113)
Management and board fees <sup>(b)</sup>	4,258	10,715	4,793	4,620	1,985	91
Non-cash and other one-time compensation <sup>(c)</sup>	116,157	7,907	1,119	592	—	2,319
Terminated operations <sup>(d)</sup>	—	1,580	352	2,604	3,821	884
Severance and other transaction costs <sup>(e)</sup>	—	621	1,797	1,521	368	600
Impairment of long-lived assets <sup>(f)</sup>	—	—	2,115	2,304	3,868	—
Lease termination costs <sup>(g)</sup>	(386)	3,110	—	—	—	—
Amortization of inventory fair value adjustment <sup>(h)</sup>	—	—	—	(12,780)	(35,075)	—
Non-capitalized IPO costs <sup>(i)</sup>	—	—	2,351	—	—	—
Special committee investigation and remediation <sup>(j)</sup>	4,778	—	—	—	—	—
Initial public offering costs <sup>(k)</sup>	10,755	—	—	—	—	—
Anti-dumping exposure <sup>(l)</sup>	3,250	—	—	—	—	—
Other adjustments allowable under our agreements with our stockholders <sup>(m)</sup>	47	192	523	1,503	2,075	—
Adjusted EBITDA	<u>\$ 96,571</u>	<u>\$ 80,154</u>	<u>\$ 41,097</u>	<u>\$ 17,596</u>	<u>\$ 4,386</u>	<u>\$ (8,219)</u>

- (a) We have presented adjusted EBITDA for the Predecessor periods consistently with the Successor periods to present information on a comparable basis for those periods.
- (b) Includes fees and expenses paid in accordance with our management services agreement with Home Holdings in the Successor periods, as well as fees and expense reimbursements paid to our board of directors prior to the initial public offering in both the Predecessor and Successor periods.
- (c) Fiscal 2012 includes a \$92.0 million non-cash compensation charge related to equity grants at the time of the Reorganization, as well as a non-cash compensation charge of \$23.1 million related to the performance-based vesting of certain shares granted to Mr. Alberini and Mr. Friedman. Fiscal 2011 includes a \$6.4 million compensation charge related to the repayment of loans owed to Home Holdings by Gary Friedman, 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. Mr. Friedman served as our Chairman and Co-Chief Executive Officer at the time of such loan repayment. In addition, amounts include stock-based compensation expense incurred prior to the initial public offering.
- (d) Includes the impact of divesting our Brocade Home brand, closing four temporary clearance centers operated from October 2008 to March 2010, costs related to closing of The Michaels Furniture Company and costs related to the restructuring of our Shanghai office location.
- (e) Amounts in the 2008 Predecessor period and the 2008 Successor period include severance costs, and transaction costs associated with our Acquisition by Home Holdings. Amounts in fiscal 2009, fiscal 2010, and fiscal 2011 generally include executive severance and other related costs.
- (f) Includes costs related to impairment of long-lived assets related to our retail store operations.

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- (g) Includes lease termination costs for retail stores that were closed prior to their respective lease termination dates. The amount in 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 legal and other professional fees, incurred in connection with the investigation conducted by the special committee of the board of directors relating to our former Chairman and Co-Chief Executive Officer, Gary Friedman, and our subsequent remedial actions.
  - (k) Represents costs incurred in connection with our initial public offering, including a fee of \$7.0 million to Catterton, Tower Three and Glenhill in accordance with our management services agreement, payments of \$2.2 million to certain former executives and bonus payments to employees of \$1.3 million.
  - (l) Represents expense incurred as a result of increased tariff obligations of one of our foreign suppliers following the U.S. Department of Commerce's review of the anti-dumping duty order on wooden bedroom furniture from China for the period from January 1, 2011 through December 31, 2011.
  - (m) 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 adjustments include 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 adjustments 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.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

We are a leading luxury retailer in the home furnishings marketplace. Our collections of timeless, updated classics and reproductions are presented consistently across our sales channels in sophisticated and unique lifestyle settings that we believe are on par with world-class interior designers. We offer dominant merchandise assortments across a growing number of categories, including furniture, lighting, textiles, bathware, décor, outdoor and garden, tableware and children's furnishings. Our business is fully integrated across our multiple channels of distribution, consisting of our stores, catalogs and websites. We position our stores as showrooms for our brand, while our catalogs and websites act as virtual extensions of our stores. As of February 2, 2013, we operated 65 Galleries, 3 Full Line Design Galleries and 3 Baby & Child Galleries, as well as 13 outlet stores throughout the United States and Canada.

In order to drive growth across our business, we are focused on the following key strategies:

- *Transform Our Real Estate Platform.* We believe we have an opportunity to significantly increase our sales by transforming our real estate platform from our existing retail footprint to a portfolio focused on Full Line Design Galleries. Our Full Line Design Galleries are sized based on the market potential and the size of our assortment. As of February 2, 2013, we had three Full Line Design Galleries that averaged approximately 21,800 selling square feet, more than three times the size of our average Gallery. 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 opened our first three Full Line Design Galleries in Los Angeles in June 2011, Houston in November 2011 and Scottsdale in November 2012. In the Los Angeles and Houston markets, store demand increased

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by approximately 90% and 60%, respectively, and direct demand increased by approximately 30% and 45%, respectively in the first full year of operations of those Full Line Design Galleries. In the Scottsdale market, we experienced an approximate 80% increase in store demand and an approximate 75% increase in direct demand during the months from the store's opening in November 2012 through the end of fiscal 2012. In April 2013 we opened our fourth Full Line Design Gallery in Boston.

- *Expand Our Offering and Increase Our Market Share.* 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, tableware, children's furnishings and decorative accessories;
  - 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, such as the planned launch of our Contemporary Art business.
- *Increase Brand Awareness.* We will continue to increase our brand awareness and customer loyalty through our real estate transformation, our circulation strategy, our digital marketing initiatives, and our increased advertising and public relations efforts.
- *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.

Our fiscal 2012 results reflect the ongoing strength of our business. We have continued to take market share, and at the same time invested in our infrastructure and supply chain to support future growth. Key financial achievements of fiscal 2012 include:

- Net revenues increased 25% to \$1.2 billion, on top of a 24% increase in fiscal 2011 and a 24% increase in fiscal 2010.
- Comparable store sales increased 28% on top of a 25% increase in fiscal 2011 and a 19% increase in fiscal 2010.
- Direct net revenues increased 30% on top of a 27% increase in fiscal 2011 and a 37% increase in fiscal 2010.
- The fourth quarter of fiscal 2012 marked our 12th consecutive quarter of double digit revenue growth.
- Our GAAP net loss was \$12.8 million. Our adjusted net income increased 43% to \$37.7 million.

See "Basis of Presentation and Results of Operations" for a discussion of adjusted net income and a reconciliation of the differences between adjusted net income and net income (loss).

### **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,

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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 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 2012, we incurred total capital expenditures of \$49.1 million and we anticipate our capital expenditure requirements to be approximately \$95 million to \$100 million for fiscal 2013.

*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.”

### **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, including net revenues, gross profit, selling, general and administrative expenses, adjusted EBITDA and adjusted net income.



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*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.

*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 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, expansions of or interruptions in the operation of our distribution centers, furniture home delivery hubs and customer service 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, credit card fees and marketing expense, which primarily includes catalog production, mailing and print advertising costs. All store pre-opening costs are included in selling, general and administrative expenses and are expensed as incurred. 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.

*Adjusted EBITDA and Adjusted Net Income.* We believe that adjusted EBITDA and adjusted net income are useful measures of operating performance, as the adjustments eliminate non-recurring and other items that are not reflective of underlying business performance, facilitate a comparison of our operating performance on a consistent basis from period-to-period and provide for a more complete understanding of factors and trends affecting our business. We also use adjusted EBITDA as one of the primary methods for planning and forecasting overall expected performance and for evaluating on a quarterly and annual basis actual results against such expectations, and as the basis of our MIP.

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We define adjusted EBITDA as consolidated net income (loss) before depreciation and amortization, interest expense and provision for income taxes, adjusted for the impact of certain non-recurring and other items that we do not consider representative of our ongoing operating performance. Because adjusted EBITDA omits non-cash items, we feel that it is less susceptible to variances in actual performance resulting from depreciation, amortization and other non-cash charges and is more reflective of other factors that affect our operating performance.

We define adjusted net income as consolidated net income (loss), adjusted for the impact of certain non-recurring and other items that we do not consider representative of our ongoing operating performance.

### Purchase Accounting

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 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 the 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 2012, fiscal 2011 and fiscal 2010:

	Year Ended					
	February 2, 2013		January 28, 2012		January 29, 2011	
	(dollars in thousands)					
<b>Net revenues</b>	<u>\$1,193,046</u>	<u>100%</u>	<u>\$958,084</u>	<u>100%</u>	<u>\$ 772,752</u>	<u>100%</u>
<b>Gross profit increase (decrease)</b>						
Depreciation related to step up of property and equipment	\$ (1,253)	(0.1)%	\$ (1,783)	(0.2)%	\$ (3,076)	(0.4)%
Amortization of intangible related to net fair value of leases	(879)	(0.1)%	(1,507)	(0.1)%	(1,975)	(0.3)%
	<u>\$ (2,132)</u>	<u>(0.2)%</u>	<u>\$ (3,290)</u>	<u>(0.3)%</u>	<u>\$ (5,051)</u>	<u>(0.7)%</u>
<b>Selling general and administrative increase (decrease)</b>						
Amortization of intangible related to core technologies	\$ 1,316	0.1%	\$ 1,316	0.1%	\$ 1,316	0.2%
Depreciation related to step up of property and equipment	—	— %	—	— %	150	— %
Amortization of intangible related to net fair value of leases	(9)	— %	(21)	— %	140	— %
	<u>\$ 1,307</u>	<u>0.1%</u>	<u>\$ 1,295</u>	<u>0.1%</u>	<u>\$ 1,606</u>	<u>0.2%</u>

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### Basis of Presentation and Results of Operations

On November 7, 2012, Restoration Hardware Holdings, Inc. completed an initial public offering and acquired all of the outstanding shares of capital stock of Restoration Hardware, Inc. In connection with the initial public offering, common stock of Restoration Hardware Holdings, Inc. was issued in replacement of prior unit awards under the Team Resto Ownership Plan. These transactions are referred to as the "Reorganization." Prior to the Reorganization, Restoration Hardware Holdings, Inc. had 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.

The following table sets forth our statement of operations and other financial and operating data.

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
(dollars in thousands, excluding per square foot store data)			
<b>Statement of Operations Data:</b>			
Net revenues	\$ 1,193,046	\$ 958,084	\$ 772,752
Cost of goods sold	756,597	601,735	501,132
Gross profit	436,449	356,349	271,620
Selling, general and administrative expenses	505,485	329,506	274,836
Income (loss) from operations	(69,036)	26,843	(3,216)
Interest expense	(5,776)	(5,134)	(3,150)
Income (loss) before income taxes	(74,812)	21,709	(6,366)
Income tax expense (benefit)	(62,023)	1,121	685
Net income (loss)	\$ (12,789)	\$ 20,588	\$ (7,051)
<b>Other Financial and Operating Data:</b>			
Growth in net revenues:			
Stores <sup>(1)</sup>	20%	22%	15%
Direct	30%	27%	37%
Total	25%	24%	24%
Retail <sup>(2)</sup> :			
Comparable store sales change <sup>(3)</sup>	28%	25%	19%
Retail stores open at beginning of period	74	91	95
Stores opened	5	5	4
Stores closed	8	22	8
Retail stores open at end of period	71	74	91
Total leased square footage at end of period (in thousands)	768	808	970
Total leased selling square footage at end of period (in thousands) <sup>(4)</sup>	501	516	613
Retail sales per leased selling square foot <sup>(5)</sup>	\$ 1,143	\$ 846	\$ 635
Direct:			
Catalogs circulated (in thousands) <sup>(6)</sup>	32,712	26,052	46,507
Catalog pages circulated (in millions) <sup>(6)</sup>	16,029	8,848	6,260
Direct as a percentage of net revenues <sup>(7)</sup>	46%	44%	43%
Capital expenditures	\$ 49,058	\$ 25,593	\$ 39,907
Adjusted net income <sup>(8)</sup>	\$ 37,739	\$ 26,451	\$ 3,025

(1) Stores data represents retail stores plus outlet stores. Net revenues for outlet stores for fiscal 2012, fiscal 2011 and fiscal 2010 were \$54.3 million, \$43.9 million and \$31.2 million, respectively.

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

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- (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. If a store is closed for seven days during a month, that month will be excluded from comparable store sales. Comparable store net revenues exclude revenues from outlet stores. Because fiscal 2012 was a 53-week year, comparable store sales percentage for fiscal 2012 excludes that extra week of sales.
- (4) Leased selling square footage is retail space at our stores used to sell our products. Leased selling square footage excludes backrooms at retail stores used for storage office space or similar matters. Leased selling square footage excludes exterior sales space located outside a store, such as courtyards, gardens and rooftops. Leased selling square footage includes approximately 4,500 square feet related to one owned store location.
- (5) Retail sales per leased selling square foot is calculated by dividing total net revenues for all retail stores, comparable and non-comparable, by the average leased selling square footage for the period.
- (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.
- (7) Direct revenues include sales through our catalogs and websites.
- (8) Adjusted net income is a supplemental measure of financial performance that is not required by, or presented in accordance with, GAAP. We define adjusted net income as consolidated net income (loss), adjusted for the impact of certain non-recurring and other items that we do not consider representative of our ongoing operating performance. Adjusted net income is included in this Form 10-K because management believes that adjusted net income provides meaningful supplemental information for investors regarding the performance of our business and facilitates a meaningful evaluation of actual results on a comparable basis with historical results. Our management uses this non-GAAP financial measure in order to have comparable financial results to analyze changes in our underlying business from quarter to quarter. The following table presents a reconciliation of net income (loss), the most directly comparable GAAP financial measure, to adjusted net income for the periods indicated below.

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
	(in thousands)		
Net income (loss)	\$(12,789)	\$ 20,588	\$ (7,051)
Adjustments pre-tax:			
Management and board fees <sup>(a)</sup>	4,258	10,715	4,793
Non-cash and other one-time compensation <sup>(b)</sup>	115,055	6,350	—
Terminated operations <sup>(c)</sup>	—	1,580	352
Severance and other transaction costs <sup>(d)</sup>	—	621	1,797
Impairment of long-lived assets <sup>(e)</sup>	—	—	2,115
Lease termination costs <sup>(f)</sup>	(386)	3,110	—
Non-capitalized IPO costs <sup>(g)</sup>	—	—	2,351
Special committee investigation and remediation <sup>(h)</sup>	4,778	—	—
Initial public offering costs <sup>(i)</sup>	10,755	—	—
Anti-dumping exposure <sup>(j)</sup>	3,250	—	—
Subtotal adjusted items	137,710	22,376	11,408
Impact of income tax items <sup>(k)</sup>	(87,182)	(16,513)	(1,332)
Adjusted net income	<u>\$ 37,739</u>	<u>\$ 26,451</u>	<u>\$ 3,025</u>

- (a) Includes fees and expenses paid in accordance with our management services agreement with Home Holdings, as well as fees and expense reimbursements paid to our board of directors prior to the initial public offering.
- (b) The fourth quarter of fiscal 2012 includes a \$92.0 million non-cash compensation charge related to equity grants at the time of the Reorganization, as well as a non-cash compensation charge of \$23.1 million related

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to the performance-based vesting of certain shares granted to Mr. Alberini and Mr. Friedman. The third quarter of fiscal 2011 includes a \$6.4 million compensation charge related to the repayment of loans owed to Home Holdings by Gary Friedman, 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. Mr. Friedman served as our Chairman and Co-Chief Executive Officer at the time of such loan repayment.

- (c) 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 amount in fiscal 2012 includes 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.
- (h) Represents legal and other professional fees incurred in connection with the investigation conducted by the special committee of the board of directors relating to our former Chairman and Co-Chief Executive Officer, Gary Friedman, and our subsequent remedial actions.
- (i) Represents costs incurred in connection with our initial public offering, including a fee of \$7.0 million to Catterton, Tower Three and Glenhill in accordance with our management services agreement, payments of \$2.2 million to certain former executives and bonus payments to employees of \$1.3 million.
- (j) Represents expense incurred as a result of increased tariff obligations of one of our foreign suppliers following the U.S. Department of Commerce's review of the anti-dumping duty order on wooden bedroom furniture from China for the period from January 1, 2011 through December 31, 2011.
- (k) As of the end of fiscal 2012, our U.S. operations achieved a position of cumulative profits for the most recent three-year period. We concluded that this record of cumulative profitability in recent years, coupled with our business plan for profitability in future periods provided assurance that our future tax benefits more likely than not would be realized. Accordingly, in fiscal 2012, we released all of our U.S. valuation allowance against net deferred tax assets. In addition, income tax items exclude the tax benefit related to the resolution of our Canada Revenue Agency examination in fiscal 2012, exclude the tax benefit from the utilization of federal and state net operating losses, and assume a normalized tax rate of 40% for all periods.

The following table sets forth our consolidated statement of operations data as a percentage of total revenues.

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
<b>Statement of Operations Data:</b>			
Net revenues	100.0%	100.0%	100.0%
Cost of goods sold	63.4	62.8	64.9
Gross profit	36.6	37.2	35.1
Selling, general and administrative expenses	42.4	34.4	35.5
Income (loss) from operations	(5.8)	2.8	(0.4)
Interest expense	(0.5)	(0.5)	(0.4)
Income (loss) before income taxes	(6.3)	2.3	(0.8)
Income tax expense (benefit)	(5.2)	0.1	0.1
Net income (loss)	(1.1)%	2.2%	(0.9)%

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We operate a fully integrated distribution model through our stores, catalogs and websites. The following table shows a summary of our Stores 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		
	February 2, 2013	January 28, 2012	January 29, 2011
	(in thousands)		
Stores	\$ 643,306	\$ 534,411	\$ 438,463
Direct	549,740	423,673	334,289
Net revenues	<u>\$ 1,193,046</u>	<u>\$ 958,084</u>	<u>\$ 772,752</u>

### **Fiscal 2012 Compared to Fiscal 2011**

#### *Net revenues*

Net revenues increased \$234.9 million, or 24.5%, to \$1,193.0 million in fiscal 2012 compared to \$958.1 million in fiscal 2011. We had 71 and 74 retail stores open at February 2, 2013 and January 28, 2012, respectively. Stores sales increased \$108.9 million, or 20.4%, to \$643.3 million in fiscal 2012 compared to \$534.4 million in fiscal 2011 due in large part to our comparable store sales increase of 28% in fiscal 2012 compared to fiscal 2011, partially offset by having fewer stores open during fiscal 2012 compared to fiscal 2011. Direct sales increased \$126.0 million, or 29.8%, to \$549.7 million in fiscal 2012 compared to \$423.7 million in 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 the expansion of existing product categories, new product categories, and an increase in catalog pages circulated.

#### *Gross profit*

Gross profit increased \$80.1 million, or 22.5%, to \$436.4 million in fiscal 2012 from \$356.3 million in fiscal 2011. As a percentage of net revenues, gross margin decreased 0.6% to 36.6% of net revenues in fiscal 2012 from 37.2% of net revenues in fiscal 2011.

In fiscal 2012, we incurred a \$3.3 million charge related to increased tariff obligations of one of our foreign suppliers following the U.S. Department of Commerce's review of the anti-dumping duty order on wooden bedroom furniture from China for the period from January 1, 2011 through December 31, 2011. Excluding the impact associated with this obligation, gross margin decreased 0.3% to 36.9% of net revenues in fiscal 2012 from 37.2% in fiscal 2011. This decrease was primarily driven by changes in product mix, strategic pricing on new product introductions and increased promotional activity. In addition, gross margin decreased due to increased freight costs resulting from a higher percentage of furniture sales during the period, as furniture deliveries require greater shipping costs than our other products. These decreases in gross margins as a percentage of net revenues were partially offset by improvement in occupancy costs from improved leverage on the fixed portion of our store and distribution center occupancy costs.

#### *Selling, general and administrative expenses*

Selling, general and administrative expenses increased \$176.0 million, or 53.4%, to \$505.5 million in fiscal 2012 compared to \$329.5 million in fiscal 2011. Selling, general and administrative expenses for fiscal 2012 included (i) a \$92.0 million non-cash compensation charge related to equity grants at the time of the Reorganization and initial public offering, (ii) a \$23.1 million non-cash compensation charge related to the performance-based vesting of certain shares granted to Mr. Alberini and Mr. Friedman in connection with the Reorganization and initial public offering, (iii) \$10.8 million of costs incurred in connection with our initial public offering, including a fee of \$7.0 million to Catterton, Tower Three and Glenhill in accordance with our management services agreement, payments of \$2.2 million to certain former executives and bonus payments to

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employees of \$1.3 million, and (iv) \$4.8 million of legal and other professional fees incurred in connection with the investigation conducted by the special committee of the board of directors relating to Mr. Friedman and our subsequent remedial actions. Selling, general and administrative expenses for fiscal 2011 included a \$6.4 million non-cash compensation charge related to the repayment of loans to Mr. Friedman from Home Holdings through the reclassification by Home Holdings of certain pre-Reorganization ownership units in Home Holdings held by Mr. Friedman at that time.

The increase in selling, general and administrative expenses, excluding the one-time and non-cash compensation items mentioned above, was primarily related to advertising and marketing costs associated with increased catalog circulation, an increase in employment costs, an increase in credit card fees increased due to growth in revenues and an increase in occupancy costs.

Excluding the one-time and non-cash compensations items mentioned above, selling, general and administrative expenses were 31.8% of net revenues in fiscal 2012 compared to 33.7% of net revenues in fiscal 2011. The improvement in selling, general and administrative expenses as a percentage of net revenues was primarily driven by reductions in employment costs, professional fees and occupancy costs, in each case as a percentage of net revenues, due to leverage on the fixed portion of these expenses. These reductions were partially offset by an increase in advertising and marketing costs associated with increased catalog circulation.

### ***Interest expense***

Interest expense was \$5.8 million in fiscal 2012 compared to \$5.1 million in fiscal 2011. This increase was primarily due to the higher interest rate under the modified revolving line of credit agreement entered into in August 2011, higher borrowings under the revolving line of credit, as well as interest related to the term loan entered into in January 2012.

### ***Income tax expense (benefit)***

Income tax benefit increased \$63.1 million to a \$62.0 million benefit in fiscal 2012 compared to an expense of \$1.1 million in fiscal 2011. Our effective tax rate was 82.9% in fiscal 2012 compared to 5.2% in fiscal 2011. The increase in the tax benefit was primarily attributable to the reversal of the U.S. valuation allowance against our net deferred tax assets, resulting in a \$57.2 million benefit in our provision for income taxes. By the end of fiscal 2012, our U.S. operations achieved a position of cumulative profits (adjusted for permanent differences) for the most recent three-year period. We concluded that this record of cumulative profitability in recent years, coupled with our business plan for profitability in future periods, provided assurance that our future tax benefits are more likely than not to be realized. Accordingly, in the fourth quarter of fiscal 2012, we released all of our U.S. valuation allowance against net deferred tax assets.

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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 28, 2012		January 29, 2011			
	(dollars in thousands)					
Net revenues	<u>\$958,084</u>	<u>100.0%</u>	<u>\$772,752</u>	<u>100.0%</u>	<u>\$185,332</u>	
Gross profit excluding purchase accounting adjustments	\$359,639	37.5%	\$276,671	35.8%	\$ 82,968	1.7%
Decrease in gross profit from purchase accounting adjustments	(3,290)	(0.3)%	(5,051)	(0.7)%	1,761	0.4%
Gross profit	<u>\$356,349</u>	<u>37.2%</u>	<u>\$271,620</u>	<u>35.1%</u>	<u>\$ 84,729</u>	<u>2.1%</u>
Selling, general and administrative expenses excluding purchase accounting adjustments	\$328,211	34.3%	\$273,230	35.3%	\$ 54,981	(1.0)%
Increase in selling, general and administrative expenses from purchase accounting adjustments	1,295	0.1%	1,606	0.2%	(311)	(0.1)%
Selling, general and administrative expenses	<u>\$329,506</u>	<u>34.4%</u>	<u>\$274,836</u>	<u>35.5%</u>	<u>\$ 54,670</u>	<u>(1.1)%</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 closed at the expiration of the lease, while six were closed prior to the expiration of the lease. 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 increased 1.7%. This increase was primarily driven by an improvement in occupancy costs achieved due to improved leverage on the fixed portion of our store and distribution center occupancy costs, partially offset by one-time costs associated with the opening of a new distribution center during fiscal 2011. The overall increase in gross margin was also partially offset by higher freight costs due to a change in shipping rates charged to customers as we moved to flat rate shipping fees and experienced a higher percentage of furniture sales, which incurs greater shipping costs than our other products, and due to increased promotional activity.



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### ***Selling, general and administrative expenses***

Selling, general and administrative expenses increased \$54.7 million, or 19.9%, to \$329.5 million in fiscal 2011 compared to \$274.8 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. Excluding the effect of purchase accounting adjustments, the increase in selling, general and administrative expenses was primarily related to an increase in employment costs 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 pre-Reorganization ownership units, an increase in advertising and marketing costs associated with increased circulated catalog pages, an increase in management fees to Catterton, Tower Three and Glenhill and an increase 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 and an increase in retail store pre-opening expenses.

Selling, general and administrative expenses were 34.4% of net revenues in fiscal 2011 compared to 35.5% 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 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 reduction of employment costs, a reduction in advertising and marketing costs, as well as a reduction in professional fees, in each case as a percentage of net revenues. These reductions were partially offset by an 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 an 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 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 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 (10.8)% 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.

## **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 February 2, 2013. This quarterly information has been prepared on the same basis as our annual audited financial statements 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 included in *Item 8—Financial Statements and Supplementary Data*.

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In the third quarter of fiscal 2012, we changed our accounting policy for recognizing stock-based compensation expense which has been applied retrospectively to the periods presented below. See footnote 1 to the table below for further detail.

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 of working capital requirements, 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 2011				Fiscal 2012			
	First Quarter	Second Quarter	Third Quarter <sup>(1)</sup>	Fourth Quarter	First Quarter	Second Quarter <sup>(2)</sup>	Third Quarter <sup>(2)</sup>	Fourth Quarter <sup>(3)</sup>
	(dollars in thousands)							
Net revenues	\$184,760	\$235,623	\$232,459	\$305,242	\$217,914	\$292,906	\$284,171	\$398,055
Cost of goods sold	121,576	144,377	148,066	187,716	142,646	178,779	182,291	252,881
Gross profit	63,184	91,246	84,393	117,526	75,268	114,127	101,880	145,174
Selling, general, and administrative expenses <sup>(4)</sup>	68,707	81,688	88,496	90,615	77,365	94,465	99,886	233,769
Income (loss) from operations	(5,523)	9,558	(4,103)	26,911	(2,097)	19,662	1,994	(88,595)
Interest expense	(899)	(989)	(1,598)	(1,648)	(1,575)	(1,479)	(1,544)	(1,178)
Income (loss) before income taxes	(6,422)	8,569	(5,701)	25,263	(3,672)	18,183	450	(89,773)
Income tax expense (benefit)	(204)	987	(871)	1,209	56	567	(1,235)	(61,411)
Net income (loss)	<u>\$ (6,218)</u>	<u>\$ 7,582</u>	<u>\$ (4,830)</u>	<u>\$ 24,054</u>	<u>\$ (3,728)</u>	<u>\$ 17,616</u>	<u>\$ 1,685</u>	<u>\$ (28,362)</u>
Adjusted EBITDA <sup>(5)</sup>	\$ 5,333	\$ 22,414	\$ 11,102	\$ 41,305	\$ 6,159	\$ 28,738	\$ 12,973	\$ 48,701
Adjusted net income (loss) <sup>(6)</sup>	\$ (2,118)	\$ 8,003	\$ 1,076	\$ 19,490	\$ (1,324)	\$ 12,245	\$ 2,662	\$ 24,156
Comparable store sales <sup>(7)</sup>	25%	17%	36%	22%	26%	31%	29%	26%

- (1) The third quarter of fiscal 2011 includes a \$6.4 million compensation charge related to the repayment of loans owed to Home Holdings by Gary Friedman, 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. Mr. Friedman served as our Chairman and Co-Chief Executive Officer at the time of such loan repayment.
- (2) The second and third quarters of fiscal 2012 include \$2.0 million and \$2.8 million, respectively, of legal and other professional fees incurred in connection with the investigation conducted by the special committee of the board of directors relating to our former Chairman and Co-Chief Executive Officer, Gary Friedman, and our subsequent remedial actions.
- (3) The fourth quarter of fiscal 2012 includes (i) a \$92.0 million non-cash compensation charge related to equity grants at the time of the Reorganization, (ii) a non-cash compensation charge of \$23.1 million related to the performance-based vesting of certain shares granted to Mr. Alberini and Mr. Friedman, (iii) costs incurred in connection with our initial public offering, including a fee of \$7.0 million to Catterton, Tower Three and Glenhill in accordance with our management services agreement, payments of \$2.2 million to certain former executives and bonus payments to employees of \$1.3 million and (iv) \$3.3 million incurred as a result of increased tariff obligations of one of our foreign suppliers following the U.S. Department of

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Commerce's review of the anti-dumping duty order on wooden bedroom furniture from China for the period from January 1, 2011 through December 31, 2011. In addition, as of the end of fiscal 2012, our U.S. operations achieved a position of cumulative profits (adjusted for permanent differences) for the most recent three-year period. We concluded that this record of cumulative profitability in recent years, coupled with our business plan for profitability in future periods, provided assurance that our future tax benefits more likely than not would be realized. Accordingly, in the fourth fiscal quarter of 2012, we released all of our U.S. valuation allowance of \$57.2 million against net deferred tax assets.

- (4) In the third quarter of fiscal 2012, we changed our policy for recognizing stock-based compensation expense from the graded method of accounting to the straight-line method of accounting for our pre-Reorganization time-based units (or service-only awards). This change in accounting had the same impact on our selling, general and administrative expenses and net income (loss) for all periods presented. The table below presents the impact to our net income (loss) as a result of this change in accounting policy. See Note 3—*Change in Accounting Principle—Stock-Based Compensation* to our audited consolidated financial statements.

	Fiscal 2011				Fiscal 2012	
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter
	(in thousands)					
Net income (loss)—as reported	\$ (6,327)	\$ 7,467	\$ (4,857)	\$ 24,058	\$ (3,764)	\$ 17,753
Change in accounting policy adjustment	109	115	27	(4)	36	(137)
Net income (loss)—as revised	<u>\$ (6,218)</u>	<u>\$ 7,582</u>	<u>\$ (4,830)</u>	<u>\$ 24,054</u>	<u>\$ (3,728)</u>	<u>\$ 17,616</u>

- (5) 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 2011				Fiscal 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in thousands)							
Net income (loss)	\$ (6,218)	\$ 7,582	\$ (4,830)	\$ 24,054	\$ (3,728)	\$ 17,616	\$ 1,685	\$ (28,362)
Depreciation and amortization	7,386	7,597	7,373	6,830	6,424	6,468	6,593	7,263
Interest expense	899	989	1,598	1,648	1,575	1,479	1,544	1,178
Income tax expense (benefit)	(204)	987	(871)	1,209	56	567	(1,235)	(61,411)
EBITDA	1,863	17,155	3,270	33,741	4,327	26,130	8,587	(81,332)
Management and board fees <sup>(a)</sup>	1,198	1,198	1,149	7,170	889	1,198	1,198	973
Non-cash and other one-time compensation <sup>(b)</sup>	389	487	6,687	344	387	351	364	115,055
Terminated operations <sup>(c)</sup>	1,666	—	14	(100)	—	—	—	—
Severance and other related costs <sup>(d)</sup>	28	—	443	150	—	—	—	—
Lease termination costs <sup>(e)</sup>	—	3,571	(461)	—	575	(961)	—	—
Special committee investigation <sup>(f)</sup>	—	—	—	—	—	1,989	2,789	—
Initial public offering costs <sup>(g)</sup>	—	—	—	—	—	—	—	10,755
Anti-dumping exposure <sup>(h)</sup>	—	—	—	—	—	—	—	3,250
Other adjustments allowable under our agreements with our stockholders <sup>(i)</sup>	189	3	—	—	(19)	31	35	—
Adjusted EBITDA	<u>\$ 5,333</u>	<u>\$ 22,414</u>	<u>\$ 11,102</u>	<u>\$ 41,305</u>	<u>\$ 6,159</u>	<u>\$ 28,738</u>	<u>\$ 12,973</u>	<u>\$ 48,701</u>

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- (a) Includes fees and expenses paid in accordance with our management services agreement with Home Holdings, as well as fees and expense reimbursements paid to our board of directors prior to the initial public offering.
- (b) The fourth quarter of fiscal 2012 includes a \$92.0 million non-cash compensation charge related to equity grants at the time of the Reorganization, as well as a non-cash compensation charge of \$23.1 million related to the performance-based vesting of certain shares granted to Mr. Alberini and Mr. Friedman. The third quarter of fiscal 2011 includes a \$6.4 million compensation charge related to the repayment of loans owed to Home Holdings by Gary Friedman, 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. Mr. Friedman served as our Chairman and Co-Chief Executive Officer at the time of such loan repayment. In addition, amounts include stock-based compensation expense incurred prior to the initial public offering.
- (c) Includes costs related to the restructuring of our Shanghai office location.
- (d) Generally includes executive severance and other related costs.
- (e) 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 and second quarters of fiscal 2012 include changes in estimates regarding liabilities for future lease payments for closed stores.
- (f) Represents legal and other professional fees incurred in connection with the investigation conducted by the special committee of the board of directors relating to our former Chairman and Co-Chief Executive Officer, Gary Friedman, and our subsequent remedial actions.
- (g) Represents costs incurred in connection with our initial public offering, including a fee of \$7.0 million to Catterton, Tower Three and Glenhill in accordance with our management services agreement, payments of \$2.2 million to certain former executives and bonus payments to employees of \$1.3 million.
- (h) Represents expense incurred as a result of increased tariff obligations of one of our foreign suppliers following the U.S. Department of Commerce's review of the anti-dumping duty order on wooden bedroom furniture from China for the period from January 1, 2011 through December 31, 2011.
- (i) Represents items which management believes are not indicative of our ongoing operating performance. The second quarter of fiscal 2011 adjustments 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.

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- (6) Adjusted net income (loss) is a supplemental measure of financial performance that is not required by, or presented in accordance with, GAAP. We define adjusted net income as consolidated net income (loss), adjusted for the impact of certain non-recurring and other items that we do not consider representative of our ongoing operating performance. Adjusted net income (loss) is included in this Form 10-K because management believes that adjusted net income (loss) provides meaningful supplemental information for investors regarding the performance of our business and facilitates a meaningful evaluation of actual results on a comparable basis with historical results. Our management uses this non-GAAP financial measure in order to have comparable financial results to analyze changes in our underlying business from quarter to quarter. The following table presents a reconciliation of net income (loss), the most directly comparable GAAP financial measure, to adjusted net income (loss) for the periods indicated below.

	Fiscal 2011				Fiscal 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net income (loss)	\$ (6,218)	\$ 7,582	\$ (4,830)	\$ 24,054	\$ (3,728)	\$ 17,616	\$ 1,685	\$ (28,362)
Adjustments pre-tax:								
Management and board fees <sup>(i)</sup>	1,198	1,198	1,149	7,170	889	1,198	1,198	973
Non-cash and other one-time compensation <sup>(k)</sup>	—	—	6,350	—	—	—	—	115,055
Terminated operations <sup>(l)</sup>	1,666	—	14	(100)	—	—	—	—
Severance and other related costs <sup>(m)</sup>	28	—	443	150	—	—	—	—
Lease termination costs <sup>(n)</sup>	—	3,571	(461)	—	575	(961)	—	—
Special committee investigation <sup>(o)</sup>	—	—	—	—	—	1,989	2,789	—
Initial public offering costs <sup>(p)</sup>	—	—	—	—	—	—	—	10,755
Anti-dumping exposure <sup>(q)</sup>	—	—	—	—	—	—	—	3,250
Subtotal adjusted items	2,892	4,769	7,495	7,220	1,464	2,226	3,987	130,033
Impact of income tax items <sup>(r)</sup>	1,208	(4,348)	(1,589)	(11,784)	940	(7,597)	(3,010)	(77,515)
Adjusted net income (loss)	<u>\$ (2,118)</u>	<u>\$ 8,003</u>	<u>\$ 1,076</u>	<u>\$ 19,490</u>	<u>\$ (1,324)</u>	<u>\$ 12,245</u>	<u>\$ 2,662</u>	<u>\$ 24,156</u>

- (j) Includes fees and expenses paid in accordance with our management services agreement with Home Holdings, as well as fees and expense reimbursements paid to our board of directors prior to the initial public offering.
- (k) The fourth quarter of fiscal 2012 includes a \$92.0 million non-cash compensation charge related to equity grants at the time of the Reorganization, as well as a non-cash compensation charge of \$23.1 million related to the performance-based vesting of certain shares granted to Mr. Alberini and Mr. Friedman. The third quarter of fiscal 2011 includes a \$6.4 million compensation charge related to the repayment of loans owed to Home Holdings by Gary Friedman, 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. Mr. Friedman served as our Chairman and Co-Chief Executive Officer at the time of such loan repayment.
- (l) Includes costs related to the restructuring of our Shanghai office location.
- (m) Generally includes executive severance and other related costs.

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- (n) 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 and second quarters of fiscal 2012 include changes in estimates regarding liabilities for future lease payments for closed stores.
  - (o) Represents legal and other professional fees incurred in connection with the investigation conducted by the special committee of the board of directors relating to our former Chairman and Co-Chief Executive Officer, Gary Friedman, and our subsequent remedial actions.
  - (p) Represents costs incurred in connection with our initial public offering, including a fee of \$7.0 million to Catterton, Tower Three and Glenhill in accordance with our management services agreement, payments of \$2.2 million to certain former executives and bonus payments to employees of \$1.3 million.
  - (q) Represents expense incurred as a result of increased tariff obligations of one of our foreign suppliers following the U.S. Department of Commerce's review of the anti-dumping duty order on wooden bedroom furniture from China for the period from January 1, 2011 through December 31, 2011.
  - (r) As of the end of fiscal 2012, our U.S. operations achieved a position of cumulative profits for the most recent three-year period. We concluded that this record of cumulative profitability in recent years, coupled with our business plan for profitability in future periods provided assurance that our future tax benefits more likely than not would be realized. Accordingly, in the fourth quarter of fiscal 2012, we released all of our U.S. valuation allowance against net deferred tax assets. In addition, income tax items exclude the tax benefit related to the resolution of our Canada Revenue Agency examination in the third quarter of fiscal 2012, exclude the tax benefit from the utilization of federal and state net operating losses, and assume a normalized tax rate of 40% for all periods.
- (7) 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. If a store is closed for seven days during a month, that month will be excluded from comparable store sales. Comparable store net revenues exclude revenues from outlet stores. Because the fourth quarter of fiscal 2012 was a 14-week quarter, comparable store sales percentage for fourth quarter of fiscal 2012 excludes the extra week of sales.

## **Liquidity and Capital Resources**

### *General*

Our business relies on cash flows from operations and the revolving line of credit as our primary sources of liquidity. Our primary cash needs are for merchandise inventories, Source Books and other catalogs, 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 building inventory and paying for catalog costs 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 they 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 borrowing availability under the revolving line of credit or other financing arrangements, will be sufficient to meet working capital requirements, anticipated capital expenditures and payments due under our revolving line of credit for at least the next 12 – 24 months. Our investments in capital expenditures for fiscal 2012 totaled \$49 million, of which \$28 million was for construction of new stores and \$21 million was for our infrastructure, including supply chain, information technology and renovations to our corporate headquarters. We expect to have capital expenditures of approximately \$95 million to \$100 million in fiscal 2013, primarily related to our efforts to continue our growth and expansion, including construction of Full Line Design Galleries and infrastructure investments.

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### Cash Flow Analysis

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

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
	(in thousands)		
Provided by (used in) operating activities	\$ (3,864)	\$ 17,121	\$ (11,810)
Used in investing activities	(49,368)	(25,593)	(39,907)
Provided by financing activities	53,052	3,371	51,601
Increase (decrease) in cash and cash equivalents	(158)	(4,852)	178
Cash and cash equivalents at end of period	8,354	8,512	13,364

### Net Cash Used In Operating Activities

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

For fiscal 2012, net cash used in operating activities was \$3.9 million and consisted of an increase in working capital and other activities of \$73.0 million and a net loss of \$12.8 million, offset by non-cash items of \$81.9 million. Non-cash items of \$81.9 million include a \$92.0 million compensation charge related to equity activity at the time of the Reorganization, a compensation charge of \$23.1 million related to the performance-based vesting of certain shares granted to Mr. Alberini and Mr. Friedman subsequent to the Reorganization and depreciation and amortization of \$26.7 million, offset by the release of our U.S. valuation allowance in fiscal 2012 of \$57.2 million and a decrease in our non-cash income tax adjustments of \$4.7 million. The increase in working capital and other activities consisted primarily of increases in inventory of \$107.5 million as part of our strategy to improve our inventory position to meet demand levels, prepaid expenses of \$24.5 million primarily due to an increase in catalog costs associated with the Source Book strategy and accounts receivable of \$5.3 million due to timing of payments received related to our credit card receivables. These uses of cash from working capital components were partially offset by increases in accrued liabilities and accounts payable of \$36.2 million primarily due to timing of payments, increases in deferred revenue and customer deposits of \$16.2 million due to the timing of shipments made at fiscal year end, as well as increases in deferred rent and lease incentives of \$10.9 million primarily due to entering into new lease agreements for Full Line Design Gallery locations.

For fiscal 2011, net cash provided by operating activities was \$17.1 million and consisted of net income of \$20.6 million and non-cash items of \$48.6 million, offset by an increase in working capital and other activities of \$52.1 million. Non-cash items of \$48.6 million include expenses of \$6.4 million related to the repayment of the executive loan by Mr. 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. The increase in 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 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 \$7.1 million partially offset by non-cash expenses included in the net loss of \$34.3 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

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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.

### ***Net Cash Used In Investing Activities***

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

For fiscal 2012, net cash used in investing activities was \$49.4 million primarily as a result of investments in new stores of \$27.8 million and investment in supply chain and systems infrastructure of \$21.3 million and the purchase of a new domain name for \$0.3 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.

### ***Net Cash Provided By Financing Activities***

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

For fiscal 2012, net cash provided by financing activities was \$53.1 million primarily due to the issuance of common stock which generated proceeds of \$106.8 million, partially offset by issuance costs of \$9.1 million. This overall increase in cash provided by the initial public offering was partially offset by net repayments under the revolving line of credit of \$25.0 million, the repayment in full of the term loan of \$15.0 million and payments on capital lease obligations of \$4.2 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.

### ***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 credit agreement modified a previous facility under 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 of \$0.2 million related to the previous line of credit on the date of the modification 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, Restoration Hardware, Inc. has a revolving line of credit available of up to \$417.5 million (following Restoration Hardware, Inc.'s exercise of the commitment increase option on November 1, 2012, as described below), of which \$10.0 million is available to Restoration Hardware Canada, Inc. The credit agreement was further amended in January 2012 to add a \$15.0 million term loan facility with a maturity date of July 6, 2015, which was repaid in full on November 7, 2012, as described below.



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Under the credit agreement's commitment increase provision, Restoration Hardware, Inc. had the option to increase the amount of the revolving line of credit by up to an additional \$100.0 million, provided that, among other things, the existing lenders or additional lenders agreed to participate in the increased loan commitments under the revolving line of credit, no default under the credit agreement then existed or would result from such increase and sufficient borrowing base collateral was available to support increased loan amounts. On November 1, 2012, Restoration Hardware, Inc. increased the amount of the revolving line of credit by \$100.0 million pursuant to this commitment increase provision.

On November 7, 2012, Restoration Hardware, Inc. made payments of \$75.7 million on its revolving line of credit and repaid its outstanding term loan of \$15.0 million in full. Such payments were funded from the proceeds received as a result of our initial public offering. Upon the repayment of the term loan in full, we expensed the remaining debt issuance costs of \$0.2 million related to the term loan.

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

Borrowings under the revolving line of credit are subject to interest, at the borrowers' option, at either the bank's reference rate or LIBOR (or the BA Rate or the Canadian Prime Rate, as such terms are defined in the credit agreement, for Canadian borrowings denominated in Canadian dollars or the United States Index Rate or LIBOR for Canadian borrowings denominated in United States dollars) plus an applicable margin rate, in each case. The weighted-average interest rate for the revolving line of credit was 2.5% as of February 2, 2013.

As of February 2, 2013, \$82.5 million was outstanding under the revolving line of credit. As of February 2, 2013, Restoration Hardware, Inc.'s undrawn borrowing availability under the revolving line of credit was \$188.5 million and there were \$19.5 million in outstanding letters of credit.

The credit agreement contains various restrictive covenants, including, among others, limitations on the ability to incur liens, make loans or other investments, incur additional debt, issue additional equity, merge or consolidate with or into another person, sell assets, pay dividends or make other distributions or enter into transactions with affiliates, along with other restrictions and limitations typical to credit agreements of this type and size. The credit agreement does not contain any significant financial or coverage ratio covenants unless the availability under the revolving line of credit is less than the greater of (i) \$17.5 million and (ii) 10% of the lesser of (A) the aggregate maximum commitments under the revolving line of credit and (B) the domestic borrowing base. If the availability under the revolving line of credit is less than the foregoing amount, then Restoration Hardware, Inc. is required to maintain a consolidated fixed charge coverage ratio of at least one to one. Such ratio is approximately the ratio on the last day of each month on a trailing twelve-month basis of (a) (i) consolidated EBITDA (as defined in the agreement) minus (ii) capital expenditures, minus (iii) the income taxes paid in cash to (b) the sum of (i) debt service charges plus (ii) certain dividends and distributions paid. As of February 2, 2013, 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.

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### 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 February 2, 2013, our contractual cash obligations over the next several periods were as follows:

	Payments Due by Period				
	Total	2013	2014-2015	2016-2017	Thereafter
	(in thousands)				
Revolving line of credit <sup>(1)</sup>	\$ 82,501	\$ —	\$ —	\$ 82,501	\$ —
Other long-term obligations <sup>(2)</sup>	4,710	3,070	1,598	42	—
Operating leases <sup>(3)</sup>	472,836	62,343	103,056	83,042	224,395
Letters of credit	19,466	19,466	—	—	—
Total	<u>\$ 579,513</u>	<u>\$ 84,879</u>	<u>\$ 104,654</u>	<u>\$ 165,585</u>	<u>\$ 224,395</u>

- (1) Excludes estimated interest under the revolving line of credit. Interest costs for the revolving line of credit have been estimated based on interest rates in effect for our indebtedness as of February 2, 2013, 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.
- (2) Other long-term obligations consist 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 \$1.5 million at February 2, 2013.

The liability of \$1.8 million as of February 2, 2013, for unrecognized tax benefits associated with uncertain tax positions (see Note 10—*Income Taxes* to our 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 February 2, 2013.

### Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in our consolidated financial statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management evaluates its accounting policies, estimates, and judgments on an on-going basis. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions and such differences could be material to the consolidated financial statements.

Management evaluated the development and selection of its critical accounting policies and estimates and believes that the following involve a higher degree of judgment or complexity and are most significant to reporting our 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

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financial statements have not been materially impacted by such variances. More information on all of our significant accounting policies can be found in Note 4—*Significant Accounting Policies* to our audited consolidated financial statements.

### ***Revenue Recognition***

We recognize revenues and the related cost of goods sold when merchandise is received by our customers. Revenues from “cash-and-carry” store sales are recognized at the point of sale in the store. Revenues from direct-to-customer and home-delivered sales are recognized when the merchandise is delivered to the customer. Discounts provided to customers are accounted for as a reduction of sales.

We recognize shipping and handling fees as revenue when the merchandise is received by our customers. 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, customer preference 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.

### ***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

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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.

We 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. During fiscal 2012, 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 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.

Our tests for impairment of goodwill resulted in a determination that the fair value of the Company substantially exceeded the carrying value of our net assets as of February 2, 2013. We do not anticipate any material impairment charges in the near term.

#### *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

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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***

In the third quarter of fiscal 2012, we changed our policy for recognizing stock-based compensation expense from the graded method of accounting to the straight-line method of accounting for our time-based units (or service-only) awards. Based on research and analysis, we believe the straight-line method of accounting for stock-based compensation expense for service-only awards is the predominant method used in our industry. In order for our results of operations to be comparable to our peers, we have concluded that the straight-line method of accounting for stock-based compensation is a preferable accounting method in accordance with ASC 250-10-45.

We account 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. For service-only awards compensation expense is recognized on a straight-line basis, net of forfeitures, over the requisite service period for the fair value of awards that actually vest. Fair value for restricted stock units is valued using the closing price of our stock on the date of grant. The fair value of each option award granted under our award plans subsequent to our initial public offering is estimated on the date of grant using a Black-Scholes Merton option pricing model with the following assumptions:

- Expected volatility—Based on the lack of historical data for our own shares, we base our expected volatility on a representative peer group that takes into account industry, market capitalization, stage of life cycle and capital structure.
- Expected term—Represents the period of time that options granted are expected to be outstanding. We elected to calculate the expected term of the option awards using the “simplified method”. This election was made as we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. Under the “simplified” calculation method, the expected term is calculated as an average of the vesting period and the contractual life of the options.
- Risk-free interest rate—Based on the U.S. Treasury zero-coupon bond rate with a remaining term approximate of the expected term of the option.
- Dividend yield—As we have not paid dividends, nor do we currently plan to pay dividends in the future, the assumed dividend yield is zero.

Prior to the Reorganization, Home Holdings had granted performance-based units that vested and became 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

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events, including an initial public offering or certain sale or merger transactions. We estimated 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. We also considered 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. In connection with the initial public offering, shares of our common stock with substantially similar restrictions, terms and conditions were issued in replacement of these performance-based units.

In connection with Gary Friedman's resignation as Chairman and Co-Chief Executive Officer and new role as Chairman Emeritus, Creator and Curator, shares of unvested stock he received in replacement of certain performance-based units will be marked to market every period until the required vesting criteria are met in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. As of April 16, 2013, 480,959 of these shares remained unvested.

### ***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 had 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 was required before we would change our judgment regarding the need for a full valuation allowance against our net deferred tax assets. Although we were profitable for the full fiscal 2011, the seasonality of our business continued to result in losses during certain quarters. We recorded a net loss of \$3.7 million in the first quarter of fiscal 2012, compared to a net loss of \$6.2 million in the same quarter of fiscal 2011, and net income of \$17.6 million in the second quarter of fiscal 2012, compared to net income of \$7.6 million in the same quarter of fiscal 2011. Due to the seasonality of our business, our full year results historically have substantially depended on the results from operations in the fourth quarter.

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By the end of fiscal 2012, our U.S. operations achieved a position of cumulative profits (adjusted for permanent items) for the most recent three-year period. We concluded that this record of cumulative profitability in recent years, coupled with our business plan for profitability in future periods, provided assurance that our future tax benefits are more likely than not to be realized. Accordingly, in the fourth quarter of fiscal 2012, we released all of our U.S. valuation allowance against net deferred tax assets, resulting in a \$57.2 million benefit in our provision for income taxes. At February 2, 2013, we have retained a valuation allowance totaling \$0.3 million against deferred tax assets for our Shanghai operations.

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**

#### ***Indefinite-Lived Intangible Assets***

In July 2012, the Financial Accounting Standards Board issued guidance that revises the requirements around how entities test indefinite-lived intangible assets other than goodwill for impairment. Similar to the guidance issued in September 2011 related to the testing of goodwill for impairment, this guidance allows companies to perform a qualitative assessment before calculating the fair value of the indefinite-lived intangible asset. If entities determine, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. We adopted this guidance for our fiscal 2012 annual indefinite-lived intangible assets impairment test. The adoption of this guidance resulted in a change in how we performed our indefinite-lived intangible assets impairment assessment; however, the adoption did not have a material impact on our consolidated financial statements.

### **Item 7A. 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, prior to its repayment on November 7, 2012, our term loan, which bear interest at variable rates. At February 2, 2013, \$82.5 million was outstanding under the revolving line of credit. As of February 2, 2013, the undrawn borrowing availability under the revolving line of credit was \$188.5 million, and there were \$19.5 million in outstanding letters of credit. We currently do not engage in any interest rate hedging activity and we have no intention to do so in the foreseeable future. Based on the average interest rate on the revolving line of credit during the year ended February 2, 2013, 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.

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Item 8. Financial Statements and Supplementary Data

RESTORATION HARDWARE HOLDINGS, INC.  
CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	February 2, 2013	January 28, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,354	\$ 8,512
Accounts receivable—net	17,040	11,759
Merchandise inventories	353,329	245,876
Current deferred tax assets	37,006	4,161
Prepaid expense and other current assets	<u>77,029</u>	<u>52,570</u>
Total current assets	492,758	322,878
Property and equipment—net	111,406	83,558
Goodwill	122,601	122,595
Trademarks	47,410	47,100
Other intangible assets—net	2,713	5,426
Non-current deferred tax assets	6,873	—
Other assets	<u>5,852</u>	<u>5,253</u>
Total assets	<u>\$ 789,613</u>	<u>\$ 586,810</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 145,353	\$ 105,694
Deferred revenue and customer deposits	41,643	25,419
Other current liabilities	<u>32,428</u>	<u>30,861</u>
Total current liabilities	219,424	161,974
Revolving line of credit	82,501	107,502
Term loan	—	14,798
Deferred rent and lease incentives	30,784	19,851
Deferred tax liabilities	—	22,153
Other long-term obligations	<u>5,293</u>	<u>10,069</u>
Total liabilities	<u>338,002</u>	<u>336,347</u>
Commitments and contingencies (See Note 15 to the consolidated financial statements)	—	—
Stockholders' equity:		
Common stock, \$0.0001 par value per share, 180,000,000 shares authorized, 38,856,251 shares issued and 37,967,635 shares outstanding as of February 2, 2013; zero par value, 1,000 shares authorized, 1,000 shares issued and outstanding as of January 28, 2012	4	—
Additional paid-in capital	505,883	292,011
Accumulated other comprehensive income	1,211	1,150
Accumulated deficit	<u>(55,487)</u>	<u>(42,698)</u>
Total stockholders' equity	<u>451,611</u>	<u>250,463</u>
Total liabilities and stockholders' equity	<u>\$ 789,613</u>	<u>\$ 586,810</u>

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



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**RESTORATION HARDWARE HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except share and per share amounts)

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
Net revenues	\$ 1,193,046	\$ 958,084	\$ 772,752
Cost of goods sold	756,597	601,735	501,132
Gross profit	436,449	356,349	271,620
Selling, general and administrative expenses	505,485	329,506	274,836
Income (loss) from operations	(69,036)	26,843	(3,216)
Interest expense	(5,776)	(5,134)	(3,150)
Income (loss) before income taxes	(74,812)	21,709	(6,366)
Income tax expense (benefit)	(62,023)	1,121	685
Net income (loss)	<u>\$ (12,789)</u>	<u>\$ 20,588</u>	<u>\$ (7,051)</u>
Weighted-average shares used in computing basic and diluted net income (loss) per share	9,428,828	468	100
Basic and diluted net income (loss) per share	\$ (1.36)	\$ 43,991	\$ (70,510)

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

RESTORATION HARDWARE HOLDINGS, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
Net income (loss)	\$ (12,789)	\$ 20,588	\$ (7,051)
Foreign currency translation adjustment—net of tax	61	163	657
Total comprehensive income (loss)	<u>\$ (12,728)</u>	<u>\$ 20,751</u>	<u>\$ (6,394)</u>

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

**RESTORATION HARDWARE HOLDINGS, 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				
<b>Balances—January 30, 2010</b>	100	\$ —	\$276,984	\$ 330	\$ (56,235)	\$ 221,079
Stock-based compensation	—	—	1,119	—	—	1,119
Net loss	—	—	—	—	(7,051)	(7,051)
Foreign currency translation adjustment—net of tax	—	—	—	657	—	657
<b>Balances—January 29, 2011</b>	100	—	278,103	987	(63,286)	215,804
Stock-based compensation	—	—	1,557	—	—	1,557
Capital contribution—executive compensation	—	—	6,350	—	—	6,350
Capital contribution—management fee	—	—	6,000	—	—	6,000
Net income	—	—	—	—	20,588	20,588
Foreign currency translation adjustment—net of tax	—	—	—	163	—	163
Capitalization of Restoration Hardware Holdings, Inc.	900	—	1	—	—	1
<b>Balances—January 28, 2012</b>	1,000	—	292,011	1,150	(42,698)	250,463
Stock-based compensation	—	—	116,183	—	—	116,183
Conversion of Restoration Hardware Holdings, Inc. common stock upon Reorganization	(1,000)	—	—	—	—	—
Issuance of common stock upon Reorganization	32,188,891	3	(3)	—	—	—
Issuance of common stock—net of issuance costs	4,782,609	1	97,692	—	—	97,693
Vesting of stock awards	996,135	—	—	—	—	—
Net loss	—	—	—	—	(12,789)	(12,789)
Foreign currency translation adjustment—net of tax	—	—	—	61	—	61
<b>Balances—February 2, 2013</b>	<u>37,967,635</u>	<u>\$ 4</u>	<u>\$505,883</u>	<u>\$ 1,211</u>	<u>\$ (55,487)</u>	<u>\$ 451,611</u>

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

**RESTORATION HARDWARE HOLDINGS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	February 2, 2013	Year Ended January 28, 2012	January 29, 2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income (loss)	\$ (12,789)	\$ 20,588	\$ (7,051)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	26,748	29,186	31,263
Impairment of property and equipment	—	—	2,115
Loss on disposal of property and equipment	—	674	—
Stock-based compensation expense	116,183	1,557	1,119
Capital contribution—executive compensation	—	6,350	—
Capital contribution—management fee paid by Home Holdings on behalf of the Company	—	6,000	—
Release of valuation allowance	(57,185)	—	—
Deferred income taxes	(4,686)	4,299	(427)
Amortization of financing fees	863	573	193
Change in assets and liabilities:			
Accounts receivable	(5,282)	(7,280)	68
Merchandise inventories	(107,454)	(39,475)	(57,103)
Prepaid expense and other current assets	(24,454)	(36,371)	(1,477)
Other assets	(371)	(573)	(797)
Accounts payable and accrued expenses	36,154	14,374	5,475
Deferred revenue and customer deposits	16,224	11,418	2,503
Other current liabilities	2,689	3,915	3,395
Deferred rent and lease incentives	10,923	1,732	8,638
Other long-term obligations	(1,427)	154	276
Net cash provided by (used in) operating activities	(3,864)	17,121	(11,810)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditures	(49,058)	(25,593)	(39,907)
Purchase of trademarks and other intangible assets	(310)	—	—
Net cash used in investing activities	(49,368)	(25,593)	(39,907)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Gross borrowings under revolving line of credit	1,344,468	1,007,330	875,936
Gross repayments under revolving line of credit	(1,369,469)	(1,011,937)	(821,734)
Proceeds from issuance of term loan	—	15,000	—
Repayment of term loan	(15,000)	—	—
Debt issuance costs	(426)	(2,835)	—
Payments on capital leases and other long-term obligations	(4,214)	(4,188)	(2,601)
Capitalization of Restoration Hardware Holdings, Inc.	—	1	—
Proceeds from issuance of common stock—net of issuance costs	97,693	—	—
Net cash provided by financing activities	53,052	3,371	51,601
Effects of foreign currency exchange rate translation	22	249	294
Net increase (decrease) in cash and cash equivalents	(158)	(4,852)	178
Cash and cash equivalents			
Beginning of period	8,512	13,364	13,186
End of period	\$ 8,354	\$ 8,512	\$ 13,364
Cash paid for interest	\$ 5,382	\$ 3,737	\$ 2,068
Cash paid for taxes	1,861	1,697	744
Non-cash transactions:			
Property and equipment acquired under capital lease	—	7,770	3,550
Property and equipment additions in accounts payable	3,505	645	454
Capital contribution—executive compensation	—	6,350	—
Capital contribution—management fee paid by Home Holdings on behalf of the Company	—	6,000	—

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

**RESTORATION HARDWARE HOLDINGS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1—NATURE OF BUSINESS**

Restoration Hardware Holdings, 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, decorative accessories, outdoor and children’s furnishings. These products are sold through the Company’s stores, catalogs and websites. As of February 2, 2013, the Company operated a total of 71 retail stores and 13 outlet stores in 28 states, the District of Columbia and Canada, and had sourcing operations in Shanghai and Hong Kong.

**NOTE 2—ORGANIZATION**

The Company 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 and is a direct subsidiary of Home Holdings, LLC, a Delaware limited liability company (“Home Holdings”).

On November 1, 2012, the Company acquired all of the outstanding shares of capital stock of Restoration Hardware, Inc., a Delaware corporation, and Restoration Hardware, Inc. became a direct, wholly owned subsidiary of the Company. Outstanding units issued by Home Holdings under its equity compensation plan, referred to as the Team Resto Ownership Plan, were replaced with common stock of the Company at the time of its initial public offering. Restoration Hardware, Inc. was a direct, wholly owned subsidiary of Home Holdings prior to the Company’s initial public offering. These transactions are referred to as the “Reorganization.” As a result of these transactions, as of November 1, 2012, 32,188,891 shares of the Company’s common stock were outstanding.

On November 7, 2012, the Company completed its initial public offering. In connection with its initial public offering, the Company issued and sold 4,782,609 shares of its common stock at a price of \$24.00 per share. In addition, certain of the Company’s stockholders sold an aggregate of 381,723 shares of common stock held by them in the initial public offering. Further, certain stockholders sold an additional aggregate of 774,650 shares of common stock held by them pursuant to the exercise by the offering’s underwriters of their option to purchase additional shares. The Company did not receive any proceeds from the sale of stock by its stockholders.

As a result of the initial public offering, the Company raised a total of \$114.8 million in gross proceeds, or approximately \$106.7 million in net proceeds after deducting underwriting discounts and commissions of \$8.1 million. The Company capitalized \$9.1 million of offering costs associated with its initial public offering, which are included in additional paid-in capital and offset against the initial public offering proceeds.

Prior to the Reorganization, Restoration Hardware Holdings, Inc. had 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.

**NOTE 3—CHANGE IN ACCOUNTING PRINCIPLE—STOCK-BASED COMPENSATION**

In the third quarter of 2012, the Company changed its policy for recognizing stock-based compensation expense from the graded method of accounting to the straight-line method of accounting for its time-based units (or service-only awards). The Company previously disclosed this change in accounting policy and retrospectively restated its consolidated financial statements for such change in its audited consolidated financial statements for the fiscal year ended January 28, 2012 and unaudited condensed consolidated financial statements for the six months ended July 28, 2012, which are included in the Company’s final prospectus filed with the Securities and Exchange Commission on November 5, 2012.

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Based on research and analysis, the Company believes the straight-line method of accounting for stock-based compensation expense for service-only awards is the predominant method used in its industry. In order for the Company's results of operations to be comparable to its peers, it has concluded that the straight-line method of accounting for stock-based compensation is a preferable accounting method in accordance with ASC 250-10-45.

The following table presents the comparative effect of the change in accounting method and its impact on key components of the Company's consolidated statements of operations (*dollar amounts in thousands*):

	Year Ended			
	January 28, 2012		January 29, 2011	
	As Reported	As Revised	As Reported	As Revised
Net revenues	\$ 958,084	\$ 958,084	\$ 772,752	\$ 772,752
Cost of goods sold	<u>601,735</u>	<u>601,735</u>	<u>501,132</u>	<u>501,132</u>
Gross profit	356,349	356,349	271,620	271,620
Selling, general and administrative expense	<u>329,753</u>	<u>329,506</u>	<u>275,859</u>	<u>274,836</u>
Income (loss) from operations	26,596	26,843	(4,239)	(3,216)
Interest expense	<u>(5,134)</u>	<u>(5,134)</u>	<u>(3,150)</u>	<u>(3,150)</u>
Income (loss) before income taxes	21,462	21,709	(7,389)	(6,366)
Income tax expense	<u>1,121</u>	<u>1,121</u>	<u>685</u>	<u>685</u>
Net income (loss)	<u>\$ 20,341</u>	<u>\$ 20,588</u>	<u>\$ (8,074)</u>	<u>\$ (7,051)</u>
Shares used in computing basic and diluted net income (loss) per share	468	468	100	100
Basic and diluted net income (loss) per share	\$ 43,464	\$ 43,991	\$ (80,740)	\$ (70,510)

The following table presents the comparative effect of the change in accounting method and its impact on key components of the Company's consolidated balance sheets (*in thousands*):

	January 28, 2012	
	As Reported	As Revised
Stockholders' equity:		
Common stock, zero par value, 1,000 shares authorized, 1,000 shares issued and outstanding	\$ —	\$ —
Additional paid-in capital	293,281	292,011
Accumulated other comprehensive income	1,150	1,150
Accumulated deficit	<u>(43,968)</u>	<u>(42,698)</u>
Total stockholders' equity	<u>\$250,463</u>	<u>\$250,463</u>

The change did not impact cash flows from total operating, investing or financing activities.

## NOTE 4—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.

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### **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 year ended February 2, 2013 ("fiscal 2012") consisted of 53 weeks and the fiscal years ended January 28, 2012 ("fiscal 2011") and January 29, 2011 ("fiscal 2010") 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.

### **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 February 2, 2013, the Company had two U.S. bank account balances that were in excess of the FDIC insurance limit and one Canadian bank account balance that was in excess of the CDIC insurance limit. 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 February 2, 2013 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.

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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 \$5.9 million and \$5.6 million as of February 2, 2013 and January 28, 2012, respectively.

### **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 an eight- to nine-month period, with the majority of the amortization occurring within the first five to six 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 \$43.8 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 February 2, 2013, and January 28, 2012, respectively.

Advertising costs, recorded in selling, general and administrative expenses, were \$98.8 million, \$66.9 million, and \$56.1 million in fiscal 2012, fiscal 2011, and fiscal 2010, 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.



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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.

### **Intangible Assets**

Intangible assets reflect the value assigned to trademarks, customer relationships, core technologies and the fair market value of the Company's leases. 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.

The Company qualitatively assesses 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. During fiscal 2012, 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 2012 and fiscal 2011. No impairment to goodwill has been recorded in any period.

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### *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.

In 2012, the Company adopted the option to qualitatively assess indefinite-lived intangible asset impairment to determine whether it is more likely than not that the fair value of the asset 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 asset's fair value is greater than its carrying amount. As such, no further analysis was required for purposes of testing of the Company's trademarks for impairment.

If trademarks are not qualitatively assessed, an 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.

### *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 did not record an impairment charge on long-lived assets in fiscal 2012 or fiscal 2011. The Company recorded a \$2.1 million impairment charge on long-lived assets of certain underperforming stores in fiscal 2010, which is included in cost of goods sold on the consolidated statements of operations.

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### **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.

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 are recognized at the point of sale in the store. Revenues from direct-to-customer and home-delivered sales are 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 received by its customers. 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

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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 a refund. The Company provides an allowance for sales returns, net of cost of goods sold, 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*):

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
Balance at beginning of fiscal year	\$ 3,181	\$ 3,403	\$ 3,145
Provision for sales returns	134,909	102,875	83,393
Actual sales returns	(132,884)	(103,097)	(83,135)
Balance at end of fiscal year	<u>\$ 5,206</u>	<u>\$ 3,181</u>	<u>\$ 3,403</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.

### **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 \$1.8 million, \$3.2 million, and \$3.0 million in fiscal 2012, fiscal 2011, and fiscal 2010, 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 self-insured for all workers' compensation claims related to incidents incurred after November 1, 2012 and prior to November 1, 2007.

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### **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. For service-only awards compensation expense is recognized on a straight-line basis, net of forfeitures, over the requisite service period for the fair value of awards that actually vest. Fair value for restricted stock units is valued using the closing price of the Company's stock on the date of grant. The fair value of each option award granted under the Company's award plans subsequent to its initial public offering is estimated on the date of grant using a Black-Scholes Merton option pricing model with the following assumptions:

- Expected volatility—Based on the lack of historical data for its own shares, the Company bases its expected volatility on a representative peer group that takes into account industry, market capitalization, stage of life cycle and capital structure.
- Expected term—Represents the period of time that options granted are expected to be outstanding. The Company elected to calculate the expected term of the option awards using the "simplified method". This election was made as the Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term. Under the "simplified" calculation method, the expected term is calculated as an average of the vesting period and the contractual life of the options.
- Risk-free interest rate—Based on the U.S. Treasury zero-coupon bond rate with a remaining term approximate of the expected term of the option.
- Dividend yield—As the Company has not paid dividends, nor does it currently plan to pay dividends in the future, the assumed dividend yield is zero.

Prior to the Reorganization, Home Holdings had granted performance-based units that vested and became 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. The Company estimated 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 considered 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. At the time of the Reorganization, these performance-based units were replaced with shares of the Company's common stock with substantially similar restrictions, terms and conditions. Refer to Note 12—*Stock-Based Compensation*.

In connection with Mr. Friedman's resignation as Chairman and Co-Chief Executive Officer and new role as Creator and Curator, 1,185,511 shares of unvested stock he received in replacement of certain performance-based units will be marked to market every period until the required vesting criteria are met, resulting in additional stock based compensation in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718.

### **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 and payroll related expenses, store expenses other than occupancy and expenses related to many of the Company's operations at its headquarters, including utilities, depreciation and amortization, credit card fees and marketing expense, which primarily includes catalog production, mailing and print advertising costs. All store pre-opening costs are included in selling, general and administrative expenses and are expensed as incurred.

Selling, general and administrative expenses for fiscal 2012 include a \$92.0 million non-cash compensation charge related to equity grants at the time of the Reorganization, as well as a non-cash compensation charge of \$23.1 million related to the performance-based vesting of certain shares granted to the Company's Chief Executive Officer, Carlos Alberini, and Gary Friedman, who serves as the Company's Creator and Curator. Costs incurred in connection with the initial public offering, including a fee of \$7.0 million to Catterton Management Company, LLC ("Catterton"), Tower Three Partners LLC ("Tower Three") and GJK Capital Advisors, LLC ("Glenhill") in accordance with the Company's management services agreement, payments of \$2.2 million to certain former executives and bonus payments to employees of \$1.3 million, were included in selling, general and administrative expenses in fiscal 2012. In addition, legal and other professional fees of \$4.8 million, incurred in connection with the investigation conducted by the special committee of the board of directors relating to Mr. Friedman and the Company's subsequent remedial actions, are included in fiscal 2012 selling, general and administrative expenses.

### **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.

### **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

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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.

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 February 2, 2013, 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.

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### Recently Issued Accounting Standards

In July 2012, the Financial Accounting Standards Board (“FASB”) issued guidance that revises the requirements around how entities test indefinite-lived intangible assets other than goodwill for impairment. Similar to the guidance issued in September 2011 related to the testing of goodwill for impairment, this guidance allows companies to perform a qualitative assessment before calculating the fair value of the indefinite-lived intangible asset. If entities determine, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. The Company adopted this guidance for its fiscal 2012 annual indefinite-lived intangible assets impairment test. The adoption of this guidance resulted in a change in how the Company performed its indefinite-lived intangible assets impairment assessment; however, the adoption did not have a material impact on the Company’s consolidated financial statements.

### NOTE 5—PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following (*in thousands*):

	February 2, 2013	January 28, 2012
Prepaid catalog	\$ 43,828	\$ 28,608
Vendor deposits	20,383	9,399
Prepaid expenses	11,479	8,923
Other current assets	1,339	5,640
Total prepaid expenses and other current assets	<u>\$ 77,029</u>	<u>\$ 52,570</u>

### NOTE 6—PROPERTY AND EQUIPMENT

Property and equipment consists of the following (*in thousands*):

	February 2, 2013	January 28, 2012
Leasehold improvements <sup>(1)</sup>	\$ 155,338	\$ 118,898
Computer software	33,459	27,194
Furniture, fixtures and equipment	27,076	16,166
Machinery and equipment	8,866	4,823
Land	2,388	2,388
Building	2,205	2,205
Equipment under capital leases <sup>(2)</sup>	8,879	13,918
Total property and equipment	238,211	185,592
Less—accumulated depreciation and amortization	<u>(126,805)</u>	<u>(102,034)</u>
Total property and equipment—net	<u>\$ 111,406</u>	<u>\$ 83,558</u>

(1) Leasehold improvements include construction in progress of \$25.9 million and \$9.1 million as of February 2, 2013, and January 28, 2012, respectively.

(2) Accumulated depreciation and amortization include accumulated amortization related to equipment under capital leases of \$6.8 million and \$8.5 million as of February 2, 2013, and January 28, 2012, respectively.

The Company recorded depreciation expense of \$24.3 million, \$26.2 million, and \$27.8 million in fiscal 2012, fiscal 2011, and fiscal 2010, respectively.



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**NOTE 7—GOODWILL AND INTANGIBLE ASSETS**

The following sets forth the goodwill and intangible assets as of February 2, 2013 (*dollar amounts in thousands*):

	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net Book Value February 2, 2013	Useful Life
<b>Intangible assets subject to amortization:</b>					
Core technologies	\$ 6,580	\$ (6,141)	\$ —	\$ 439	5 years
Fair value of leases					
Fair market write-up	10,737	(8,511)	48	2,274	(2)
Fair market write-down	(2,591)	1,789	—	(802) <sup>(1)</sup>	(2)
Total intangible assets subject to amortization	14,726	(12,863)	48	1,911	
<b>Intangible assets not subject to amortization:</b>					
Goodwill	122,285	—	316	122,601	
Trademarks and domain name	47,410	—	—	47,410	
Total intangible assets	<u>\$184,421</u>	<u>\$ (12,863)</u>	<u>\$ 364</u>	<u>\$ 171,922</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*):

	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net Book Value January 28, 2012	Useful Life
<b>Intangible assets subject to amortization:</b>					
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) <sup>(1)</sup>	(2)
Total intangible assets subject to amortization	15,977	(11,742)	48	4,283	
<b>Intangible assets not subject to amortization:</b>					
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.

The Company recorded amortization expense related to intangible assets of \$2.4 million, \$2.8 million, and \$3.4 million in fiscal 2012, fiscal 2011, and fiscal 2010, respectively.

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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 February 2, 2013 (*in thousands*):

2013	\$1,128
2014	613
2015	95
2016	56
2017	19
Total amortization	<u>\$1,911</u>

## NOTE 8—ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accounts payable and accrued expenses consist of the following (*in thousands*):

	February 2, 2013	January 28, 2012
Accounts payable	\$ 81,608	\$ 47,440
Accrued freight and duty	17,639	8,896
Accrued compensation	16,621	21,168
Accrued sales taxes	12,783	8,472
Accrued catalog costs	6,906	7,176
Accrued occupancy	5,842	6,203
Accrued professional fees	2,114	2,494
Other accrued expenses	1,840	3,845
Total accounts payable and accrued expenses	<u>\$ 145,353</u>	<u>\$ 105,694</u>

Accounts payable included negative cash balances due to outstanding checks of \$28.1 million and \$12.4 million as of February 2, 2013, and January 28, 2012, respectively.

Other current liabilities consist of the following (*in thousands*):

	February 2, 2013	January 28, 2012
Unredeemed gift certificate and merchandise credit liability	\$ 18,435	\$ 20,742
Allowance for sales returns	5,206	3,181
Capital lease obligation—current	2,925	4,114
Other liabilities	5,862	2,824
Total other current liabilities	<u>\$ 32,428</u>	<u>\$ 30,861</u>

## NOTE 9—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 credit agreement modified a previous facility under 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 of \$0.2 million related to the previous line of credit on the date of the modification 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, Restoration Hardware, Inc. has a revolving line of credit available of up to \$417.5 million (following Restoration Hardware, Inc.'s exercise of the commitment increase option on

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November 1, 2012, as described below), of which \$10.0 million is available to Restoration Hardware Canada, Inc. The credit agreement was further amended in January 2012 to add a \$15.0 million term loan facility with a maturity date of July 6, 2015, which was repaid in full on November 7, 2012, as described below.

Under the credit agreement's commitment increase provision, Restoration Hardware, Inc. had the option to increase the amount of the revolving line of credit by up to an additional \$100.0 million, provided that, among other things, the existing lenders or additional lenders agreed to participate in the increased loan commitments under the revolving line of credit, no default under the credit agreement then existed or would result from such increase and sufficient borrowing base collateral was available to support increased loan amounts. On November 1, 2012, Restoration Hardware, Inc. increased the amount of the revolving line of credit by \$100.0 million pursuant to this commitment increase provision.

On November 7, 2012, Restoration Hardware, Inc. made payments of \$75.7 million on its revolving line of credit and repaid its outstanding term loan of \$15.0 million in full. Such payments were funded from the proceeds received as a result of the Company's initial public offering. Upon the repayment of the term loan in full, the Company expensed the remaining debt issuance costs of \$0.2 million related to the term loan.

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

Borrowings under the revolving line of credit are subject to interest, at the borrowers' option, at either the bank's reference rate or LIBOR (or the BA Rate or the Canadian Prime Rate, as such terms are defined in the credit agreement, for Canadian borrowings denominated in Canadian dollars or the United States Index Rate or LIBOR for Canadian borrowings denominated in United States dollars) plus an applicable margin rate, in each case. The weighted-average interest rate for the revolving line of credit was 2.5% as of February 2, 2013.

As of February 2, 2013, \$82.5 million was outstanding under the revolving line of credit and the undrawn borrowing availability under the revolving line of credit was \$188.5 million. There were \$19.5 million and \$6.9 million in outstanding letters of credit as of February 2, 2013, and January 28, 2012, 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, 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 February 2, 2013, 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

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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.

### NOTE 10—INCOME TAXES

The following is a summary of the income tax expense (benefit) (*in thousands*):

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
<b>Current</b>			
Federal	\$ —	\$ —	\$ 53
State	236	331	837
Foreign	(387)	595	280
Total current tax expense (benefit)	<u>(151)</u>	<u>926</u>	<u>1,170</u>
<b>Deferred</b>			
Federal	(48,745)	(76)	135
State	(12,903)	223	(397)
Foreign	(224)	48	(223)
Total deferred tax benefit	<u>(61,872)</u>	<u>195</u>	<u>(485)</u>
Total income tax expense (benefit)	<u>\$ (62,023)</u>	<u>\$ 1,121</u>	<u>\$ 685</u>

A reconciliation of the federal statutory tax rate to the Company's effective tax rate is as follows:

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
Provision at federal statutory tax rate	35.0%	34.0%	34.0%
State income taxes—net of federal tax impact	0.7	5.6	2.1
Foreign income	0.6	(2.0)	(3.3)
Net adjustments to tax accruals and other	0.1	4.6	(4.4)
Valuation allowance	76.5	(49.4)	(32.5)
Stock-based compensation	(30.0)	12.4	(6.7)
Effective tax rate	<u>82.9%</u>	<u>5.2%</u>	<u>(10.8)%</u>

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Significant components of the Company's deferred tax assets and liabilities are as follows (*in thousands*):

	February 2, 2013	January 28, 2012
<b>Current deferred tax assets (liabilities)</b>		
Accrued expense	\$ 11,026	\$ 9,970
State tax benefit	(931)	(1,370)
Inventory	14,215	11,121
Deferred revenue	20,144	12,213
Net operating loss carryforwards	12,337	27,166
Construction allowance	(1,698)	(1,037)
Prepaid expense and other	(18,056)	(12,729)
Current deferred tax assets	37,037	45,334
Valuation allowance	(31)	(41,173)
Net current deferred tax assets	<u>37,006</u>	<u>4,161</u>
<b>Non-current deferred tax assets (liabilities)</b>		
State tax benefit	(2,040)	(892)
Stock-based compensation	21,231	—
Deferred lease credits	9,687	4,251
Property and equipment	(5,975)	(2,061)
Net operating loss carryforwards	262	7,525
U.S. impact of Canadian transfer pricing	2,091	3,760
Trademarks	(19,361)	(19,275)
Other	1,240	850
Non-current deferred tax assets (liabilities)	7,135	(5,842)
Valuation allowance	(262)	(16,311)
Net non-current deferred tax assets (liabilities)	<u>6,873</u>	<u>(22,153)</u>
Net deferred tax assets (liabilities)	<u>\$ 43,879</u>	<u>\$ (17,992)</u>

A reconciliation of the valuation allowance is as follows (*in thousands*):

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
Balance at beginning of fiscal year	\$ 57,484	\$ 68,318	\$ 65,087
Charged to expense	(57,185)	299	(236)
Net changes in deferred tax assets and liabilities	<u>(6)</u>	<u>(11,133)</u>	<u>3,467</u>
Balance at end of fiscal year	<u>\$ 293</u>	<u>\$ 57,484</u>	<u>\$ 68,318</u>

The Company has recorded deferred tax assets and liabilities based upon estimates of their realizable value, such estimates are based upon likely future tax consequences. 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 assets. 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.

As of the end of fiscal year 2012, the Company's U.S. operations achieved a position of cumulative profits (adjusted for permanent differences) for the most recent three-year period. The Company concluded that this record of cumulative profitability in recent years, coupled with its business plan for profitability in future periods,

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provided assurance that its future tax benefits more likely than not would be realized. Accordingly, in fiscal 2012, the Company released all of its U.S. valuation allowance of \$57.2 million against net deferred tax assets.

As of February 2, 2013, the Company has retained a valuation allowance totaling \$0.3 million against deferred tax assets for its Shanghai operations.

As of February 2, 2013, the Company had federal and state net operating loss carryovers of \$28.3 million and \$31.6 million, respectively. The federal and state net operating loss carryovers will expire between 2014 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 in the future resulting in further limitations on utilization of net operating losses.

A reconciliation of the exposures related to unrecognized tax benefits is as follows (*n thousands*):

	Year Ended		
	February 2, 2013	January 28, 2012	January 29, 2011
Balance at beginning of fiscal year	\$ 2,505	\$ 9,015	\$ 8,261
Gross (decreases) increases—prior period tax positions	(57)	—	—
Gross increases (decreases)—current period tax positions	—	(14)	1,048
Consent for accounting method change	—	(6,496)	—
Lapses in statute of limitations	(607)	—	(294)
Balance at end of fiscal year	<u>\$ 1,841</u>	<u>\$ 2,505</u>	<u>\$ 9,015</u>

As of February 2, 2013 and January 28, 2012, \$1.8 million and \$2.5 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 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 February 2, 2013, \$0.3 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 \$0.5 million and \$1.3 million of interest associated with exposures as of February 2, 2013, and January 28, 2012, respectively.

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.

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

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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 2004 and forward. During fiscal 2012, the Canada Revenue Agency concluded, with no adjustments, its audit of Restoration Hardware Canada, Inc. for the years ended 2006 and 2007 and for the period ended June 16, 2008.

### **NOTE 11—EARNINGS PER SHARE**

On November 1, 2012, the Company acquired all of the outstanding shares of capital stock of Restoration Hardware, Inc. and Restoration Hardware, Inc. became a direct, wholly owned subsidiary of the Company. Outstanding units issued by Home Holdings under its equity compensation plan, referred to as the Team Resto Ownership Plan, were replaced with common stock of the Company at the time of its initial public offering. Restoration Hardware, Inc. was a direct, wholly owned subsidiary of Home Holdings prior to the Company's initial public offering. As a result of these transactions, as of November 1, 2012, 32,188,891 shares of the Company's common stock were outstanding.

On November 7, 2012, the Company completed its initial public offering. In connection with its initial public offering, the Company issued and sold 4,782,609 shares of its common stock.

The weighted-average number of shares for fiscal 2011 is calculated by giving effect to the capitalization of Restoration Hardware Holdings, Inc. on September 2, 2011, which resulted in the number of shares outstanding increasing from 100 shares to 1,000 shares.

The weighted-average number of shares for fiscal 2012 excludes 6,020,152 million shares related to stock options and other stock awards because their inclusion would have an anti-dilutive effect on earnings per share. The Company did not have any anti-dilutive securities in fiscal 2011 or fiscal 2010 because all securities granted in those periods were granted by Home Holdings.

### **NOTE 12—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.

#### *Team Resto Ownership Plan*

Home Holdings established the Team Resto Ownership Plan in fiscal 2009. Awards under the Team Resto Ownership Plan were granted by the Home Holdings and were made up of the following:

- Time-based units—time-based units vested in annual installments, generally over a five-year graded vesting period.
- Performance-based units—performance-based units vested based on a return on equity investment to the Company's investors between either two times and three times such investment or three times and five times such investment.

All stock-based compensation expense associated with the grants of units by Home Holdings to the Company's directors, executive officers and employees was recorded by the Company.

On November 7, 2012, the Company completed its initial public offering and at the time of the initial public offering, outstanding units under the Team Resto Ownership Plan, were replaced with common stock of the Company.

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*Team Resto Ownership Plan – Time-Based Units*

The following table presents the time-based unit activity in fiscal 2011 and fiscal 2012:

	Number Of Units	Weighted- Average Grant Date Fair Value	Weighted- Average Remaining Contractual Life (In Years)
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	10,288,720	0.69	7.43
Granted	—	—	—
Cancelled	(33,000)	0.62	9.36
Forfeited	(253,750)	1.24	9.68
Replaced with common stock	(10,001,970)	0.67	6.65
Outstanding—February 2, 2013	—	—	—

The fair value of each time-based unit granted in fiscal 2011 was estimated on the date of grant using a Monte Carlo method with the following weighted-average assumptions:

Expected volatility	56%
Expected life (years)	0.8
Risk-free interest rate	0.19%
Dividend yield	—

As of February 2, 2013, all compensation expense related to time-based units was recorded by the Company. No stock-based compensation cost had been capitalized in the accompanying consolidated financial statements.

The Company recorded stock-based compensation expense for time-based units of \$1.1 million, \$1.6 million, and \$1.1 million in fiscal 2012, fiscal 2011, and fiscal 2010, respectively, which is included in selling, general and administrative expenses on the consolidated statements of operations.

*Team Resto Ownership Plan – Performance-Based Units*

The following table presents the performance-based unit activity in fiscal 2011 and fiscal 2012:

	Number Of Units	Weighted- Average Grant Date Fair Value
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	9,121,775	0.28
Granted	—	—
Forfeited	(45,000)	0.64
Replaced with common stock	(9,076,775)	0.28
Outstanding—February 2, 2013	—	—



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The fair value of each performance-based unit granted in fiscal 2011 was estimated on the date of grant using a Monte Carlo method with the following weighted-average assumptions:

Expected volatility	56%
Expected life (years)	0.8
Risk-free interest rate	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. In connection with its initial public offering, the Company recorded \$0.8 million related to the vested performance-based units, which is included in selling, general and administrative expenses on the consolidated statements of operations.

### 2012 Equity Replacement Plan

In connection with the Reorganization, the Board of Directors adopted the Restoration Hardware 2012 Equity Replacement Plan (the "Replacement Plan"), and outstanding units under the Team Resto Ownership Plan were replaced with vested and unvested shares of common stock under the Replacement Plan, in some cases subject to selling restrictions.

A portion of the shares issued under the Replacement Plan, which are fully vested, are subject to resale restrictions whereby the holder may not sell the shares until the earlier of 20 years after the initial public offering, or: (i) with respect to 818,209 of these shares, such resale restrictions will lapse over time in accordance with the dates set forth in the applicable award agreement, and (ii) with respect to 1,523,041 of these shares, such resale restrictions will lapse on the date after the initial public offering on which the price of the Company's common stock reaches a 10-day average closing price per share of \$46.50 for at least 10 consecutive trading days.

The Company recorded a non-cash compensation charge at the Reorganization of \$39.1 million related to the awards granted under the Replacement Plan which is included in selling, general and administrative expenses on the consolidated statements of operations.

A portion of the shares issued under the Replacement Plan are unvested restricted shares issued to Carlos Alberini, the Company's Chief Executive Officer, and Gary Friedman, who serves as the Company's Creator and Curator, in replacement of certain of their performance-based units granted under the Team Resto Ownership Plan. With respect to the 1,331,548 shares received by Mr. Alberini and Mr. Friedman in replacement of certain of their performance-based units, such shares begin to vest during the 36-month period following the initial public offering when the price of the Company's common stock reaches a 10-day average closing price per share of \$31.00 for at least 10 consecutive trading days, and such shares shall fully vest when the price of the Company's common stock reaches a 10-day average closing price per share of \$46.50 for at least 10 consecutive trading days (with proportional vesting in between). In addition, with respect to the 512,580 shares received by Mr. Alberini and Mr. Friedman in replacement of certain of their performance-based units, such shares shall begin to vest during the 36-month period following the initial public offering when the 10-day average closing price of the Company's common stock exceeds the initial public offering price of \$24.00 per share for at least 10 consecutive trading days, and such shares shall fully vest when the 10-day average closing price of the Company's common stock reaches a price per share of \$31.00 for at least 10 consecutive trading days (with proportional vesting in between) during the period.

In connection with Mr. Friedman's resignation and new role as the Creator and Curator, 1,185,511 shares of unvested stock he received in replacement of certain performance-based units will be marked to market every period until the required vesting criteria are met in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718.

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During the fourth quarter of fiscal 2012, all 512,580 shares received by Mr. Alberini and Mr. Friedman in replacement of certain of their performance-based units met the performance objective of \$31.00 per share for at least 10 consecutive trading days. The Company recorded a non-cash compensation charge of approximately \$12.5 million related to these awards in fiscal 2012 which is included in selling, general and administrative expenses on the consolidated statements of operations. During the fourth quarter of fiscal 2012, 442,932 shares of the 1,331,548 shares received by Mr. Alberini and Mr. Friedman in replacement of certain of their performance-based units had vested in accordance with the performance objective as described above. The Company recorded a non-cash compensation charge of approximately \$10.6 million related to these awards in fiscal 2012 which is included in selling, general and administrative expenses on the consolidated statements of operations. Unrecognized compensation for units that have not yet met the performance objectives as of February 2, 2013 was \$16.4 million.

Subsequent to February 2, 2013, and through April 16, 2013, 140,457 shares of the 1,331,548 shares received by Mr. Alberini and Mr. Friedman in replacement of certain of their performance-based units had vested in accordance with the performance objective as described above. The Company will record a non-cash compensation charge of approximately \$3.4 million related to these awards in the first quarter of fiscal 2013 through April 16, 2013. Additionally, the unvested portion will continue to vest based upon stock price performance in future periods as described above.

Aside from the awards described above, no other awards will be granted under the Replacement Plan.

### *2012 Stock Option Plan and 2012 Stock Incentive Plan*

In connection with the Reorganization, the Board of Directors adopted the Restoration Hardware 2012 Stock Option Plan (the "Option Plan"), pursuant to which 6,829,041 fully vested options were granted in connection with the Reorganization to certain of the Company's employees and advisors, including Mr. Alberini and Mr. Friedman. The options granted under this plan were fully vested upon the completion of the initial public offering and are subject to resale restrictions whereby the holder may not sell the shares for a period of 20 years after the initial public offering, except as follows: (i) with respect to 875,389 of these shares with an exercise price of \$29.00 per share, such resale restrictions will lapse over time in accordance with the dates set forth in the applicable award agreement, and (ii) with respect to 5,953,652 shares with an exercise price of \$46.50 per share, such resale restrictions will lapse on dates after the initial public offering on which the 10-day average closing price per share of the Company's common stock reaches specified levels ranging from \$50.75 to \$111.25 for at least 10 consecutive trading days. Aside from these options granted in connection with the Reorganization, no other awards will be granted under the Option Plan.

In connection with the Reorganization, the Board of Directors adopted the Restoration Hardware 2012 Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan provides for the grant of incentive stock options to the Company's employees, non-qualified stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent rights, cash-based awards and any combination thereof to the Company's employees, directors and consultants and the Company's parent and subsidiary corporations' employees, directors and consultants. In connection with the Reorganization, the Board of Directors granted options to purchase 1,264,036 shares of the Company's common stock to employees of the Company under the Stock Incentive Plan, which options were fully vested upon the completion of the initial public offering, with a weighted-average exercise price equal to \$26.50 per share.

In addition, in connection with the Reorganization, the Board of Directors granted an aggregate of 40,623 restricted stock units to certain of the Company's directors under the Stock Incentive Plan. Such restricted stock units vested in full on January 31, 2013.

In connection with the grants under the Option Plan and the Stock Incentive Plan, the Company recorded a non-cash compensation charge at the Reorganization of \$52.0 million related to these awards which is included in selling, general and administrative expenses on the consolidated statements of operations.

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As of February 2, 2013, the total number of shares issuable under the Option Plan and Stock Incentive Plan was 11,900,671. Awards under the plans reduce the number of shares available for future issuance. Cancellations and forfeitures of shares previously granted increase the number of shares available for future issuance. The number of shares available for future issuance under the Stock Incentive Plan as of February 2, 2013 was 3,700,471. There are no more shares available for issuance under the Option Plan.

A summary of stock option activity under the Option Plan and the Stock Incentive Plan for fiscal 2012 is as follows:

	Options	Weighted-Average Exercise Price
Outstanding—January 28, 2012	—	\$ —
Granted	8,159,577	41.41
Exercised	—	—
Forfeited	—	—
Outstanding—February 2, 2013	<u>8,159,577</u>	\$ 41.41

A summary of additional information about stock options in fiscal 2012 is as follows:

Weighted-average fair value per share of stock options granted	\$ 6.34
Aggregate intrinsic value of stock options exercised (in thousands)	\$ —
Fair value of stock options vested (in thousands)	\$51,063

Information about stock options outstanding, vested or expected to vest, and exercisable as of February 2, 2013 is as follows:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Options	Weighted-Average Remaining Contractual Life (in years)	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
\$24.00 - \$29.00	2,139,425	9.74	\$ 27.52	2,139,425	\$ 27.52
\$30.00 - \$33.00	66,500	9.89	32.38	—	—
\$46.50	5,953,652	9.74	46.50	5,953,652	46.50
Total	<u>8,159,577</u>	9.74	\$ 41.41	<u>8,093,077</u>	\$ 41.48
Vested or expected to vest as of February 2, 2013	<u>8,159,577</u>	9.74	\$ 41.41		

The aggregate intrinsic value of options outstanding, options vested or expected to vest, and options exercisable as of February 2, 2013 was \$18.9 million, \$18.9 million, and \$18.6 million, respectively. Stock options exercisable as of February 2, 2013 had a weighted-average remaining contractual life of 9.74 years.

As of February 2, 2013, the total unrecognized compensation expense related to unvested options was \$0.5 million, which is expected to be recognized on a straight-line basis over a weighted-average period of 3.80 years. No stock-based compensation cost has been capitalized in the accompanying consolidated financial statements.

### NOTE 13—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 2012, fiscal 2011, or fiscal 2010.

**NOTE 14—RELATED PARTY TRANSACTIONS**

*Resignation of Co-Chief Executive Officer and Formation of Hierarchy*

The Company's former Chairman and Co-Chief Executive Officer, Gary Friedman, resigned from these positions and as a director of the Company effective as of October 20, 2012. In connection with such resignation, Mr. Friedman and the Company entered into an advisory services agreement that provides for Mr. Friedman to advise the Company in his role as the Creator and Curator with respect to product development, merchandising and other creative matters. The agreement has a five-year term and is renewable for an additional five-year period. In addition, in connection with the Company's initial public offering, Home Holdings has agreed to invest \$5 million, consisting of \$2.5 million in an initial tranche and up to \$2.5 million in one or more additional tranches, directly or indirectly, in Hierarchy, LLC ("Hierarchy"), a newly formed entity in which Mr. Friedman has a controlling interest. If requested by Home Holdings and agreed to by the Company, the Company may make these subsequent investments. The Company will have the right to acquire all or a portion of Home Holdings' interest in Hierarchy between the second and third anniversaries of the Company's initial public offering, at the greater of the then fair market value and the price paid by Home Holdings. As of February 2, 2013, the initial investment tranche of \$2.5 million had not been funded by Home Holdings.

In addition, Home Holdings has assigned to the Company its right of first offer and co-sale right over the sale by Mr. Friedman of his interests in Hierarchy, its right of first offer over the sale of Hierarchy or any of its lines of business and its preemptive rights on issuances of additional interests in Hierarchy. The agreements among Hierarchy, Home Holdings, Mr. Friedman and the Company contemplate that the Company will enter into an agreement to provide Hierarchy with back office, logistics, supply chain and administrative support, with pricing determined based on the fair market value of such services. Unless otherwise agreed by Home Holdings, for two years from the date of the Hierarchy operating agreement, Hierarchy's line of business will be limited to apparel and apparel related businesses. In addition, Hierarchy will be permanently prohibited from entering into lines of business in which the Company is engaged and certain lines of business in which the Company may become engaged (other than luggage, which Hierarchy may enter into after such two year period). Mr. Friedman is also a significant stockholder in the Company and will continue to advise the Board of Directors in an observer capacity, with the honorary title of Chairman Emeritus.

*Management Agreement*

Pursuant to the Amended and Restated Management Services Agreement with certain affiliates of Catterton, Tower Three and Glenhill, such affiliated entities were 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 was equal to 1.5% of Catterton's and Tower Three's invested capital in Home Holdings and 1% of Glenhill's invested capital in Home Holdings.

The Amended and Restated Management Services Agreement provided that the term of the agreement ends upon the consummation of an initial public offering, and that additional fees would be payable upon termination in connection with an initial public offering. The Company paid additional fees upon such termination in connection with its initial public offering to Catterton, Tower Three and Glenhill in the amount of \$3.3 million, \$3.1 million and \$0.6 million, respectively.

In addition to the initial public offering termination fees, the Company recorded management fees of \$3.9 million in selling, general and administrative expenses in fiscal 2012 and such management fees were paid by the Company as of February 2, 2013.

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 Home Holdings and reflected as a capital contribution from Home Holdings through additional paid-in capital. The remaining \$3.9 million was paid by the Company as of January 28, 2012.

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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.

### *Executive Loans with Home Holdings*

In December 2008, Mr. Friedman entered into a \$1.0 million loan with Home Holdings in connection with the purchase of a 0.3% ownership interest in Home Holdings. 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 Home Holdings in connection with the purchase of an additional 1.7% ownership interest in Home Holdings.

In September 2011, Mr. Friedman repaid the loans owed to Home Holdings, together with accrued interest thereon, through the reclassification by Home Holdings of Mr. Friedman's pre-Reorganization Class A units and Class A-1 units in Home Holdings into an equal number of pre-Reorganization Class A Prime units and Class A-1 Prime units in Home Holdings, 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 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 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 2011 and reflected as a capital contribution from Home Holdings 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 Home Holdings as compared to the Class A Prime units and Class A-1 Prime units in Home Holdings.

In May 2010, Mr. Alberini, the Company's Chief Executive Officer, entered into a \$4.0 million loan with Home Holdings in connection with the purchase of a 1.4% ownership interest in Home Holdings 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, Ken Dunaj, the Company's Chief Operating Officer, entered into a \$600,000 loan with Home Holdings. 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 Home Holdings.

In September 2011, Mr. Dunaj repaid the loan owed to Home Holdings, together with accrued interest thereon, through the reclassification by Home Holdings of Mr. Dunaj's pre-Reorganization Class B units issued under the Team Resto Ownership Plan into an equal number of pre-Reorganization 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.

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### NOTE 15—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.

The aggregate future minimum rental payments under leases in effect as of February 2, 2013, are as follows (*in thousands*):

	Capital Leases	Operating Leases	Total
2013	\$ 3,070	\$ 62,343	\$ 65,413
2014	1,414	55,137	56,551
2015	184	47,919	48,103
2016	42	43,497	43,539
2017	—	39,545	39,545
Thereafter	—	224,395	224,395
Minimum lease commitments	4,710	<u>\$472,836</u>	<u>\$ 477,546</u>
Less—amount representing interest	(183)		
Present value of capital lease obligations	4,527		
Less—current capital lease obligations	(2,925)		
Long-term capital lease obligations	<u>\$ 1,602</u>		

The current and long-term capital lease obligations are included in other current liabilities and other long-term obligations, respectively, 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		
	February 2, 2013	January 28, 2012	January 29, 2011
Operating leases			
Minimum rental expense	\$ 52,750	\$ 51,665	\$ 48,801
Contingent rental expense	3,318	1,456	900
Total operating leases	<u>\$ 56,068</u>	<u>\$ 53,121</u>	<u>\$ 49,701</u>

#### Commitments

The Company had no off balance sheet commitments as of February 2, 2013.

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### **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 and could result in unexpected expenses and liability and could also materially adversely affect the Company's operations.

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 16—SEGMENT REPORTING**

The Company defines an operating segment on the same basis that it uses to evaluate performance internally by the Chief Operating Decision Maker ("CODM"). The Company has determined that the Chief Executive Officer (or Co-Chief Executive Officers prior to Mr. Friedman's resignation from such position) was its CODM and there was 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		
	February 2, 2013	January 28, 2012	January 29, 2011
Furniture	\$ 628,092	\$ 477,730	\$ 339,173
Non-furniture	564,954	480,354	433,579
Total net revenues	<u>\$ 1,193,046</u>	<u>\$ 958,084</u>	<u>\$ 772,752</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 2012, fiscal 2011, or fiscal 2010.

### **NOTE 17—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. During fiscal 2012, the Company did not incur any restructuring related costs. At February 2, 2013, 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.

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### 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 fiscal 2012, the Company recorded income of \$0.4 million related to a change in estimate of liabilities related to closed stores. At February 2, 2013, the Company had remaining future liabilities existing under the lease agreements of \$0.3 million which consist of contract termination fees. The Company does not expect to incur additional costs associated with these retail store closures in future periods.

### NOTE 18—SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly financial data for fiscal 2012 and fiscal 2011 are set forth below (*in thousands, except share and per share amounts*):

Fiscal 2012	Three Months Ended			
	April 28, 2012	July 28, 2012	October 27, 2012	February 2, 2013
Net revenues	\$217,914	\$292,906	\$284,171	\$ 398,055
Gross profit	75,268	114,127	101,880	145,174
Net income (loss)	(3,728)	17,616	1,685	(28,362)
Weighted-average shares used in computing basic and diluted net income (loss) per share	1,000	1,000	1,000	35,692,064
Basic and diluted net income (loss) per share	\$ (3,728)	\$ 17,616	\$ 1,685	\$ (0.79)

Fiscal 2011	Three Months Ended			
	April 30, 2011	July 30, 2011	October 29, 2011	January 28, 2012
Net revenues	\$ 184,760	\$ 235,623	\$ 232,459	\$ 305,242
Gross profit	63,184	91,246	84,393	117,526
Net income (loss)	(6,218)	7,582	(4,830)	24,054
Weighted-average shares used in computing basic and diluted net income (loss) per share	100	100	674	1,000
Basic and diluted net income (loss) per share	\$ (62,180)	\$ 75,820	\$ (7,166)	\$ 24,054

The three months ended February 2, 2013 includes (i) a \$92.0 million non-cash compensation charge related to equity grants at the time of the Reorganization, (ii) a non-cash compensation charge of \$23.1 million related to the performance-based vesting of certain shares granted to Mr. Alberini and Mr. Friedman, (iii) costs incurred in connection with the initial public offering, including a fee of \$7.0 million to Catterton, Tower Three and Glenhill in accordance with the Company's management services agreement, payments of \$2.2 million to certain former executives and bonus payments to employees of \$1.3 million and (iv) \$3.3 million incurred as a result of increased tariff obligations of one of the Company's foreign suppliers following the U.S. Department of Commerce's review of the anti-dumping duty order on wooden bedroom furniture from China for the period from January 1, 2011 through December 31, 2011. In addition, as of the end of fiscal 2012, the Company's U.S. operations had returned to a position of cumulative profits (adjusted for permanent differences) for the most recent three-year period. The Company concluded that this record of cumulative profitability in recent years, coupled with its business plan for profitability in future periods, provided assurance that the Company's future tax benefits more likely than not would be realized. Accordingly, in the three months ended February 2, 2013, the Company released all of its U.S. valuation allowance of \$57.2 million against net deferred tax assets.



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The three months ended July 28, 2012 and October 27, 2012 include \$2.0 million and \$2.8 million, respectively, of legal and other professional fees incurred in connection with the investigation conducted by the special committee of the board of directors relating to Mr. Friedman and its subsequent remedial actions.

The three months ended October 29, 2011 includes a \$6.4 million compensation charge related to the repayment of loans owed to Home Holdings by Mr. Friedman, 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.

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Restoration Hardware Holdings, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows present fairly, in all material respects, the financial position of Restoration Hardware Holdings, Inc. and its subsidiaries at February 2, 2013 and January 28, 2012 and the results of their operations and their cash flows for each of the three years in the period ended February 2, 2013 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 25, 2013

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this annual report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of the end of the period covered by this annual report our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and include controls and procedures designed to ensure that the information required to be disclosed by us in such reports is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

***Exemption from Management's Report on Internal Control Over Financial Reporting for the Fiscal Year Ended February 2, 2013***

This annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

***Changes in Internal Control Over Financial Reporting***

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

**Item 9B. Other Information.**

None.

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item will be contained in our definitive Proxy Statement for the Annual Meeting of Shareholders (the “Proxy Statement”) and is incorporated herein by reference.

**Item 11. Executive Compensation**

The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions and Director Independence**

The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The information required by this item will be contained in our Proxy Statement and is incorporated herein by reference.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

**1. Consolidated Financial Statements**

The following financial statements are included in Part II, Item 8 of this Annual Report on Form 10-K:

- Consolidated Balance Sheets as of February 2, 2013 and January 28, 2012
- Consolidated Statements of Operations for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011
- Consolidated Statements of Comprehensive Income (Loss) for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011
- Consolidated Statements of Cash Flows for the fiscal years ended February 2, 2013, January 28, 2012 and January 29, 2011
- Notes to the Consolidated Financial Statements
- Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

**2. Financial Statement Schedules**

Separate financial statement schedules have been omitted either because they are not applicable or because the required information is included in the consolidated financial statements or notes described in Item 15(a)(1) above.

**3. Exhibits**

The Exhibits listed in the Index to Exhibits, which appears immediately following the signature page and is incorporated herein by reference, are filed or incorporated by reference as part of this Annual Report on Form 10-K.



**EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>Incorporated by Reference</b>		<b>Exhibit Number</b>	<b>Filed Herewith</b>
			<b>File Number</b>	<b>Date of First Filing</b>		
3.1	Certificate of Incorporation of Restoration Hardware Holdings, Inc.	—	—	—	—	X
3.2	Bylaws of Restoration Hardware Holdings, Inc.	—	—	—	—	X
4.1	Form of Restoration Hardware Holdings, Inc.'s Common Stock Certificate.	S-1/A	333-176767	October 23, 2012	4.1	
10.1	Form of Indemnification Agreement entered into by and between Restoration Hardware Holdings, Inc. and each of its directors.	S-1/A	333-176767	October 23, 2012	10.4	
10.2	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.	S-1	333-176767	June 26, 2012	10.5	

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<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Form</u>	<u>Incorporated by Reference</u>		<u>Exhibit Number</u>	<u>Filed Herewith</u>
			<u>File Number</u>	<u>Date of First Filing</u>		
10.3	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.	S-1	333-176767	June 26, 2012	10.6	
10.4	Stockholders Agreement dated as of November 7, 2012, by and between Restoration Hardware Holdings, Inc., and Home Holdings, LLC.	—	—	—	—	X
10.5	Registration Rights Agreement dated as of November 7, 2012, by and among Restoration Hardware Holdings, Inc., Home Holdings, LLC, CP Home Holdings, LLC, Tower Three Home, LLC, and the other parties thereto.	—	—	—	—	X
10.7	Advisory Services Agreement dated as of October 20, 2012, between Restoration Hardware, Inc. and Gary Friedman.	S-1	333-176767	October 31, 2012	10.18	



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<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Form</u>	<u>Incorporated by Reference</u>		<u>Exhibit Number</u>	<u>Filed Herewith</u>
			<u>File Number</u>	<u>Date of First Filing</u>		
10.8	Employment Agreement dated as of November 1, 2012 by and between Restoration Hardware, Inc. and Carlos Alberini.	—	—	—	—	X
10.9	Employment Agreement dated as of November 1, 2012, by and between Restoration Hardware, Inc. and Karen Boone.	—	—	—	—	X
10.10	Amended and Restated Offer Letter, between Restoration Hardware, Inc. and Ken Dunaj.	S-1	333-176767	October 23, 2012	10.3	
10.11	2012 Equity Replacement Plan and related documents.	S-8	333-184716	November 2, 2012	4.2	
10.12	2012 Stock Incentive Plan and related documents.	S-8	333-184716	November 2, 2012	4.3	
10.13	2012 Stock Option Plan and related documents.	S-8	333-184716	November 2, 2012	4.4	
21.1	Subsidiary List	S-1	333-176767	June 26, 2012	21.1	
23.1	Consent of PricewaterhouseCoopers LLP	—	—	—	—	X
24.1	Power of Attorney (included on signature page)	—	—	—	—	X

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Exhibit Number	Exhibit Description	Form	Incorporated by Reference		Exhibit Number	Filed Herewith
			File Number	Date of First Filing		
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	—	—	—	—	X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	—	—	—	—	X
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—	X
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	—	—	—	—	X
101.INS	XBRL Instance Document	—	—	—	—	X
101.SCH	XBRL Taxonomy Extension Schema Document	—	—	—	—	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	—	—	—	—	X
101.DEF	XBRL Extension Definition	—	—	—	—	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	—	—	—	—	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	—	—	—	—	X

**AMENDED AND RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
RESTORATION HARDWARE HOLDINGS, INC.**

**(originally incorporated on August 18, 2011)**

**ARTICLE 1**

The name of the corporation is Restoration Hardware Holdings, Inc. (the “**Corporation**”).

**ARTICLE 2**

The address of the Corporation’s registered office in the State of Delaware is 1209 Orange Street, in the City of Wilmington, 19801, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.

**ARTICLE 3**

The nature of the business of the Corporation and the objects or purposes to be transacted, promoted or carried on by it are as follows: To engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the “**DGCL**”).

**ARTICLE 4**

A. The total number of shares of all classes of stock that the Corporation is authorized to issue is One Hundred Ninety Million (190,000,000), consisting of: One Hundred Eighty Million (180,000,000) shares of Common Stock, with a par value of \$0.0001 per share (the “**Common Stock**”); and Ten Million (10,000,000) shares of Preferred Stock, with a par value of \$0.0001 per share (the “**Preferred Stock**”).

B. The Board of Directors of the Corporation (the “**Board of Directors**”) is authorized, subject to any limitations prescribed by law, to provide for the issuance of shares of Preferred Stock in one or more series, and by filing a certificate pursuant to the applicable law of the State of Delaware (such certificate being hereinafter referred to as a “**Preferred Stock Designation**”), to establish from time to time the number of shares to be included in each such series, and to fix the powers, designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, including, without limitation, the authority to fix or alter the dividend rights, dividend rates, conversion rights, exchange rights, voting rights, rights and terms of redemption (including sinking and purchase fund provisions), the redemption price or prices, the dissolution preferences and the rights in respect to any distribution of assets of any wholly unissued series of Preferred Stock and the number of shares constituting any such series, and the designation thereof, or any of them and to

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increase or decrease the number of shares of any series so created, subsequent to the issue of that series but not below the number of shares of such series then outstanding. In case the number of shares of any series shall be so decreased, the shares constituting such decrease shall resume the status which they had prior to the adoption of the resolution originally fixing the number of shares of such series. There shall be no limitation or restriction on any variation between any of the different series of Preferred Stock as to the designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions thereof; and the several series of Preferred Stock may vary in any and all respects as fixed and determined by the resolution or resolutions of the Board of Directors or by a committee of the Board of Directors, providing for the issuance of the various series.

C. The number of authorized shares of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of all of the outstanding shares of stock of the Corporation entitled to vote thereon, without a separate vote of the holders of the Common Stock or the Preferred Stock, or of any series thereof, unless a separate vote of any such holders is required pursuant to the terms of any Preferred Stock Designation, irrespective of the provisions of Section 242(b)(2) of the General Corporation Law of the State of Delaware.

D. Except as otherwise required by law, or as otherwise fixed by resolution or resolutions of the Board of Directors with respect to one or more series of Preferred Stock each stockholder of the Corporation who at the time possesses voting power for any purpose shall be entitled, on all matters on which stockholders are generally entitled to vote, to one (1) vote for each share of such stock standing in his name on the books of the Corporation; provided, however, that, except as otherwise required by law, holders of the Common Stock shall not be entitled to vote on any amendment to this Amended and Restated Certificate of Incorporation (including any Preferred Stock Designation relating to any series of Preferred Stock) that relates solely to the terms of one or more outstanding series of Preferred Stock if the holders of such affected series are entitled, either separately or together as a class with the holders of one or more other such series, to vote thereon pursuant to this Amended and Restated Certificate of Incorporation (including any Preferred Stock Designation relating to any series of Preferred Stock).

E. Subject to the rights, if any, of the holders of any outstanding series of Preferred Stock, the holders of shares of Common Stock shall be entitled to receive dividends out of any funds of the Corporation legally available therefor when, as and if declared by the Board of Directors.

F. Upon the dissolution, liquidation or winding up of the Corporation, subject to the rights, if any, of the holders of any outstanding series of Preferred Stock, the holders of shares of Common Stock shall be entitled to receive the assets of the Corporation available for distribution to its stockholders ratably in proportion to the number of shares held by them.

#### **ARTICLE 5**

A. The Board of Directors is expressly authorized to adopt, amend and repeal the Bylaws of the Corporation.

B. The stockholders are expressly authorized to adopt, amend and repeal the Bylaws of the Corporation, (i) prior to the Trigger Date, by the affirmative vote of the holders of more than fifty percent (50%) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote thereon and (ii) from and after the Trigger Date, by the affirmative vote of the holders of at least seventy percent (70%) of the voting power of all of the outstanding shares of capital stock of the Corporation entitled to vote thereon. For purposes of this Certificate of Incorporation, the “**Trigger Date**” means the date on which Home Holdings, LLC, CP Home Holdings, LLC, Tower Three Home, LLC, any investment fund managed by Catterton Management Company, LLC, Tower Three Partners, LLC, or Glenhill Capital, or Affiliates or Associates of any investment fund managed by Catterton Management Company, LLC, Tower Three Partners, LLC, or Glenhill Capital, and their respective successors and Affiliates (collectively, the “**Principal Equity Holders**”) cease collectively to beneficially own (directly or indirectly) a majority of the voting power of the outstanding shares of capital stock. For purposes of this Article 5, “**Affiliate**” and “**Associate**” have the meanings set forth in Article 12.

#### ARTICLE 6

A. Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

B. Subject to the rights of the holders of any series of Preferred Stock to elect additional directors under specified circumstances, the number of directors which shall constitute the Board of Directors shall be fixed exclusively by resolutions adopted by a majority of the Whole Board. For purposes of this Amended and Restated Certificate of Incorporation, the term “**Whole Board**” shall mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorships. To the fullest extent permitted by Delaware law, until the Trigger Date, Home Holdings, LLC shall have the right to nominate to the Board of Directors a majority of the members of the Board of Directors. To the fullest extent permitted by Delaware law, from the Trigger Date until the date on which the Principal Equity Holders cease collectively to beneficially own (directly or indirectly) at least thirty percent (30%) of the voting power of all of the outstanding shares of capital stock of the Corporation, Home Holdings, LLC shall have the right to nominate to the Board of Directors two members of the Board of Directors. To the fullest extent permitted by Delaware law, at any time at which Home Holdings, LLC has nominated less than the total number of designees to the Board of Directors that Home Holdings, LLC is then entitled to nominate, Home Holdings, LLC shall have the right to nominate such additional number of designees to the Board of Directors to which it is entitled, in accordance with the following procedure: (i) the CP Designee and T3 Designee (as such terms are defined in Article 6.F) shall jointly deliver to the Board of Directors a notice (the “**Designation Notice**”) invoking such nomination privileges as afforded pursuant to this Article 6.B and setting forth such number of names of the designees (“**Additional Designees**”) to be nominated to the Board of Directors as are authorized by the terms of the Article 6.B and (ii) the Board of Directors shall automatically increase the size of the Board of Directors by such number of directors as is required to enable the Additional Designees to be elected to the Board of Directors and such vacancy or vacancies, or newly-created directorships, as applicable, shall be filled exclusively with the Additional Designees as set forth in the Designation Notice.

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C. Except as otherwise required by law and subject to the (i) rights of the holders of any series of Preferred Stock then outstanding, and (ii) the rights of Home Holdings, LLC pursuant to paragraph B of Article 6 of this Amended and Restated Certificate of Incorporation, unless the Board of Directors otherwise determines, newly created directorships resulting from any increase in the authorized number of directors or any vacancies on the Board of Directors resulting from the death, resignation, retirement, disqualification, removal from office or other cause shall be filled only by a majority vote of the directors then in office, though less than a quorum, or by a sole remaining director, and not by the stockholders.

D. Subject to the rights of the holders of any series of Preferred Stock then outstanding, any director, or the entire Board of Directors, may be removed from office only for cause, at a meeting called for that purpose, by the affirmative vote of the holders of at least sixty-six and two-thirds percent ( $66\frac{2}{3}\%$ ) of the voting power of all outstanding shares of capital stock entitled to vote at an election of directors, voting together as a single class. Notwithstanding the foregoing, until the Trigger Date, directors may be removed, with or without cause, by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock entitled to vote thereon.

E. Subject to the special rights of the holders of any class or series of stock to elect directors, the Board of Directors shall be divided into three classes, designated Class I, Class II and Class III. The initial Class I Directors shall serve for a term expiring at the first annual meeting of stockholders of the Corporation following the effective time of this Amended and Restated Certificate of Incorporation; the initial Class II Directors shall serve for a term expiring at the second annual meeting of stockholders following the effective time of this Amended and Restated Certificate of Incorporation; and the initial Class III Directors shall serve for a term expiring at the third annual meeting of stockholders following the effective time of this Amended and Restated Certificate of Incorporation. Each director in each class shall hold office until his or her successor is duly elected and qualified. At each annual meeting of stockholders beginning with the first annual meeting of stockholders following the effective time of this Amended and Restated Certificate of Incorporation, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the third annual meeting of stockholders following their election, with each director in each such class to hold office until his or her successor is duly elected and qualified. The Board is authorized to assign members of the Board already in office to Class I, Class II or Class III at the effective time of the Amended and Restated Certificate of Incorporation.

F. To the fullest extent permitted by Delaware law, notwithstanding anything herein to the contrary, from October 31, 2012 until the Trigger Date, no action may be taken or vote approved by the 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, LLC as not being subject to this provision) without the affirmative vote of one director nominated by Home Holdings, LLC and designated by Home Holdings, LLC as the “**CP Designee**” and one director nominated by Home Holdings, LLC and designated by Home Holdings, LLC as the “**T3 Designee**.”

G. The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors. In addition to the powers and authority expressly conferred

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upon them by statute or by this Amended and Restated Certificate of Incorporation or the Bylaws of the Corporation, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation.

H. A majority of the Whole Board shall constitute a quorum for all purposes at any meeting of the board of directors, and, except as otherwise expressly required by law or by this Amended and Restated Certificate of Incorporation, all matters shall be determined by the affirmative vote of a majority of the directors present at any meeting at which a quorum is present.

#### **ARTICLE 7**

The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Amended and Restated Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation; provided, however, that, notwithstanding any other provision of this Amended and Restated Certificate of Incorporation or any provision of law that might otherwise permit a lesser vote or no vote, but in addition to any vote of the holders of any class or series of the stock of this Corporation required by law or by this Amended and Restated Certificate of Incorporation, (i) prior to the Trigger Date, the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock entitled to vote thereon and (ii) from and after the Trigger Date, the affirmative vote of the holders of at least sixty-six and two-thirds percent ( $66\frac{2}{3}\%$ ) of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote thereon, voting together as a single class, shall be required to amend or repeal, or adopt any provision of this Amended and Restated Certificate of Incorporation inconsistent with, Article 5, Article 6, this Article 7, Article 8, Article 9 or Article 12 of this Amended and Restated Certificate of Incorporation, and (iii) at any time after the Trigger Date, if any Person is an Interested Stockholder and has been an Interested Stockholder for less than three years, the affirmative vote of the holders of at least sixty-six and two-thirds percent ( $66\frac{2}{3}\%$ ) of the outstanding voting power which is not owned by such stockholder shall be required to amend, repeal, or adopt any provisions inconsistent with Article 12. If any provision or provisions of this Amended and Restated Certificate of Incorporation shall be held to be invalid, illegal or unenforceable as applied to any person or entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of this Amended and Restated Certificate of Incorporation (including, without limitation, each portion of any sentence of this Amended and Restated Certificate of Incorporation containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) and the application of such provision to other persons or entities and circumstances shall not in any way be affected or impaired thereby.

#### **ARTICLE 8**

To the fullest extent permitted by Delaware law, no director of this Corporation shall be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director. No amendment to, or modification or repeal of, this Article 8 shall adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to such amendment, modification or repeal.

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#### ARTICLE 9

Except as otherwise required by law or any resolution or resolutions of the Board of Directors providing for the issuance of any series of Preferred Stock, from and after the Trigger Date, no action shall be taken by the stockholders except at an annual or special meeting of stockholders called in accordance with this Amended and Restated Certificate of Incorporation and the Bylaws of the Corporation, and no action shall be taken by the stockholders by written consent. Except as otherwise required by law or any resolution or resolutions of the Board of Directors providing for the issuance of any series of Preferred Stock, prior to the Trigger Date, any action required or permitted to be taken by stockholders may be effected by consent in writing 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 entitled to vote thereon were present and voted. Except as otherwise required by law, special meetings of the stockholders of the Corporation may be called only by (i) the affirmative vote of a majority of the Whole Board; and (ii) prior to the Trigger Date, the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock.

#### ARTICLE 10

A. The provisions of this Article 10 are set forth to define, to the extent permitted by applicable law, the duties of Exempted Persons (as defined below) to the Corporation with respect to certain classes or categories of business opportunities. “**Exempted Persons**” means the Principal Equity Holders, members of the Board of Directors designated by Home Holdings, LLC, and managers, officers, directors, members, partners, Affiliates and any related investment funds or portfolio companies of Affiliates of the Principal Equity Holders. “**Affiliate**” and “**Person**” for purposes of this Article 10 shall have the meanings set forth in Article 12.

B. To the fullest extent permitted by applicable law, the Corporation renounces any interest or expectancy of the Corporation in, or in being offered an opportunity to participate in, business opportunities that are from time to time presented to the Exempted Persons, unless such business opportunity is presented to, or acquired, created or developed by, or otherwise comes into the possession of, an Exempted Person expressly and solely in such Exempted Person’s capacity as a director of the Corporation, even if the opportunity is one that the Corporation might reasonably be deemed to have pursued or had the ability or desire to pursue if granted the opportunity to do so, and, to the fullest extent permitted by law, each such Exempted Person shall have no duty to communicate or offer such business opportunity to the Corporation and, to the fullest extent permitted by applicable law, shall not be liable to the Corporation for breach of any fiduciary or other duty, as a director or officer or otherwise, by reason of the fact that such Exempted Person pursues or acquires such business opportunity, directs such business opportunity to another person or fails to present such business opportunity, or information regarding such business opportunity, to the Corporation.



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C. To the fullest extent permitted by law, any Person purchasing or otherwise acquiring any interest in any shares of capital stock of the Corporation shall be deemed to have notice of and to have consented to the provisions of Article 8 and this Article 10.

#### ARTICLE 11

Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery in the State of Delaware shall be the sole and exclusive forum for any stockholder (including a beneficial owner) to bring (i) any derivative action or proceeding brought on behalf of the Corporation, (ii) any action asserting a claim of breach of fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation's stockholders, (iii) any action asserting a claim against the Corporation, its directors, officers or employees arising pursuant to any provision of the Delaware General Corporation Law or the Corporation's certificate of incorporation or bylaws or (iv) any action asserting a claim against the Corporation, its directors, officers or employees governed by the internal affairs doctrine, except for, as to each of (i) through (iv) above, any claim as to which the Court of Chancery determines that there is an indispensable party not subject to the jurisdiction of the Court of Chancery (and the indispensable party does not consent to the personal jurisdiction of the Court of Chancery within ten days following such determination), which is vested in the exclusive jurisdiction of a court or forum other than the Court of Chancery, or for which the Court of Chancery does not have subject matter jurisdiction.

#### ARTICLE 12

A. The Corporation expressly elects not to be governed by Section 203 of the DGCL.

B. Notwithstanding any other provision in this Amended and Restated Certificate of Incorporation to the contrary, the Corporation shall not engage in any Business Combination (as defined hereinafter) with any Interested Stockholder (as defined hereinafter) for a period of three years following the time that such stockholder became an Interested Stockholder, unless:

(a) prior to such time the Board of Directors approved either the Business Combination or the transaction which resulted in such stockholder becoming an Interested Stockholder;

(b) upon consummation of the transaction which resulted in such stockholder becoming an Interested Stockholder, such stockholder owned at least eighty-five percent (85%) of the Voting Stock (as defined hereinafter) of the Corporation outstanding at the time the transaction commenced, excluding for purposes of determining the Voting Stock outstanding (but not the outstanding Voting Stock owned by such stockholder) those shares owned (i) by Persons (as defined hereinafter) who are directors and also officers of the Corporation and (ii) employee stock plans of the Corporation in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

(c) at or subsequent to such time the Business Combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least 66<sup>2</sup>/<sub>3</sub>% of the outstanding Voting Stock which is not owned by such stockholder.

C. The restrictions contained in this Article 12 shall not apply if:

(a) a stockholder becomes an Interested Stockholder inadvertently and (i) as soon as practicable divests itself of ownership of sufficient shares so that the stockholder ceases to be an Interested Stockholder; and (ii) would not, at any time within the three-year period immediately prior to a Business Combination between the Corporation and such stockholder, have been an Interested Stockholder but for the inadvertent acquisition of ownership; or

(b) the Business Combination is proposed prior to the consummation or abandonment of and subsequent to the earlier of the public announcement or the notice required hereunder of a proposed transaction which (i) constitutes one of the transactions described in the second sentence of this subparagraph C.(b) of Article 12; (ii) is with or by a Person who either was not an Interested Stockholder during the previous three years or who became an Interested Stockholder with the approval of the Board of Directors; and (iii) is approved or not opposed by a majority of the directors then in office (but not less than one) who were directors prior to any Person becoming an Interested Stockholder during the previous three years or were recommended for election or elected to succeed such directors by a majority of such directors. The proposed transactions referred to in the preceding sentence are limited to (x) a merger or consolidation of the Corporation (except for a merger in respect of which, pursuant to Section 251(f) of the DGCL, no vote of the stockholders of the Corporation is required); (y) a sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), whether as part of a dissolution or otherwise, of assets of the Corporation or of any direct or indirect majority-owned subsidiary of the Corporation (other than to any direct or indirect wholly-owned subsidiary or to the Corporation) having an aggregate market value equal to fifty percent (50%) or more of either that aggregate market value of all of the assets of the Corporation determined on a consolidated basis or the aggregate market value of all the outstanding Stock (as defined hereinafter) of the Corporation; or (z) a proposed tender or exchange offer for fifty percent (50%) or more of the outstanding Voting Stock of the Corporation. The Corporation shall give not less than 20 days' notice to all Interested Stockholders prior to the consummation of any of the transactions described in clause (x) or (y) of the second sentence of this subparagraph C.(b) of Article 12.

D. As used in this Article 12 only, and unless otherwise provided by the express terms of this Article 12, the following terms shall have the meanings ascribed to them as set forth in this paragraph D:

(a) “**Affiliate**” means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another Person;

(b) “**Associate**”, when used to indicate a relationship with any Person, means: (i) any corporation, partnership, unincorporated association or other entity of which such Person is a director, officer or partner or is, directly or indirectly, the owner of twenty percent (20%) or more of any class of Voting Stock; (ii) any trust or other estate in which such Person has at least a twenty percent (20%) beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (iii) any relative or spouse of such Person, or any relative of such spouse, who has the same residence as such Person;

(c) “**Business Combination**” means:

(i) any merger or consolidation of the Corporation or any direct or indirect majority-owned subsidiary of the Corporation with (A) the Interested Stockholder, or (B) with any Person if the merger or consolidation is caused by the Interested Stockholder and as a result of such merger or consolidation paragraph B of this Article 12 is not applicable to the surviving entity;

(ii) any sale, lease, exchange, mortgage, pledge, transfer or other disposition (in one transaction or a series of transactions), except proportionately as a stockholder of the Corporation, to or with the Interested Stockholder, whether as part of a dissolution or otherwise, of assets of the Corporation or of any direct or indirect majority-owned subsidiary of the Corporation which assets have an aggregate market value equal to ten percent (10%) or more of either the aggregate market value of all the assets of the Corporation determined on a consolidated basis or the aggregate market value of all the outstanding Stock of the Corporation;

(iii) any transaction which results in the issuance or transfer by the Corporation or by any direct or indirect majority-owned subsidiary of the Corporation of any Stock of the Corporation or of such subsidiary to the Interested Stockholder, except: (A) pursuant to the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into Stock of the Corporation or any such subsidiary which securities were outstanding prior to the time that the Interested Stockholder became such; (B) pursuant to a merger under Section 251(g) or 253 of the DGCL; (C) pursuant to a dividend or distribution paid or made, or the exercise, exchange or conversion of securities exercisable for, exchangeable for or convertible into Stock of the Corporation or any such subsidiary which security is distributed, pro rata to all holders of a class or series of Stock of the Corporation subsequent to the time the Interested Stockholder became such; (D) pursuant to an exchange offer by the Corporation to purchase

Stock made on the same terms to all holders of such Stock; or (E) any issuance or transfer of Stock by the Corporation; provided however, that in no case under items (C) through (E) of this subparagraph D.(c)(iii) of Article 12 shall there be an increase in the Interested Stockholder's proportionate share of the Stock of any class or series of the Corporation or of the Voting Stock of the Corporation;

(iv) any transaction involving the Corporation or any direct or indirect majority-owned subsidiary of the Corporation which has the effect, directly or indirectly, of increasing the proportionate share of the Stock of any class or series, or securities convertible into the Stock of any class or series, of the Corporation or of any such subsidiary which is owned by the Interested Stockholder, except as a result of immaterial changes due to fractional share adjustments or as a result of any purchase or redemption of any shares of Stock not caused, directly or indirectly, by the Interested Stockholder; or

(v) any receipt by the Interested Stockholder of the benefit, directly or indirectly (except proportionately as a stockholder of the Corporation), of any loans, advances, guarantees, pledges or other financial benefits (other than those expressly permitted in subparagraphs D.(c)(i) through (iv) of Article 12) provided by or through the Corporation or any direct or indirect majority-owned subsidiary of the Corporation;

(d) "**Control**," including the terms "**controlling**," "**controlled by**" and "**under common control with**," means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of stock or other equity interests, by contract or otherwise. A Person who is the owner of twenty percent (20%) or more of the outstanding Voting Stock of any corporation, partnership, unincorporated association or other entity shall be presumed to have control of such entity, in the absence of proof by a preponderance of the evidence to the contrary; notwithstanding the foregoing, a presumption of control shall not apply where such Person holds Voting Stock, in good faith and not for the purpose of circumventing this Article 12, as an agent, bank, broker, nominee, custodian or trustee for one or more owners who do not individually or as a group have control of such entity;

(e) "**Interested Stockholder**" means any Person (other than the Corporation and any direct or indirect majority-owned subsidiary of the Corporation) that (i) is the owner of fifteen percent (15%) or more of the outstanding Voting Stock of the Corporation, or (ii) is an Affiliate or Associate of the Corporation and was the owner of fifteen percent (15%) or more of the outstanding Voting Stock of the Corporation at any time within the three-year period immediately prior to the date on which it is sought to be determined whether such Person is an Interested Stockholder, and the Affiliates and Associates of such Person. Notwithstanding

anything in this Article 12 to the contrary, the term “**Interested Stockholder**” shall not include: (w) the Principal Equity Holders; (x) any Person who would otherwise be an Interested Stockholder because of a transfer, sale, assignment, conveyance, hypothecation, encumbrance, or other disposition of five percent (5%) or more of the outstanding Voting Stock of the Corporation (in one transaction or a series of transactions) by any party specified in the immediately preceding clause (w) to such Person; *provided, however*, that such Person was not an Interested Stockholder prior to such transfer, sale, assignment, conveyance, hypothecation, encumbrance, or other disposition; or (y) any Person whose ownership of shares in excess of the fifteen percent (15%) limitation set forth herein is the result of action taken solely by the Corporation, provided that, for purposes of this clause (z), such Person shall be an Interested Stockholder if thereafter such Person acquires additional shares of Voting Stock of the Corporation, except as a result of further action by the Corporation not caused, directly or indirectly, by such Person;

(f) “**Owner**,” including the terms “**own**” and “**owned**,” when used with respect to any Stock, means a Person that individually or with or through any of its affiliates or associates beneficially owns such Stock, directly or indirectly; or has (A) the right to acquire such Stock (whether such right is exercisable immediately or only after the passage of time) pursuant to any agreement, arrangement or understanding, or upon the exercise of conversion rights, exchange rights, warrants or options, or otherwise; provided, however, that a Person shall not be deemed the owner of Stock tendered pursuant to a tender or exchange offer made by such Person or any of such Person’s Affiliates or Associates until such tendered Stock is accepted for purchase or exchange; or (B) the right to vote such Stock pursuant to any agreement, arrangement or understanding; provided, however, that a Person shall not be deemed the owner of any Stock because of such Person’s right to vote such Stock if the agreement, arrangement or understanding to vote such Stock arises solely from a revocable proxy or consent given in response to a proxy or consent solicitation made to 10 or more Persons; or has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent as described in (B) of this paragraph D.(f) of Article 12), or disposing of such Stock with any other Person that beneficially owns, or whose affiliates or associates beneficially own, directly or indirectly, such Stock; *provided*, that, for the purpose of determining whether a Person is an Interested Stockholder, the Voting Stock of the Corporation deemed to be outstanding shall include Stock deemed to be owned by the Person through application of this definition of “**owned**” but shall not include any other unissued Stock of the Corporation which may be issuable pursuant to any agreement, arrangement or understanding, or upon exercise of conversion rights, warrants or options, or otherwise;

(g) “**Person**” means any individual, corporation, partnership, unincorporated association or other entity;

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(h) “**Stock**” means, with respect to any corporation, capital stock and, with respect to any other entity, any equity interest; and

(i) “**Voting Stock**” means, with respect to any corporation, Stock of any class or series entitled to vote generally in the election of directors and, with respect to any entity that is not a corporation, any equity interest entitled to vote generally in the election of the governing body of such entity. Every reference to a percentage of Voting Stock shall refer to such percentage of the votes of such Voting Stock.

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IN WITNESS WHEREOF, the Corporation has caused this Amended and Restated Certificate of Incorporation, which restates and integrates and further amends the provisions of the Amended and Restated Certificate of Incorporation of the Corporation, and which has been duly adopted in accordance with Sections 242 and 245 of the Delaware General Corporation Law, to be signed by Carlos Alberini, its Chief Executive Officer, on this 1<sup>st</sup> day of November, 2012.

**RESTORATION HARDWARE HOLDINGS, INC.**

By: /s/ Carlos Alberini

Name: Carlos Alberini

Title: Chief Executive Officer

**AMENDED AND RESTATED  
BYLAWS  
OF  
RESTORATION HARDWARE HOLDINGS, INC.  
a Delaware corporation**



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**AMENDED AND RESTATED BYLAWS**  
**OF**  
**RESTORATION HARDWARE HOLDINGS, INC.**

**ARTICLE 1**  
**OFFICES**

**Section 1.1 Registered Office.**

The registered office of Restoration Hardware Holdings, Inc. (the "**Corporation**") in the State of Delaware shall be set forth in the Certificate of Incorporation of the Corporation.

**Section 1.2 Other Offices.**

The Corporation may also have offices at such other places, either within or without the State of Delaware, as the Board of Directors of the Corporation (the "**Board of Directors**") may from time to time determine or the business of the Corporation may require.

**ARTICLE 2**  
**STOCKHOLDERS' MEETINGS**

**Section 2.1 Place of Meetings.**

Meetings of the stockholders of the Corporation shall be held at such place, either within or without the State of Delaware, or at no place and solely by means of remote communications, as may be designated by or in the manner provided in these Bylaws, or, if not so designated, as determined from time to time by the Board of Directors.

**Section 2.2 Annual Meetings.**

The annual meetings of the stockholders of the Corporation, for the purpose of election of directors and for such other business as may lawfully come before it, shall be held on such date and at such time as may be designated from time to time by the Board of Directors.

**Section 2.3 Special Meetings.**

Special meetings of the stockholders of the Corporation may only be called in the manner provided in the Corporation's Certificate of Incorporation as then in effect (the "**Certificate of Incorporation**"). Only such business shall be brought before a special meeting of stockholders as shall have been specified in the notice of such meeting.

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**Section 2.4 Notice of Meetings.**

(a) Except as otherwise required by law or the Certificate of Incorporation, written notice of each meeting of stockholders, specifying the place, if any, date and hour and purpose or purposes of the meeting, and the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such meeting, and the record date for determining the stockholders entitled to vote at the meeting (if such date is different from the record date for determining stockholders entitled to notice of the meeting), shall be given not less than 10 nor more than 60 days before the date of such meeting to each stockholder entitled to vote thereat, directed to the address of such stockholder as it appears upon the books of the Corporation. If the Board of Directors fixes a date for determining the stockholders entitled to notice of a meeting of stockholders, such date shall also be the record date for determining the stockholders entitled to vote at such meeting, unless the Board of Directors determines, at the time it fixes such record date, that a later date on or before the date of the meeting shall be the date for making such determination.

(b) When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time, place, if any, thereof, and the means of remote communication, if any, by which stockholders and proxyholders may be deemed to be present in person and vote at such adjourned meeting, are announced at the meeting at which the adjournment is taken. If the adjournment is for more than 30 days, notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting. If after the adjournment a new record date is fixed for the adjourned meeting, the Board of Directors shall fix a new record date for notice of such adjourned meeting, and in such case shall give notice of the adjourned meeting to each stockholder of record entitled to vote at such adjourned meeting as of the record date fixed for notice of such adjourned meeting.

(c) Notice of the time, place and purpose of any meeting of stockholders may be waived in writing or by electronic transmission, either before or after such meeting, and, to the extent permitted by law, will be waived by any stockholder by his attendance thereat, in person or by proxy except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of business because the meeting is not lawfully called or convened.

(d) Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the Corporation under any provision of the Delaware General Corporation Law, as amended (“**DGCL**”), the Certificate of Incorporation, or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the Corporation. Any such consent shall be deemed revoked if (i) the Corporation is unable to deliver by electronic transmission two consecutive notices given by the Corporation in accordance with such consent, and (ii) such inability becomes known to the Secretary or an Assistant Secretary of the Corporation or to the transfer agent or other person responsible for the giving of notice; provided, however, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action. Notice given pursuant to this subsection (e) shall be deemed given: (1) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (2) if by electronic

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mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (3) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (4) if by any other form of electronic transmission, when directed to the stockholder. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the Corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein. For purposes of these Bylaws, “**electronic transmission**” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

**Section 2.5 Quorum and Voting.**

(a) At all meetings of stockholders except where otherwise required by law, the Certificate of Incorporation or these Bylaws, the presence, in person or by proxy duly authorized, of the holders of a majority of the voting power of all the shares of stock entitled to vote shall constitute a quorum for the transaction of business. Where a separate vote by a class or classes or series is required, a majority of the voting power of the shares of such class or classes or series present in person or represented by proxy shall constitute a quorum entitled to take action with respect to that vote on that matter. In the absence of a quorum, any meeting of stockholders may be adjourned, from time to time, by vote of the holders of a majority of the voting power represented thereat or by the chairman of the meeting, but no other business shall be transacted at such meeting. At such adjourned meeting at which a quorum is present or represented, any business may be transacted which might have been transacted at the original meeting. To the fullest extent permitted by law, the stockholders present at a duly called or convened meeting at which a quorum is present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

(b) Except as otherwise required by law, the Certificate of Incorporation or these Bylaws, and except as otherwise required by the rules of any stock exchange upon which the Corporation’s securities are listed, all matters other than the election of directors shall be decided by a majority of the votes cast on such matter affirmatively or negatively. For purposes of these Bylaws, a share present at a meeting, but for which there is an abstention or broker non-vote on a particular matter shall be counted as present for the purpose of establishing a quorum but shall not be counted as a vote cast on the matter in question.

**Section 2.6 Voting Rights.**

(a) Except as otherwise required by law, only persons in whose names shares entitled to vote stand on the stock records of the Corporation on the record date for determining the stockholders entitled to vote at said meeting shall be entitled to vote at such meeting.

(b) Every person entitled to vote or to execute consents shall have the right to do so either in person or by proxy, which proxy shall be filed with the Secretary of the Corporation at or before the meeting at which it is to be used. Said proxy so appointed need not be a stockholder. No proxy shall be voted on after three (3) years from its date unless the proxy

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provides for a longer period. Unless and until voted, every proxy shall be revocable unless it states that it is irrevocable and is coupled with an interest sufficient at law to support an irrevocable power.

(c) Without limiting the manner in which a stockholder may authorize another person or persons to act for him as proxy pursuant to subsection (b) of this section, the following shall constitute a valid means by which a stockholder may grant such authority:

(1) A stockholder may execute a writing authorizing another person or persons to act for him as proxy. Execution may be accomplished by the stockholder or his authorized officer, director, employee or agent signing such writing or causing his or her signature to be affixed to such writing by any reasonable means including, but not limited to, by facsimile signature.

(2) A stockholder may authorize another person or persons to act for him as proxy by transmitting or authorizing the transmission of an electronic transmission to the person who will be the holder of the proxy or to a proxy solicitation firm, proxy support service organization or like agent duly authorized by the person who will be the holder of the proxy to receive such transmission, provided that any such transmission must either set forth or be submitted with information from which it can be determined that the transmission was authorized by the stockholder. Such authorization can be established by the signature of the stockholder on the proxy, either in writing or by a signature stamp or facsimile signature, or by a number or symbol from which the identity of the stockholder can be determined, or by any other procedure deemed appropriate by the inspectors or other persons making the determination as to due authorization.

(d) Any copy, facsimile telecommunication or other reliable reproduction of the writing or transmission created pursuant to subsection (c) of this section may be substituted or used in lieu of the original writing or transmission for any and all purposes for which the original writing or transmission could be used, provided that such copy, facsimile telecommunication or other reproduction shall be a complete reproduction of the entire original writing or transmission.

#### **Section 2.7 Voting Procedures and Inspectors of Elections.**

(a) The Corporation may, and shall if required by law, in advance of any meeting of stockholders, appoint one or more inspectors to act at the meeting and make a written report thereof. The Corporation may designate one or more persons as alternate inspectors to replace any inspector who fails to act. If no inspector or alternate is able to act at a meeting of stockholders, the person presiding at the meeting shall appoint one or more inspectors to act at the meeting. Each inspector, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of his ability.

(b) The inspectors shall (i) ascertain the number of shares outstanding and the voting power of each, (ii) determine the shares represented at a meeting and the validity of proxies and ballots, (iii) count all votes and ballots, (iv) determine and retain for a reasonable period a record of the disposition of any challenges made to any determination by the inspectors, and (v) certify

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their determination of the number of shares represented at the meeting and their count of all votes and ballots. The inspectors may appoint or retain other persons or entities to assist the inspectors in the performance of the duties of the inspectors.

(c) The date and time of the opening and the closing of the polls for each matter upon which the stockholders will vote at a meeting shall be announced at the meeting. No ballot, proxies or votes, nor any revocations thereof or changes thereto, shall be accepted by the inspectors after the closing of the polls unless the Court of Chancery shall determine otherwise upon application by a stockholder.

(d) In determining the validity and counting of proxies and ballots, the inspectors shall be limited to an examination of the proxies, any envelopes submitted with those proxies, any information provided in accordance with Section 211(e) or 212(c)(2) of the DGCL, or any information provided pursuant to Section 211(a)(2)(B)(i) or (iii) thereof, ballots and the regular books and records of the Corporation, except that the inspectors may consider other reliable information for the limited purpose of reconciling proxies and ballots submitted by or on behalf of banks, brokers, their nominees or similar persons which represent more votes than the holder of a proxy is authorized by the record owner to cast or more votes than the stockholder holds of record. If the inspectors consider other reliable information for the limited purpose permitted herein, the inspectors at the time they make their certification pursuant to subsection (b)(v) of this section shall specify the precise information considered by them including the person or persons from whom they obtained the information, when the information was obtained, the means by which the information was obtained and the basis for the inspectors' belief that such information is accurate and reliable.

#### **Section 2.8 List of Stockholders.**

The officer who has charge of the stock ledger of the Corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting (or, if the record date for determining the stockholders entitled to vote is less than 10 days before the meeting date, the list shall reflect the stockholders entitled to vote on the tenth day before the meeting date), arranged in alphabetical order, showing the address of and the number of shares registered in the name of each stockholder. The Corporation need not include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours at the principal place of business of the Corporation. In the event that the Corporation determines to make the list available on an electronic network, the Corporation may take reasonable steps to ensure that such information is available only to stockholders of the Corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

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### Section 2.9 Stockholder Proposals at Annual Meetings.

At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business (other than nominations of directors made pursuant to Section 2.10) must be brought before the meeting (i) by or at the direction of the Board of Directors, or (ii) by a stockholder of record of the Corporation (a "**Record Stockholder**") at the time of the giving of the notice required in the following paragraph, who is entitled to vote and the meeting and who complies with this Section 2.9. The foregoing clause (ii) shall be the exclusive means for a stockholder to propose business (other than business included in the Corporation's proxy materials pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")) at an annual meeting of stockholders.

In addition to any other applicable requirements for business to be properly brought before an annual meeting by a Record Stockholder, (a) the Record Stockholder must have given timely notice thereof in writing to the Secretary of the Corporation (b) any such business must be a proper matter for stockholder action under Delaware law and (c) the Record Stockholder and the beneficial owner, if any, on whose behalf any such proposal is made, must have acted in accordance with the representations set forth in the Business Solicitation Statement required by these Bylaws. To be timely, a Record Stockholder's notice must be delivered to the Secretary at the Corporation's principal executive offices not less than 90 days or more than 120 days prior to the first anniversary of the date on which the Corporation first mailed its proxy materials (or, in the absence of proxy materials, its notice of meeting) for the previous year's annual meeting of stockholders. However, if the Corporation did not hold an annual meeting the previous year, or if the date of the annual meeting is advanced more than 30 days prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, then to be timely, notice by the stockholder must be delivered to the Secretary at the Corporation's principal executive offices not later than the close of business on the later of (i) the 90<sup>th</sup> day prior to such annual meeting or (ii) the 10<sup>th</sup> day following the day on which public announcement of the date of such meeting is first made. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described above. Other than with respect to stockholder proposals relating to director nomination(s), which requirements are set forth in Section 2.10 below, a stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the Record Stockholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class, series, and number of shares of the Corporation which are owned, directly or indirectly, beneficially and of record by the Record Stockholder, (iv) any material interest of the Record Stockholder in such business and the beneficial owner, if any, on whose behalf the proposal is made, (v) as to the stockholder giving the notice and any Stockholder Associated Person (as defined below) or any member of such stockholder's immediate family sharing the same household, whether and the extent to which any hedging or other transaction or series of transactions has been entered into by or on behalf of, or any other agreement, arrangement or understanding (including, but not limited to, any short position or any borrowing or lending of shares of stock) has been made, the effect or intent of which is to mitigate loss or increase profit or to manage the risk or benefit of stock price changes for, or to



increase or decrease the voting power of, such stockholder, such Stockholder Associated Person or family member with respect to any share of stock of the Corporation (each, a **"Relevant Hedge Transaction"**), (vi) as to the stockholder giving the notice and any Stockholder Associated Person or any member of such stockholder's immediate family sharing the same household, to the extent not set forth pursuant to the immediately preceding clause, (a) whether and the extent to which such stockholder, Stockholder Associated Person or family member has direct or indirect beneficial ownership of any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Corporation, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Corporation or otherwise, or any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Corporation (a **"Derivative Instrument"**), (b) any proxy, contract, arrangement, understanding, or relationship pursuant to which either party has a right to vote, directly or indirectly, any shares of any security of the Corporation, (c) any rights to dividends on the shares of the Corporation owned beneficially by such stockholder, Stockholder Associated Person or family member that are separated or separable from the underlying shares of the Corporation, (d) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such stockholder, Stockholder Associated Person or family member is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (e) any performance-related fees (other than an asset-based fee) that such stockholder, Stockholder Associated Person or family member is entitled to based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any, as of the date of such notice (which information shall be supplemented by such stockholder and beneficial owner, if any, not later than 10 days after the record date for the meeting to disclose such ownership as of the record date), and (vii) a statement whether or not such person intends or is part of a group that intends to deliver a proxy statement or form of proxy to holders of at least the percentage of voting power of all shares of capital stock reasonably believed to be sufficient to carry the proposal and/or otherwise to solicit votes or proxies in support of such proposal (such statement, a **"Business Solicitation Statement"**).

For purposes of this Section 2.9 and Section 2.10, **"Stockholder Associated Person"** of any stockholder shall mean (i) any person controlling or controlled by, directly or indirectly, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such stockholder and (iii) any person controlling, controlled by or under common control with such Stockholder Associated Person.

Notwithstanding anything in the Bylaws to the contrary, no business (other than a nomination submitted in accordance with Section 2.10) shall be conducted at the annual meeting except in accordance with the procedures set forth in this Section 2.9, provided, however, that nothing in this Section 2.9 shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting in accordance with said procedure. Notwithstanding the foregoing provisions of this Section 2.9, if the stockholder making a proposal or a qualified representative of such stockholder does not appear at the annual meeting to present a proposal submitted in compliance with this Section 2.9 (including without limitation any proposal included in the Corporation's proxy statement under Rule 14a-8 under the Exchange Act), such proposal shall not be presented or voted upon at the annual meeting. For

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purposes of the foregoing sentence, to be considered a qualified representative of a stockholder, a person must be a duly authorized manager, officer or partner of such stockholder or must be authorized by such stockholder in writing to act as such. In the event a qualified representative of a stockholder will appear at a meeting and make a proposal in lieu of a stockholder, the stockholder must provide the notice of such designation at least twenty-four hours prior to the meeting. If no such advance notice is provided only the stockholder may make the proposal and the proposal may be disregarded in the event the stockholder fails to appear and make the proposal.

The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 2.9, and if he should so determine he shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted.

Nothing in this Section 2.9 shall affect the right of a stockholder to request inclusion of a proposal in the Corporation's proxy statement or information statement pursuant to Rule 14a-8 under the Exchange Act, and any proposal submitted in compliance with Rule 14a-8 under the Exchange Act and included in the Corporation's proxy statement or information statement pursuant thereto shall be deemed to be properly before the meeting. For purposes of these Bylaws, "**public announcement**" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act.

#### **Section 2.10 Nominations of Persons for Election to the Board of Directors.**

In addition to the rights afforded to Home Holdings, LLC pursuant to Section 6.B of the Certificate of Incorporation, and any other applicable requirements, only persons who are nominated in accordance with the following procedures shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the Corporation may be made at a meeting of stockholders (i) by or at the direction of the Board of Directors, or by any nominating committee or person appointed by the Board of Directors, (ii) by any Record Stockholder of the Corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures set forth in this Section 2.10. The foregoing clause (ii) shall be the exclusive means for a stockholder to make nominations at a meeting of stockholders.

In addition to any other applicable requirements for nominations to be properly brought before an annual meeting by a stockholder (a) such nominations must be made pursuant to timely notice in writing to the Secretary of the Corporation and (b) the Record Stockholder, the beneficial owner, if any, on whose behalf the nomination is made, and the nominee, must have acted in accordance with the representations set forth in the Nomination Solicitation Notice required by these Bylaws. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation, not less than 90 days or more than 120 days prior to the first anniversary of the date on which the Corporation first mailed its proxy materials (or, in the absence of proxy materials, its notice of meeting) for the previous year's annual meeting of stockholders. However, if the Corporation did not hold an annual meeting the previous year, or if the date of the annual meeting is advanced more than 30 days

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prior to or delayed by more than 30 days after the anniversary of the preceding year's annual meeting, then to be timely, notice by the stockholder must be delivered to the Secretary at the Corporation's principal executive offices not later than the close of business on the later of (i) the 90<sup>th</sup> day prior to such annual meeting or (ii) the 10<sup>th</sup> day following the day on which public announcement of the date of such meeting is first made. Notwithstanding anything in the preceding sentence to the contrary, in the event that the number of directors to be elected to the Board of Directors is increased and there has been no public announcement naming all of the nominees for director or indicating the increase in the size of the Board of Directors made by the Corporation at least 10 days before the last day a Record Stockholder may deliver a notice of nomination in accordance with the preceding sentence, a Record Stockholder's notice required by this bylaw shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be received by the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10<sup>th</sup> day following the day on which such public announcement is first made by the Corporation. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a stockholder's notice as described above. The stockholder's notice relating to director nomination(s) shall set forth (a) as to each person whom the stockholder proposes to nominate for election or re-election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person, (iii) the class, series and number of shares of the Corporation which are beneficially owned by the person, (iv) any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Regulation 14A under the Exchange Act and such person's written consent to serve as a director if elected; (b) as to the Record Stockholder giving the notice, and the beneficial owner, if any, on whose behalf the proposal was made, (i) the name and record address of the stockholder, and (ii) the class, series and number of shares of the Corporation which are beneficially owned; (c) as to the Record Stockholder giving the notice and any Stockholder Associated Person (as defined in Section 2.9) or any member of such stockholder's immediate family sharing the same household, to the extent not set forth pursuant to the immediately preceding clause, whether and the extent to which any Relevant Hedge Transaction (as defined in Section 2.9) has been entered into; and (d) as to the stockholder giving the notice and any Stockholder Associated Person or any member of such stockholder's immediate family sharing the same household, (1) whether and the extent to which any Derivative Instrument (as defined in Section 2.9) is directly or indirectly beneficially owned, (2) any proxy, contract, arrangement, understanding, or relationship pursuant to which either party has a right to vote, directly or indirectly, any shares of any security of the Corporation, (3) any rights to dividends on the shares of the Corporation owned beneficially by such stockholder that are separated or separable from the underlying shares of the Corporation, (4) any proportionate interest in shares of the Corporation or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such stockholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (5) any performance-related fees (other than an asset-based fee) that such stockholder is entitled to based on any increase or decrease in the value of shares of the Corporation or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such stockholder's immediate family sharing the same household (which information shall be supplemented by such stockholder and beneficial owner, if any, not later than 10 days after the record date for the meeting to disclose

such ownership as of the record date); and (e) a statement whether or not such person or its nominee intends or is part of a group that intends to deliver a proxy statement or form of proxy to holders of at least the percentage of voting power of all shares of capital stock reasonably believed to be sufficient to elect the nominee or nominees proposed to be nominated and/or otherwise to solicit votes or proxies in support of such nomination (the “**Nomination Solicitation Notice**”). The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as a director of the Corporation. No person shall be eligible for election as a director of the Corporation unless nominated in accordance with the procedures set forth herein. These provisions shall not apply to nomination of any persons entitled to be separately elected by holders of preferred stock.

A person shall not be eligible for election or re-election as a director at an annual meeting unless (i) the person is nominated by a Record Stockholder in accordance with this Section 2.10 or (ii) the person is nominated by or at the direction of the Board of Directors. Only such business shall be conducted at an annual meeting of stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this section. Notwithstanding the foregoing provisions of this Section 2.10, if the stockholder making a nomination or a qualified representative of such stockholder does not appear at the annual meeting to present a nomination submitted in compliance with this Section 2.10, such nomination(s) shall not be presented or voted upon at the annual meeting. For purposes of the foregoing sentence, to be considered a qualified representative of a stockholder, a person must be a duly authorized manager, officer or partner of such stockholder or must be authorized by such stockholder in writing to act as such. In the event a qualified representative of a stockholder will appear at a meeting and make a nomination in lieu of a stockholder, the stockholder must provide the notice of such designation at least twenty-four hours prior to the meeting. If no such advance notice is provided only the stockholder may make the nomination and the nomination may be disregarded in the event the stockholder fails to appear and make the nomination.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

**Section 2.11 Action Without Meeting.**

Unless otherwise provided in the Certificate of Incorporation, the stockholders of the Corporation may not act by written consent.

**ARTICLE 3**

**DIRECTORS**

**Section 3.1 Number and Term of Office.**

(a) The number of directors of the Corporation shall not be less than 3 nor more than 12. Subject to the rights of the holders of any series of preferred stock to elect additional

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directors under specified circumstances, the exact number of directors shall be fixed from time to time exclusively by resolutions duly adopted by a majority of the Whole Board. The term “**Whole Board**” shall mean the total number of authorized directors whether or not there exist any vacancies in previously authorized directorship. Subject to the foregoing provisions for changing the number of directors, the number of directors of the Corporation has been fixed at seven (7). Elected directors shall hold office until the next annual meeting in which their terms expire and until their successors shall be duly elected and qualified. Directors need not be stockholders. In no case will a decrease in the number of directors shorten the term of any incumbent director.

(b) Subject to the rights of the holders of any series of preferred stock to elect additional directors under specified circumstances, the directors shall be divided into three classes, designated Class I, Class II, and Class III. Upon the effectiveness of the Amended and Restated Certificate of Incorporation including this provision, each director then in office shall be designated as a Class I director, a Class II director or a Class III director. The term of office of the initial Class I directors shall expire at the first succeeding annual meeting of the stockholders following the effectiveness of the Amended and Restated Certificate of Incorporation, the term of office of the initial Class II directors shall expire at the second succeeding annual meeting of the stockholders following the effectiveness of the Amended and Restated Certificate of Incorporation and the term of office of the initial Class III directors shall expire at the third succeeding annual meeting of the stockholders following the effectiveness of the Amended and Restated Certificate of Incorporation. At each annual meeting of stockholders beginning with the first annual meeting of stockholders following the effective time of the Amended and Restated Certificate of Incorporation, the successors of the class of directors whose term expires at that meeting shall be elected to hold office for a term expiring at the third annual meeting of stockholders following their election, with each director in each such class to hold office until his or her successor is duly elected and qualified. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of preferred stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the applicable terms of these Bylaws and any certificate of designation creating such class or series of preferred stock, and such directors so elected shall not be divided into classes pursuant to this Section 3.1 unless expressly provided by such terms.

(c) Except as provided in Section 3.3 of this Article 3, the directors shall be elected by a plurality vote of the votes cast and entitled to vote on the election of directors at any meeting for the election of directors at which a quorum is present.

**Section 3.2 Powers.**

The powers of the Corporation shall be exercised, its business conducted and its property controlled by or under the direction of the Board of Directors.

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**Section 3.3 Vacancies and Newly Created Directorships.**

Subject to the rights of Home Holdings, LLC pursuant to the Certificate of Incorporation and the holders of any series of preferred stock then outstanding, vacancies and newly created directorships resulting from any increase in the authorized number of directors shall, unless otherwise required by law or by resolution of the Board of Directors, be filled by a majority of the directors then in office, although less than a quorum (and not by stockholders), or by a sole remaining director, and each director so elected shall hold office for the unexpired portion of the term of the director whose place shall be vacant or until his successor shall have been duly elected and qualified. A vacancy in the Board of Directors shall be deemed to exist under this section in the case of the death, removal, disqualification, resignation of any director, or otherwise.

**Section 3.4 Resignations and Removals.**

(a) Any director may resign at any time by delivering his resignation to the Secretary in writing or by electronic transmission, such resignation to specify whether it will be effective at a particular time, upon receipt by the Secretary or at the pleasure of the Board of Directors. If no such specification is made it shall be deemed effective upon receipt. When one or more directors shall resign from the Board of Directors effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective.

(b) Subject to the rights of the holders of any series of preferred stock then outstanding, except as otherwise set forth in the Certificate of Incorporation, a director, or the entire Board of Directors, may be removed from office only for cause, at a meeting called for that purpose, by the affirmative vote of the holders of at least sixty-six and two-thirds percent ( $66\frac{2}{3}\%$ ) of the voting power of all outstanding shares of capital stock entitled to vote at an election of directors, voting together as a single class. Notwithstanding the foregoing, until the Trigger Date (as defined in the Amended and Restated Certificate of Incorporation), directors may be removed, with or without cause, by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of capital stock entitled to thereon.

**Section 3.5 Meetings.**

(a) The annual meeting of the Board of Directors shall be held immediately after the annual stockholders' meeting and at the place where such meeting is held or at the place announced by the chairman at such meeting. No notice of an annual meeting of the Board of Directors shall be necessary, and such meeting shall be held for the purpose of electing officers and transacting such other business as may lawfully come before it.

(b) Except as hereinafter otherwise provided, regular meetings of the Board of Directors shall be held at the principal executive office of the Corporation. Regular meetings of the Board of Directors may also be held at any place, within or without the State of Delaware, which has been approved by the Board of Directors.

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(c) Special meetings of the Board of Directors may be held at any time and place within or without the State of Delaware whenever called by the Board of Directors pursuant to a resolution adopted by a majority of the Whole Board.

(d) Written notice of the time and place of all regular and special meetings of the Board of Directors shall be delivered personally to each director or sent by any form of electronic transmission at least 48 hours before the start of the meeting, or sent by first class mail at least 120 hours before the start of the meeting. Notice of any meeting may be waived in writing at any time before or after the meeting and will be waived by any director by attendance thereat unless the director attends for the express purpose of objecting at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened.

**Section 3.6 Quorum and Voting.**

(a) A quorum of the Board of Directors shall consist of a majority of the Whole Board as fixed from time to time in accordance the Certificate of Incorporation and these Bylaws.

(b) At each meeting of the Board of Directors at which a quorum is present, all questions and business shall be determined by a vote of a majority of the directors present, unless a different vote be required by law, the Certificate of Incorporation, or these Bylaws.

(c) Any member of the Board of Directors, or of any committee thereof, may participate in a meeting by means of conference telephone or other communication equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

**Section 3.7 Action Without Meeting.**

Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or of such committee, as the case may be, consent thereto in writing or by electronic transmission, and such writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

**Section 3.8 Fees and Compensation.**

Directors and members of committees may receive such compensation, if any, for their services, and such reimbursement for expenses, as may be fixed or determined by resolution of the Board of Directors.

**Section 3.9 Committees.**

(a) **Executive Committee:** The Board of Directors may appoint an Executive Committee of not less than one member, each of whom shall be a director. To the extent

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permitted by law, the Executive Committee shall have and may exercise when the Board of Directors is not in session all powers of the Board of Directors in the management of the business and affairs of the Corporation, except such committee shall not have the power or authority to amend these Bylaws or to approve or recommend to the stockholders any action (other than the election or removal of directors) which must be submitted to stockholders for approval under the DGCL.

(b) **Other Committees:** The Board of Directors may from time to time appoint such other committees as may be permitted by law. Except as otherwise required by law, such other committees appointed by the Board of Directors shall have such powers and perform such duties as may be prescribed by the resolution or resolutions creating such committee.

(c) **Term:** Subject to the provisions of subsections (a) and (b) of this Section 3.9, the Board of Directors may at any time increase or decrease the number of members of a committee or terminate the existence of a committee; provided that no committee shall consist of less than one member. The membership of a committee member shall terminate on the date of his death or voluntary resignation, but the Board of Directors may at any time for any reason remove any individual committee member and the Board of Directors may fill any committee vacancy created by death, resignation, removal or increase in the number of members of the committee. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee, and, in addition, in the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

(d) **Meetings:** Unless the Board of Directors shall otherwise provide, regular meetings of the Executive Committee or any other committee appointed pursuant to this Section 3.9 shall be held at such times and places as are determined by the Board of Directors, or by any such committee, and when notice thereof has been given to each member of such committee, no further notice of such regular meetings need be given thereafter; special meetings of any such committee may be held at the principal executive office of the Corporation or at any place which has been designated from time to time by resolution of such committee, and may be called by any director who is a member of such committee upon written notice to the members of such committee of the time and place of such special meeting given in the manner provided for the giving of written notice to members of the Board of Directors of the time and place of special meetings of the Board of Directors. Notice of any special meeting of any committee may be waived in writing at any time after the meeting and will be waived by any director by attendance thereat unless the director attends the meeting for the express purpose of objecting at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened. A majority of the authorized number of members of any such committee shall constitute a quorum for the transaction of business, and the act of a majority of those present at any meeting at which a quorum is present, subject to the rights of the directors nominated by Home Holdings, LLC pursuant to Article 6.F of the Amended and Restated Certificate of Incorporation, shall be the act of such committee.



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## ARTICLE 4

### OFFICERS

#### Section 4.1 Officers Designated.

The officers of the Corporation shall be a Chief Executive Officer, a Secretary and a Treasurer. The Board of Directors or the Chief Executive Officer may also appoint a Chairman of the Board of Directors, one or more Vice-Presidents, Assistant Secretaries, Assistant Treasurers, and such other officers and agents with such powers and duties as it or he shall deem necessary. The order of the seniority of the Vice-Presidents shall be in the order of their nomination unless otherwise determined by the Board of Directors. The Board of Directors may assign such additional titles to one or more of the officers as they shall deem appropriate. Any one person may hold any number of offices of the Corporation at any one time unless specifically prohibited therefrom by law. The salaries and other compensation of the officers of the Corporation shall be fixed by or in the manner designated by the Board of Directors.

#### Section 4.2 Tenure and Duties of Officers.

(a) **General:** All officers shall hold office at the pleasure of the Board of Directors and until their successors shall have been duly elected and qualified, unless sooner removed. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors. Nothing in these Bylaws shall be construed as creating any kind of contractual right to employment with the Corporation.

(b) **Duties of the Chairman of the Board of Directors:** The Chairman of the Board of Directors (if there be such an officer appointed) when present shall preside at all meetings of the stockholders and the Board of Directors. The Chairman of the Board of Directors shall perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

(c) **Duties of Chief Executive Officer:** The Chief Executive Officer shall be the chief executive officer of the Corporation and shall preside at all meetings of the stockholders and at all meetings of the Board of Directors, unless the Chairman of the Board of Directors has been appointed and is present. The Chief Executive Officer shall perform such other duties and have such other powers as the Board of Directors shall designate from time to time.

(d) **Duties of Vice-Presidents:** The Vice-Presidents may assume and perform the duties of the Chief Executive Officer in the absence or disability of the Chief Executive Officer or whenever the office of the Chief Executive Officer is vacant. The Vice-President shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer shall designate from time to time.

(e) **Duties of Secretary:** The Secretary shall attend all meetings of the stockholders and of the Board of Directors and any committee thereof, and shall record all acts and proceedings thereof in the minute book of the Corporation, which may be maintained in either paper or electronic form. The Secretary shall give notice, in conformity with these Bylaws, of all

meetings of the stockholders and of all meetings of the Board of Directors and any Committee thereof requiring notice. The Secretary shall perform such other duties and have such other powers as the Board of Directors shall designate from time to time. The Chief Executive Officer may direct any Assistant Secretary to assume and perform the duties of the Secretary in the absence or disability of the Secretary, and each Assistant Secretary shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer shall designate from time to time.

(f) **Duties of Treasurer:** The Treasurer shall keep or cause to be kept the books of account of the Corporation in a thorough and proper manner, and shall render statements of the financial affairs of the Corporation in such form and as often as required by the Board of Directors or the Chief Executive Officer. The Treasurer, subject to the order of the Board of Directors, shall have the custody of all funds and securities of the Corporation. The Treasurer shall perform all other duties commonly incident to his office and shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer shall designate from time to time. The Chief Executive Officer may direct any Assistant Treasurer to assume and perform the duties of the Treasurer in the absence or disability of the Treasurer, and each Assistant Treasurer shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer shall designate from time to time.

## ARTICLE 5

### EXECUTION OF CORPORATE INSTRUMENTS, AND VOTING OF SECURITIES OWNED BY THE CORPORATION

#### Section 5.1 Execution of Corporate Instruments.

(a) The Board of Directors may in its discretion determine the method and designate the signatory officer or officers, or other person or persons, to execute any corporate instrument or document, or to sign the corporate name without limitation, except where otherwise provided by law, and such execution or signature shall be binding upon the Corporation.

(b) Unless otherwise specifically determined by the Board of Directors or otherwise required by law, formal contracts of the Corporation, promissory notes, deeds of trust, mortgages and other evidences of indebtedness of the Corporation, and other corporate instruments or documents requiring the corporate seal, and certificates of shares of stock owned by the Corporation, may be executed, signed or endorsed by the Chairman of the Board of Directors (if there be such an officer appointed), by the Chief Executive Officer or by any Vice-President, and by the Secretary or Treasurer or any Assistant Secretary or Assistant Treasurer. All other instruments and documents requiring the corporate signature but not requiring the corporate seal may be executed as aforesaid or in such other manner as may be directed by the Board of Directors.

(c) All checks and drafts drawn on banks or other depositories on funds to the credit of the Corporation or in special accounts of the Corporation shall be signed by such person or persons as the Board of Directors shall authorize so to do.

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(d) Execution of any corporate instrument may be effected in such form, either manual, facsimile or electronic signature, as may be authorized by the Board of Directors.

**Section 5.2 Voting of Securities Owned by Corporation.**

All stock and other securities of other Corporations owned or held by the Corporation for itself or for other parties in any capacity shall be voted, and all proxies with respect thereto shall be executed, by the person authorized so to do by resolution of the Board of Directors or, in the absence of such authorization, by the Chairman of the Board of Directors (if there be such an officer appointed), or by the Chief Executive Officer, or by any Vice-President.

**ARTICLE 6**

**SHARES OF STOCK**

**Section 6.1 Form and Execution of Certificates.**

The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the Corporation. Certificates for the shares of stock of the Corporation shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Every holder of stock in the Corporation represented by a certificate shall be entitled to have a certificate signed by, or in the name of the Corporation by, the Chairman of the Board of Directors (if there be such an officer appointed), or by the Chief Executive Officer or any Vice-President and by the Treasurer or Assistant Treasurer or the Secretary or Assistant Secretary, certifying the number of shares owned by him in the Corporation. The Chief Executive Officer shall be deemed the President for purposes of Section 158 of the DGCL with respect to signing certificates. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued with the same effect as if he were such officer, transfer agent, or registrar at the date of issue. If the Corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the Corporation shall issue to represent such class or series of stock, a statement that the Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

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**Section 6.2 Lost Certificates.**

The Board of Directors may direct a new certificate or certificates (or uncertificated shares in lieu of a new certificate) to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates (or uncertificated shares in lieu of a new certificate), the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost or destroyed certificate or certificates, or his legal representative, to indemnify the Corporation in such manner as it shall require and/or to give the Corporation a surety bond in such form and amount as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

**Section 6.3 Transfers.**

Transfers of record of shares of stock of the Corporation shall be made only upon its books by the holders thereof, in person or by attorney duly authorized, who shall furnish proper evidence of authority to transfer, and in the case of stock represented by a certificate, upon the surrender of a certificate or certificates for a like number of shares, properly endorsed.

**Section 6.4 Fixing Record Dates.**

(a) In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the date on which the meeting is held. A determination of stockholders of record entitled notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

(b) In order that the Corporation may determine the stockholders entitled to consent to corporate action in writing or by electronic transmission without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing or by electronic transmission without a meeting, when no prior action by the Board of Directors is required by the DGCL, shall be the first date on which a signed written consent or electronic transmission setting forth the action taken or proposed to be taken is delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business, or an officer or

agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded; provided that any such electronic transmission shall satisfy the requirements of Section 2.4(d) and, unless the Board of Directors otherwise provides by resolution, no such consent by electronic transmission shall be deemed to have been delivered until such consent is reproduced in paper form and until such paper form shall be delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business or an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to a Corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by law, the record date for determining stockholders entitled to consent to corporate action in writing or by electronic transmission without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

(c) In order that the Corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

#### **Section 6.5 Registered Stockholders.**

The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

### **ARTICLE 7**

#### **OTHER SECURITIES OF THE CORPORATION**

All bonds, debentures and other corporate securities of the Corporation, other than stock certificates, may be signed by the Chairman of the Board of Directors (if there be such an officer appointed), or the Chief Executive Officer or any Vice-President or such other person as may be authorized by the Board of Directors and the corporate seal impressed thereon or a facsimile of such seal imprinted thereon and attested by the signature of the Secretary or an Assistant Secretary, or the Treasurer or an Assistant Treasurer; provided, however, that where any such bond, debenture or other corporate security shall be authenticated by the manual signature of a trustee under an indenture pursuant to which such bond, debenture or other corporate security shall be issued, the signature of the persons signing and attesting the corporate seal on such bond, debenture or other corporate security may be the imprinted facsimile of the signatures of such persons. Interest coupons appertaining to any such bond, debenture or other corporate security, authenticated by a trustee as aforesaid, shall be signed by the Treasurer or an Assistant Treasurer

of the Corporation, or such other person as may be authorized by the Board of Directors, or bear imprinted thereon the facsimile signature of such person. In case any officer who shall have signed or attested any bond, debenture or other corporate security, or whose facsimile signature shall appear thereon has ceased to be an officer of the Corporation before the bond, debenture or other corporate security so signed or attested shall have been delivered, such bond, debenture or other corporate security nevertheless may be adopted by the Corporation and issued and delivered as though the person who signed the same or whose facsimile signature shall have been used thereon had not ceased to be such officer of the Corporation.

## ARTICLE 8

### INDEMNIFICATION OF OFFICERS, DIRECTORS, EMPLOYEES AND AGENTS

#### Section 8.1 Right to Indemnification.

Each person who was or is a party or is threatened to be made a party to or is involved (as a party, witness, or otherwise), in any threatened, pending, or completed action, suit, investigation, or proceeding, and any appeal thereof, whether civil, criminal, administrative, arbitrative, or investigative or otherwise and/or any inquiry or investigation, whether formal or informal, conducted by the Corporation or any other party, that such person in good faith believes might lead to the institution of any such action (hereinafter a "**Proceeding**"), related to or arising out of the fact that such person, or a person of whom he is the legal representative, is or was a director or officer, or an agent with whom the Corporation has executed an indemnification agreement, or while a director or officer is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, or related to or arising out of anything done or not done by such person in any such capacity (hereinafter an "**Indemnitee**"), shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the DGCL (subject to the exceptions contained in these Bylaws and any other agreement) against any and all expenses, liability, and loss (including attorney's fees, judgments, fines, ERISA excise taxes or penalties, and amounts paid or to be paid in settlement, and any interest, assessments, or other charges imposed thereon, and any federal, state, local, or foreign taxes imposed on any Indemnitee as a result of the actual or deemed receipt of any payments under this Article) (collectively, "**Liabilities**") reasonably incurred or suffered by such person in connection with such Proceeding.

Expenses incurred by an Indemnitee in defending a Proceeding shall be paid by the Corporation in advance of the final disposition of such Proceeding, provided, however, that if required by the DGCL, or any other agreement between the Indemnitee and Corporation, such expenses shall be advanced only upon delivery to the Corporation of an undertaking by or on behalf of such Indemnitee to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article or otherwise. Expenses incurred by other employees or agents of the Corporation may be advanced upon such terms and conditions as the Board of Directors deems appropriate. Any obligation to reimburse the Corporation for expense advances shall be unsecured and no interest shall be charged thereon.

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**Section 8.2 Limits on Indemnification and Advancement.**

Notwithstanding anything in these Bylaws or any other agreement to the contrary, an Indemnitee shall not be entitled pursuant to this Article (a) to indemnification or advancement in connection with any Proceeding initiated by the Indemnitee against the Corporation or any of its directors or officers unless (i) the Corporation has joined in or consented to the initiation of such Proceeding, or (ii) the proceeding is brought under Section 8.3 hereof to enforce Indemnitee's rights hereunder; or (b) to indemnification on account of any suit in which judgment is rendered against the Indemnitee pursuant to Section 16(b) of the Exchange Act for an accounting of profits made from the purchase or sale by the Indemnitee of securities of the Corporation, (c) to any amounts described in Section 8.8, or (d) to any amounts described in Section 8.12.

**Section 8.3 Right of Claimant to Bring Suit.**

If a claim under Section 8.1 or 8.2 of this Article is not paid in full by the Corporation within 60 days after a written demand has been made by the Indemnitee to the Corporation, the Indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, to the fullest extent permitted by law, if successful in whole or in part, the Indemnitee shall be entitled to be paid also the expenses (including attorneys' fees) incurred in prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending a Proceeding in advance of its final disposition where the required undertaking has been tendered to the Corporation) that the Indemnitee has not met the standards of conduct that make it permissible under the DGCL for the Corporation to indemnify the Indemnitee for the amount claimed. The burden of proving such a defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification is proper under the circumstances because the Indemnitee has met the applicable standard of conduct set forth in the DGCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel, or its stockholders) that the Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the Indemnitee has not met the applicable standard of conduct.

**Section 8.4 Provisions Nonexclusive.**

The rights conferred on any person by this Article shall not be exclusive of any other rights that such person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, agreement, vote of stockholders or disinterested directors, or otherwise.

**Section 8.5 Authority to Insure.**

The Corporation may purchase and maintain insurance to protect itself and any person against any Liability, whether or not the Corporation would have the power to indemnify the person against such Liability under applicable law or the provisions of this Article.

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**Section 8.6 Enforcement of Rights**

Without the necessity of entering into an express contract, all rights provided under this Article shall be deemed to be contractual rights and be effective to the same extent and as if provided for in a contract between the Corporation and such Indemnitee. Any rights granted by this Article to an Indemnitee shall be enforceable by or on behalf of the person holding such right in any court of competent jurisdiction.

**Section 8.7 Survival of Rights.**

The rights provided by this Article shall continue as to a person who has ceased to be an Indemnitee and shall inure to the benefit of the heirs, executors, and administrators of such a person.

**Section 8.8 Settlement of Claims.**

The Corporation shall not be liable to indemnify any Indemnitee under this Article (a) for any amounts paid in settlement of any action or claim effected without the Corporation's written consent, which consent shall not be unreasonably withheld; or (b) for any judicial award if the Corporation was not given a reasonable and timely opportunity, at its expense, to participate in the defense of such action.

**Section 8.9 Effect of Amendment.**

Any amendment, alteration or repeal of this Article VIII that adversely affects any right of an indemnitee or its successors shall be prospective only and shall not limit, eliminate, or impair any such right with respect to any proceeding involving any occurrence or alleged occurrence of any action or omission to act that took place prior to such amendment or repeal.

**Section 8.10 Primacy of Indemnification.**

Notwithstanding that an Indemnitee may have certain rights to indemnification, advancement of expenses and/or insurance provided by other persons (collectively, the "Other Indemnitors"), the Corporation: (i) shall be the indemnitor of first resort (i.e., its obligations to an Indemnitee are primary and any obligation of the Other Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by such Indemnitee are secondary); and (ii) shall be required to advance the full amount of expenses incurred by an Indemnitee and shall be liable for the full amount of all Liabilities, without regard to any rights such Indemnitee may have against any of the Other Indemnitors. No advancement or payment by the Other Indemnitors on behalf of an Indemnitee with respect to any claim for which such Indemnitee has sought indemnification from the Corporation shall affect the immediately preceding sentence, and the Other Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of such Indemnitee against the Corporation.



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**Section 8.11 Subrogation.**

In the event of payment under this Article, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee (other than against the Other Indemnitors), who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Corporation effectively to bring suit to enforce such rights.

**Section 8.12 No Duplication of Payments.**

Except as otherwise set forth in Section 8.11 above, the Corporation shall not be liable under this Article to make any payment in connection with any claim made against the Indemnitee to the extent the Indemnitee has otherwise actually received payment (under any insurance policy, agreement, vote, or otherwise) of the amounts otherwise indemnifiable hereunder.

**Section 8.13 Saving Clause.**

If this Article or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each Indemnitee to the fullest extent not prohibited by any applicable portion of this Article that shall not have been invalidated, or by any other applicable law.

**ARTICLE 9**

**NOTICES**

Whenever, under any provisions of these Bylaws, notice is required to be given to any stockholder, the same shall be given either (1) in writing, timely and duly deposited in the United States Mail, postage prepaid, and addressed to his last known post office address as shown by the stock record of the Corporation, or (2) by a means of electronic transmission that satisfies the requirements of Section 2.4(d) of these Bylaws, and has been consented to by the stockholder to whom the notice is given. An affidavit of mailing, executed by a duly authorized and competent employee of the Corporation or its transfer agent appointed with respect to the class of stock affected, specifying the name and address or the names and addresses of the stockholder or stockholders, director or directors, to whom any such notice or notices was or were given, and the time and method of giving the same, shall be prima facie evidence of the statements therein contained. All notices given by mail, as above provided, shall be deemed to have been given as at the time of mailing and all notices given by means of electronic transmission shall be deemed to have been given as at the sending time recorded by the electronic transmission equipment operator transmitting the same. It shall not be necessary that the same method of giving notice be employed in respect of all directors, but one permissible method may be employed in respect of any one or more, and any other permissible method or methods may be employed in respect of any other or others. Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation, or of these Bylaws, a waiver thereof in writing signed by the person or persons entitled to said notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed

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equivalent thereto. Whenever notice is required to be given, under any provision of law or of the Certificate of Incorporation or Bylaws of the Corporation, to any person with whom communication is unlawful, the giving of such notice to such person shall not be required and there shall be no duty to apply to any governmental authority or agency for a license or permit to give such notice to such person. Any action or meeting which shall be taken or held without notice to any such person with whom communication is unlawful shall have the same force and effect as if such notice had been duly given. In the event that the action taken by the Corporation is such as to require the filing of a certificate under any provision of the DGCL, the certificate shall state, if such is the fact and if notice is required, that notice was given to all persons entitled to receive notice except such persons with whom communication is unlawful.

#### **ARTICLE 10**

##### **AMENDMENTS**

Except as otherwise provided in Section 8.9 above, these Bylaws may be repealed, altered or amended or new Bylaws adopted (i) by the Board of Directors by unanimous written consent or at any annual, regular, or special meeting by the affirmative vote of a majority of the Whole Board, (ii) prior to the Trigger Date (as defined in the Amended and Restated Certificate of Incorporation), by the affirmative vote of the holders of more than 50% of the voting power of all of the then-outstanding shares of the Corporation's capital stock entitled to vote thereon, or (iii) from and after the Trigger Date, by the affirmative vote of holders of at least seventy percent (70%) of the voting power of the then-outstanding shares of the Corporation's capital stock entitled to vote thereon, unless a larger vote is required by these Bylaws or the Certificate of Incorporation.

#### **ARTICLE 11**

##### **SEVERABILITY**

If any provision or provisions of these Bylaws shall be held to be invalid, illegal or unenforceable as applied to any person or entity or circumstance for any reason whatsoever, then, to the fullest extent permitted by law, the validity, legality and enforceability of such provisions in any other circumstance and of the remaining provisions of these Bylaws (including, without limitation, each portion of any sentence of these Bylaws containing any such provision held to be invalid, illegal or unenforceable that is not itself held to be invalid, illegal or unenforceable) and the application of such provision to other persons or entities and circumstances shall not in any way be affected or impaired thereby.

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**CERTIFICATE OF SECRETARY**

The undersigned, Secretary of Restoration Hardware Holdings, Inc., a Delaware corporation, hereby certifies that the foregoing is a full, true and correct copy of the Bylaws of said corporation, with all amendments thereof to date.

WITNESS the signature of the undersigned this 1<sup>st</sup> day of November, 2012.

/s/ Karen Boone

Karen Boone, Secretary

**STOCKHOLDERS AGREEMENT**

**by and among**

**RESTORATION HARDWARE HOLDINGS, INC.,**

**and**

**HOME HOLDINGS, LLC**

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**Dated as of November 7, 2012**

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## STOCKHOLDERS AGREEMENT

THIS STOCKHOLDERS AGREEMENT (this “Agreement”), dated as of November 7, 2012 (the “Effective Date”), is by and among Restoration Hardware Holdings, Inc., a Delaware corporation (the “Company”) and Home Holdings, LLC, a Delaware limited liability company (“HH” or the “Sponsor”).

### ARTICLE I.

#### DEFINITIONS; RULES OF CONSTRUCTION

SECTION 1.01. Definitions. The following terms, as used herein, have the following meanings:

“**Affiliate**” of any specified Person means any other Person directly or indirectly controlling, controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “**control**” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “**controlling**” and “**controlled**” have meanings correlative to the foregoing. No Person shall be deemed to be an Affiliate of another Person solely by virtue of the fact that both Persons own shares of the Capital Stock of the Company.

“**Agreement**” has the meaning set forth in the preamble.

“**Board**” means the Board of Directors of the Company.

“**Capital Stock**” means, with respect to any Person, any and all shares, interests, participations, rights in or other equivalents (however designated) of such Person’s capital stock, and any rights, warrants or options exercisable or exchangeable for or convertible into such capital stock.

“**Change of Control**” means (a) the consummation of any transaction as a result of which any Person other than the Sponsor, or any Related Person of the Sponsor, acquires directly or indirectly more than 50% of the Capital Stock of the Company, including, without limitation, through a merger or consolidation or purchase of the Capital Stock of the Company or (b) the sale, lease, conveyance, disposition, in one or a series of related transactions other than a merger or consolidation, of all or substantially all of the assets of the Company taken as a whole to any Person or group of Related Persons.

“**Common Stock**” means the Common Stock, par value \$0.0001 per share, of the Company.

“**Company**” has the meaning set forth in the preamble.

“**Director**” means a member of the Board.

“**Director Veto Lapse Date**” means the date on which the Sponsor no longer owns a majority of the Voting Power of all of the outstanding shares of Common Stock.

“**Existing Debt**” means indebtedness under that certain Ninth Amended And Restated Credit Agreement, dated as of August 3, 2011 (as amended, restated, supplemented or otherwise modified from time to time), among Restoration Hardware, as a borrower, Restoration Hardware Canada, Inc., as a borrower, the other borrowers and guarantors from time to time party thereto, the lenders from time to time party thereto and Bank of America, N.A., as administrative agent and collateral agent (the “**Existing Facility**”) and debt incurred to refinance the Existing Facility, provided that (x) the maximum amount that can be borrowed under such refinanced debt is not higher than the maximum amount that can be borrowed under the Existing Facility (including through the exercise of any commitment increase provisions) and (y) the terms of such refinanced debt is not materially less favorable to the Company and its subsidiaries, taken as a whole, than the Existing Facility.

“**Effective Date**” has the meaning set forth in the preamble.

“**Material Subsidiary**” means each “Significant Subsidiary” of the Company, as defined in Rule 1–02 of Regulation S–X promulgated under the 1933 Act.

“**Person**” means an individual, a corporation, a general or limited partnership, a limited liability company, a joint stock company, an association, a trust or any other entity or organization, including a government, a political subdivision or an agency or instrumentality thereof.

“**Related Person**” means, with respect to any Person, (a) an Affiliate of such Person, (b) any investment manager, investment advisor or general partner of such Person, (c) any investment fund, investment account or investment entity whose investment manager, investment advisor or general partner is such Person or a Related Person of such Person, and (d) any equity investor, partner, member or manager of such Person; provided, that no Person shall be deemed an Affiliate of another Person solely by virtue of the fact that both Persons own shares of the Capital Stock of the Company.

“**Restoration Hardware**” means Restoration Hardware, Inc., a wholly owned subsidiary of the Company.

“**Required Designees**” has the meaning set forth in Section 3.01(c).

“**Securities Act**” means the Securities Act of 1933.

“**Significant Action**” has the meaning set forth in Section 4.01.

“**Sponsor**” has the meaning set forth in the preamble.

“**Sponsor Designees**” has the meaning set forth in Section 3.01(a).

“**Transfer**” means the direct or indirect offer, sale, lease, license, donation, assignment (as collateral or otherwise), mortgage, pledge, grant, hypothecation, encumbrance,

gift, bequest or transfer or disposition of any interest (legal or beneficial) in any security (including transfer by reorganization, merger, sale of substantially all of the assets or by operation of law).

“**Veto Lapse Date**” means the date on which the Sponsor no longer owns at least 30% of the Voting Power of all of the outstanding shares of Common Stock.

“**Voting Power**” means the total number of votes associated with all shares of Common Stock of the Company calculated in the same manner as the number of shares of common stock set forth on the cover page of the most recently filed periodic report filed with the Securities and Exchange Commission, that are entitled to vote generally in the election of Directors; provided, however, that with respect to any share of Common Stock, not more than one vote per share shall be counted.

SECTION 1.02. **Rules of Construction.** Any provision of this Agreement that refers to the words “include,” “includes” or “including” shall be deemed to be followed by the words “without limitation.” References to “dollars” or “\$” shall mean dollars in lawful currency of the United States of America. References to numbered or letter articles, sections and subsections refer to articles, sections and subsections, respectively, of this Agreement unless expressly stated otherwise. References to a Section or paragraph shall be to a Section or paragraph of this Agreement unless otherwise indicated. The words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The word “or” when used in this Agreement is not exclusive. Any agreement, instrument, law or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument, or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns. In the event that any claim is made by any Person relating to any conflict, omission or ambiguity in this Agreement, no presumption or burden of proof or persuasion shall be implied by virtue of the fact that this Agreement was prepared by or at the request of a particular Person or its counsel.

## ARTICLE II.

### REPRESENTATIONS AND WARRANTIES

Each of the parties hereby severally represents and warrants, severally and not jointly, to each of the other parties as follows:

SECTION 2.01. **Authority; Enforceability.** Such party (a) has the legal capacity or organizational power and authority to execute, deliver and perform its obligations under this Agreement and (b) is duly organized and validly existing and in good standing under the laws of its jurisdiction of organization. This Agreement has been duly executed and delivered by such party and constitutes a legal, valid and binding obligation of such party, enforceable against it in accordance with the terms of this Agreement, subject to applicable bankruptcy, insolvency,



reorganization, moratorium and other laws affecting the rights of creditors generally and to the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or of equity).

SECTION 2.02. Consent. No consent, waiver, approval, authorization, exemption, registration, license or declaration is required to be made or obtained by such party, other than those that have been made or obtained on or prior to the date hereof, in connection with (a) the execution or delivery of this Agreement or (b) the consummation of any of the transactions contemplated hereby.

### ARTICLE III.

#### BOARD OF DIRECTORS

##### SECTION 3.01. Sponsor Designees.

(a) From the Effective Date until the Director Veto Lapse Date, the Sponsor shall have the right, but not the obligation, to nominate to the Board a majority of the members of the Board of Directors (such nominees, the "**Sponsor Designees**"). As of the date of this Agreement, Sponsor intends to nominate two Sponsor Nominees, which shall be the Required Designees. From the Director Veto Lapse Date until the Veto Lapse Date, the Sponsor shall have the right, but not the obligation, to nominate to the Board two Sponsor Designees. Additionally, from the Effective Date until the Veto Lapse Date, the Sponsor may appoint two observers (the "**Observers**") to the Board.

(b) At any time at which the Sponsor has nominated less than the total number of Sponsor Designees the Sponsor is entitled to nominate pursuant to this Section 3.01, the Sponsor shall have the right, at any time, to nominate such additional number of Sponsor Designees to which it is entitled, in which case the Company shall take all necessary action to (i) increase the size of the Board as required to enable such Sponsor to so nominate such additional Sponsor Designees and (ii) designate such additional Sponsor Designees nominated by the Sponsor to fill such newly-created vacancy or vacancies, as applicable.

(c) The Sponsor shall designate one Sponsor Designee as the CP Designee and one Sponsor Designee as the T3 Designee (together, the "**Required Designees**"). The initial CP Designee shall be J. Michael Chu and the initial T3 Designee shall be William Forrest.

(d) The Observers shall be entitled to attend all meetings of the Board of Directors or any committee thereof, and also shall be entitled to receive concurrently with the Directors notice of Board and Committee meetings and all minutes, consents and other materials provided to any Director in his or her capacity as a Director. Notwithstanding the foregoing, the Company will have the right, in its sole discretion, to exclude the Observers from access to any Board of Directors meeting or material, or portion thereof, if the Board of Directors determines in good faith, based on the advice of Company counsel, that the exclusion is necessary in order to preserve the attorney-client privilege. In the event that any Observer is excluded from access to any portion of a meeting, the Company will supply the Observer with a summary of the content of that portion of the meeting in detail sufficient to provide the Observer with a general

understanding of the purposes of the discussion, provided that such a summary does not waive the attorney-client privilege. In addition, the Company will have the right, in its sole discretion, to exclude the Observers from access to any meeting of the Audit Committee of the Board for any reason whatsoever, in the sole discretion of the Audit Committee, and Observers shall not have a right to a summary of the content of such meetings.

**SECTION 3.02. Sponsor Designee Approval Required for Board Action.**

(a) From the Effective Date until the Director Veto Lapse Date, no action or vote taken or approved by the Board or any committee thereof, or the board of directors of any subsidiary of the Company or any committee thereof, shall be valid unless approved by both Required Designees; *provided, however*, that the foregoing shall not apply to actions or votes taken or approved by the Audit Committee of the Company or any other Committee created with the consent of the Sponsor as being exempt from this requirement.

(b) From the Effective Date until the Director Veto Lapse Date, without the prior consent of both Required Designees, the Board of Directors of the Company may not delegate any authority to the Audit Committee beyond the authority granted to the Audit Committee in its charter in the form attached hereto as Exhibit A, or as may be required by applicable law, regulation or New York Stock Exchange rule.

(c) The Company and the Holders shall take all necessary and desirable actions to cause the certificate of incorporation of the Company and each of the Company's subsidiaries to reflect the provisions of Sections 3.02(a) and (b) until the Director Veto Lapse Date occurs.

**SECTION 3.03. Other Corporate Governance Matters.**

(a) The Company shall pay all reasonable out-of-pocket expenses incurred by the Directors and the Observers in connection with their participation in meetings of the Board and committees thereof and the board of directors and committees of subsidiaries of the Company.

(b) The board of directors of each subsidiary of the Company shall, at any given time, be comprised in a manner reasonably acceptable to the Sponsor, unless the Sponsor shall require the board of directors of any such subsidiary to be comprised in the same manner as the Board.

(c) The Company shall to the maximum extent permitted under applicable law, indemnify and provide for the advancement of expenses to each Director and Observer, from and against any and all losses which may be imposed on, incurred by, or asserted against such Director or Observer in any way relating to or arising out of, or alleged to relate to or arise out of, the Director's and Observer's service in that capacity. Further, the Directors and Observers shall be covered by the directors' and officers' liability insurance and fiduciary liability insurance carried by the Company in an amount reasonably acceptable to the Sponsor.

(d) Each of the parties hereto acknowledges that the Sponsor, its Affiliates and any of its Affiliates' related investment funds and portfolio companies may review the

business plans and related proprietary information of any enterprise, including any enterprise which may have products or services which compete directly or indirectly with those of the Company, and may trade in the securities of such enterprise. Nothing in this Agreement shall preclude or in any way restrict the Sponsor, its Affiliates and any of its Affiliates' related investment funds and portfolio companies from investing or participating in any particular enterprise, or trading in the securities thereof whether or not such enterprise has products or services that compete with those of the Company. Notwithstanding anything to the contrary herein, the Company and the Holders expressly acknowledge and agree that: (a) the Sponsor, members of the Board designated by the Sponsor, and managers, officers, directors, members, partners, Affiliates and any related investment funds or portfolio companies of Affiliates of the Sponsor (other than the Company and its subsidiaries) (each, a "Sponsor Party") have the right to, and shall have no duty (contractual or otherwise) not to, directly or indirectly, engage in the same or similar business activities or lines of business as the Company or any of its Affiliates or subsidiaries; and (b) in the event that any Sponsor Party acquires knowledge of a potential transaction or matter that may be a corporate opportunity for any of the Company, its Affiliates or any of its subsidiaries, such Sponsor Party shall have no duty (contractual or otherwise) to communicate or present such corporate opportunity to the Company, its Affiliates or any of its subsidiaries, as the case may be, and, notwithstanding any provision of this Agreement to the contrary, shall not be liable to the Company, any of its Affiliates, any of its subsidiaries or any other stockholders for breach of any duty (contractual or otherwise) by reason of the fact that any Sponsor Party, directly or indirectly, pursues or acquires such opportunity for itself, directs such opportunity to another Person, or does not present such opportunity to the Company, its Affiliates or any of its subsidiaries.

#### ARTICLE IV.

##### SPONSOR VETO RIGHTS

SECTION 4.01. Sponsor Veto Rights. From the Effective Date until the Veto Lapse Date, neither the Company nor any of its subsidiaries shall take, or be permitted to take, any of the following actions, whether as a single transaction or a series of related transactions (each, a "Significant Action") without the written approval of the Sponsor:

(a) a Change of Control or the merger or consolidation of the Company or any of its subsidiaries, or any entry into any agreement to effect or publicly endorsing a Change of Control or the merger or consolidation of the Company or any of its subsidiaries;

(b) (i) entering into any joint venture, investment, recapitalization, reorganization or contract with any other Person, (ii) the acquisition of any securities or assets of another Person (other than inventory acquired in the ordinary course of business), or (iii) the exercise of any ownership rights in respect of any of the foregoing in this Section 4.01(b);

(c) any Transfer of a material amount of assets of the Company or any of its subsidiaries in any transaction or series of related transactions, other than inventory sold in the ordinary course of business;

(d) the issuance of any Capital Stock of the Company or of any subsidiary of the Company, other than issuances upon: (i) the exercise of any warrants, options, rights or securities convertible into, exchangeable for or exercisable for, shares of Capital Stock of the Company previously approved by the Sponsor or previously approved pursuant to clause 4.01(d)(ii) hereof; and (ii) the grant of any equity award issued to an officer, director, employee or consultant of the Company pursuant to a management incentive plan, employment agreement or other arrangement approved by the Board or a duly authorized committee thereof prior to the Effective Date;

(e) the filing of any registration statement by the Company or its subsidiaries, or the commencement of any public offering by the Company or its subsidiaries, other than the filing of registration statements on Form S-8 in respect of equity awards issued to an officer, director, employee or consultant of the Company pursuant to a management incentive plan, employment agreement or other arrangement approved by the Board or a duly authorized committee thereof prior to the Effective Date;

(f) the guarantee, assumption, incurrence or refinancing of indebtedness for borrowed money by the Company or any of its subsidiaries (including indebtedness of any other Person existing at the time such other Person merged with or into or became a subsidiary of, or substantially all of its business and assets were acquired by, the Company or such subsidiary, and indebtedness secured by a lien encumbering any asset acquired by the Company or any such subsidiary and including debt securities) or the pledge of, or granting of a security interest in, any of the assets of the Company or any of its subsidiaries other than the Existing Debt (other than trade indebtedness incurred in the ordinary course of business by the Company and its subsidiaries);

(g) entering into or amending any direct or indirect transactions after the date of this Agreement between the Company or any subsidiary of the Company, on the one hand, and (i) any of the stockholders of the Company or Affiliates or Related Persons of any of the stockholders of the Company, (ii) any Affiliate of the Company or any subsidiary of the Company (including, for purposes hereof, Hierarchy, LLC) or (iii) any officer, director, employee or consultant of the Company or any subsidiary of the Company (other than compensation arrangements approved by the Board or Compensation Committee or otherwise in the ordinary course of business as part of travel advances, relocation advances, reasonable out-of-pocket expenses or other amounts in accordance with Company policies approved by the Board incurred by officers, directors, employees or consultants of the Company, on the other hand (including the purchase, sale, lease or exchange of any property, or rendering of any service or modification or amendment of any existing agreement or arrangement);

(h) the adoption of a "poison pill" or other material defensive mechanisms not in place as of the Effective Date;

(i) any payment or declaration of or setting aside of any sums or other property for the payment of dividends on any Capital Stock of the Company or making of any other distributions in respect of (including by merger or otherwise) any shares of Capital Stock of the Company or any warrants, options, rights or securities convertible into, exchangeable for or exercisable for, shares of Capital Stock of the Company;

(j) any redemption, repurchase or other acquisition (including by merger or otherwise) any shares of Capital Stock or any warrants, options, rights or securities convertible into, exchangeable for or exercisable for, shares of Capital Stock of the Company, or redemption or purchase or other acquisition or payment with respect to any share appreciation rights or phantom share plans (other than repurchases of shares of Capital Stock from employees upon termination of employment pursuant to terms of equity grants) or any re-pricing of equity awards;

(k) any amendment of the certificate of incorporation or bylaws of the Company, or the terms of the Common Stock;

(l) creation any new class or series of shares of Capital Stock having rights, preferences or privileges senior to or on a parity with the Common Stock;

(m) the creation of any committees of the Board or the board of any subsidiaries, or delegation of authority to a committee, except as set forth in committee charters adopted as of the Effective Date;

(n) the commencement of any liquidation, dissolution or voluntary bankruptcy, administration, recapitalization or reorganization of the Company or any of its subsidiaries in any form of transaction, making arrangements with creditors, or consenting to the entry of an order for relief in any involuntary case, or taking the conversion of an involuntary case to a voluntary case, or consenting to the appointment or taking possession by a receiver, trustee or other custodian for all or substantially all of its property, or otherwise seeking the protection of any applicable bankruptcy or insolvency law, other than any such actions with respect to a non-Material Subsidiary where, in the good faith judgment of the Board, the maintenance or preservation of such subsidiary is no longer desirable in the conduct of the business of the Company or any of its Material Subsidiaries; and

(o) the entering into of any agreement to do any of the foregoing.

## ARTICLE V.

### MISCELLANEOUS

SECTION 5.01. Notices. Except as otherwise specified herein, all notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, return receipt requested, postage prepaid or otherwise delivered by hand, messenger, facsimile transmission or electronic mail and shall be given to such party at its address or facsimile number set forth on the signature pages hereof or such other address or facsimile number as such party may hereafter specify in writing in accordance with this Section 5.01; provided, that:

(a) unless otherwise specified by HH in a notice delivered by HH in accordance with this Section 5.01, any notice required to be delivered to HH shall be properly delivered if delivered to:

Home Holdings, LLC  
c/o Catterton Management Company, LLC  
599 West Putnam Avenue  
Greenwich, CT 06830  
Fax: (203) 629-4903  
Attention: Marc Magliacano

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And c/o Tower Three Partners LLC  
2 Sound View Drive  
Greenwich, CT 06830  
Fax: 203-485-5885  
Attention: William Forrest

with a copy (which shall not constitute notice) to:

Gibson, Dunn & Crutcher LLP  
555 Mission Street  
San Francisco, CA 94109  
Fax: (415) 393-8461  
Attention: Stewart McDowell

and

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, New York 10153  
Fax: (212) 310-8007  
Attention: Douglas Warner

(b) unless otherwise specified by the Company in a notice delivered by the Company in accordance with this Section 5.01, any notice required to be delivered to the Company shall be properly delivered if delivered to:

Restoration Hardware Holdings, Inc.  
15 Koch Road, Suite J  
Corte Madera, CA 94925  
Fax: (415) 927-7264  
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

Morrison & Foerster LLP  
425 Market Street  
San Francisco, CA 94105  
Fax: (415) 276-7113  
Attention: Gavin Grover

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SECTION 5.02. Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement and their respective successors and permitted assigns. Nothing in this Agreement, express or implied, is intended or shall be construed to give any Person other than the parties to this Agreement or their respective successors or permitted assigns any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.

SECTION 5.03. Share Ownership. For purposes of this Agreement, the Sponsor shall be deemed to own all shares of Common Stock owned by Persons that were members of the Sponsor as of immediately after the Effective Date.

SECTION 5.04. Amendment. This Agreement may not be amended, restated, modified or supplemented in any respect and the observance of any term of this Agreement may not be waived except by a written instrument executed by the Company and the Sponsor.

SECTION 5.05. Assignability. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by any party hereto except as otherwise expressly stated hereunder.

SECTION 5.06. Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to its principles of conflict of laws. The parties hereto irrevocably submit, in any legal action or proceeding relating to this Agreement, to the jurisdiction of the courts of the United States located in the State of Delaware or in any Delaware state court located in New York county and consent that any such action or proceeding may be brought in such courts and waive any objection that they may now or hereafter have to the venue of such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient forum.

SECTION 5.07. Enforcement. The parties agree that irreparable damage (for which monetary damages, even if available, would not be an adequate remedy) would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms on a timely basis or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction, specific performance and other equitable relief to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court identified in Section 5.06 above without the need to post bond, this being in addition to any other remedy to which they are entitled at law or in equity.

SECTION 5.08. Severability. If any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 5.09. Additional Securities Subject to Agreement. All shares of Common Stock of the Company that any Holder hereafter acquires by means of a stock split, stock dividend, distribution, exercise of options or warrants or otherwise, whether by merger, consolidation or otherwise (including shares of a surviving corporation into which the shares of Common Stock are exchanged in such transaction) will be subject to the provisions of this Agreement to the same extent as if held on the date of the this Agreement.

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SECTION 5.10. Section and Other Headings. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

SECTION 5.11. Counterparts. This Agreement may be executed in any number of counterparts, each of which may be executed by less than all of the parties hereto, each of which shall be enforceable against the parties actually executing such counterparts, and all of which together shall constitute one instrument.

SECTION 5.12. Waiver of Jury Trial. Each party to this Agreement, for itself and its Related Persons, hereby irrevocably and unconditionally waives to the fullest extent permitted by applicable law all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to the actions of the parties hereto or their respective Related Persons pursuant to this Agreement or in the negotiation, administration, performance or enforcement of this Agreement.

SECTION 5.13. Entire Agreement. This Agreement supersedes all prior agreements, whether written or oral, between the parties with respect to its subject matter (including this Agreement) and constitutes a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter.

SECTION 5.14. Termination of Agreement. Upon the Veto Lapse Date, this Agreement shall terminate and be of no further force and effect.

[SIGNATURE PAGES FOLLOW]



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IN WITNESS WHEREOF, the Company and each Sponsor have executed this Agreement as of the day and year first above written.

RESTORATION HARDWARE HOLDINGS, INC.

By: /s/ Carlos Alberini

Name: Carlos Alberini

Title: Chief Executive Officer

HOME HOLDINGS, LLC

By: /s/ Marc Magliacano

Name: Marc Magliacano

Title: Member, Board of Managers

*Signature Page to Stockholders Agreement*

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**EXHIBIT A**  
**THE AUDIT COMMITTEE**  
**OF**  
**THE BOARD OF DIRECTORS**  
**OF**  
**RESTORATION HARDWARE HOLDINGS, INC.**  
**CHARTER**

**I. PURPOSE**

The Audit Committee (the “Committee”) is established by and amongst the Board of Directors (the “Board”) of Restoration Hardware Holdings, Inc. (the “Company”) for the primary purpose of assisting the Board in overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company and for the purposes set forth in the listing requirements of the New York Stock Exchange (“NYSE”). The Committee shall also review the policies and procedures adopted by the Company to fulfill its responsibilities regarding the fair and accurate presentation of financial statements in accordance with generally accepted accounting principles (“GAAP”), the NYSE, and the applicable rules and regulations of the Securities and Exchange Commission (the “SEC”).

Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Company’s policies, procedures and practices at all levels. The Committee should also provide an open avenue of communication among the independent registered public accounting firm, financial and senior management, the internal auditing function and the Board.

The Committee has the authority to obtain advice and assistance from outside legal, accounting, or other advisors as deemed appropriate to perform its duties and responsibilities.

The Company shall provide appropriate funding, as determined by the Committee, for compensation to the independent registered public accounting firm and to any advisers that the Committee chooses to engage as well as for ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee will primarily fulfill its responsibilities by carrying out the activities enumerated in Section III of this Charter.

**II. COMPOSITION AND MEETINGS**

The Committee shall be comprised of that number of members required by the listing standards of the NYSE, and, in any event, shall consist of at least three members. Each member of the Committee shall meet applicable independence requirements for membership of an Audit Committee in accordance with listing standards of the NYSE. If a member of the Committee

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simultaneously serves on the audit committees of more than three public companies, the Board must determine that such simultaneous service would not impair the ability of such member to effectively serve on the Committee.

To the extent that the Company elects a “controlled company” exception under the listing requirements of the NYSE, then any listing requirement of the NYSE or provision of this Charter from which the Company is exempt under such controlled company or other provision shall be deemed inapplicable to the Company if and for so long as the Company relies upon the controlled company or other similar exception without further amendment of this Charter. The pertinent provisions of the listing requirements of the NYSE and this Charter shall again be deemed applicable without further amendment of this Charter at such time as the Company elects to no longer rely upon, or is otherwise no longer eligible to rely upon, the controlled company or other similar exception.

Each member of the Committee must be financially literate, as such qualification is interpreted by the Board in its business judgment, and at least one member of the Committee shall meet the definition of “audit committee financial expert” as set forth in Rule 407(d)(5) of Regulation S-K. The existence of such member(s) shall be disclosed in periodic filings as required by the SEC. Members of the Committee may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant.

Committee members shall be appointed by the Board, based on the recommendation of the Nominating Committee, and shall serve until their successors shall be duly elected and qualified or until their earlier resignation or removal. Committee members may be removed at any time by vote of the Board.

Unless a Chair is elected by the full Board, members of the Committee may designate a Chair by majority vote of the full Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. To the extent practical and appropriate, each regularly scheduled meeting should conclude with an executive session of the Committee absent members of management and on such terms and conditions as the Committee may elect. As part of its job to foster open communication, the Committee should, to the extent practical and appropriate, meet periodically with management, the director of the internal auditing function and the independent registered public accounting firm in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

### **III. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties, the Committee shall:

#### *Documents/Reports/Accounting Information Review*

1. Review this Charter periodically, and no less frequently than annually, and recommend to the Board any necessary amendments as conditions dictate.

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2. Review and discuss with management and the independent registered accounting firm the Company's annual financial statements, including the Management's Discussion and Analysis proposed to be included in the Company's Annual Report on Form 10-K, quarterly financial statements, and all internal controls reports (or summaries thereof), if any, and recommend to the Board, if appropriate, that the audited financial statements be included in the Company's Annual Report on Form 10-K for filing with the SEC. To the extent practical and appropriate, review other relevant reports or financial information submitted by the Company to any governmental body, or the public, including management certifications as required by the Sarbanes-Oxley Act of 2002 (Sections 302 and 906), and any relevant reports rendered by the independent registered public accounting firm (or summaries thereof). Review and discuss with management and the independent registered public accounting firm all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

3. Review with financial management and the independent registered public accounting firm each Quarterly Report on Form 10-Q prior to its filing.

4. Discuss the Company's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

5. Have one or more members of the Committee, in particular if reasonably available the Chair of the Committee, review, before release, the unaudited operating results in the Company's quarterly earnings release and/or discuss the contents of the Company's quarterly earnings release with management.

6. Have one or more members of the Committee, in particular if reasonably available the Chair of the Committee, review, before release, any non-GAAP or "pro forma" financial information, guidance or revised guidance to be included in a press release of the Company.

7. To the extent practical and appropriate, review the regular internal reports (or summaries thereof) to management prepared by the internal auditing department and management's response.

8. Discuss policies with respect to risk assessment and risk management.

*Independent Registered Public Accounting Firm*

9. Be responsible for the appointment of, and review and approval, on a continuing basis, of the retention, termination and performance of the Company's independent registered public accounting firm and as part of this responsibility the Audit Committee shall:

- Have sole authority to appoint, retain, compensate and terminate the independent registered public accounting firm.

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- Oversee the work performed by the independent registered public accounting firm for the purpose of preparing or issuing an audit report or related work.
  - Review the performance of the independent registered public accounting firm and remove the independent registered public accounting firm if circumstances warrant.
  - The independent registered public accounting firm shall report directly to the Committee and the Committee shall oversee the resolution of disagreements between management and the independent registered public accounting firm in the event that they arise.
  - Consider and evaluate whether the registered public accounting firm's performance of permissible nonaudit services is compatible with the registered public accounting firm's independence.
  - Establish a clear understanding with management and the independent registered public accounting firm that the independent registered public accounting firm is accountable to the Audit Committee and the Board as representatives of the Company's stockholders.

10. Review with the independent registered public accounting firm when appropriate any problems or difficulties and management's response; review the independent registered public accounting firm's attestation and report on management's internal control report; obtain from the independent registered public accounting firm assurance that it has complied with Section 10A of the Securities Exchange Act of 1934; and hold discussions with the independent registered public accounting firm, at least prior to the filing of the independent registered public accounting firm's audit report with the SEC pursuant to federal securities laws, regarding the following:

- all critical accounting policies and practices to be used;
- all alternative treatments within GAAP for policies and practices related to material items that have been discussed with management, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent registered public accounting firm;
- other material written communications between the independent registered public accounting firm and management including, but not limited to, the management letter and schedule of unadjusted differences;
- an analysis of the registered public accounting firm's judgment as to the quality of the Company's accounting principles, setting forth significant reporting issues and judgments made in connection with the preparation of the financial statements, and the matters required to be discussed by Public Company Accounting Oversight Board AU Section 380—*Communication with Audit Committees*, as may be modified or supplemented from time to time;
- any significant changes required in the independent registered public accounting firm's audit plan;
- other matters related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards; and
- any other relevant reports, including regular internal financial reports prepared by management of the Company and any internal auditing department, or other financial information.

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11. Review the independence of the independent registered public accounting firm, including a review of management consulting services, and related fees, provided by the independent registered public accounting firm. The Committee shall require that the independent registered public accounting firm at least annually provide a formal written statement (a) describing (i) the independent registered public accounting firm's internal quality-control procedures; and (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the independent registered public accounting firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five (5) years, respecting one or more audits carried out by the independent registered public accounting firm, and any steps taken to deal with any such issues; and (b) delineating all relationships between the independent registered public accounting firm and the Company consistent with the rules of the NYSE and request information from the independent registered public accounting firm and management to determine the presence or absence of a conflict of interest. The Committee shall actively engage the independent registered public accounting firm in a dialogue with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent registered public accounting firm. The Committee shall take, or recommend that the full Board take, appropriate action to oversee the independence of the independent registered public accounting firm. The Committee shall establish clear policies regarding the hiring of employees and former employees of the Company's independent registered public accounting firm.

12. Review and preapprove all audit, review or attest engagements of, and nonaudit services to be provided by, the independent registered public accounting firm (other than with respect to the *de minimis* exception permitted by the Sarbanes-Oxley Act of 2002 and the SEC rules promulgated thereunder). Establish and maintain preapproval policies and procedures relating to the engagement of the independent registered public accounting firm to render services, provided the policies and procedures are detailed as to the particular service and the Committee is informed of each service and such policies and procedures do not include delegation of the Committee's responsibilities under the Securities Exchange Act of 1934 to management. The preapproval duty may be delegated to one or more designated members of the Committee with any such preapproval reported to the Committee at its next regularly scheduled meeting.

*Financial Reporting Processes and Accounting Policies*

13. In consultation with the independent registered public accounting firm and the internal auditors, review the integrity of the organization's financial reporting processes (both internal and external), and the internal control structure (including disclosure controls).

14. Review with management the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.

15. Review all related party transactions as defined in the NYSE requirements (consistent with the Company's Related Party Transaction Policies and Procedures as approved by the Board of Directors).

16. Establish and maintain procedures for the receipt, retention, and treatment of complaints regarding accounting, internal accounting, or auditing matters

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17. Establish and maintain procedures for the confidential, anonymous submission by Company employees regarding questionable accounting or auditing matters

*Internal Audit*

18. Review and concur with management on (i) the timing for establishment of any internal auditing department as well as the scope and responsibilities of any such internal auditing department and (ii) the appointment, replacement, reassignment or dismissal of the person assigned to oversee and run such internal auditing department. Notwithstanding the foregoing, the Company shall have an internal auditing department to the extent required by the listing standards of the NYSE.

*Other Responsibilities*

19. Review with the independent registered public accounting firm, the internal auditing department and management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)

20. Prepare the report that the SEC requires be included in the Company's annual proxy statement.

21. To the extent appropriate or necessary, review the rationale for employing audit firms other than the principal independent registered public accounting firm and, where an additional audit firm has been employed, review the coordination of audit efforts to assure completeness of coverage, reduction of redundant efforts and the effective use of audit resources.

22. Establish, review and update periodically a code of ethics and ensure that management has established a system to enforce this code. It shall be the policy of the Committee that the code is in compliance with all applicable rules and regulations. Review management's monitoring of the Company's compliance with the organization's code of ethics.

23. Annually review and assess the Committee's performance.

24. Report regularly to the Board.

25. Perform any other activities consistent with this Charter, the Company's Bylaws, as may be amended from time to time, and governing law, as the Committee or the Board deems necessary or appropriate.

**REGISTRATION RIGHTS AGREEMENT**

**by and among**

**RESTORATION HARDWARE HOLDINGS, INC.,**

**HOME HOLDINGS, LLC,**

**CP HOME HOLDINGS, LLC,**

**TOWER THREE HOME LLC,**

**GLENHILL CAPITAL OVERSEAS MASTER FUND LP,**

**GLENHILL CAPITAL LP,**

**THE GLENN J. KREVLIN REVOCABLE TRUST**

**AND THE KREVLIN 2005 GIFT TRUST**

**AND**

**THE OTHER STOCKHOLDERS PARTY HERETO**

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**Dated as of November 7, 2012**

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## EXHIBIT INDEX

Exhibit A	Form of Consent of Holder of Registrable Securities
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## REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (this "Agreement"), dated as of November 7, 2012, by and among Restoration Hardware Holdings, Inc., a Delaware corporation (the "Company"), Home Holdings, LLC, a Delaware limited liability company ("HH"), CP Home Holdings, LLC ("Catterton"), Tower Three Home LLC ("Tower Three"), Glenhill Capital Overseas Master Fund LP, Glenhill Capital LP, the Glenn J. Krevlin Revocable Trust and the Krevlin 2005 Gift Trust (collectively "Glenhill"), and each registered or beneficial owner of shares of common stock of the Company listed on Schedule A hereto that has signed a Consent of Holder of Registrable Securities (such parties and each Person listed on Schedule A hereto, individually, a "Holder" and, collectively, the "Holders").

WHEREAS, on the date hereof the Company has consummated an initial public offering, in connection with which, the parties desire to enter into this Agreement.

NOW, THEREFORE, effective as of the Effective Date, the parties mutually agree as follows:

### ARTICLE I.

#### DEFINITIONS; RULES OF CONSTRUCTION

SECTION 1.01. Definitions. The following terms, as used herein, have the following meanings:

"**Affiliate**" of any specified Person means any other Person directly or indirectly controlling, controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "**controlling**" and "**controlled**" have meanings correlative to the foregoing. No Person shall be deemed to be an Affiliate of another Person solely by virtue of the fact that both Persons own shares of the Company's Capital Stock.

"**Board**" means the Board of Directors of the Company.

"**Business Day**" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in the City of New York are authorized or obligated by law or executive order to close.

"**Capital Stock**" means, with respect to any Person any and all shares, interests, participations, rights in or other equivalents (however designated) of such Person's capital stock, and any rights, warrants or options exercisable or exchangeable for or convertible into such capital stock.

"**Catterton**" has the meaning set forth in the preamble.

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“**Commission**” means the Securities and Exchange Commission.

“**Common Stock**” means the Common Stock, par value \$0.0001 per share, of the Company.

“**Company**” has the meaning set forth in the preamble.

“**Consent of Holders of Registrable Securities**” means a consent, the form of which is attached hereto as Exhibit A.

“**Demand Holder**” has the meaning set forth in [Section 3.02\(a\)](#).

“**Demand Registration**” has the meaning set forth in [Section 3.02\(a\)](#).

“**Demand Registration Notice**” has the meaning set forth in [Section 3.02\(a\)](#).

“**Effective Date**” means the date of consummation of the initial public offering of the Company’s Common Stock.

“**Effectiveness Period**” has the meaning set forth in [Section 3.02\(a\)](#).

“**Exchange Act**” means the Securities Exchange Act of 1934.

“**HH**” has the meaning set forth in the preamble.

“**Holder**” and “**Holders**” have the meanings set forth in the preamble.

“**Included Securities**” has the meaning set forth in [Section 3.01\(a\)](#).

“**Locked-up Person**” has the meaning set forth in [Section 3.05\(c\)](#).

“**Lock-up Period**” has the meaning set forth in [Section 3.05\(a\)](#).

“**Lock-up Securities**” has the meaning set forth in [Section 3.05\(c\)](#).

“**Major Holder**” means any Person that, together with its Affiliates, owns five (5) percent or more of the outstanding shares of Common Stock of the Company.

“**Person**” means an individual, a corporation, a general or limited partnership, a limited liability company, a joint stock company, an association, a trust or any other entity or organization, including a government, a political subdivision or an agency or instrumentality thereof.

“**Piggyback Registration**” has the meaning set forth in [Section 3.01\(b\)](#).

“**Pro Rata Amount**” has the meaning set forth in [Section 3.05\(c\)](#).

“**Public Offering**” means an underwritten public offering and sale of equity securities of the Company pursuant to an effective registration statement under the

Securities

Act; provided, that a Public Offering shall not include (x) the initial public offering of the Company's Common Stock or (y) an offering made in connection with (a) a business acquisition or combination pursuant to a registration statement on Form S-4 or any similar form or (b) an employee benefit plan pursuant to a registration statement on Form S-8 or any similar form.

"**Registrable Securities**" shall mean any of (i) the shares of Common Stock owned by any Holder at the time of determination and (ii) any other Capital Stock issued or issuable with respect to such shares of Common Stock by way of a stock split, stock dividend, reclassification, subdivision or reorganization, recapitalization or similar event. As to any particular Registrable Securities of a Holder, such securities shall cease to be Registrable Securities when (a) a registration statement with respect to the offering of such securities by the Holder shall have been declared effective under the Securities Act and such securities shall have been disposed of by such Holder pursuant to such registration statement, (b) such securities have been sold to the public pursuant to Rule 144 (or any similar provision then in force) promulgated under the Securities Act, (c) all of such Holder's shares of Common Stock may be sold to the public pursuant to Rule 144 (or any similar provision then in force) without any volume, manner of sale or similar restrictions (*provided, however*, that shares of Common Stock held by Major Holders that would be Registrable Securities but for this clause (c) shall continue to be Registrable Securities for purposes of Piggyback Registrations until such shares of Common Stock cease to be Registrable Securities by some other clause of this definition), (d) such securities shall have been otherwise transferred and new certificates for such securities not bearing a legend restricting further transfer shall have been delivered by the Company or its transfer agent and any subsequent disposition of such securities shall not require registration or qualification under the Securities Act or any similar state law then in force or (e) such securities shall have ceased to be outstanding.

"**Registration**" means a Piggyback Registration or Demand Registration.

"**Sale Opportunity**" has the meaning set forth in Section 3.05(c).

"**Sale Notice**" has the meaning set forth in Section 3.05(c).

"**Securities Act**" means the Securities Act of 1933.

"**Tower Three**" has the meaning set forth in the preamble.

SECTION 1.02. **Rules of Construction.** Any provision of this Agreement that refers to the words "include," "includes" or "including" shall be deemed to be followed by the words "without limitation." References to "dollars" or "\$" shall mean dollars in lawful currency of the United States of America. References to numbered or letter articles, sections and subsections refer to articles, sections and subsections, respectively, of this Agreement unless expressly stated otherwise. All references to this Agreement include, whether or not expressly referenced, the exhibits and schedules attached hereto. References to a Section, paragraph, Exhibit or Schedule shall be to a Section or paragraph of, or Exhibit or Schedule to, this Agreement unless otherwise indicated. The words "hereof," "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The word "or" when used in this Agreement is not exclusive. Any agreement,

instrument, law or statute defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument, or statute as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes) by succession of comparable successor statutes and references to all attachments thereto and instruments incorporated therein. References to a Person are also to its permitted successors and assigns. In the event that any claim is made by any Person relating to any conflict, omission or ambiguity in this Agreement, no presumption or burden of proof or persuasion shall be implied by virtue of the fact that this Agreement was prepared by or at the request of a particular Person or its counsel.

## ARTICLE II.

### REPRESENTATIONS AND WARRANTIES

Each of the parties hereby represents and warrants, severally and not jointly, to each of the other parties as follows, as of the Effective Date:

SECTION 2.01. Authority; Enforceability. Such party (a) has the legal capacity or organizational power and authority to execute, deliver and perform its obligations under this Agreement and (b) (in the case of parties that are not natural Persons) is duly organized and validly existing and in good standing under the laws of its jurisdiction of organization. This Agreement has been duly executed and delivered by such party and constitutes a legal, valid and binding obligation of such party, enforceable against it in accordance with the terms of this Agreement, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other laws affecting the rights of creditors generally and to the exercise of judicial discretion in accordance with general principles of equity (whether applied by a court of law or of equity).

SECTION 2.02. Consent. No consent, waiver, approval, authorization, exemption, registration, license or declaration is required to be made or obtained by such party, other than those that have been made or obtained on or prior to the Effective Date, in connection with (a) the execution or delivery of this Agreement or (b) the consummation of any of the transactions contemplated hereby.

## ARTICLE III.

### REGISTRATION RIGHTS

SECTION 3.01. Company Registration.

(a) Demand Registrations

(i) At any time from and after the Effective Date, upon the written demand of HH, Catterton or Tower Three (each, a "Demand Holder"), the Company shall use its commercially reasonable efforts to effect as expeditiously as possible, the registration (a "Demand Registration") under the Securities Act of (i) all Registrable Securities held by such Demand Holder that are requested to be registered in the initial written demand and (ii) any additional Registrable Securities requested to be registered by any Holders who elect to include Registrable Securities in such Demand Registration in a written notice or notices given within

ten (10) days after the date the Demand Registration Notice (as defined below) is given by the Company (together with the Registrable Securities described in clause (i), the "Included Securities"). Promptly (but in no event later than five Business Days) after the receipt by the Company of any written demand pursuant to clause (i) of the immediately preceding sentence, the Company will give written notice of such demand to all Holders of Registrable Securities (the "Demand Registration Notice"). The Company shall effect the registration under the Securities Act of the Included Securities as expeditiously as possible and use its commercially reasonable efforts to have such registration become and remain effective. The Company shall have the right to select the underwriters for a Demand Registration that is to be an underwritten offering, subject to the reasonable approval of Catterton and Tower Three.

(ii) Notwithstanding Section 3.01(a)(i), the Company shall not be required to effect more than three Demand Registrations from each of Catterton and Tower Three (including through a demand by HH) (or more than six Demand Registrations from the Demand Holders in the aggregate); *provided*, that the Demand Holders shall be entitled to unlimited additional Demand Registrations if such additional Demand Registrations would be eligible for registration on Form S-3; *provided, further*, that the Company shall not be required to effect more than two such Demand Registrations on Form S-3 in any twelve month period.

(iii) Any registration initiated pursuant to Section 3.01(a)(i) shall not count as a Demand Registration (i) unless and until a registration statement with respect to all Registrable Securities to be sold in connection therewith shall have become effective and remained effective for a period of 120 days or, if a shorter time, until all of the Included Securities shall have been sold, (ii) if after it has become effective such registration is interfered with by any stop order, injunction or other order or requirement of the SEC or any other governmental authority for any reason not attributable to the Holders of Included Securities, such that no sales are possible thereunder for a period of ten consecutive days or more, (iii) if the conditions to closing specified in the underwriting agreement, if any, entered into in connection with such registration are not satisfied or waived, other than by reason of a failure on the part of the Holders of Included Securities or (iv) if, due to the provisions of Section 3.01(a)(iv), the Demand Holder demanding such Demand Registration is prohibited from registering 30% or more of its Registrable Securities requested to be registered in the initial written demand.

(iv) If a Demand Registration is an underwritten offering and the managing underwriters advise the Company in writing that in their good faith judgment the number of securities to be included in a Demand Registration exceeds the number that can be sold in the offering in light of marketing factors or because the sale of a greater number would adversely affect the price of the Registrable Securities to be sold in such Demand Registration, then the total number of securities the underwriters advise can be included in such Demand Registration shall be allocated (i) first, to the Holders of the Included Securities, pro rata; (ii) second, to the Company for any securities that the Company proposes to issue and sell for its own account; and (iii) third, to other persons that the Company is obligated to register pursuant to other contractual arrangements, pro rata.

(b) Piggyback Registration Rights.

(i) Whenever the Company proposes to complete a Public Offering (other than in connection with a Demand Registration) and the registration form to be used may be used for the registration of Registrable Securities (a "Piggyback Registration"), the Company shall give prompt written notice to all Holders of Registrable Securities of its intention to effect such a registration and, subject to the terms of subsections (ii) below, shall include in such registration all Registrable Securities with respect to which the Company has received written requests for inclusion therein within ten (10) days after the receipt of the Company's notice.

(ii) If a Piggyback Registration is an underwritten offering and the managing underwriters advise the Company in writing that in their opinion the number of securities requested to be included in such registration exceeds the number which can be sold in an orderly manner in such offering within a price range acceptable to the Company, the Company shall include in such registration (i) first, the securities the Company proposes to sell, (ii) second, the Registrable Securities requested to be included in such registration, pro rata among the Holders of such Registrable Securities on the basis of the number of shares owned by each such Holder, and (iii) third, other securities requested to be included in such registration pursuant to contractual arrangements with the Company.

(c) Other Sales Restrictions. Notwithstanding anything to the contrary herein, including any provisions regarding pro rata inclusion of Registrable Securities in any Registration, if any Holder has agreed to lock-ups or other restrictions on sale of any such Holder's Registrable Securities with the Company, another Holder or any other Person, including pursuant to Section 3.05(c) hereof, such other agreements or restrictions shall govern the sale of such Holders Registrable Securities.

SECTION 3.02. Registration Procedures. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Article III that the Holders requesting inclusion in any Registration shall furnish to the Company such information regarding them, the Registrable Securities held by them, the intended method of disposition of such Registrable Securities, and such agreements regarding indemnification, disposition of such securities and other matters referred to in and consistent with this Article III, as the Company shall reasonably request and as shall be required in connection with the action to be taken by the Company. With respect to any Registration which includes Registrable Securities held by a Holder, the Company will:

(a) As promptly as possible (in the case of a Demand Registration, no more than 45 days after the Company's receipt of a Demand Registration Notice that is for a Registration on a form other than Form S-3 (or any successor form) and no more than 30 days after the Company's receipt of a Demand Registration Notice that is for a registration on Form S-3 (or any successor form)), prepare and file with the Commission a registration statement on the appropriate form prescribed by the Commission for such intended method of disposition and use its commercially reasonable efforts to cause such registration statement to be or become effective as soon as practicable thereafter; provided, that before filing a registration statement or prospectus or any amendments or supplements thereto, the Company shall furnish to counsel representing any Demand Holder selling Registrable Securities in connection with such Registration copies of all documents proposed to be filed, which documents shall be subject to the review and reasonable comments of such counsel and which shall not be filed without the

consent of such Demand Holder; provided, further, that the Company shall not be obligated to maintain such Registration effective for a period longer than the earlier of (x) 120 days after such Registration becomes effective and (y) the disposition of all Registrable Securities included in such Registration (the “Effectiveness Period”);

(b) Prepare and file with the Commission such amendments and post-effective amendments to such registration statement and any documents required to be incorporated by reference therein as may be necessary to keep the registration statement effective for a period of not less than the Effectiveness Period (but not prior to the expiration of the time period referred to in Section 4(3) of the Securities Act and Rule 174 thereunder, if applicable); cause the prospectus to be supplemented by any required prospectus supplement, and as so supplemented to be filed pursuant to Rule 424 under the Securities Act and comply with the Securities Act in a timely manner; and comply with the provisions of the Securities Act applicable to it with respect to the disposition of all Registrable Securities covered by such registration statement during the applicable period in accordance with the intended method or methods of disposition by the sellers thereof set forth in such registration statement or supplement to the prospectus;

(c) Promptly incorporate in a prospectus supplement or post-effective amendment such information as the underwriter(s) or the Demand Holders selling shares in such Registration reasonably request to be included therein relating to the plan of distribution with respect to such Registrable Securities; and make all required filings of such prospectus supplements or post-effective amendments as soon as practical after being notified of the matters to be incorporated in such supplement or amendment;

(d) Furnish to such Holder, without charge, such number of conformed copies of the registration statement and any post-effective amendment thereto, as such Holder may reasonably request, and such number of copies of the prospectus (including each preliminary prospectus) and any amendments or supplements thereto, and any documents incorporated by reference therein, as the Holder or underwriter or underwriters, if any, may request in order to facilitate the disposition of the securities being sold by the Holder (it being understood that the Company consents to the use of the prospectus and any amendment or supplement thereto by the Holder covered by the registration statement and the underwriter or underwriters, if any, in connection with the offering and sale of the securities covered by the prospectus or any amendments or supplements thereto);

(e) Notify such Holder at any time when a prospectus relating thereto is required to be delivered under the Securities Act, when the Company becomes aware of the happening of any event as a result of which the prospectus included in such registration statement (as then in effect) contains any untrue statement of material fact or omits to state a material fact necessary to make the statements therein (in the case of the prospectus or any preliminary prospectus, in the light of the circumstances under which they were made) not misleading and, as promptly as practicable thereafter, prepare and file with the Commission and furnish a supplement or amendment to such prospectus so that, as thereafter delivered to the investors of such securities, such prospectus will not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;



(f) Provide a CUSIP number for all Registrable Securities no later than the effective date of the Registration and provide the applicable transfer agent and registrar for all such Registrable Securities with printed certificates representing the Registrable Securities that are in a form eligible for deposit with The Depository Trust Company not later than the effective date of the registration statement;

(g) Use its commercially reasonable efforts to cause all securities included in such registration statement to be listed, by the date of the first sale of securities pursuant to such registration statement, on any national securities exchange, quotation system or other market on which the Common Stock is then listed;

(h) Make generally available to its security holders an earnings statement, which need not be audited, satisfying the provisions of Section 11(a) of the Securities Act as soon as reasonably practicable after the end of the 12-month period beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the registration statement, which statement shall cover said 12-month period;

(i) After the filing of a registration statement, (i) notify each Holder holding Registrable Securities covered by such registration statement of any stop order issued or, to the Company's knowledge, threatened by the Commission and of the receipt by the Company of any notification with respect to the suspension of the qualification of any Registrable Securities for sale under the applicable securities or blue sky laws of any jurisdiction, (ii) take all reasonable actions to obtain the withdrawal of any order suspending the effectiveness of the registration statement or the qualification of any Registrable Securities at the earliest possible moment, and (iii) make available for inspection by any seller of Registrable Securities, any underwriter participating in any disposition pursuant to such registration statement, and any attorney, accountant, or other agent retained by any such seller or underwriter, all financial and other records, pertinent corporate and business documents and properties of the Company as shall be necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors, employees, agents, representatives, and independent accountants to supply all such information reasonably requested by any such seller, underwriter, attorney, accountant, or agent in connection with such registration statement;

(j) In connection with the preparation and filing of each Registration, give each Demand Holder selling Registrable Securities in such Registration, the underwriter(s) and their respective counsel, accountants and other representatives and agents the opportunity to participate in the preparation of each registration statement, each prospectus included therein or filed with the Commission, and each amendment thereof or supplement thereto and comparable statements under the securities or blue sky laws of any jurisdiction and give each of the foregoing Persons access to the books and records, pertinent corporate and business documents and properties of the Company and its subsidiaries and such opportunities to discuss the business and affairs of the Company and its subsidiaries with the respective directors, officers, employees, agents, representatives and the independent public accountants who have certified the Company's consolidated financial statements, and supply all other information requested by and respond to all other inquiries from such Demand Holders, underwriter(s), counsel, accountants and other representatives and agents as shall be necessary or appropriate, in the opinion of such holders or underwriter(s), to conduct a reasonable investigation within the meaning of the

Securities Act, and the Company shall not file any registration statement or amendment thereto or any prospectus or supplement thereto to which such Demand Holders or such underwriter(s) shall object;

(k) Cause its employees to participate in customary “road shows” and other presentations as reasonably requested by the underwriters in connection with such Registration;

(l) Deliver promptly to counsel representing any Demand Holder selling Registrable Securities under such Registration and each underwriter, if any, participating in the offering of the Registrable Securities, copies of all correspondence between the Commission and the Company, its counsel or auditors, and all memoranda relating to discussions with the Commission or its staff with respect to such Registration; and

(m) On or prior to the date on which the registration statement is declared or otherwise becomes effective, use commercially reasonable efforts to (i) register or qualify, and cooperate with such underwriter or underwriters, if any, and their counsel in connection with the registration or qualification of, the securities covered by the registration statement for offer and sale under the securities or blue sky laws of each state and other jurisdiction of the United States as the managing underwriter or underwriters, if any, requests in writing, to use commercially reasonable efforts to keep each such registration or qualification effective, including through new filings, or amendments or renewals, during the Effectiveness Period and do any and all other acts or things necessary or advisable to enable the disposition in all such jurisdictions of the Registrable Securities covered by the applicable registration statement; provided, that the Company will not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action which would subject it to general service of process in any such jurisdiction where it is not then so subject, (ii) obtain a cold comfort letter from the Company’s independent public accountants in customary form and covering matters of the type customarily covered by cold comfort letters, which letter shall be addressed to the underwriters, and the Company shall use commercially reasonable efforts to cause such cold comfort letter to also be addressed to any Demand Holder selling Registrable Securities in such Registration, (iii) obtain an opinion from the Company’s outside counsel in customary form and covering matters of the type customarily covered by such opinions, which opinion shall be addressed to the underwriters and any Demand Holder selling Registrable Securities in such Registration, and (iv) enter into and perform its obligations under such customary agreements (including underwriting agreements in customary form) and take all such other actions as the Demand Holders reasonably request in order to expedite or facilitate the disposition of such Registrable Securities (including effecting a stock split, combination of shares, recapitalization, or reorganization).

The Holders, upon receipt of any notice from the Company of the happening of any event of the kind described in subsection (e) of this Section 3.02, will forthwith discontinue disposition of the Registrable Securities until the Holders’ receipt of the copies of the supplemented or amended prospectus contemplated by subsection (e) of this Section 3.02 or until it is advised in writing by the Company that the use of the prospectus may be resumed, and has received copies of any additional or supplemental filings which are incorporated by reference in the prospectus, and, if so directed by the Company, each Holder will, or will request the managing underwriter or underwriters, if any, to, deliver, to the Company (at the Company’s sole expense) all copies, other than permanent file copies then in such Holder’s possession, of the prospectus covering such securities current at the time of receipt of such notice.

No Holder of Registrable Securities included in a Registration shall be required to make any representations or warranties to or agreements with the Company, other than representations and warranties regarding such Holder, such Holder's ownership of and title to the Registrable Securities to be sold in such offering, and its intended method of distribution and any liability of any such Holder under such underwriting agreement shall be limited to liability arising from breach of such Holder's representations and warranties therein and shall be limited to an amount equal to the net amount received by such Holder from the sale of Registrable Securities pursuant to such registration statement.

SECTION 3.03. Registration Expenses.

(a) In the case of any Registration, the Company shall bear all expenses incident to the Company's performance of or compliance with Section 3.01 of this Agreement, including all Commission and stock exchange or Financial Industry Regulatory Authority registration and filing fees and expenses, fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel in connection with blue sky qualifications of the Registrable Securities), rating agency fees, printing expenses, messenger, telephone and delivery expenses, fees and disbursements of counsel for the Company and all independent certified public accountants and any fees and disbursements of underwriters customarily paid by issuers or sellers of securities (but not including any underwriting discounts or commissions, or transfer taxes, if any, attributable to the sale of Registrable Securities by a selling Holder or fees and expenses of more than three counsel representing the Holders selling Registrable Securities under such Registration as set forth in Section 3.03(b) below).

(b) In connection with each Registration initiated hereunder (whether a Demand Registration or a Piggyback Registration), the Company shall reimburse the Holders covered by such Registration for the reasonable fees and disbursements of one counsel chosen by Catterton, one counsel chosen by Tower Three and one counsel chosen by the holders of a majority of the Registrable Securities held by Holders other than HH, Catterton and Tower Three.

SECTION 3.04. Indemnification.

(a) Indemnification by the Company. The Company agrees to indemnify and hold harmless each Holder participating in an offering of Registrable Securities, the underwriters selling such Holder's Registrable Securities and their respective officers, directors, Affiliates and agents and each Person who controls (within the meaning of the Securities Act or the Exchange Act) any of them, including any general partner or manager of any thereof, and each Person who controls the Company (within the meaning of the Securities Act or the Exchange Act) against all losses, claims, damages, liabilities and expenses (including reasonable out-of-pocket fees and disbursements of counsel) arising out of or based upon any untrue or alleged untrue statement of a material fact contained in any registration statement, prospectus or preliminary prospectus, free writing prospectus, or any amendment thereof or supplement thereto or in any document incorporated by reference therein or any omission or alleged omission to state therein a material

fact required to be stated therein or necessary to make the statements therein (in the case of the prospectus or any preliminary prospectus, in the light of the circumstances under which they were made) not misleading, except insofar as the same are made in reliance on and in conformity with any information with respect to such Holder or Person furnished in writing to the Company by such Holder or Person expressly for use therein. The Company further agrees to indemnify and hold harmless each Person who controls the Company (within the meaning of the Securities Act or the Exchange Act) against all losses, claims, damages, liabilities and expenses (including reasonable out-of-pocket counsel fees and disbursements) arising out of or based upon any untrue or alleged untrue statement of a material fact contained in any document, report or information filed with the Commission under the Exchange Act or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as the same are made in reliance on and in conformity with any information with respect to such Person furnished in writing to the Company by such Person expressly for use therein. Notwithstanding any other provision of this Agreement, the Company shall advance all expenses incurred by or on behalf of an indemnified party pursuant to this [Section 3.04\(a\)](#) within thirty (30) days after the receipt by the Company of a statement or statements from the indemnified party requesting such advance or advances from time to time, whether prior to or after final disposition of such proceeding. Such statement or statements shall reasonably evidence the expenses incurred by the indemnified party.

(b) **Indemnification by the Holders.** To the extent permitted by law, each Holder selling shares in a Registration agrees to indemnify and hold harmless the Company, its directors, officers and agents and each Person who controls (within the meaning of the Securities Act or the Exchange Act) the Company, against any losses, claims, damages, liabilities and expenses arising out of or based upon any untrue statement of a material fact or any omission to state a material fact required to be stated therein or necessary to make the statements in the registration statement, prospectus or preliminary prospectus (in the case of the prospectus or preliminary prospectus, in light of the circumstances under which they were made) not misleading, to the extent, but only to the extent, that such untrue statement or omission is made in reliance on and in conformity with the information or affidavit with respect to such Holder so furnished in writing by such Holder expressly for use in the registration statement or prospectus; provided, that the obligation to indemnify shall be several, not joint and several, among such Holders and the liability of each such Holder shall be in proportion to and limited to the net proceeds received by such Holder from the sale of Registrable Securities pursuant to such registration statement in accordance with the terms of this Agreement. The indemnity agreement contained in this [Section 3.04\(b\)](#) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, action or proceeding if such settlement is effected without the consent of such Holder. The Company and the Holders of the Registrable Securities hereby acknowledge and agree that, unless otherwise expressly agreed to in writing by such Holders, the only information furnished or to be furnished to the Company for use in any registration statement or prospectus relating to the Registrable Securities or in any amendment, supplement or preliminary materials associated therewith are statements specifically relating to (i) the beneficial ownership of shares of Common Stock by such Holder and its Affiliates, (ii) the name and address of such Holder and (iii) any additional information about such Holder or the plan of distribution (other than for an underwritten offering) required by law or regulation to be disclosed in any such document.

(c) Conduct of Indemnification Proceedings. Any Person entitled to indemnification hereunder will (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) unless in such indemnified party's reasonable judgment a conflict of interest may exist between such indemnified and indemnifying parties with respect to such claim, permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party. The failure to so notify the indemnifying party shall not relieve the indemnifying party from any liability hereunder with respect to the action, except to the extent that such indemnifying party is materially prejudiced by the failure to give such notice; provided, that any such failure shall not relieve the indemnifying party from any other liability which it may have to any other party or to such indemnified party other than pursuant to this Section 3.04. No indemnifying party in the defense of any such claim or litigation, shall, except with the consent of such indemnified party, which consent shall not be unreasonably withheld, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation. An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party there may be one or more legal or equitable defenses available to such indemnified party which are in addition to or may conflict with those available to any other of such indemnified parties with respect to such claim, in which event the indemnifying party shall be obligated to pay the reasonable fees and expenses of such additional counsel or counsels.

(d) Contribution. If for any reason the indemnification provided for in the preceding paragraphs (a) and (b) of this Section 3.04 is unavailable to an indemnified party as contemplated by the preceding paragraphs (a) and (b) of this Section 3.04 or is insufficient to hold such indemnified party harmless, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such loss, claim, damage or liability (i) in such proportion as is appropriate to reflect the relative benefits received by the indemnified party and the indemnifying party or (ii) if the allocation provided by the preceding clause (i) is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in the preceding clause (i) but also the relative fault of the indemnified party and the indemnifying party, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of the sellers of Registrable Securities and any other sellers participating in the registration statement on the other hand shall be determined by reference to, among other things, whether the alleged untrue statement of material fact or alleged omission to state a material fact relates to information supplied by the Company or by the sellers of Registrable Securities or other sellers participating in the registration statement and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. In no event shall the liability of any such Holder be greater in amount than the amount of net proceeds received by such Holder upon such sale or the amount for which such indemnifying party would have been obligated to pay by way of indemnification if the indemnification provided in paragraph (b) of this Section 3.04 had been available.

SECTION 3.05. Lock-Up Agreements.

(a) Whenever the Company proposes to register any of its equity securities under the Securities Act in a Public Offering or is required to use its commercially reasonable to effect the registration of any Registrable Securities under the Securities Act pursuant to Section 3.01, each Holder of Registrable Securities agrees by acquisition of such Registrable Securities not to effect any sale or distribution, including any sale pursuant to Rule 144 under the Securities Act, or to request registration under Section 3.01 of any Registrable Securities for the time period reasonably requested by the managing underwriter for the underwritten offering; provided, that in no event shall such period exceed 180 days in the case of the Company's initial public offering or 90 days in the case of any subsequent Public Offering, plus, in each case, any customary "booster shot" reasonably requested by the managing underwriter (the "Lock-up Period") after the effective date of the registration statement relating to such Registration, except (i) as part of such Registration or (ii) in the case of a private sale or distribution, unless the transferee agrees in writing to be subject to this Section 3.05. If requested by such managing underwriter, each Holder of Registrable Securities agrees to execute a lock-up agreement, in customary form, consistent with the terms of this Section 3.05(a); provided, that the form of the lock-up shall be substantially identical as to each similarly situated Holder; provided, further, that if any Holder of Registrable Securities is released from such lock-up agreement, all other Holders of Registrable Securities shall be similarly released on a pro rata basis. Notwithstanding the foregoing, no Holder shall be subject to a Lock-up Period in excess of 180 days (plus any customary "booster shot") in any calendar year due to the registration of any Registrable Securities pursuant to Section 3.01.

(b) The Company agrees not to effect any sale or distribution of any of its equity securities or securities convertible into or exchangeable or exercisable for any such equity securities within the Lock-up Period (except as part of such underwritten Registration or pursuant to registrations on Form S-8, S-4 or any successor forms thereto), except that such restriction shall not prohibit any such sale or distribution after the effective date of the registration statement (i) pursuant to any stock option, warrant, stock purchase plan or agreement or other benefit plans approved by the Board to officers, directors or employees of the Company or its subsidiaries; (ii) pursuant to Section 4(2) of the Securities Act; or (iii) as consideration to any third party seller in connection with the bona fide acquisition by the Company or any subsidiary of the Company of the assets or securities of any Person in any transaction approved by the Board, provided that in each such case the transferee agrees in writing with the Company to be subject to restrictions comparable to those set forth in Section 3.05(a). In addition, upon the request of the managing underwriter, the Company shall use commercially reasonable efforts to cause each holder of its equity securities or any securities convertible into or exchangeable or exercisable for any of such securities whether outstanding on the date of this Agreement or issued at any time after the date of this Agreement (other than any such securities acquired in a public offering), to agree not to effect any such public sale or distribution of such securities during such period, except as part of any such registration if permitted, and to cause each such holder to enter into a similar agreement to such effect with the such managing underwriter.

(c) Subject to (i) any sales in the Company's initial public offering of equity securities, as set forth in the Company's prospectus filed with the Commission and dated October 22, 2012 and (ii) any sales contemplated by Section 3.05(e), each of Gary Friedman,

Carlos Alberini, the Carlos E. Alberini Family 2012 Trust, Ken Dunaj, Eri Chaya, Danielle Hansmeyer, DeMonty Price, Karen Boone, Matt Salmonson, Bonnie Orofino, Frances Hamman and Mike MacKay (each a "Locked-Up Person") agrees, severally and not jointly, with the Company that, until the earlier of (x) the date on which Catterton and Tower Three collectively own less than one half of the shares of Common Stock collectively beneficially owned by Catterton and Tower Three, including through HH, immediately following the Company's initial public offering of equity securities (as adjusted to give effect to any recapitalization, stock split, reverse stock split, stock dividend or other similar adjustment to the outstanding shares of Capital Stock) and (y) the date that is two years after the Company's initial public offering of equity securities, the Locked Up Person will not, without the prior written consent of the Company, directly or indirectly, (i) 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 for the sale of, or lend or otherwise dispose of or transfer any shares of the Company's Common Stock or any securities convertible into or exchangeable or exercisable for or repayable with Common Stock, whether now owned or hereafter acquired by the Locked Up Person or with respect to which the Locked Up Person has or hereafter acquires the power of disposition (collectively, the "Lock-Up Securities"), or exercise any right with respect to the registration of any of the Lock-Up Securities, or file or request or demand or cause to be filed any registration statement in connection therewith, under the Securities Act of 1933, as amended, 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 Lock-Up Securities, whether any such swap or transaction is to be settled by delivery of Common Stock or other securities, in cash or otherwise, except as set forth in the following sentence. Each Locked-Up Person may sell a number of shares of Common Stock equal to the number of shares of Common Stock that are vested and not subject to Selling Restrictions (as defined in the Company's 2012 Equity Replacement Plan, 2012 Stock Option Plan or 2012 Equity Incentive Plan) held by such Locked-Up Person multiplied by a fraction, the numerator of which is the number of shares of Common Stock sold by HH, Catterton and Tower Three and the denominator of which is the total number of shares of Common Stock owned by HH, Catterton and Tower Three immediately prior to such sale (the "Pro Rata Amount"). Any sales of the Pro Rata Amount of a Locked-Up Person must be made at the same time and in the same manner as the sale by HH, Catterton and/or Tower Three. No Locked-Up Person has any obligation to sell his or her Pro Rata Amount at any time. The Lock-Up Securities shall not include shares of Common Stock sold in the Company's initial public offering. Any waivers of or consents to sell outside of the parameters of this Section 3.05(c) must be approved by the Board of Directors of the Company. In the event that HH, Catterton or Tower Three propose to sell any shares of Common Stock (a "Sale Opportunity"), such party shall provide notice to the Company of such potential Sale Opportunity. Sale Opportunities shall not include transfers from HH, Catterton or Tower Three to affiliates of any such party, but shall apply to any subsequent sales by such affiliates to non-affiliates. Promptly, but in no event more than five Business Days after receipt by the Company of a notice referred to in the prior sentence, the Company will give written notice to each of the Locked-Up Persons (the "Sale Notice"), including the proposed amount and manner of sale. A Demand Registration Notice shall constitute a Sale Notice for purposes hereof. To the extent that the proposed Sale Opportunity by HH, Catterton or Tower Three is completed, then any Locked-Up Person that has elected to include Lock-Up Securities in such sale in a written notice or notices given to the Company within ten (10) days after the date of the Sale Notice may sell up to his or her Pro Rata

Amount based on the actual amount sold by HH, Catterton and Tower Three in such Sale Opportunity. No amendment to this Section 3.05(c) that is adverse to the interests of the persons subject thereto shall be made without the written consent of the Locked-Up Persons holding a majority in interest of all Registrable Securities held by all Locked-Up Persons.

(d) Notwithstanding Section 3.05(c), and subject to the conditions below, each Locked-Up Person may transfer the Lock-Up Securities without the prior written consent of the Company, provided that (1) the Company receives a signed lock-up agreement for the balance of the lock-up period from each beneficiary, donee, trustee, distributee, or transferee, as the case may be and (2) any such transfer shall not involve a disposition for value:

(i) as a bona fide gift or gifts;

(ii) by will or intestacy or to any trust for the direct or indirect benefit of the Locked Up Person or the immediate family of the Locked-Up Person (for purposes of this lock-up agreement, "immediate family" shall mean any relationship by blood, marriage or adoption, not more remote than first cousin); or

(iii) as a distribution by a trust to its beneficiaries.

(e) Notwithstanding anything herein to the contrary, Gary Friedman shall have a first priority right over the Holders to sell up to the following amount of vested shares of Common Stock that are not subject to Selling Restrictions (as defined in the Company's 2012 Equity Replacement Plan, 2012 Stock Option Plan or 2012 Equity Incentive Plan) (the "Priority Sale Amount"): ten percent (10%) of the aggregate number of shares sold in the first Public Offering by the Company after the Company's initial public offering (the "First Follow On Offering"), but in no event more than \$15 million worth of shares of Common Stock in such offering, based on the public offering price of shares of Common Stock in such Public Offering. If the Pro Rata Amount of Mr. Friedman in the First Follow On Offering would be more than the Priority Sale Amount, then he will have priority over the Holders for the sale of the Priority Sale Amount, and any remaining portion of his Pro Rata Amount may be sold if there is availability in the offering, subject to pro rata cutback with the Holders. If there is not enough capacity in the Company's First Follow On Offering for the Priority Sale Amount due to sales by the Company or otherwise, then Mr. Friedman may sell the unsold portion of his Priority Sale Amount in the Company's next Public Offering on the same basis as set forth above. If there is capacity in the First Follow On Offering but Mr. Friedman elects not to sell all or a portion of the Priority Sale Amount, the Priority Sale Amount shall not be applicable in any future Public Offering by the Company. In the event that the First Follow On Offering occurs prior to the date on which the lockup between Mr. Friedman and the underwriters in connection with the Company's initial public offering (the "IPO Lockup") expires, HH agrees not to sell any shares in such First Follow On Offering unless Mr. Friedman is also released from such IPO Lockup to an extent that would permit him to sell shares in such First Follow On Offering as specified in this Agreement (provided that in no event shall HH be prevented from selling shares in such First Follow On Offering if Mr. Friedman does not sell shares in such First Follow On Offering for any reason other than a failure to be released from the IPO Lockup or breach of this Agreement). No amendment to this Section 3.05(e) shall be made without Mr. Friedman's written consent.



SECTION 3.06. Participation in Registrations. No Holder may participate in any Registration hereunder which is underwritten unless such Holder (a) agrees to sell its securities on the basis provided in any underwriting arrangements approved by the Company and the Demand Holders selling Registrable Securities in such Registration (provided, that such underwriting arrangements shall not limit any Holder's rights under this Agreement), and (b) completes and executes all questionnaires, powers of attorney, underwriting agreements and other documents customarily and reasonably required under the terms of such underwriting arrangements.

SECTION 3.07. Rule 144. The Company shall file any reports required to be filed by it under the Securities Act and the Exchange Act and the rules and regulations adopted by the Commission thereunder, and it will take such further action as any Holder may reasonably request to enable such Holder to sell Registrable Securities without registration under the Securities Act as permitted by (i) Rule 144 under the Securities Act, or (ii) any similar rules or regulations hereafter adopted by the Commission. Upon the request of a Holder of Registrable Securities, the Company, at its own expense, will deliver to such Holder: (x) a written statement as to whether it has complied with the requirements that would make the exemption provided by such rule available to such Holder; (y) a copy of the most recent annual or quarterly report of the Company; and (z) such other reports and documents as such Holder may reasonably request in order to avail itself of any rule or regulation of the Commission allowing it to sell Registrable Securities without registration.

#### ARTICLE IV.

##### MISCELLANEOUS

SECTION 4.01. Notices. Except as otherwise specified herein, all notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, return receipt requested, postage prepaid or otherwise delivered by hand, messenger, facsimile transmission or electronic mail and shall be given to such party at its address or facsimile number set forth on the signature pages hereof or such other address or facsimile number as such party may hereafter specify in writing in accordance with this Section 4.01; provided, that:

(a) unless otherwise specified by HH in a notice delivered by HH in accordance with this Section 4.01, any notice required to be delivered to HH shall be properly delivered if delivered to:

Home Holdings, LLC  
c/o Catterton Management Company, LLC  
599 West Putnam Avenue  
Greenwich, CT 06830  
Fax: (203) 629-4903  
Attention: Marc Magliacano

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And c/o Tower Three Partners LLC  
2 Sound View Drive  
Greenwich, CT 06830  
Fax: (203) 485-5885  
Attention: William B. Forrest

with a copy (which shall not constitute notice) to:

Gibson, Dunn & Crutcher LLP  
555 Mission Street  
San Francisco, CA 94109  
Fax: (415) 393-8306  
Attention: Stewart McDowell

and

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, New York 10153  
Fax: (212) 310-8007  
Attention: Douglas Warner

(b) unless otherwise specified by the Company in a notice delivered by the Company in accordance with this Section 4.01, any notice required to be delivered to the Company shall be properly delivered if delivered to:

Restoration Hardware Holdings, Inc.  
15 Koch Road, Suite J  
Corte Madera, CA 94925  
Fax: (415) 927-7264  
Attention: Chief Financial Officer

with a copy (which shall not constitute notice) to:

Morrison & Foerster LLP  
425 Market Street  
San Francisco, CA 94105  
Fax: (415) 276-7113  
Attention: Gavin Grover

(c) Unless otherwise specified by such Holder in a notice delivered by the Company in accordance with this Section 4.01, any notice required to be delivered to a Holder shall be properly delivered if delivered to the address of such Holder as set forth on the signature page of this Agreement or the applicable Consent of Holders of Registrable Securities, as applicable.

SECTION 4.02. Binding Effect; Benefits. This Agreement shall be binding upon and inure to the benefit of the parties to this Agreement (including for the avoidance of doubt, the

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Persons listed on Schedule A hereto) and their respective successors and permitted assigns. Except as set forth in Section 3.04, nothing in this Agreement, express or implied, is intended or shall be construed to give any Person other than the parties to this Agreement or their respective successors or permitted assigns any legal or equitable right, remedy or claim under or in respect of any agreement or any provision contained herein.

SECTION 4.03. Amendment. In addition to the restrictions concerning amendment of this Agreement provided in Sections 3.05(c) and 3.05(e) herein, this Agreement may not be amended, restated, modified or supplemented in any respect and the observance of any term of this Agreement may not be waived except by a written instrument executed by the Company, HH, Catterton and Tower Three; provided further, that no amendment, modification or waiver that adversely affects those Holders listed on Schedule A hereto in comparison to other Holders of Registrable Securities shall be affected without the prior written consent of the Holders listed on Schedule A holding a majority in interest of all Registrable Securities held by such Holders listed on Schedule A.

SECTION 4.04. Assignability. Neither this Agreement nor any right, remedy, obligation or liability arising hereunder or by reason hereof shall be assignable by either the Company or any Holder except as otherwise expressly stated hereunder; provided that a Holder may assign all of its rights, remedies, obligations and liabilities arising under this Agreement in connection with a direct or indirect transfer or sale of such Holder's Common Stock other than in a Public Offering, so long as the assignee agrees to be bound by, and the assignor is not then in breach of, the terms of this Agreement or any other agreement between such person and the Company.

SECTION 4.05. Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Delaware, without giving effect to its principles of conflict of laws. The parties hereto irrevocably submit, in any legal action or proceeding relating to this Agreement, to the jurisdiction of the courts of the United States located in the State of Delaware or in any Delaware state court located in New York county and consent that any such action or proceeding may be brought in such courts and waive any objection that they may now or hereafter have to the venue of such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient forum.

SECTION 4.06. Enforcement. The Holders agree that irreparable damage (for which monetary damages, even if available, would not be an adequate remedy) would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms on a timely basis or were otherwise breached. It is accordingly agreed that the Holders shall be entitled to an injunction, specific performance and other equitable relief to prevent breaches of this Agreement and to enforce specifically the terms and provisions of this Agreement in any court identified in Section 4.05 above without the need to post bond, this being in addition to any other remedy to which they are entitled at law or in equity.

SECTION 4.07. Severability. If any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

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SECTION 4.08. Additional Securities Subject to Agreement. All shares of Capital Stock of the Company that any Holder hereafter acquires by means of a stock split, stock dividend, distribution, exercise of options or warrants or otherwise (other than pursuant to a public offering) whether by merger, consolidation or otherwise (including shares of a surviving corporation into which the shares of Capital Stock of the Company are exchanged in such transaction) will be subject to the provisions of this Agreement to the same extent as if held on the date of the this Agreement.

SECTION 4.09. Section and Other Headings. The section and other headings contained in this Agreement are for reference purposes only and shall not affect the meaning or interpretation of this Agreement.

SECTION 4.10. Counterparts. This Agreement may be executed in any number of counterparts, each of which may be executed by less than all of the parties hereto, each of which shall be enforceable against the parties actually executing such counterparts, and all of which together shall constitute one instrument.

SECTION 4.11. Waiver of Jury Trial. Each party to this Agreement hereby irrevocably and unconditionally waives to the fullest extent permitted by applicable law all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to the actions of the parties hereto pursuant to this Agreement or in the negotiation, administration, performance or enforcement of this Agreement.

SECTION 4.12. Entire Agreement. This Agreement supersedes all prior agreements, whether written or oral, between the parties with respect to its subject matter (including this Agreement) and constitutes (along with the exhibits and other documents delivered pursuant to this Agreement) a complete and exclusive statement of the terms of the agreement between the parties with respect to its subject matter.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Company and each Holder have executed this Agreement as of the day and year first above written.

RESTORATION HARDWARE HOLDINGS, INC.

By: /s/ Carlos Alberini  
Name: Carlos Alberini  
Title: Chief Executive Officer

HOME HOLDINGS, LLC

By: /s/ Marc Magliacano  
Name: Marc Magliacano  
Title: Member, Board of Managers

CP HOME HOLDINGS

By: /s/ Marc Magliacano  
Name: Marc Magliacano  
Title: Vice President

Address:

CP Home Holdings  
c/o Catterton Management Company, LLC  
599 West Putnam Avenue  
Greenwich, CT 06830  
Fax: (203) 629-4903  
Attention: Marc Magliacano

With a copy (which shall not constitute notice) to:

Gibson, Dunn & Crutcher LLP  
555 Mission Street  
San Francisco, CA 94109  
Fax: (415) 393-8306  
Attention: Stewart McDowell

Signature Page

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TOWER THREE HOME LLC

By: /s/ William D. Forrest

Name: William D. Forrest  
Title: Managing Member

Address:

Tower Three Home LLC  
2 Sound View Drive  
Greenwich, CT 06830  
Fax: (203) 485-5885  
Attention: William Forrest

With a copy (which shall not constitute notice) to:

Weil, Gotshal & Manges LLP  
767 Fifth Avenue  
New York, New York 10153  
Fax: (212) 310-8007  
Attention: Douglas Warner

**GLENHILL CAPITAL OVERSEAS MASTER FUND, LP**

By: GLENHILL CAPITAL OVERSEAS GP, LTD., its General Partner

By: GLENHILL CAPITAL MANAGEMENT, LLC, its Sole Shareholder

By: GLENHILL ADVISORS, LLC, its Managing Member

By: /s/ Glenn J. Krevlin

Name: Glenn J. Krevlin  
Title: General Partner

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**GLENHILL CAPITAL LP**

By: GLENHILL CAPITAL MANAGEMENT, LLC, its General Partner

By: GLENHILL ADVISORS, LLC, its Managing Member

By: /s/ Glenn J. Krevlin

\_\_\_\_\_  
Name: Glenn J. Krevlin  
Title: General Partner

**GLENN J. KREVLIN, TRUSTEE OF THE GLENN J. KREVLIN REVOCABLE TRUST**

By: /s/ Glenn J. Krevlin

\_\_\_\_\_  
Name: Glenn J. Krevlin

**KREVLIN 2005 GIFT TRUST**

By: /s/ Glenn J. Krevlin

\_\_\_\_\_  
Name: Glenn J. Krevlin  
Title: Trustee

Address:

c/o Glenn Krevlin  
600 Fifth Avenue, 11th Floor  
New York, NY 10020

With a copy (which shall not constitute notice) to:

Ellenoff Grossman & Schole LLP  
150 East 42nd Street  
New York, New York 10017  
Fax: (212) 370-7889  
Attention: Joshua England

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**SCHEDULE A**

Gary Friedman  
Carlos Alberini  
Carlos E. Alberini Family 2012 Trust  
Ken Dunaj  
Eri Chaya  
Danielle Hansmeyer  
DeMonty Price  
Karen Boone  
Matt Salmonson  
Bonnie Orofino  
Frances Hamman  
Mike MacKay

Schedule A



**EXHIBIT A**

**CONSENT OF HOLDERS OF REGISTRABLE SECURITIES**

I, \_\_\_\_\_ have read and hereby agree to be party to and bound by the terms and provisions of the Registration Rights Agreement, dated as of \_\_\_\_\_, 2012 (the "Registration Rights Agreement"), among Restoration Hardware Holdings, Inc. and the stockholders party thereto in respect of shares of common stock of Restoration Hardware Holdings, Inc. that I beneficially own.

I acknowledge that if I have agreed with the Company, another Holder or any other Person, to lock-ups or other restrictions on sale of my Registrable Securities, then such other agreements or restrictions shall govern the sale of my Registrable Securities, and may reduce my rights to participate in a particular Registration under the Registration Rights Agreement.

IN WITNESS WHEREOF, the undersigned has executed this Consent of Holders of Registrable Securities this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

Name: \_\_\_\_\_

Address: \_\_\_\_\_  
\_\_\_\_\_

Exhibit A

**AMENDED AND RESTATED EMPLOYMENT AGREEMENT**

This Amended and Restated Employment Agreement (the "Agreement") is entered into as of November 1, 2012, effective as of the Effective Date (as defined below), by and between Restoration Hardware, Inc., a Delaware corporation, with a business address of 15 Koch Road, Suite J, Corte Madera, CA 94925 (the "Company"), and Carlos Alberini, an individual with a residence address of [ ] (the "Executive").

**INTRODUCTION**

1. The Company and the Executive have entered into that certain Employment Agreement dated as of May 12, 2010 (the "Prior Agreement"), pursuant to which the Company employed the Executive as its Co-Chief Executive Officer pursuant to the terms and conditions set forth therein.
2. In connection herewith, (a) Restoration Hardware Holdings, Inc., a Delaware corporation ("Holdings"), will acquire all of the issued and outstanding shares of stock of the Company from Home Holdings, LLC, a Delaware limited liability company ("Home Holdings"), and all of the outstanding units in Home Holdings owned by Executive will be converted to common stock in Holdings, and (b) Holdings will consummate an initial offering of its capital stock to the public under a registration statement filed with the Securities and Exchange Commission (the "IPO"). For purposes of this Agreement, "RHH Group" means Holdings, the Company and their subsidiaries.
3. In connection with such reorganization and IPO, the Executive and the Company desire to amend and restate the terms and conditions under which the Executive is employed by the Company, as set forth herein, effective upon and subject to the completion of the pricing of the IPO (the "Effective Date").

**AGREEMENT**

In consideration of the premises and mutual promises herein below set forth, the parties hereby agree as follows:

**1. Employment.**

(a) Title; Duties; Board Membership. The Executive shall serve as Chief Executive Officer of the Company, and the Executive hereby accepts such employment. The Executive shall report to the Company's and Holding's Chairman of the Board. The Executive shall serve as a member of the Company's Board of Directors (the "Board") and of Holdings' Board of Directors and as Chief Executive Officer of Holdings while the Executive serves as Chief Executive Officer of the Company. The Executive agrees to perform his duties for the Company diligently, competently, and in a good faith manner.

(b) Exclusive Employment. While the Executive is employed by the Company, the Executive shall devote his full business time to his duties and responsibilities set forth above, and may not, without the prior written consent of the Board or its designee, operate, participate in the management, board of directors, operations or control of, or act as an

employee, officer, consultant, agent or representative of, any type of business or service (other than as an employee of the Company); provided, however, that the Executive may (i) engage in civic and charitable activities to the extent they do not materially interfere with the Executive's performance of his duties hereunder, (ii) make and maintain outside personal investments, and (iii) serve on the board of directors of other companies subject to the prior written consent of the Board or its designee, which consent shall not be unreasonably withheld, provided that none of the foregoing activities and service materially interfere with the Executive's performance of his duties hereunder.

(c) Place of Employment. The Executive's primary workplace shall be the Company's offices in Corte Madera, California, except for usual and customary travel on the Company's business.

## **2. Compensation.**

(a) Base Salary. The Executive shall be entitled to receive a base salary from the Company at the rate of One Million One Hundred Thousand Dollars (\$1,100,000.00) per year. The Executive's base salary shall be reviewed annually on or about the same time that the compensation arrangements (including the Annual Bonus for the immediately prior year) for the Company's management team are determined by the Compensation Committee of the Board (the "Committee"), which shall consider appropriate factors, including, without limitation, the Executive's performance and the Company's financial condition.

(b) Bonus. The Executive will be eligible to earn annual cash bonus compensation (the "Annual Bonus") for each fiscal year based on the level of achievement of performance goals established by the Board or the Committee following consultation with the Executive. If, and only if, the minimum performance threshold required in order to earn a bonus is attained, then the bonus payable to the Executive will be between 85% and 125% of the Executive's then effective base salary (increasing on a straight line basis between 85% and 125%) depending on the actual level of achievement of the goals as confirmed by the Board or the Committee. The performance goals established as provided above shall be based upon financial performance metrics for the Company and shall be set for each fiscal year at approximately the same time that the Company's annual budget for such fiscal year is established, but in no event later than April 30<sup>th</sup> of such fiscal year. Payment of the Annual Bonus for any fiscal year generally shall be made thirty (30) days following the date on which the audited financial results for such fiscal year and the amount of the bonus for such fiscal year are determined, but in no case later than the 15<sup>th</sup> day of the third month following the end of the applicable fiscal year.

(c) Equity Incentive Compensation. Executive has previously been granted equity interests in Home Holdings that are vested or subject to continued vesting in accordance with the vesting schedule set forth in the Award Agreement (the "Award Agreement") attached hereto as Schedule A-1 (the "Time-Based Units") and equity interests in Home Holdings that vest on the satisfaction of performance-based criteria (the "Performance-Based Units") as set forth in the Award Agreement (the Time-Based Units and Performance-based Units are together referred to herein as the "Home Holdings Equity Interests"). On or before the date of the initial public offering (the "IPO") of shares of Holdings, the Home Holdings Equity Interests will be

redeemed in exchange for shares of Holdings that are subject to repurchase rights and transfer restrictions substantially as set forth in the form of Replacement Award Agreement (the "Replacement Award Agreement") attached as Schedule A-2 (the "Selling Restricted Shares") and shares of Holdings that vest on the satisfaction of performance-based criteria (the "Performance-Based Shares" and, together with Selling Restricted Shares, the "Resto Equity Interests") pursuant to the terms and conditions of the Restoration Hardware 2012 Equity Replacement Plan (the "Replacement Plan") and the Replacement Award Agreement, in substantially the form set forth on Schedule A-2 attached hereto.

(d) Stock Option Grants. On or before the date of the IPO, provided that he remains employed by the Company as Chief Executive Officer, and contingent upon the subsequent consummation of the IPO, Holdings shall grant to Executive options to purchase shares of stock pursuant to the terms and conditions of the Restoration Hardware 2012 Stock Option Plan and the form of award agreement thereunder, substantially on the basis attached hereto as Schedule B (the options subject to performance-based transfer restrictions and repurchase rights, the "IPO Performance-Based Options", and, together with the Home Holdings Equity Interests or the Resto Equity Interests, as the case may be, the "Equity Interests").

**3. Other Benefits; Indemnification.**

(a) Benefits. The Executive (and his spouse and dependents) shall be covered by health and other employee benefits (including but not limited to health, medical, dental, supplemental health, travel accident, life, long-term disability, and directors and officers insurance) on a basis commensurate with the Executive's position in the Company. The Executive shall be bound by all of the written policies and procedures established by the Company from time to time.

(b) Vacation. The Executive shall be entitled to an annual vacation of four (4) weeks per calendar year, pro rated for any partial year during the Executive's employment with the Company. During any vacation period, the Executive will continue to receive his salary, compensation, and benefits, without interruption.

(c) Reimbursement of Expenses. The Company shall promptly reimburse the Executive for all reasonable out of pocket travel, entertainment, and other expenses incurred or paid by the Executive in connection with, or related to, the performance of his responsibilities or services under this Agreement upon the submission of appropriate documentation pursuant to the Company's policies in effect from time to time.

(d) Automobile Allowance. The Executive shall be entitled to receive an automobile allowance of not less than the amount of the car allowance being provided as of the date hereof pursuant to the Prior Agreement.

(e) Reimbursement of Legal Fees. The Company shall reimburse the Executive for reasonable legal fees and expenses incurred in connection with the negotiation and preparation of this Agreement and the related agreements and documents.

(f) Indemnification. Each of the Company and Holdings shall enter into an indemnification agreement with the Executive in the standard form provided to each of the Company's and Holdings' other directors (the "Indemnification Agreement").

(g) Other Agreements. The Executive shall become a party to Registration Rights Agreement among Holdings and its stockholders.

#### 4. Conversion of Class A-1 and Class A-2 Units.

In connection with the Prior Agreement, Home Holdings issued and the Executive purchased 888,889 Class A-1 Units and 888,889 Class A-2 Units of Home Holdings pursuant to that certain Restricted Unit Purchase Agreement dated as of May 12, 2010. Effective on or before the date of the IPO, and contingent upon the subsequent consummation of the IPO, such Class A-1 Units and Class A-2 Units shall be redeemed in exchange for shares of Holdings pursuant to an Exchange Agreement substantially in the form of Schedule C (the "Exchange Agreement").

#### 5. Termination.

(a) At-Will Termination by the Company. The employment of the Executive shall be "at-will" at all times. Subject to Section 5(h), the Company may terminate the Executive's employment with the Company at any time without any advance notice (and the Executive may terminate his employment with the Company at any time upon providing thirty (30) days prior notice), in each case, for any reason or no reason at all, notwithstanding anything to the contrary contained in or arising from any statements, policies or practices of the Company relating to the employment, discipline or termination of its employees. Upon and after such termination, all obligations of the Company under this Agreement shall cease, except as otherwise provided below in this Section 5.

(b) Termination by the Company with Cause. Upon written notice to the Executive, the Company may terminate the Executive's employment for Cause (as defined below). In the event that the Executive's employment is terminated for Cause, (A) the Executive shall receive from the Company payments for (i) any and all earned and unpaid portion of his then effective base salary through the Date of Termination (to be paid on or before the first regular payroll date following the Date of Termination); (ii) any and all accrued and unpaid vacation through the Date of Termination (to be paid on or before the first regular payroll date following the Date of Termination); (iii) any and all unreimbursed business expenses incurred prior to the Date of Termination (in accordance with the Company's reimbursement policy); and (iv) any other benefits the Executive is entitled to receive as of the Date of Termination under the employee benefit plans of the Company, less standard withholdings for tax and social security purposes (items (i) through (iv) are hereafter referred to as "Accrued Benefits"), and (B) except as required by law, after the Date of Termination, the Company shall have no obligation to make any other payment, including severance or other compensation of any kind, on account of the Executive's termination of employment or to make any payment in lieu of notice to the Executive. Except as required by law, all benefits provided by the Company to the Executive under this Agreement (including for any further vesting for any Equity Interests) or otherwise shall cease as of the Date of Termination. With respect to the Executive's Equity Interests, in the

event of termination for Cause, the Resto Equity Interests, and the IPO Performance-Based Options (whether or not vested) on the Date of Termination shall terminate, expire and be forfeited for no value or be subject to repurchase in accordance with the terms thereof. Except as required by law, all benefits provided by the Company to the Executive under this Agreement or otherwise shall cease as of the Date of Termination.

(c) Termination by the Company Without Cause. The Company may, at any time and without prior written notice, terminate the Executive without Cause. In the event that the Executive's employment with the Company is terminated without Cause, the Executive shall receive the Accrued Benefits. In addition, the Executive shall be entitled to receive from the Company the following: (i) severance payments totaling Three Million Dollars (\$3,000,000), less standard withholdings for tax and social security purposes, paid according to the Company's regular payroll schedule over the twenty-four (24) months following the Date of Termination (the "Post-Termination Period"), (ii) any earned and unpaid Annual Bonus for the year prior to the year of termination to be paid in the same time and the same form as the Annual Bonus otherwise would be paid (but in no event later than 75 days after the end of the Company's fiscal year to which such bonus relates), (iii) a pro-rata amount of the Annual Bonus that the Executive would have been eligible to receive had he remained employed by the Company for the remainder of the year in which the Executive's termination occurs (determined by multiplying the amount the Executive would have received based upon the actual level of achievement of the applicable performance goals had employment continued through the end of the performance year by a fraction, the numerator of which is the number of days during the performance year of termination that the Executive is employed by the Company and the denominator of which is 365), such pro-rata amount to be paid in the same time and the same form as the Annual Bonus otherwise would be paid (but in no event later than 75 days after the end of the Company's fiscal year to which such bonus relates), (iv) subject to the Executive's timely election under COBRA, continuation of health insurance benefits for twenty four (24) months following the Date of Termination, which benefits shall be paid for by the Company to the same extent that the Company paid for health insurance for the Executive prior to termination, (v) the Executive's Performance-Based Shares, Selling Restricted Shares with selling restrictions that lapse based upon stock price performance and the IPO Performance-Based Options shall remain outstanding, and continue to vest or have the selling restrictions lapse subject to satisfaction of their terms, for a period of twenty four (24) months following the Date of Termination (after which time such Performance-Based Shares, to the extent unvested, shall expire and be cancelled for no consideration and such Selling Restricted Shares and IPO Performance-Based Options shall be subject to repurchase in accordance with the terms thereof) and (vi) vesting of and the lapsing of the selling restrictions applicable to Executive's Selling Restricted Shares that lapse solely based upon continued employment shall accelerate as to the number of Selling Restricted Shares with respect to which the selling restrictions would have lapsed through the Date of Termination and for an additional thirty six (36) month period following the Date of Termination and any Selling Restricted Shares with respect to which time-based selling restrictions have not lapsed shall be subject to repurchase in accordance with the terms thereof; provided, however, that the Company's repurchase rights with respect to such unvested Selling Restricted Shares shall not be exercisable until the third anniversary of the Date of Termination. Notwithstanding the foregoing, the Executive's entitlement to the severance payments in this Section 5(c) is conditioned on (y) the Executive's executing and delivering to the Company of a release of claims against the Company, in a form attached hereto as Exhibit A, and on such release

becoming effective within sixty (60) days following the Date of Termination (the "Release Deadline"), and (z) the Executive's compliance with the restrictive covenants set forth in Sections 6 and 8(a), (b), (d) and (e) and the Proprietary Information Agreements (as defined below), provided, however, that the Executive shall be given notice of any alleged breach and an opportunity to cure within thirty (30) days of the Executive's receipt of such notice (without regard to timing requirements related to compliance of such covenants). If Executive's Date of Termination occurs at a time during the calendar year where the Release Deadline could occur in the calendar year following the calendar year in which such Date of Termination occurs, then any severance payments or benefits under this Agreement that would be considered "deferred compensation" under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and all regulations, guidance, and other interpretative authority issued thereunder (collectively, "Section 409A") will be paid on the first payroll date to occur during the calendar year following the calendar year in which such Date of Termination occurs, or such later time as required by the date the Release becomes effective, or Section 23 below; provided that the first payment shall include all amounts that would have been paid to the Executive if payment had commenced on the Date of Termination. The Executive agrees that the Company shall have a right of offset against all severance payments for amounts owed to the Company by the Executive (unless the amounts owed are subject to a good faith dispute) to the fullest extent not prohibited by law. Except as specifically provided in this Section 5(c) or in another section of this Agreement, or except as required by law, all benefits provided by the Company to the Executive under this Agreement or otherwise shall cease as of the Date of Termination.

(d) Termination by the Executive for Good Reason. The Executive may voluntarily terminate his employment with the Company and receive the severance payments, bonus payments, and other benefits detailed in Section 5(c) (subject to the same conditions set forth in Section 5(c)) following the occurrence of an event constituting Good Reason (as defined below) that has not been cured by the Company within the timeframe specified in the definition of Good Reason.

(e) Voluntary Termination. If the Executive terminates employment with the Company without Good Reason, the Executive agrees to provide the Company with thirty (30) days' prior written notice. In the event that the Executive's employment is terminated under this Section 5(e), the Executive shall receive from the Company payment for all Accrued Benefits described in Section 5(b) above at the times specified in Section 5(b) above. Except as required by law, after the Date of Termination, the Company shall have no obligation to make any other payment, including severance or other compensation, of any kind, or provide any other benefits (including for any further vesting for any Equity Interests), to the Executive on account of the Executive's termination of employment.

(f) Termination Upon Death or Disability. If the Executive's employment is terminated as a result of death or Disability, the Executive (or the Executive's estate, or other designated beneficiary(s) as shown in the records of the Company in the case of death) shall be entitled to receive from the Company payment for (i) the Accrued Benefits described in Section 5(b) above at the times specified in Section 5(b) above, (ii) any earned and unpaid Annual Bonus for the year prior to the year of termination to be paid in the same time and the same form as the Annual Bonus otherwise would be paid (but in no event later than 75 days after the end of the Company's fiscal year to which such bonus relates) and (iii) a pro-rata amount of

the Annual Bonus that the Executive would have been eligible to receive had he remained employed by the Company for the remainder of the year in which the Executive's termination occurs (determined by multiplying the amount the Executive would have received based upon the actual level of achievement of the applicable performance goals had employment continued through the end of the performance year by a fraction, the numerator of which is the number of days during the performance year of termination that the Executive is employed by the Company and the denominator of which is 365), such pro-rata amount to be paid in the same time and the same form as the Annual Bonus otherwise would be paid (but in no event later than 75 days after the end of the Company's fiscal year to which such bonus relates). Except as required by law, after the Date of Termination, the Company shall have no obligation to make any other payment, including severance or other compensation, of any kind, or provide any other benefits (including for any further vesting for any Equity Interests), to the Executive (or the Executive's estate, or other designated beneficiary(s), as applicable) upon a termination of employment by death or Disability.

(g) Certain Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below.

(i) "Cause" shall mean

(A) the Executive has been convicted of (or has entered a plea of nolo contendere to) a felony involving fraud, dishonesty, or physical harm to any person or any crime involving moral turpitude;

(B) the Executive intentionally failed to substantially perform the Executive's material duties (other than a failure resulting from the Executive's incapacity due to physical or mental illness or from the Executive's assignment of duties that would constitute Good Reason), which failure lasted for a period of at least fifteen (15) days after a written notice of demand for substantial performance has been delivered to the Executive specifying the manner in which the Executive has failed substantially to perform;

(C) the Executive intentionally engaged in conduct which is demonstrably and materially injurious to the Company;

(D) the Executive's fraud, embezzlement or other act of material dishonesty with respect to the Company as determined by a court of competent jurisdiction or by arbitration pursuant to the Arbitration Agreement attached as Exhibit D hereto;

(E) the Executive's material breach of Sections 6(a), 8(a) or 8(b) or any other material term of this Agreement; provided that the Executive shall be given written notice of any such alleged breach and an opportunity to cure such breach within sixty (60) days after the Executive's receipt of such notice; or

(F) the Executive's material breach of any policy of the Company applicable to its employees; provided that the Executive shall be given written notice of any such alleged breach and an opportunity to cure such breach within sixty (60) days after the Executive's receipt of such notice.



For purposes of this Section 5(g)(i), no act, nor failure to act, on the Executive's part shall be considered "intentional" unless the Executive has acted, or failed to act, with a lack of reasonable belief that the Executive's action or failure to act was in the best interest of Company. No termination for Cause may occur pursuant to Section 5(g)(i) (B), (C) or (F) unless a written notice setting forth the conduct allegedly constituting "Cause" and specifying the particulars thereof in reasonable detail has been delivered to the Executive, and the Executive has been provided an opportunity to be heard in person by the Board (with the assistance of the Executive's counsel).

(ii) "Date of Termination" shall mean (i) if the Executive is terminated by the Company for Disability, thirty (30) days after written notice of termination is given to the Executive (provided that the Executive shall not have returned to the performance of his duties on a full-time basis during such 30-day period); (ii) if the Executive's employment is terminated by the Company for any other reason, the date on which a written notice of termination is given; (iii) if the Executive terminates employment for Good Reason, the date of the Executive's resignation; provided that the notice and cure provisions in the definition of Good Reason have been complied with; (iv) if the Executive terminates employment for other than a Good Reason, the date specified in the Executive's notice in compliance with Section 5(e); or (v) in the event of the Executive's death, the date of death.

(iii) "Disability" shall (i) have the meaning defined under the Company's then-current long-term disability insurance plan, policy, program or contract as entitles the Executive to payment of disability benefits thereunder, or (ii) if there shall be no such plan, policy, program or contract, mean permanent and total disability as defined in Section 22(e)(3) of the Code.

(iv) "Good Reason" shall mean the occurrence of any of the events or conditions described in subsections (A) through (E) hereof that occur without the Executive's consent, and within ninety (90) days following the end of the Notice Period (as defined below) the Executive terminates his employment with the Company:

(A) the relocation by the Company of the Executive's primary workplace to a location outside of the San Francisco Bay Area;

(B) a reduction in the Executive's Base Salary or Annual Bonus opportunity, except if the base salary or annual bonus opportunities of the other executives of the Company are proportionately reduced (and not replaced with another form of compensation the purpose of which is to compensate such executives for the reduction of base salary or annual bonus opportunity), whether or not such reduction is voluntary on the part of the other executives of the Company;

(C) a material and adverse diminution in the Executive's authority, duties or responsibilities including an adverse change in the Executive's reporting relationship, except where the Executive agrees in writing to such change in;

provided that (for avoidance of doubt) a change in the Executive's duties in connection with the termination of this Agreement for Disability, Cause, as a result of the Executive's death, or by the Executive other than for Good Reason shall not constitute Good Reason;

(D) removal of the Executive, or failure to cause the reappointment or nomination of the Executive, as the Chief Executive Officer of the Company or as a member of the Board or of Holdings' Board of Directors;

(E) any material breach by the Company or any of its successors and assigns of this Agreement; and

(F) the failure of the Company's successors and assigns to assume the obligations of the Company under this Agreement, either by written agreement or by operation of law.

The Executive's right to terminate his employment in connection with an event of Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive must provide notice to the Company of the existence of a condition described in clauses (A) through (F) above within ninety (90) days of his knowledge of the initial existence of the condition, upon the notice of which the Company shall have a period of thirty (30) days during which it may remedy the condition so that it shall not constitute a "Good Reason." If more than one change or event shall occur which alone or in the aggregate constitutes Good Reason, then for purposes hereof, Good Reason shall be deemed to have occurred on the last such change or event to occur.

(h) Notice of Termination. Any termination of the Executive's employment by the Company or by the Executive under this Section 5 (other than in the case of death) shall be communicated by a written notice (the "Notice of Termination") to the other party hereto, indicating the specific termination provision in this Agreement relied upon, and specifying a Date of Termination which notice shall be delivered within the time periods set forth in the various subsections of this Section 5, as applicable (the "Notice Period"); provided, however, that the Company may pay to the Executive all base salary, benefits and other rights due to the Executive during the Notice Period instead of employing the Executive during such Notice Period. For purposes of this Agreement, no such purported termination shall be effective without such Notice of Termination.

#### **6. Non-Competition; General Provisions Applicable to Restrictive Covenants.**

(a) Covenant not to Compete. For the duration of the Executive's employment with the Company and throughout the duration of the Post-Termination Period, the Executive shall not, directly or indirectly, engage or invest in, own, manage, operate, finance, control or participate in the ownership, management, operation, financing, or control of, be employed by, associated with, or in any manner connected with, lend any credit to, or render services or advice to, any business, firm, corporation, partnership, association, joint venture or other entity that engages or conducts any competing business the same as or substantially similar to the business engaged in or proposed to be engaged in or conducted by the RHH Group or

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described in a written strategic plan of the RHH Group at any time that the Executive was employed with the Company, anywhere within the United States of America; provided, however, that the Executive may own up to 2% of the outstanding shares of any class of securities of any enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934, as amended, and up to 5% of the voting stock or other securities of any privately-held company. At any time after the termination of his employment with the Company for any reason, the Executive will not engage in competition with the RHH Group while making use of the trade secrets of the RHH Group.

(b) Specific Performance. The Executive recognizes and agrees that a violation by him of his obligations under this Section 6, or under Section 8, or under the Proprietary Information Agreements may cause irreparable harm to the RHH Group that would be difficult to quantify and that money damages may be inadequate. As such, the Executive agrees that the Company shall have the right to seek injunctive relief (in addition to, and not in lieu of any other right or remedy that may be available to it) to prevent or restrain any such alleged violation without the necessity of posting a bond or other security and without the necessity of proving actual damages. However, the foregoing shall not prevent the Executive from contesting the Company's request for the issuance of any such injunction on the grounds that no violation or threatened violation of the aforementioned Sections has occurred and that the RHH Group has not suffered irreparable harm. If an arbitrator or court of competent jurisdiction determines that the Executive has violated the obligations of any covenant for a particular duration, then the Executive agrees that such covenant will be extended by that duration.

(c) Scope and Duration of Restrictions. The Executive expressly agrees that the character, duration and geographical scope of the restrictions imposed under this Section 6 and Section 8, are reasonable in light of the circumstances as they exist at the date upon which this Agreement has been executed. However, should a determination nonetheless be made by an arbitrator or a court of competent jurisdiction at a later date that the character, duration or geographical scope of any of the covenants contained herein is unreasonable in light of the circumstances as they then exist, then it is the intention of both the Executive and the Company that such covenant shall be construed by an arbitrator or the court in such a manner as to impose only those restrictions on the conduct of the Executive which are reasonable in light of the circumstances as they then exist and necessary to assure the Company of the intended benefit of such covenant. Except insofar as claims involving the prohibited disclosure, misuse or misappropriation of the RHH Group's trade secrets, return of the RHH Group's property or assignment of inventions are involved, to the extent the Executive engages in any action(s) after termination of his employment in violation of the restrictions imposed under this Section 6(a), the Company's only right of action and remedy hereunder shall be to immediately terminate any and all severance payment that still may be due and owing hereunder as well as for any further vesting or lapse of sales restrictions for any Equity Interests, stock options or other equity awards; the parties otherwise acknowledge that the Executive is not limited hereby from engaging in such action(s) after his employment termination except insofar as the prohibited disclosure, misuse or misappropriation of trade secrets or breach of any other statutory or common law duties (including any fiduciary duties) may be involved.

**7. Proprietary and Confidential Information.**

The Executive has signed and agrees to be bound by the terms of the Proprietary Information and Inventions Agreement, a copy of which is attached hereto as Exhibit B, and the Confirmation of Confidential Information, a copy of which is attached hereto as Exhibit C (collectively, the “Proprietary Information Agreements”).

**8. Other Covenants.**

(a) Solicitation of Employees. During the Executive’s employment with the Company and for the duration of any Post-Termination Period thereafter, the Executive shall not, directly or indirectly, individually, or together with or through any other person, firm, corporation or entity, (i) hire any member of senior management of the RHH Group (defined as an officer with a title of vice president or higher) who is then in the employ of the Company, (ii) solicit for hire any employee of the RHH Group, provided, however, that general solicitations not targeted to Company employees shall not be deemed to violate this clause (ii), or (iii) cause any of the foregoing persons to terminate their employment relationship with the Company. Provided that Executive has not violated clause (ii) or (iii) of this Agreement, Executive shall not be prevented from hiring a person referred to in clause (i) if that person has not been in the employ of the RHH Group for at least one hundred and eighty (180) days prior to the date of such hiring.

(b) Solicitation of Customers and Suppliers. During the Executive’s employment with the Company and for the duration of any Post-Termination Period, the Executive shall not, directly or indirectly, individually, or together through any other person, firm, corporation or entity (i) use the Company’s Proprietary Information (as defined in the Proprietary Information and Inventions Agreement attached hereto as Exhibit B) to solicit the business of any material customers of or suppliers to the RHH Group, or (ii) encourage any person or entity which is a customer of the RHH Group to cease, reduce, limit or otherwise alter in a manner adverse to the RHH Group its existing business or contractual relationship with the RHH Group.

(c) Compliance with RHH Group Policies. The Executive agrees that, during Executive’s employment with the Company, he shall comply with the employee manual and other policies and procedures applicable to the employees of the RHH Group established by the RHH Group from time to time, including but not limited to policies addressing matters such as management, supervision, recruiting and diversity.

(d) Cooperation. The Executive shall, upon the Company’s reasonable request and in good faith and with the Executive’s commercially reasonable efforts and subject to the Executive’s reasonable availability, (i) during the one year following termination of Executive’s employment, cooperate and assist the RHH Group (a) in connection with any sale or public offering of the RHH Group or proposed sale or public offering of the RHH Group, (b) in connection with all material matters relating to the Executive’s employment with the Company, and (c) in transitioning the Executive’s responsibilities to the Executive’s replacement; and (ii) for a period of two years following termination of the Executive’s employment under this Agreement, cooperate and assist the RHH Group in any dispute, controversy, or litigation in

which the Company may be involved and with respect to which the Executive obtained knowledge while employed by the Company or any of its affiliates, successors, or assigns, including, but not limited to, participation in any court or arbitration proceedings, giving of testimony, signing of affidavits, or such other personal cooperation as counsel for the Company shall request, with the Company paying (a) the Executive's reasonable travel and incidental out-of-pocket expenses incurred in connection with any such cooperation, (b) the reasonable attorney's fees and costs incurred in connection with a joint representation and (c) the reasonable fees and costs of an attorney the Executive engages to advise him in connection with the foregoing, but only if there is a conflict of interest that would prevent the Company's own outside or inside legal counsel from adequately representing the Executive's interests as well as the Company's interests).

(e) Return of Business Records and Equipment. Upon termination of the Executive's employment hereunder, the Executive shall promptly return to the Company: (i) all documents, records, procedures, books, notebooks, and any other documentation in any form whatsoever, including but not limited to written, audio, video or electronic, containing any information pertaining to the RHH Group which includes Proprietary Information, including any and all copies of such documentation then in the Executive's possession or control regardless of whether such documentation was prepared or compiled by the Executive, the RHH Group, other employees of the RHH Group, representatives, agents, or independent contractors, and (ii) all equipment or tangible personal property owned by the RHH Group and entrusted to the Executive by the RHH Group. The Executive acknowledges that all such documentation, copies of such documentation, equipment, and tangible personal property are and shall at all times remain the sole and exclusive property of the Company.

(f) Nondisparagement.

(i) Executive and the Company mutually agree that, for the duration of this Agreement and at any time thereafter, in any communication with the press or other media or any customer or client of or supplier to the Company or any of its affiliates, or any customer or client of or supplier to Executive or of any business with which Executive then is affiliated, Executive shall not, and the Company shall not, and shall use commercially reasonable efforts to cause each of its officers and directors not to, criticize, ridicule, disparage, defame, slander or make any statement which reasonably could be concluded to be disparaging or derogatory towards the other, including, in the case of the Company or any of its affiliates including Home Holdings, any of their officers or directors, and including, in Executive's case, any business with which he then is affiliated and any affiliate, officer or director of such business or its affiliates. Notwithstanding the foregoing, nothing in this Section 8(f) shall prevent (and none of the following shall be deemed a breach of this Section 8(f)(i)) any person from (x) responding publicly to incorrect, disparaging or derogatory public statements to the extent reasonably necessary to correct or refute such public statement or (y) making any truthful statement to the extent (i) necessary with respect to any litigation, arbitration or mediation involving this Agreement, including, but not limited to, the enforcement of this Agreement, (ii) required by law or by any court, arbitrator, mediator or administrative or legislative body (including any committee thereof) with apparent jurisdiction over such person or (iii) permitted pursuant to Section 8(f)(ii).

(ii) Notwithstanding anything in this Agreement to the contrary, Executive, the Company, Home Holdings and Holdings may (i) make any disclosures that they believe in good faith are required by or advisable under applicable law, rule or regulation, including under applicable securities laws (whether in connection with an IPO, any other securities offering, ongoing disclosure obligations or otherwise); and (ii) consider the views and advice of third parties including auditors, underwriters and other parties with an interest in the scope of any disclosures to be made by Executive, the Company, Home Holdings or Holdings and make such disclosures as Executive, the Company, Home Holdings or Holdings determines are necessary or advisable in respect thereof.

**9. Interaction with Other Benefit Policies.**

The severance payments, severance benefits and severance protections provided to the Executive in this Agreement shall be in lieu of any other severance payments, severance benefits and severance protections to which the Executive may be entitled under any severance or termination policy, plan, program, practice or arrangement of the Company and its affiliates. The Executive's entitlement to any other compensation or benefits from the Company shall be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices then in effect. Nothing in this Agreement shall alter the Executive's status as an "at will" employee of the Company. Notwithstanding the foregoing, nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in, or reduce the Executive's rights under (i) any benefit, bonus, incentive or other plan or program provided by the Company (except for any severance or termination policy, plan, program, practice, or arrangement) and for which the Executive may qualify, or (ii) any other agreement with the Company, Holdings or Home Holdings. Amounts which are vested or accrued benefits or which the Executive is otherwise entitled to receive under any plan or program of the Company shall be payable in accordance with such plan or program, except as explicitly modified by this Agreement.

**10. Forum Selection.**

Subject to compliance with dispute resolution procedure set forth in Section 25 below, the Company and the Executive mutually agree that any and all claims or controversies arising out of this Agreement, or any breach thereof, or otherwise arising out of or relating to the Executive's employment, compensation, and benefits with the Company or the termination thereof, to the extent they are not covered by and subject to arbitration according to the terms of the Arbitration Agreement in the form attached hereto as Exhibit D, shall be brought exclusively in a court in the city and county of San Francisco, California or, if federal jurisdiction exists, the United States District Court for the Northern District of California, and both parties submit and consent to jurisdiction of such courts and waive any objection to venue and/or any claim that the aforementioned forums are inconvenient.

**11. Governing Law.**

This Agreement and any disputes or controversies arising hereunder shall be construed and enforced in accordance with and governed by the internal laws of the State of California, without reference to principles of law that would apply the law of another jurisdiction.

**12. Entire Agreement.**

This Agreement (including its exhibits and schedules), together with the Replacement Plan and Executive's award agreement thereunder, the Exchange Agreement, the Proprietary Information Agreements and the Registration Rights Agreement, constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and thereof and supersedes and cancels any and all previous agreements, written and oral, regarding the subject matter hereof between the parties hereto, including without limitation the Prior Agreement. This Agreement shall not be changed, altered, modified or amended, except by a written agreement that (i) explicitly states the intent of both parties hereto to supplement this Agreement and (ii) is signed by both parties hereto.

**13. Notices.**

All notices, requests, demands and other communications called for or contemplated hereunder shall be in writing and shall be deemed to have been sufficiently given if personally delivered or if sent by registered or certified mail, return receipt requested to the parties, their successors in interest, or their assignees at the following addresses, or at such other addresses as the parties may designate by written notice in the manner aforesaid, and shall be deemed received upon actual receipt:

(a) to the Company at:

Restoration Hardware, Inc.  
15 Koch Road, Suite J  
Corte Madera, CA 94925  
Attention: Chief Executive Officer  
Facsimile: (415) 927-7083

with a copy to:

Morrison & Foerster LLP  
425 Market Street  
San Francisco, CA 94402  
Attention: Gavin B. Grover  
Facsimile: (415) 268-7522

(b) to the Executive at:

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with copies to:

Fried, Frank, Harris, Shriver & Jacobson LLP  
One New York Plaza  
New York, NY 10004-1980  
Attention: Donald P. Carleen, Esq.  
Facsimile: (212) 859-4000

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**14. Severability.**

If any term or provision of this Agreement, or the application thereof to any person or under any circumstance, shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such terms to the persons or under circumstances other than those as to which it is invalid or unenforceable, shall be considered severable and shall not be affected thereby, and each term of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

**15. Waiver.**

The failure of any party to insist in any one instance or more upon strict performance of any of the terms and conditions hereof, or to exercise any right or privilege herein conferred, shall not be construed as a waiver of such terms, conditions, rights or privileges, but same shall continue to remain in full force and effect. Any waiver by any party of any violation of, breach of or default under any provision of this Agreement by the other party shall not be construed as, or constitute, a continuing waiver of such provision, or waiver of any other violation of, breach of or default under any other provision of this Agreement.

**16. Exclusive Remedy.**

The Executive's right to the compensation and benefits to which he may become entitled pursuant to this Agreement and pursuant to any other written agreement between the Executive and the Company, Holdings and/or Home Holdings shall be the Executive's sole and exclusive remedy for any termination of the Executive's employment.

**17. Successors and Assigns.**

This Agreement shall be binding upon the Company and any successors and assigns of the Company, including any corporation with which, or into which, the Company may be merged or which may succeed to the Company's assets or business. In the event that the Company sells or transfers all or substantially all of the assets of the Company, or in the event of any merger or consolidation of the Company, the Company shall use reasonable efforts to cause such assignee, transferee, or successor to assume the liabilities, obligations and duties of the Company hereunder. Neither this Agreement nor any right or obligation hereunder may be assigned by the Executive; provided, however, that this provision shall not preclude the Executive from designating one or more beneficiaries to receive any amount that may be payable after his death and shall not preclude his executor or administrator from assigning any right hereunder to the person or persons entitled hereto.

**18. Counterparts.**

This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.



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**19. Headings.**

Headings in this Agreement are for reference only and shall not be deemed to have any substantive effect.

**20. Opportunity to Seek Advice; Warranties and Representations.**

The Executive acknowledges and confirms that he has had the opportunity to seek such legal, financial and other advice and representation as he has deemed appropriate in connection with this Agreement. The Executive hereby represents and warrants to the Company that he is not under any obligation of a contractual or quasi-contractual nature known to him that is inconsistent or in conflict with this Agreement or that would prevent, limit or impair the performance by the Executive of his obligations hereunder.

**21. Withholding and Payroll Practices.**

All salary, severance payments, bonuses or benefits provided by the Company under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under applicable law and shall be paid in the ordinary course pursuant to the Company's then existing payroll practices or as otherwise specified in this Agreement.

**22. Section 280G Excise Tax Matters.**

In the event that any payment in the nature of compensation (within the meaning of Code Section 280G(b)(2)) to the Executive or for the Executive's benefit, paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, the Executive's employment with the Company (a "Payment" or "Payments"), would be subject to the excise tax imposed by Code Section 4999, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then such Payments shall be payable either in (x) full or (y) as to such lesser amount which would result in no portion of such Payments being subject to the Excise Tax and the Executive shall receive the greater, on an after-tax basis, of (x) or (y) above, as determined by an independent accountant or tax advisor selected by Executive and paid for by the Company. In the event that the payments and/or benefits are to be reduced pursuant to this Section 22, such payments and benefits shall be reduced such that the reduction of compensation to be provided to or for the benefit of the Executive as a result of this Section 22 is minimized and to effectuate that, Payments shall be reduced (i) by first reducing or eliminating the portion of such Payments which is not payable in cash (other than that portion of such payments that is subject to clause (iii) below), (ii) then by reducing or eliminating cash Payments (other than that portion of such Payments subject to clause (iii) below) and (iii) then by reducing or eliminating the portion of such Payments (whether or not payable in cash) to which Treasury Regulation Section 1.280G-1 Q/A 24(c) (or any successor provision thereto) applies, in each case in reverse order beginning with Payments which are to be paid the farthest in time from the date of the change in control transaction. Any reductions made pursuant to this Section 22 shall be made in a manner consistent with the requirements of Section 409A of the Code and where two economically equivalent amounts are subject to reduction but payable at different times, such amounts shall be reduced on a pro rata basis but not below zero.

**23. Section 409A.**

The parties intend that any compensation, benefits and other amounts payable or provided to the Executive under this Agreement be paid or provided in compliance with Section 409A such that there will be no adverse tax consequences, interest, or penalties for the Executive under Section 409A as a result of the payments and benefits so paid or provided to him. The parties agree to modify this Agreement, or the timing (but not the amount) of the payment hereunder of severance or other compensation, or both, to the extent necessary to comply with and to the extent permissible under Section 409A. In addition, notwithstanding anything to the contrary contained in any other provision of this Agreement, the payments and benefits to be provided the Executive under this Agreement shall be subject to the provisions set forth below.

(a) The date of the Executive's "separation from service," as defined in the regulations issued under Section 409A, shall be treated as the Executive's Date of Termination for purpose of determining the time of payment of any amount that becomes payable to the Executive pursuant to Section 5 hereof upon the termination of his employment and that is treated as an amount of deferred compensation for purposes of Section 409A.

(b) In the case of any amounts that are payable to the Executive under this Agreement, or under any other "nonqualified deferred compensation plan" (within the meaning of Section 409A) maintained by the Company in the form of installment payments, (i) the Executive's right to receive such payments shall be treated as a right to receive a series of separate payments under Treas. Reg. §1.409A-2(b)(2)(iii), and (ii) to the extent any such plan does not already so provide, it is hereby amended as of the date hereof to so provide, with respect to amounts payable to the Executive thereunder,

(c) If the Executive is a "specified employee" within the meaning of Section 409A at the time of his "separation from service" within the meaning of Section 409A, then any payment otherwise required to be made to him under this Agreement on account of his separation from service, to the extent such payment (after taking in to account all exclusions applicable to such payment under Section 409A) is properly treated as deferred compensation subject to Section 409A, shall not be made until the first business day after (i) the expiration of six months from the date of the Executive's separation from service, or (ii) if earlier, the date of the Executive's death (the "Delayed Payment Date"). On the Delayed Payment Date, there shall be paid to the Executive or, if the Executive has died, to the Executive's estate, in a single cash lump sum, an amount equal to aggregate amount of the payments delayed pursuant to the preceding sentence.

(d) To the extent that the reimbursement of any expenses or the provision of any in-kind benefits pursuant to this Agreement is subject to Section 409A, (i) the amount of such expenses eligible for reimbursement, or in-kind benefits to be provided hereunder during any one calendar year shall not affect the amount of such expenses eligible for reimbursement or in-kind benefits to be provided hereunder in any other calendar year; provided, however, that the foregoing shall not apply to any limit on the amount of any expenses incurred by the Executive

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that may be reimbursed or paid under the terms of the Company's medical plan, if such limit is imposed on all similarly situated participants in such plan; (ii) all such expenses eligible for reimbursement hereunder shall be paid to the Executive as soon as administratively practicable after any documentation required for reimbursement for such expenses has been submitted, but in any event by no later than December 31 of the calendar year following the calendar year in which such expenses were incurred; and (iii) the Executive's right to receive any such reimbursements or in-kind benefits shall not be subject to liquidation or exchange for any other benefit.

**24. No Duty to Mitigate.**

The Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, and the amount of any payment provided for under this Agreement shall not be reduced or offset by any compensation earned by the Executive or by any retirement benefits received by the Executive as a result of employment by another employer after the Date of Termination. The provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amounts otherwise payable, or in any way diminish the Executive's then existing rights, or rights which would accrue solely as a result of the passage of time, under any Company benefit plan or other contract, plan or arrangement.

**25. Dispute Resolution.**

The Executive has signed and agrees to be bound by the terms of the Arbitration Agreement, which is attached as Exhibit D.

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IN WITNESS WHEREOF, the parties have executed this Amended and Restated Employment Agreement as of the Effective Date.

RESTORATION HARDWARE, INC.,  
a Delaware corporation

By: /s/ Karen Boone

CARLOS ALBERINI

/s/ Carlos Alberini

Acknowledged and Agreed:

RESTORATION HARDWARE HOLDINGS, INC.,  
a Delaware corporation

By: /s/ Karen Boone

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**SCHEDULE A-1**

**Award Agreement**

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**SCHEDULE A-2**

**Form of 2012 Equity Replacement Plan and Replacement Award Agreement**

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**SCHEDULE B**

**Form of 2012 Stock Option Plan  
and award agreement thereunder**

Terms of IPO Option Grant in accordance with 2012 Stock Option Plan and award agreement, upon occurrence of IPO of Holdings:

- (1) Size of Grant: options to purchase shares of Common Stock of Holdings representing 7.5% of the shares of Common Stock outstanding immediately after the IPO of Holdings calculated based on the fully diluted share number reflected in the Company's capitalization table (pro forma after giving effect to the issuance of shares in the IPO) as set forth in the preliminary prospectus for the IPO used in the roadshow for the IPO, reduced, to the extent included in that fully diluted number, by the number of (x) shares allocated to any new equity incentive pool adopted by Holdings in connection with the IPO and any awards granted thereunder and (y) any grant of options to Gary Friedman in connection with the IPO.
- (2) Exercise Price: equal to a price per share corresponding with a post-IPO market capitalization of \$1.9 billion
- (3) Vesting/Selling Restrictions: To be subject to Vesting or Selling Restrictions based on stock appreciation hurdles from \$2.1 to \$5.4 billion
- (4) Term of Options: Ten years

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**SCHEDULE C**

**Form of Exchange Agreement**



**EXHIBIT A**

**Form of General Release**

This Separation and General Release Agreement (the "Agreement") is entered into by and between Restoration Hardware, Inc. (the "Company") and Carlos Alberini (the "Executive") (collectively, "Parties").

**RECITALS**

WHEREAS, the Executive was employed by the Company on an at-will basis;

WHEREAS, the Company and the Executive have mutually agreed that the Executive will resign as of \_\_\_\_\_ ("Resignation Date") in accordance with the terms of this Agreement; and

WHEREAS, capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Amended and Restated Employment Agreement dated as of \_\_\_\_\_, 2012, by and between the Company and the Executive (the "Employment Agreement").

ACCORDINGLY, the Parties agree as follows:

**1. Severance Benefit.** The Company hereby agrees to provide the Executive with the payments and benefits set forth in Section 5(c) of the Employment Agreement with respect to a termination by the [Company without Cause/Executive for Good Reason], on the terms and subject to the conditions set forth in such Section 5(c)/(d) of the Employment Agreement (including the Executive's compliance with the restrictive covenants set forth in Sections 6 and 8(a) and (b) of the Employment Agreement and the Proprietary Information Agreements).

**2. Resignation.** The Executive hereby resigns his employment with the Company and any Affiliate, and his position as a member of the Board of Directors of the Company or any Affiliate, effective as of the Resignation Date. "Affiliate" means any entity that directly or indirectly controls, is controlled by, or is under common control with the Company.

**3. The Executive Release.** The Executive and his representatives, heirs, successors, and assigns do hereby completely release and forever discharge the Company, any Affiliate, and its and their present and former shareholders, officers, directors, agents, employees, attorneys, successors, and assigns (collectively, "Released Parties") from all claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character, known or unknown, which the Executive may have now or in the future arising from any act or omission or condition occurring on or prior to the Effective Date (including, without limitation, the future effects of such acts, omissions, or conditions), whether based on tort, contract (express or implied), or any federal, state, or local law, statute, or regulation (collectively, the "Released Claims"). By way of example and not in limitation of the foregoing, Released Claims shall include any claims arising under the Fair Labor Standards Act, the National Labor Relations Act, the Family and Medical Leave Act, the Executive Retirement Income Security Act of 1974, the

Americans with Disabilities Act, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, and the California Family Rights Act, as well as any claims asserting wrongful termination, breach of contract, breach of the covenant of good faith and fair dealing, negligent or intentional infliction of emotional distress, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, defamation, invasion of privacy, and claims related to disability. Except as set forth in the next sentence, Released Claims shall also include, but not be limited to, any claims for severance pay, bonuses, sick leave, vacation pay, life or health insurance, or any other fringe benefit, or any claims relating to any bona fide disputes or controversies (other than a dispute or controversy regarding the determination of fair market value that in accordance with the applicable arrangement is to be, or may be, determined by an independent appraiser) concerning (i) awards made to the Executive under the 2008 Team Resto Ownership Plan, the Restoration Hardware 2012 Equity Replacement Plan, the Restoration Hardware 2012 Stock Incentive Plan or similar plans, (ii) the repurchase of any such awards by Home Holdings, LLC, Restoration Hardware Holdings, Inc. or the Company, or (iii) the investment made by the Executive in Home Holdings, LLC and/or Restoration Hardware Holdings, Inc. The Executive likewise releases the Released Parties from any and all obligations for attorneys' fees incurred in regard to the above claims or otherwise. Notwithstanding the foregoing, Released Claims shall not include (i) any claims based on obligations created by or reaffirmed in this Agreement; (ii) any vested retirement benefits or vested stock option rights, (iii) any claims which by law cannot be released, including without limitation unemployment compensation claims and workers' compensation claims (the settlement of which would require approval by the California Workers' Compensation Appeals Board), (iv) any claim for indemnification under the Employment Agreement, the Company's or Holdings' bylaws or certificate of incorporation, the Indemnification Agreement or any other agreement providing for the indemnification of the Executive, or (v) any rights not in dispute that the Executive might have (x) under the 2008 Team Resto Ownership Plan, the Restoration Hardware 2012 Equity Replacement Plan, the Restoration Hardware 2012 Stock Incentive Plan or similar plans or arrangements adopted after the Effective Date of the Employment Agreement regarding equity awards to the Executive or equity interests owned by the Executive or (y) the repurchase of any such awards or interests by Home Holdings, LLC, Restoration Hardware Holdings, Inc. or the Company or (z) the Registration Rights Agreement among the Company and certain of its stockholders.

**4. Section 1542 Waiver.** The Executive understands and agrees that the Released Claims include not only claims presently known to the Executive, but also include all unknown or unanticipated claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character that would otherwise come within the scope of the Released Claims as described in Section 3, above. The Executive understands that he may hereafter discover facts different from what he now believes to be true, which if known, could have materially affected this Agreement, but he nevertheless waives any claims or rights based on different or additional facts. The Executive knowingly and voluntarily waives any and all rights or benefits that he may now have, or in the future may have, under the terms of Section 1542 of the California Civil Code, which provides as follows:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT

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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.

**5. Covenant Not to Sue.** The Executive shall not bring a civil action in any court (or file an administrative complaint or arbitration) against the Company or any other Released Party asserting claims pertaining in any manner to the Released Claims.

**6. Age Discrimination Claims.** The Executive understands and agrees that, by entering into this Agreement, (i) he is waiving any rights or claims he might have under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act; (ii) he has received consideration beyond that to which he was previously entitled; (iii) he has been advised to consult with an attorney before signing this Agreement; and (iv) he has been offered the opportunity to evaluate the terms of this Agreement for not less than twenty-one (21) days prior to his execution of the Agreement. The Executive may revoke this Agreement (by written notice to Company) for a period of seven (7) days after his execution of the Agreement, and it shall become enforceable (and payment of the payments and benefits by the Company to the Executive in accordance with Section 1 above only shall be made) only upon the expiration of this revocation period without prior revocation by the Executive.

**7. Confidentiality.** The Parties understand and agree that this Agreement and each of its terms, and the negotiations surrounding it, are confidential and shall not be disclosed by the Executive without the prior written consent of the Company, unless required by law. Notwithstanding the foregoing, the Executive may disclose the terms of this Agreement to his spouse, and for legitimate business reasons, to legal, financial, and tax advisors, provided such individuals agree to maintain the confidentiality of such information.

**8. Non-admission.** The Parties understand and agree that the furnishing of the consideration for this Agreement shall not be deemed or construed at any time or for any purpose as an admission of liability by the Company. The liability for any and all claims is expressly denied by the Company.

**9. Arbitration.** All claims that the Executive may have against the Company or any other Released Party, or which the Company may have against the Executive, of any kind, including, but not limited to, all claims in any way related to (i) the subject matter, interpretation, application, or alleged breach of this Agreement, (ii) the employment or termination of the Executive, or (iii) the Executive's efforts to find subsequent employment (collectively, "Arbitrable Claims") shall be resolved by arbitration pursuant to the terms of the Arbitration Agreement attached as Exhibit D to the Employment Agreement.

**10. Entire Agreement.** This Agreement and \_\_\_\_\_ constitute the complete, final and exclusive embodiment of the entire agreement among the Parties hereto with regard to the subject matter hereof and thereof. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained or referenced herein.

**11. Amendments; Waivers.** This Agreement may not be amended except by an instrument in writing, signed by each of the Parties. No failure to exercise and no delay in exercising any right, remedy, or power under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, or power under this Agreement preclude any other or further exercise thereof, or the exercise of any other right, remedy, or power provided herein or by law or in equity.

**12. Successors and Assigns.** The Executive represents that he has not previously assigned or transferred any claims or rights released by him pursuant to this Agreement. This Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective heirs, successors, attorneys, and permitted assigns. This Agreement shall also inure to the benefit of any Released Party.

**13. Governing Law.** This Agreement shall be governed by and construed in accordance with the law of the State of California, without regard to conflict of laws provisions.

**14. Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any Party. By way of example and not in limitation, this Agreement shall not be construed in favor of the Party receiving a benefit nor against the Party responsible for any particular language in this Agreement. Captions are used for reference purposes only and should be ignored in the interpretation of the Agreement.

**15. Representation by Counsel.** The Parties acknowledge that (i) they have had the opportunity to consult counsel in regard to this Agreement; (ii) they have read and understand the Agreement and they are fully aware of its legal effect; and (iii) they are entering into this Agreement freely and voluntarily, and based on each Party's own judgment and not on any representations or promises made by the other Party, other than those contained in this Agreement.

**16. Counterparts.** This Agreement may be executed in counterparts. True copies of such executed counterparts may be used in lieu of an original for any purpose.

**17. Effective Date.** This Agreement shall become effective as of seven (7) days after the date executed by the Executive ("Effective Date"), but only if the Agreement is not revoked as provided in Section 6. If the Agreement is revoked, it shall be null and void.

The Parties have duly executed this Agreement as of the dates noted below.

\_\_\_\_\_  
Executive

Date: \_\_\_\_\_

Restoration Hardware, Inc.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Date: \_\_\_\_\_

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**EXHIBIT B**

**Executed Proprietary Information and Inventions Agreement**

# RESTORATION HARDWARE

## Proprietary Information and Inventions Agreement

I am entering into this Proprietary Information and Inventions Agreement (the "Agreement") with Restoration Hardware, Inc. (the "Company") for the purpose of protecting the trade secrets of the Company and prohibiting the unauthorized use of confidential information by me.

In consideration of my employment or continued employment by the Company, and the compensation now and hereafter paid to me, I hereby agree as follows:

- 1) **Recognition of Company's Rights: Nondisclosure.** At all times during the term of my employment and thereafter, I will hold in strictest confidence and will not disclose, use, lecture upon or publish any of the Company's Proprietary Information (defined below), except as such disclosure, use or publication may be required in connection with my work for the Company, or unless an officer of the Company expressly authorizes such in writing. I hereby assign to the Company any rights I may have or acquire in such Proprietary Information and recognize that all Proprietary Information shall be the sole property of the Company and its assigns and that the Company and its assigns shall be the sole owner of all patent rights, copyrights, trade secret rights and all other rights throughout the world (collectively, "Proprietary Rights") in connection therewith.

The term "Proprietary Information" shall mean trade secrets confidential knowledge, data or any other proprietary information of the Company. Proprietary Information includes, but is not limited to, (a) inventions, trade secrets, ideas, data, other works of authorship, know-how, improvements, discoveries, developments, designs and techniques (hereinafter collectively referred to as "Inventions"); and (b) information regarding plans for research, development, new products, branding, marketing and selling business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers, details of contracts; and information regarding the skills and compensation of other associates of the Company.

- 2) **Third Party Information.** I understand, in addition, that the Company has received and in the future will receive from third parties confidential or proprietary information ("Third Party Information") subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of my employment and thereafter, I will hold Third Party Information in the strictest confidence and will not disclose (to anyone other than Company personnel who need to know such information in connection with their work for the Company) or use, except in connection with my work for the Company, Third Party Information unless expressly authorized by an officer of the Company in writing.

- 3) **Assignment of Inventions** I shall promptly disclose to the Company any and all inventions that I may conceive or develop, alone or with others, during the term of my employment, and I agree that all inventions belong to and be the exclusive property of the Company. I agree to assign, and upon their creation do hereby automatically assign, all of my right, title and interest (in the United States and other countries) in and to all Inventions (and all Proprietary Rights with respect thereto) whether or not patentable or registerable under copyright or similar statutes, made or conceived or reduced to practice or learned by me, either alone or jointly with others, during the period of my employment with the Company. I recognize that this Agreement does not require assignment of any invention which qualifies fully for protection under Section 2870 of the California Labor Code (hereinafter "Section 2870"), which provides as follows:

- a) Any provision in an employment agreement which provides that an associate shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the associate developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:
  - i) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.
  - ii) Result from any work performed by the associate for the employer.
  - iii) To the extent a provision in an employment agreement purports to require an associate to assign an invention otherwise excluded from being required to be assigned under subdivision (I), the provision is against the public policy of this state and is unenforceable.

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- b) I also assign to or as directed by the Company all my right, title and interest in and to any and all Inventions, full title to which is required to be in the United States by a contract between the Company and the United States or any of its agencies.
- c) I acknowledge that all original works of authorship which are made by me (solely or jointly with others) within the scope of my employment and which are protectable by copyright are "works made for hire", as that term is defined in the United States Copyright Act (17 U.S.C., Section 101). Inventions assigned to or as directed by the Company by this paragraph 3 are hereinafter referred to as "Company Inventions".
- 4) Prior Inventions. Inventions, if any patented or unpatented, which I made prior to the commencement of my employment with the Company are excluded from the scope of this Agreement. To preclude any possible uncertainty, I have set forth on Exhibit A attached hereto a complete list of all Inventions that I have, alone or jointly with others, conceived, developed or reduced to practice prior to commencement of my employment with the Company, that I consider to be my property or the property of third parties and that I wish to have excluded from the scope of this Agreement. If disclosure of any such Invention on Exhibit A would cause me to violate any prior confidentiality agreement, I understand that I am not to list such Inventions in Exhibit A but am to inform the Company that all Inventions have not been listed for that reason.
- 5) No Improper Use of materials. During my employment by the Company I will not improperly use or disclose any confidential information or trade secrets, if any, of any former employer or any other person to whom I have an obligation of confidentiality, and I will not bring onto the premises of the Company any unpublished documents or any property belonging to any former employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that former employer or person.
- 6) No Conflicting Obligation. I represent that my performance of all the terms of this Agreement and as an associate of the Company does not breach any agreement to keep in confidence information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any agreement either in written or oral in conflict herewith.
- 7) Right to Inspection. I agree that any property situated on the Company's premises and owned by the Company, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice. Prior to leaving, I will cooperate with the Company in completing and signing the Company's termination statement for technical and management personnel.
- 8) Legal and Equitable Remedies. Because my services are personal and unique and because I may have access to and become acquainted with the Proprietary Information of the Company, the Company shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief, without bond, without prejudice to any other rights and remedies that the Company may have for a breach of this Agreement; provided that the limitations on such rights and remedies other stated in Executive's Employment Agreement executed concurrently herewith shall equally apply hereunder.
- 9) Notices. Any notices required or permitted hereunder shall be given to the appropriate party at the address specified below or at such other address as the party shall specify in writing. Such notice shall be deemed given upon personal delivery to the appropriate address or if sent by certified or registered mail, three days after the date of mailing.
- 10) General Provisions,
- a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

- b) Entire Agreement. This Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter hereof and supersedes and merges all prior discussions between us. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement. As used in this Agreement, the period of my employment includes any time during which I may be retained by the Company as a consultant.
- c) Severability. If one or more of the provisions in this Agreement are deemed unenforceable by law, then the remaining provisions will continue in full force and effect.
- d) Successors and Assigns. This Agreement will be binding upon my heirs, executors, administrators and other legal representatives and will be for the benefit of the Company, its successors and assigns.
- e) Survival. The provisions of the Agreement shall survive the termination of my employment and the assignment of this Agreement by the Company to any successor in interest or other assignee.
- f) Employment. I agree and understand that nothing in this Agreement shall confer any right with respect to continuation of employment with the Company, nor shall it interfere in any way with my right or the Company's right to terminate my employment at any time, with or without cause.
- g) Waiver. No waiver by the Company of any breach of this Agreement shall be a waiver of any preceding or succeeding breach. No waiver by the Company of any right under this Agreement shall be construed as a waiver of any other right. The Company shall not be required to give notice to enforce strict adherence to all terms of this Agreement.

I UNDERSTAND THAT THIS AGREEMENT AFFECTS MY RIGHTS TO INVENTIONS I MAKE DURING MY EMPLOYMENT, AND RESTRICTS MY RIGHT TO DISCLOSE OR USE THE COMPANY'S PROPRIETARY INFORMATION DURING OR SUBSEQUENT TO MY EMPLOYMENT.

I HAVE READ THIS AGREEMENT CAREFULLY AND UNDERSTAND ITS TERMS. I HAVE COMPLETELY FILLED OUT EXHIBIT A TO THIS AGREEMENT.

Dated as of May 12, 2010

/s/ Carlos Alberini  
Signature  
Carlos Alberini

Name of Associate

Address

ACCEPTED AND AGREED TO:

Restoration Hardware, Inc.

By: /s/ Chris Newman  
Name: Chris Newman  
Title: Chief Financial Officer



Schedule of Inventions

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**EXHIBIT C**

**Executed Confirmation of Confidential Treatment**

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# RESTORATION HARDWARE

## Confirmation of Confidential Treatment

This shall confirm that as an associate of Restoration Hardware, Inc. (the "Company"), and in accordance with the Proprietary Information and Inventions Agreement (the "Confidentiality Agreement") entered into between me and the Company, understand, agree and acknowledge that all information and materials relating to my work on the Company's development of new retail concepts, new merchandise programs and new brands (including without limitation all information and materials related to the development of new Company brands, logos and corporate identities), shall be treated as Proprietary Information (as that term is defined under the Confidentiality Agreement). Without limiting the generality of the foregoing, and for the avoidance of doubt, I hereby agree to hold all ideas, data, documents, drawings, notes, memoranda, and other information and materials regarding Company's new retail concepts, new merchandise programs and new brands including branding plans, brand development and branding strategy, in strictest confidence, and will not disclose, lecture upon or publish any such information or materials unless an officer of the Company expressly authorizes such in writing, and will not use such information and materials for any purpose other than in furtherance of the business of the Company as directed by the Company.

Because I may have access to and become acquainted with such information and materials, the Company shall have the right to enforce my duties of confidentiality by injunction, specific performance or other equitable relief, without bond, without prejudice to any other rights and remedies that the Company may have.

I HAVE READ THIS DOCUMENT CAREFULLY AND UNDERSTAND ITS TERMS.

Dated: May 12, 2010

/s/ Carlos Alberini  
Signature

Carlos Alberini  
Associate Name

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**EXHIBIT D**

**Arbitration Agreement**

Restoration Hardware, Inc. (the "Company"), Restoration Hardware Holdings, Inc. ("Holdings") and Carlos Alberini (the "Executive") hereby agree, effective as of \_\_\_\_\_, 2012, that, to the fullest extent permitted by law, any and all claims or controversies between them (or between the Executive and any present or former officer, director, agent, or employee of the Company or any parent, subsidiary, or other entity affiliated with the Company) relating in any manner to the employment or the termination of employment of the Executive (including the awards to the Executive under the Restoration Hardware 2012 Equity Replacement Plan, the Restoration Hardware 2012 Stock Incentive Plan and the 2008 Team Resto Ownership Plan or the investment by the Executive in Holdings or Home Holdings, LLC) shall be resolved by final and binding arbitration. Except as specifically provided herein, any arbitration proceeding shall be conducted by the Judicial Arbitration and Mediation Services ("JAMS") under the JAMS Employment Arbitration Rules and Procedures then in effect (the "JAMS Rules").

Claims subject to arbitration shall include, without limitation: contract claims, tort claims, claims relating to compensation, as well as claims based on any federal, state, or local law, statute, or regulation, including but not limited to any claims arising under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the California Fair Employment and Housing Act, equity purchases or repurchases, and any and all claims for any other compensation, wages and/or benefits of any type, including as such terms are used in the Executive's Employment Agreement with the Company. However, claims for unemployment benefits, workers' compensation claims, and claims under the National Labor Relations Act or any other statute that provides for claimants to be entitled to have claims heard at law or in equity shall not be subject to arbitration.

A neutral and impartial arbitrator shall be chosen by mutual agreement of the parties; however, if the parties are unable to agree upon an arbitrator within a reasonable period of time, then a neutral and impartial arbitrator shall be appointed in accordance with the arbitrator nomination and selection procedure set forth in the JAMS Rules. The arbitrator shall prepare a written decision containing the essential findings and conclusions on which the award is based so as to ensure meaningful judicial review of the decision. The arbitrator shall apply the same substantive law, with the same statutes of limitations and same remedies, that would apply if the claims were brought in a court of law.

Either the Company or the Executive may bring an action in court to compel arbitration under this Agreement and to enforce an arbitration award. Otherwise, neither party shall initiate or prosecute any lawsuit of claim in any way related to any arbitrable claim, including without limitation any claim as to the making, existence, validity, or enforceability of the agreement to arbitrate. Nothing in this Agreement, however, precludes a party from filing an administrative charge before an agency that has jurisdiction over an arbitrable claim. Moreover, nothing in this Agreement prohibits either party from seeking provisional relief pursuant to Section 1281.8 of the California Code of Civil Procedure.

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All arbitration hearings under this Agreement shall be conducted in San Francisco, California, unless otherwise agreed by the parties. The arbitration provisions of this Arbitration Agreement shall be governed by the Federal Arbitration Act. In all other respects, this Arbitration Agreement shall be construed in accordance with the laws of the State of California, without reference to conflicts of law principles.

Each party shall pay its own costs and attorney's fees, unless a party prevails on a statutory claim, and the statute provides that the prevailing party is entitled to payment of its attorneys' fees. In that case, the arbitrator may award reasonable attorneys' fees and costs to the prevailing party as provided by law.

This Agreement does not alter the Executive's at-will employment status. Accordingly, the Executive understands that the Company may terminate the Executive's employment, as well as discipline or demote the Executive, at any time, with or without prior notice, and with or without cause. The parties also understand that the Executive is free to leave the Company at any time and for any reason, with or without cause and with or without advance notice. If any provision of this Agreement shall be held by a court or the arbitrator to be invalid, unenforceable, or void, such provision shall be enforced to the fullest extent permitted by law, and the remainder of this Agreement shall remain in full force and effect. The parties' obligations under this Agreement shall survive the termination of the Executive's employment with the Company and the expiration of this Agreement.

The Company and the Executive understand and agree that this Arbitration Agreement contains a full and complete statement of any agreements and understandings regarding resolution of disputes between the parties, and the parties agree that this Arbitration Agreement supersedes all previous agreements, whether written or oral, express or implied, relating to the subjects covered in this agreement. The parties also agree that the terms of this Arbitration Agreement cannot be revoked or modified except in a written document signed by both the Executive and an officer of the Company.

THE PARTIES ALSO UNDERSTAND AND AGREE THAT THIS AGREEMENT CONSTITUTES A WAIVER OF THEIR RIGHT TO A TRIAL BY JURY OF ANY CLAIMS OR CONTROVERSIES COVERED BY THIS AGREEMENT. THE PARTIES AGREE THAT NONE OF THOSE CLAIMS OR CONTROVERSIES SHALL BE RESOLVED BY A JURY TRIAL.

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THE PARTIES FURTHER ACKNOWLEDGE THAT THEY HAVE BEEN GIVEN THE OPPORTUNITY TO DISCUSS THIS AGREEMENT WITH THEIR LEGAL COUNSEL AND HAVE AVAILED THEMSELVES OF THAT OPPORTUNITY TO THE EXTENT THEY WISH TO DO SO.

RESTORATION HARDWARE, INC.

By: \_\_\_\_\_

RESTORATION HARDWARE HOLDINGS, INC.

By: \_\_\_\_\_

\_\_\_\_\_  
Executive

## EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is entered into as of November 1, 2012 (the "Effective Date"), by and between Restoration Hardware, Inc., a Delaware corporation, with a business address of 15 Koch Road, Suite J, Corte Madera, CA 94925 (the "Company"), and Karen Boone, an individual (the "Executive").

**1. Employment**

(a) Title. The Executive shall serve as Chief Financial Officer of the Company, reporting to the Chief Executive Officer. The Executive agrees to perform her duties for the Company diligently, competently, and in a good faith manner.

(b) Exclusive Employment. While Executive is employed by the Company, the Executive shall devote her full business time to her duties and responsibilities to the Company, and may not, without the prior written consent of the Company's Board of Directors (the "Board") or its designee, operate, participate in the management, board of directors, operations or control of, or act as an employee, officer, consultant, agent or representative of, any type of business or service (other than as an employee of the Company); provided, however, that the Executive may (i) engage in civic and charitable activities and (ii) make and maintain outside personal investments, provided that none of the foregoing activities interfere with the Executive's performance of her duties hereunder or create a conflict of interest with the Company.

(c) Place of Employment. The Executive's primary workplace shall be the Company's offices in Corte Madera, California, except for usual and customary travel on the Company's business.

**2. Compensation**

(a) Base Salary. The Executive shall receive a base salary from the Company at the rate of Four Hundred and Seventy-Five Thousand Dollars (\$475,000) per year ("Base Salary"). The Executive's Base Salary shall be reviewed from time to time in accordance with the Company's established procedures for adjusting salaries for similarly situated employees and may be adjusted in the Company's discretion.

(b) Bonus.

(i) The Executive will be eligible to participate in the Company's Leadership Incentive Program (the "Bonus Plan"), with a target bonus amount equivalent to fifty percent (50%) of her Base Salary. Actual bonus payments will be subject to achievement of performance objectives as determined in accordance with the Bonus Plan and will be prorated for a partial year of service.

(ii) The Executive will receive a one-time cash bonus equal to One Hundred Thousand Dollars (\$100,000) to be paid within 10 days of the date on which Restoration Hardware Holdings, Inc. completes its firm commitment underwritten initial public offering (such date of completion, the "Effective Time").

(c) Equity Incentive Compensation. On the date hereof, the Executive will receive an option to purchase 230,000 shares of Restoration Hardware Holdings, Inc.'s common stock, at an exercise price equal to the initial public offering price of the shares sold in Restoration Hardware Holdings, Inc.'s initial public offering, pursuant to the terms and conditions of the Restoration Hardware Holdings, Inc. 2012 Stock Incentive Plan and a stock option agreement to be entered into by and between the Executive and the Company. Subject to the terms of the stock option agreement and the Restoration Hardware Holdings, Inc. 2012 Stock Incentive Plan, of the 230,000 shares subject to such stock option, (i) 206,000 of such shares shall be subject to long-term selling restrictions as set forth in the stock option agreement, which selling restrictions shall lapse as follows: the long-term selling restrictions on 33,500 of such shares shall lapse on the first anniversary of the date Executive commenced employment with the Company ("Employment Commencement Date"), and the long-term selling restrictions on the remaining 172,500 of such share shall lapse in equal installments of 57,500 shares each on the second, third and fourth anniversaries of the Employment Commencement Date; and (ii) the remaining 24,000 of such shares subject to such stock option shall not be subject to long-term selling restrictions.

### **3. Benefits**

(a) Benefits. The Executive shall be eligible to participate in health and other employee benefits (including but not limited to 401(k), health, medical, dental, supplemental health, travel accident, life, long-term disability, and directors and officers insurance) on a basis comparable to the benefits provided by the Company from time to time to its other senior executives and commensurate with the Executive's position in the Company. The Executive shall be bound by all of the written policies and procedures established by the Company, as may be amended from time to time in the Company's sole discretion. The Executive shall also be eligible for the associate discount, including forty percent (40%) off regularly priced merchandise and twenty percent (20%) off sale priced items.

(b) Vacation. The Executive shall be eligible to accrue up to Four (4) weeks of paid vacation time per year, in accordance with the Company's vacation policy as may be amended from time to time in the Company's sole discretion.

(c) Reimbursement of Expenses. The Company shall promptly reimburse the Executive for all reasonable out of pocket travel, entertainment, and other expenses incurred or paid by the Executive in connection with, or related to, the performance of her responsibilities or services under this Agreement upon the submission of appropriate documentation pursuant to the Company's policies in effect from time to time.

(d) Automobile Allowance. The Executive shall be entitled to receive an automobile allowance of Nine Hundred Dollars (\$900.00) per month, subject to customary Company policies for senior executives.

### **4. Termination**

(a) At-Will Termination by the Company. The employment of the Executive shall be "at-will" at all times. The Company may terminate the Executive's employment with



the Company at any time without any advance notice (and the Executive may terminate her employment with the Company at any time upon providing thirty (30) days prior notice), in each case, for any reason or no reason at all, notwithstanding anything to the contrary contained in or arising from any statements, policies or practices of the Company relating to the employment, discipline or termination of its employees. Upon and after such termination, all obligations of the Company under this Agreement shall cease, except as otherwise provided below in this Section 4.

(b) Termination by the Company with Cause. Upon written notice to the Executive, the Company may terminate the Executive's employment for Cause (as defined below). In the event that the Executive's employment is terminated for Cause, (i) the Executive shall receive from the Company payments for (A) any and all earned and unpaid portion of her then effective Base Salary (on or before the first regular payroll date following the Date of Termination); (B) any and all accrued and unpaid vacation through the Date of Termination; (C) any and all unreimbursed business expenses (in accordance with the Company's reimbursement policy); and (D) any other benefits the Executive is entitled to receive as of the Date of Termination under the employee benefit plans of the Company, less standard withholdings for tax and social security purposes (items (A) through (D) are hereafter referred to as "Accrued Benefits"), and (ii) except as required by law, after the Date of Termination, the Company shall have no obligation to make any other payment, including severance or other compensation of any kind, on account of the Executive's termination of employment or to make any payment in lieu of notice to the Executive. Except as required by law, all benefits provided by the Company to the Executive under this Agreement or otherwise shall cease as of the Date of Termination.

(c) Termination by the Company Without Cause. The Company may, at any time and without prior written notice, terminate the Executive's employment without Cause. In the event that the Company terminates the Executive's employment without Cause, the Executive shall receive the Accrued Benefits. In addition, the Executive shall be eligible to receive from the Company the following severance benefits (collectively, the "Severance Benefits"):

(i) (A) if the termination occurs within one (1) year of the Effective Time, severance pay equivalent to Eighteen (18) months of the Executive's final Base Salary, less standard withholdings for tax and social security purposes, paid according to the Company's regular payroll schedule over the Eighteen (18) months following the Date of Termination; or (B) if the termination occurs more than one (1) year after the Effective Time, severance pay equivalent to Twelve (12) months of the Executive's final Base Salary, less standard withholdings for tax and social security purposes, paid according to the Company's regular payroll schedule over the Twelve (12) months following the Date of Termination (collectively, the "Severance Period"); and

(ii) (A) if the termination occurs within one (1) year of the Effective Time and subject to the Executive's timely election under COBRA, payment of a portion of the Executive's COBRA premiums for Eighteen (18) months following the Date of Termination (not to exceed the applicable continuation period) or, if earlier, until such time as the Executive becomes eligible for similar coverage through another employer, which benefits shall be paid for by the Company to the same extent that the Company paid for health insurance for the Executive

prior to termination; or (B) if the termination occurs more than one (1) year after the Effective Time and subject to the Executive's timely election under COBRA, payment of a portion of the Executive's COBRA premiums for Twelve (12) months following the Date of Termination (not to exceed the applicable continuation period) or, if earlier, until such time as the Executive becomes eligible for similar coverage through another employer, which benefits shall be paid for by the Company to the same extent that the Company paid for health insurance for the Executive prior to termination. The Executive will thereafter be responsible for the payment of COBRA premiums (including, without limitation, all administrative expenses) for any remaining COBRA period. Notwithstanding the foregoing, in the event that the Company determines, in its sole discretion, that the Company may be subject to a tax or penalty pursuant to Section 4980D of the Code as a result of providing some or all of the payments described in this Section 4(c)(ii), the Company may reduce or eliminate its obligations under this Section 4(c)(ii) to the extent it deems necessary, with no offset or other consideration required.

The Executive's entitlement to the Severance Benefits is conditioned on (x) the Executive's timely executing and delivering to the Company of a release of claims against the Company, in a form attached hereto as Exhibit A (the "Release"), and on such release becoming effective, (y) the Executive not engaging in Conflicting Activities (as defined below) while receiving Severance Benefits from the Company, and (z) the Executive's compliance with the Proprietary Information Agreements (as defined below).

To be timely, the Release must become effective and irrevocable no later than sixty (60) days following the Date of Termination (the "Release Deadline"). If the Release does not become effective and irrevocable by the Release Deadline, Executive will forfeit any rights to the severance benefits described in this Section 4(c). In no event will any severance benefits be paid under this Section 4(c) until the Release becomes effective and irrevocable. Subject to Section 8(c) below, severance benefits will commence or be provided once the Release becomes effective and irrevocable.

The Executive acknowledge that the Severance Benefits are being provided to assist in the Executive's transition to other employment. Accordingly, to the extent that the Executive begins to engage in Conflicting Activities during the Severance Period, the Executive shall be entitled to retain any severance payments received prior to the date she commences the Conflicting Activity but will cease to be eligible to receive any further severance payments or other severance benefits under the terms of this Agreement or otherwise, and the Executive shall have no further claims, rights or entitlements to any severance payments or benefits in any respect. The Executive agrees that the Company shall have a right of offset against all severance payments for amounts owed to the Company by the Executive (unless the amounts owed are subject to a good faith dispute) to the fullest extent not prohibited by law. The Severance Benefits shall be in lieu of any other severance payments, severance benefits and severance protections to which the Executive may be entitled under any severance or termination policy, plan, program, practice or arrangement of the Company and its affiliates. Except as specifically provided in this Section 4(c) or in another section of this Agreement, or except as required by law, all benefits provided by the Company to the Executive under this Agreement or otherwise shall cease as of the Date of Termination.

(d) Termination by the Executive for Good Reason. The Executive may voluntarily terminate her employment with the Company and receive the Severance Benefits detailed in Section 4(c) (subject to the same conditions set forth in Section 4(c)) following the occurrence of an event constituting Good Reason (as defined below), provided that the Executive has provided written notice to the Company of the existence of the event constituting Good Reason within sixty (60) days following such event, the Company has had a period of thirty (30) days to cure the Good Reason, the Company has failed to cure the Good Reason within that period, and the Executive terminates her employment within thirty (30) days following the expiration of such cure period.

(e) Voluntary Termination. If the Executive terminates employment with the Company without Good Reason, the Executive agrees to provide the Company with thirty (30) days' prior written notice. In the event that the Executive's employment is terminated under this Section 4(e), the Executive shall receive from the Company payment for all Accrued Benefits described in Section 4(b) above at the times specified in Section 4(b) above. Except as required by law, after the Date of Termination, the Company shall have no obligation to make any other payment, including severance or other compensation, of any kind, or provide any other benefits, to the Executive on account of the Executive's termination of employment.

(f) Termination Upon Death or Disability. If the Executive's employment is terminated as a result of death or Disability, the Executive (or Executive's estate, or other designated beneficiary(s) as shown in the records of the Company in the case of death) shall be entitled to receive from the Company payment for the Accrued Benefits described in Section 4(b) above at the times specified in Section 2(b) above. Except as required by law, after the Date of Termination, the Company shall have no obligation to make any other payment, including severance or other compensation, of any kind, or provide any other benefits, to the Executive (or the Executive's estate, or other designated beneficiary(s), as applicable) upon a termination of employment by death or Disability

(g) Certain Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth below.

(i) "Cause" shall mean

(A) the Executive has been convicted of (or has entered a plea of *nolo contendere* to) a felony involving fraud, dishonesty, or physical harm to any person;

(B) the Executive intentionally failed to substantially perform the Executive's material duties (other than a failure resulting from the Executive's incapacity due to physical or mental illness or from the Executive's assignment of duties that would constitute Good Reason), which failure lasted for a period of at least fifteen (15) days after a written notice of demand for substantial performance has been delivered to the Executive specifying the manner in which the Executive has failed substantially to perform;

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- (C) the Executive intentionally engaged in conduct which is demonstrably and materially injurious to the Company; or
  - (D) the Executive's fraud, embezzlement or other act of material dishonesty with respect to the Company.

For purposes of this Section 4(g)(i), no act, nor failure to act, on the Executive's part shall be considered "intentional" unless the Executive has acted, or failed to act, with a lack of reasonable belief that the Executive's action or failure to act was in the best interest of Company.

(ii) "Conflicting Activities" shall mean (a) directly or indirectly engaging or investing in, owning, managing, operating, financing, controlling or participating in the ownership, management, operation, financing, or control of, being employed by, associated with, or in any manner connected with, lending any credit to, or rendering services or advice to, any business, firm, corporation, partnership, association, joint venture or other entity that engages or conducts any competing business the same as or substantially similar to the business engaged in or proposed to be engaged in or conducted by the Company or described in a written strategic plan of the Company at any time that the Executive was employed with the Company, anywhere within the United States of America; provided, however, that "Conflicting Activities" shall exclude ownership of up to 5% of the outstanding shares of any class of securities of any enterprise (but without otherwise participating in the activities of such enterprise) if such securities are listed on any national or regional securities exchange or have been registered under Section 12(g) of the Securities Exchange Act of 1934, as amended, and up to 5% of the voting stock or other securities of any privately-held company; (b) directly or indirectly soliciting the business of any material customers of or suppliers to the Company, or encouraging any person or entity which is a customer of the Company to cease, reduce, limit or otherwise alter in a manner adverse to the Company its existing business or contractual relationship with the Company; or (c) directly or indirectly soliciting, inducing, recruiting or encouraging any person employed or engaged by the Company to terminate her employment or engagement with the Company, provided, however, that general solicitations not targeted to Company employees shall not be deemed to violate this clause (ii).

(iii) "Date of Termination" shall mean (i) if the Executive is terminated by the Company for Disability, thirty (30) days after written notice of termination is given to the Executive (provided that the Executive shall not have returned to the performance of her duties on a full-time basis during such 30-day period); (ii) if the Executive's employment is terminated by the Company for any other reason, the date on which a written notice of termination is given; (iii) if the Executive terminates employment for Good Reason, the date of the Executive's resignation; provided that the notice and cure provisions in the definition of Good Reason have been complied with; (iv) if the Executive terminates employment for other than a Good Reason, the date specified in the Executive's notice in compliance with Section 4(e); or (v) in the event of Executive's death, the date of death.

(iv) "Disability" shall (i) have the meaning defined under the Company's then-current long-term disability insurance plan, policy, program or contract as entitles the Executive to payment of disability benefits thereunder, or (ii) if there shall be no such plan, policy, program or contract, mean permanent and total disability as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended.

(v) “Good Reason” shall mean the occurrence of any of the following events or conditions that occur without the Executive’s consent:

(A) a material diminution in the Executive’s authority, duties or responsibilities; provided that a change in the Executive’s authority, duties or responsibilities due to the fact that the Company or its successor becomes a stand-alone division or subsidiary of a public or private company will not alone constitute Good Reason so long as the Executive continues as Chief Financial Officer of the Company (or successor or parent thereof, as the case may be) of such division or subsidiary; provided further, that if after the date hereof the Executive is no longer serving as the Company’s “principal financial officer” and/or “principal accounting officer” within the meaning of Rule 16a-1 of the Securities Exchange Act of 1934, as amended, such change shall not alone constitute Good Reason hereunder;

(B) a material reduction in the Executive’s then effective Base Salary, except if the base salaries of a significant number of other executives and members of senior management of the Company also are proportionately reduced, whether or not such reduction is voluntary on the part of the Executive or such other executives and senior management; and

(C) the Company’s relocation of the Executive’s primary work location outside a 40-mile radius of Corte Madera, California that increases the Executive’s one-way driving distance by more than 40 miles.

(h) Notice of Termination. Any termination of the Executive’s employment by the Company or by the Executive under this Section 4 (other than in the case of death) shall be communicated by a written notice (the “Notice of Termination”) to the other party hereto, indicating the specific termination provision in this Agreement relied upon, and specifying a Date of Termination; provided, however, that the Company may pay to the Executive all Base Salary, benefits and other rights due to the Executive during any applicable notice period required under this Section 4 instead of employing the Executive during such Notice Period.

## 5. Other Covenants

(a) Proprietary and Confidential Information. The Executive has signed and agrees to be bound by the terms of the Proprietary Information and Inventions Agreement, a copy of which is attached hereto as Exhibit B, and the Confirmation of Confidential Information, a copy of which is attached hereto as Exhibit C (collectively, the “Proprietary Information Agreements”).

(b) Compliance with Company Policies. The Executive agrees that, during Executive’s employment with the Company, she shall comply with the Company’s employee manual and other policies and procedures reasonably established by the Company from time to time, including but not limited to policies addressing matters such as management, supervision, recruiting and diversity.

(c) Non-Solicitation. The obligations set forth in this Section 5(c) apply in addition to post-termination the obligations set forth in Section 4(c), if applicable. If both Section 4(c) and Section 5(c) are operative, and there is a conflict, then the obligations set forth in Section 4(c) will control.

(i) Definition. For purposes of this Section 5(c), "Post-Termination Period" means either:

(A) a period of Eighteen (18) months following the date of termination of Executive's employment for any reason if the termination occurs within one (1) year of the Effective Time; or

(B) a period of Twelve (12) months following the date of the termination of Executive's employment for any reason if the termination occurs more than one (1) year after the Effective Time.

(ii) Solicitation of Employees. During the Executive's employment with the Company and for the duration of the Post-Termination Period, the Executive shall not, directly or indirectly, individually, or together with or through any other person, firm, corporation or entity:

(A) solicit for hire any employee of the Company, provided, however, that general solicitations not targeted to Company employees shall not be deemed to violate this clause (A), or

(B) cause any of the employee of the Company to terminate his or her employment relationship with the Company.

(iii) Solicitation of Customers and Suppliers. During the Executive's employment with the Company and for the duration of the Post-Termination Period, the Executive shall not, directly or indirectly, individually, or together through any other person, firm, corporation or entity, use the Company's Proprietary Information (as defined in the Proprietary Information and Inventions Agreement attached hereto as Exhibit B):

(A) to solicit the business of any material customers of or suppliers to the Company, or

(B) to encourage any person or entity which is a customer of the Company to cease, reduce, limit or otherwise alter in a manner adverse to the Company its existing business or contractual relationship with the Company.

## **6. Termination Obligations**

(a) Resignation and Cooperation. Upon termination of the Executive's employment, the Executive shall be deemed to have resigned from all offices and directorships then held with the Company. Following any termination of employment, the Executive shall cooperate with the Company in the winding up of pending work on behalf of the Company and the orderly transfer of work to other employees. The Executive shall also cooperate with the Company in the defense of any action brought by any third party against the Company that relates to Executive's employment by the Company.

(b) **Return of Business Records and Equipment.** Upon termination of the Executive's employment hereunder, the Executive shall promptly return to the Company: (i) all documents, records, procedures, books, notebooks, and any other documentation in any form whatsoever, including but not limited to written, audio, video or electronic, containing any information pertaining to the Company which includes Proprietary Information, including any and all copies of such documentation then in the Executive's possession or control regardless of whether such documentation was prepared or compiled by the Executive, Company, other employees of the Company, representatives, agents, or independent contractors, and (ii) all equipment or tangible personal property entrusted to the Executive by the Company. The Executive acknowledges that all such documentation, copies of such documentation, equipment, and tangible personal property are and shall at all times remain the sole and exclusive property of the Company.

**7. Miscellaneous**

**(a) Dispute Resolution; Forum Selection**

The Company and the Executive agree that, to the fullest extent permitted by law, any and all claims or controversies between them shall be resolved by final and binding arbitration pursuant to the Arbitration Agreement, which is attached as Exhibit D. Notwithstanding the foregoing, to the extent any claims or controversies between the Parties are not covered by and subject to arbitration according to the terms of the Arbitration Agreement in the form attached hereto as Exhibit D, the Company and the Executive mutually agree that any such claims shall be brought exclusively in a court in the city and county of San Francisco, California or, if federal jurisdiction exists, the United States District Court for the Northern District of California, and both parties submit and consent to jurisdiction of such courts and waive any objection to venue and/or any claim that the aforementioned forums are inconvenient.

**(b) Governing Law**

This Agreement and any disputes or controversies arising hereunder shall be construed and enforced in accordance with and governed by the internal laws of the State of California, without reference to principles of law that would apply the law of another jurisdiction.

**(c) Entire Agreement**

This Agreement, together with the Proprietary Information Agreements, constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and thereof and supersedes and cancels any and all previous agreements, written and oral, regarding the subject matter hereof between the parties hereto. This Agreement shall not be changed, altered, modified or amended, except by a written agreement that (i) explicitly states the intent of both parties hereto to supplement this Agreement and (ii) is signed by both parties hereto. This Agreement replaces and supersedes the Offer Letter dated as of April 22, 2012 by and between the parties hereto.

**(d) Notices**

All notices, requests, demands and other communications called for or contemplated hereunder shall be in writing and shall be deemed to have been sufficiently given if personally delivered or if sent by registered or certified mail, return receipt requested to the parties, their successors in interest, or their assignees at the following addresses, or at such other addresses as the parties may designate by written notice in the manner aforesaid, and shall be deemed received upon actual receipt:

(i) to the Company at:  
Restoration Hardware, Inc.  
15 Koch Road, Suite J  
Corte Madera, CA 94925  
Attention: Chief Executive Officer  
Facsimile: (415) 927-7083

(ii) to the Executive at:  
[ ]

**(e) Severability**

If any term or provision of this Agreement, or the application thereof to any person or under any circumstance, shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such terms to the persons or under circumstances other than those as to which it is invalid or unenforceable, shall be considered severable and shall not be affected thereby, and each term of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

**(f) Waiver**

The failure of any party to insist in any one instance or more upon strict performance of any of the terms and conditions hereof, or to exercise any right or privilege herein conferred, shall not be construed as a waiver of such terms, conditions, rights or privileges, but same shall continue to remain in full force and effect. Any waiver by any party of any violation of, breach of or default under any provision of this Agreement by the other party shall not be construed as, or constitute, a continuing waiver of such provision, or waiver of any other violation of, breach of or default under any other provision of this Agreement.

**(g) Exclusive Remedy**

The Executive's right to the compensation and benefits to which she may become entitled pursuant to this Agreement and pursuant to any other written agreement between the Executive and the Company shall be the Executive's sole and exclusive remedy for any termination of the Executive's employment.



**(h) Successors and Assigns**

The performance of Executive is personal hereunder, and Executive agrees that Executive shall have no right to assign and shall not assign or purport to assign any rights or obligations under this Agreement. This Agreement may be assigned or transferred by the Company; and nothing in this Agreement shall prevent the consolidation, merger or sale of the Company or a sale of any or all or substantially all of its assets.

**(i) Counterparts**

This Agreement may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument.

**(j) Headings**

Headings in this Agreement are for reference only and shall not be deemed to have any substantive effect.

**(k) Opportunity to Seek Advice; Warranties and Representations**

The Executive acknowledges and confirms that she has had the opportunity to seek such legal, financial and other advice and representation as she has deemed appropriate in connection with this Agreement. The Executive hereby represents and warrants to the Company that she is not under any obligation of a contractual or quasi-contractual nature known to him that is inconsistent or in conflict with this Agreement or that would prevent, limit or impair the performance by the Executive of her obligations hereunder.

**8. Taxes**

**(a) Withholding and Payroll Practices**

All salary, severance payments, bonuses or benefits provided by the Company under this Agreement shall be net of any tax or other amounts required to be withheld by the Company under applicable law and shall be paid in the ordinary course pursuant to the Company's then existing payroll practices or as otherwise specified in this Agreement.

**(b) Section 280G Excise Tax Matters**

(i) Golden Parachute Excise Tax Payments. In the event that any payment or benefit (within the meaning of Section 280G(b)(2) of the Code) to the Executive or for the Executive's benefit, paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise in connection with, or arising out of, the Executive's employment with the Company or a change in control in the Company (a "Payment" or "Payments"), would be subject to the excise tax imposed by Code Section 4999, or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), the Payments shall be reduced (but not below zero) if and to the extent necessary so that no Payment to be made or benefit to be provided to the Executive shall be subject to the Excise Tax (such reduced

amount is hereinafter referred to as the "Limited Payment Amount"). To effectuate the Limited Payment Amount, the Company shall reduce or eliminate the Payments by (i) first reducing or eliminating those payments or benefits which are payable in cash and (ii) then reducing or eliminating non-cash payments, in each case in reverse order beginning with payments or benefits which are to be paid the furthest in time from the Determination (as hereinafter defined).

(ii) Initial Determination. An initial determination as to whether the Payments shall be reduced to the Limited Payment Amount and the amount of such Limited Payment Amount shall be made, at the Company's expense, by the accounting firm that is the Company's independent accounting firm as of the date of the change in control (the "Accounting Firm"). The Accounting Firm shall provide its determination (the "Determination"), together with detailed supporting calculations and documentation, to the Company and the Executive within five (5) days after the Date of Termination, if applicable, or such other time as requested by the Company or by the Executive (provided the Executive reasonably believes that any of the Payments may be subject to the Excise Tax) and, if the Accounting Firm determines that no Excise Tax is payable by the Executive with respect to a Payment or Payments, it shall furnish the Executive with an opinion reasonably acceptable to the Executive that no Excise Tax will be imposed with respect to any such Payment or Payments. Within ten (10) days after the delivery of the Determination to the Executive, the Executive shall have the right to dispute the Determination (the "Dispute"). If there is no Dispute, the Determination shall be binding, final and conclusive upon the Company and the Executive.

(iii) Underpayment. As a result of the uncertainty in the application of Sections 4999 and 280G of the Code, it is possible that the Payments to be made to, or provided for the benefit of, the Executive will be either greater (an "Excess Payment") or less (an "Underpayment") than the amounts provided for by the limitations contained in paragraph (1) above.

(A) If it is established, pursuant to a final determination of a court or an Internal Revenue Service (the "IRS") proceeding which has been finally and conclusively resolved, that an Excess Payment has been made, the Executive must repay such Excess Payment to the Company; provided that no Excess Payment will be repaid by the Executive to the Company unless, and only to the extent that, the repayment would either reduce the amount on which the Executive is subject to tax under Code Section 4999 or generate a refund of tax imposed under Code Section 4999.

(B) In the event that it is determined (i) by the Accounting Firm, the Company (which shall include the position taken by the Company, or together with its consolidated group, on its federal income tax return) or the IRS, (ii) pursuant to a determination by a court, or (iii) upon the resolution to the Executive's satisfaction of the Dispute, that an Underpayment has occurred, the Company shall pay an amount equal to the Underpayment to the Executive within ten (10) days after such determination or resolution, together with interest on such amount at the applicable federal rate under Code Section 7872(f) (2) from the date such amount would have been paid to the Executive until the date of payment.

(c) **Section 409A**

(i) Notwithstanding anything to the contrary in the Agreement, no severance pay or benefits to be paid or provided to the Executive, if any, pursuant to the Agreement that, when considered together with any other severance payments or separation benefits, are considered deferred compensation under Section 409A of the Internal Revenue Code of 1986, as amended, and the final regulations and any guidance promulgated thereunder (“Section 409A”) (together, the “Deferred Payments”) will be paid or otherwise provided until the Executive has had a “separation from service” within the meaning of Section 409A. Similarly, no severance payable to the Executive, if any, that otherwise would be exempt from Section 409A pursuant to Treasury Regulation Section 1.409A-1(b)(9) will be payable until the Executive has had a “separation from service” within the meaning of Section 409A. Each payment and benefit payable under the Agreement is intended to constitute a separate payment for purposes of Section 1.409A-2(b)(2) of the Treasury Regulations.

(ii) Any severance payments or benefits under the Agreement that would be considered Deferred Payments will be paid or will commence on the sixtieth (60th) day following the Executive’s separation from service (with the first payment equal to the unpaid amounts of severance that accrued during the sixty (60) days following the Date of Termination), or, if later, such time as required by the next paragraph.

(iii) Notwithstanding anything to the contrary in the Agreement, if the Executive is a “specified employee” within the meaning of Section 409A at the time of the Executive’s termination (other than due to death), then the Deferred Payments that would otherwise have been payable within the first six (6) months following the Executive’s separation from service, will be paid on the first payroll date that occurs on or after the date six (6) months and one (1) day following the date of the Executive’s separation from service, but in no event later than seven months after the date of such separation from service. All subsequent Deferred Payments, if any, will be payable in accordance with the payment schedule applicable to each payment or benefit. Notwithstanding anything herein to the contrary, if the Executive dies following the Executive’s separation from service, but prior to the six (6) month anniversary of the separation from service, then any payments delayed in accordance with this paragraph will be payable in a lump sum as soon as administratively practicable after the date of the Executive’s death and all other Deferred Payments will be payable in accordance with the payment schedule applicable to each payment or benefit.

(iv) Any amount paid under the Agreement that satisfies the requirements of the “short-term deferral” rule set forth in Section 1.409A-1(b)(4) of the Treasury Regulations will not constitute Deferred Payments. Any amount paid under the Agreement that qualifies as a payment made as a result of an involuntary separation from service pursuant to Section 1.409A-1(b)(9)(iii) of the Treasury Regulations that does not exceed the Section 409A Limit (as defined below) will not constitute Deferred Payments. For this purpose, the “Section 409A Limit” will mean two (2) times the lesser of: (i) the Executive’s annualized compensation based upon the annual rate of pay paid to him during the Executive’s taxable year preceding her taxable year of her separation from service as determined under Treasury Regulation Section 1.409A-1(b)(9)(iii)(A)(1) and any Internal Revenue Service guidance issued with respect thereto; or (ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Internal Revenue Code for the year in which the Executive’s separation from service occurred.

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(v) To the extent that the reimbursement of any expenses or the provision of any in-kind benefits pursuant to this Agreement is subject to Section 409A, (i) the amount of such expenses eligible for reimbursement, or in-kind benefits to be provided hereunder during any one calendar year shall not affect the amount of such expenses eligible for reimbursement or in-kind benefits to be provided hereunder in any other calendar year; (ii) all such expenses eligible for reimbursement hereunder shall be paid to the Executive as soon as administratively practicable after any documentation required for reimbursement for such expenses has been submitted, but in any event by no later than December 31 of the calendar year following the calendar year in which such expenses were incurred; and (iii) the Executive's right to receive any such reimbursements or in-kind benefits shall not be subject to liquidation or exchange for any other benefit.

(vi) The foregoing provisions are intended to comply with the requirements of Section 409A so that none of the severance payments and benefits to be provided hereunder will be subject to the additional tax imposed under Section 409A, and any ambiguities herein will be interpreted to so comply. Employer and the Executive agree to work together in good faith to consider amendments to the Agreement and to take such reasonable actions which are necessary, appropriate or desirable to avoid imposition of any additional tax or income recognition prior to actual payment to the Executive under Section 409A.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

RESTORATION HARDWARE INC.,  
a Delaware company

By: /s/ Carlos Alberini  
Name: Carlos Alberini  
Title: Chief Executive Officer

KAREN BOONE

/s/ Karen Boone

Acknowledged and Agreed as of the Effective Date:

RESTORATION HARDWARE HOLDINGS INC.,  
a Delaware company

By: /s/ Carlos Alberini  
Name: Carlos Alberini  
Title: Chief Executive Officer

**EXHIBIT A**

**Form of General Release**

This Separation and General Release Agreement (the "Agreement") is entered into by and between Restoration Hardware, Inc. (the "Company") and Karen Boone (the "Executive") (collectively, "Parties").

**RECITALS**

WHEREAS, the Executive was employed by the Company on an at-will basis;

WHEREAS, the Company and the Executive have mutually agreed that the Executive will resign as of \_\_\_\_\_ ("Resignation Date") in accordance with the terms of this Agreement; and

WHEREAS, capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Employment Agreement dated as of \_\_\_\_\_, 20\_\_\_\_, by and between the Company and the Executive (the "Employment Agreement").

ACCORDINGLY, the Parties agree as follows:

**1. Severance Benefit.** The Company hereby agrees to provide the Executive with the payments and benefits set forth in Section 4(c) of the Employment Agreement with respect to a termination by the Company without Cause, on the terms and subject to the conditions set forth in such Section 4(c) of the Employment Agreement.

**2. Resignation.** The Executive hereby resigns from her employment with the Company and any other position held with the Company or any Affiliate, effective as of the Resignation Date. "Affiliate" means any entity that directly or indirectly controls, is controlled by, or is under common control with the Company.

**3. General Release.** The Executive and her representatives, heirs, successors, and assigns do hereby completely release and forever discharge the Company, any Affiliate, and its and their present and former shareholders, officers, directors, agents, employees, attorneys, successors, and assigns (collectively, "Released Parties") from all claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character, known or unknown, which the Executive may have now or in the future arising from any act or omission or condition occurring on or prior to the Effective Date (including, without limitation, the future effects of such acts, omissions, or conditions), whether based on tort, contract (express or implied), or any federal, state, or local law, statute, or regulation (collectively, the "Released Claims"). By way of example and not in limitation of the foregoing, Released Claims shall include any claims arising under the Fair Labor Standards Act, the National Labor Relations Act, the Family and Medical Leave Act, the Executive Retirement Income Security Act of 1974, the Americans with Disabilities Act, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the California Fair Employment and Housing Act, and the California Family Rights Act, as well as any claims asserting wrongful termination, breach of

contract, breach of the covenant of good faith and fair dealing, negligent or intentional infliction of emotional distress, negligent or intentional misrepresentation, negligent or intentional interference with contract or prospective economic advantage, defamation, invasion of privacy, and claims related to disability. Released Claims shall also include, but not be limited to, any claims for severance pay, bonuses, sick leave, vacation pay, life or health insurance, or any other benefit. The Executive likewise releases the Released Parties from any and all obligations for attorneys' fees incurred in regard to the above claims or otherwise. Notwithstanding the foregoing, Released Claims shall not include (i) any claims based on obligations created by or reaffirmed in this Agreement; (ii) any vested retirement benefits or vested stock option rights, or (iii) any claims which by law cannot be released, including without limitation unemployment compensation claims and workers' compensation claims (the settlement of which would require approval by the California Workers' Compensation Appeals Board), (iv) any claim for indemnification under the Employment Agreement, the Company's bylaws or certificate of incorporation, or any agreement providing for indemnification of the Executive.

**4. Section 1542 Waiver.** The Executive understands and agrees that the Released Claims include not only claims presently known to the Executive, but also include all unknown or unanticipated claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character that would otherwise come within the scope of the Released Claims as described in Section 3, above. The Executive understands that she may hereafter discover facts different from what she now believes to be true, which if known, could have materially affected this Agreement, but she nevertheless waives any claims or rights based on different or additional facts. The Executive knowingly and voluntarily waives any and all rights or benefits that she may now have, or in the future may have, under the terms of Section 1542 of the California Civil Code, which provides 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.

**5. Covenant Not to Sue.** The Executive shall not bring a civil action in any court (or file an arbitration claim) against the Company or any other Released Party asserting claims pertaining in any manner to the Released Claims. The Executive understands that this Section 5 does not prevent the Executive from filing a charge with or participating in an investigation by a governmental administrative agency; provided, however, that Executive hereby waives any right to receive any monetary award resulting from such a charge or investigation.

**6. Age Discrimination Claims.** The Executive understands and agrees that, by entering into this Agreement, (i) she is waiving any rights or claims she might have under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act; (ii) she has received consideration beyond that to which she was previously entitled; (iii) she has been advised to consult with an attorney before signing this Agreement; and (iv) she has been offered the opportunity to evaluate the terms of this Agreement for not less than twenty-one (21) days prior to her execution of the Agreement. The Executive may revoke this Agreement

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(by written notice to the Company's Chief Executive Officer at the Company's notice address set forth in the Employment Agreement) for a period of seven (7) days after her execution of the Agreement, and it shall become enforceable (and payment of the payments and benefits by the Company to the Executive in accordance with Section 1 above only shall be made) only upon the expiration of this revocation period without prior revocation by the Executive.

**7. Confidentiality.** The Parties understand and agree that this Agreement and each of its terms, and the negotiations surrounding it, are confidential and shall not be disclosed by the Executive without the prior written consent of the Company, unless required by law. Notwithstanding the foregoing, the Executive may disclose the terms of this Agreement to her spouse, and for legitimate business reasons, to legal, financial, and tax advisors, provided such individuals agree to maintain the confidentiality of such information.

**8. Non-admission.** The Parties understand and agree that the furnishing of the consideration for this Agreement shall not be deemed or construed at any time or for any purpose as an admission of liability by the Company. The liability for any and all claims is expressly denied by the Company.

**9. Arbitration.** Any and all disputes arising out of the terms of this Agreement, their interpretation, or any of the Released Claims shall be resolved by final binding arbitration in San Francisco, California, before the Judicial Arbitration and Mediation Services under the JAMS Employment Arbitration Rules and Procedures then in effect. Either party may bring an action in court to compel arbitration under this Agreement, to enforce an arbitration award, or to obtain temporary injunctive relief pending a judgment. Otherwise, neither party shall initiate or prosecute any legal action against the other. The prevailing party in the arbitration shall be entitled to recover its attorneys' fees and costs (at reasonable, regular hourly rates), in addition to any other relief to which it may be entitled by law.

**10. Entire Agreement.** This Agreement constitutes the complete, final and exclusive embodiment of the entire agreement among the Parties hereto with regard to the subject matter hereof and thereof. This Agreement is entered into without reliance on any promise or representation, written or oral, other than those expressly contained or referenced herein.

**11. Amendments; Waivers.** This Agreement may not be amended except by an instrument in writing, signed by each of the Parties. No failure to exercise and no delay in exercising any right, remedy, or power under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, or power under this Agreement preclude any other or further exercise thereof, or the exercise of any other right, remedy, or power provided herein or by law or in equity.

**12. Successors and Assigns.** The Executive represents that she has not previously assigned or transferred any claims or rights released by him pursuant to this Agreement. This Agreement shall be binding upon and shall inure to the benefit of the Parties and their respective heirs, successors, attorneys, and permitted assigns. This Agreement shall also inure to the benefit of any Released Party.



**13. Governing Law.** This Agreement shall be governed by and construed in accordance with the law of the State of California, without regard to conflict of laws provisions.

**14. Interpretation.** This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any Party. By way of example and not in limitation, this Agreement shall not be construed in favor of the Party receiving a benefit nor against the Party responsible for any particular language in this Agreement. Captions are used for reference purposes only and should be ignored in the interpretation of the Agreement.

**15. Representation by Counsel.** The Parties acknowledge that (i) they have had the opportunity to consult counsel in regard to this Agreement; (ii) they have read and understand the Agreement and they are fully aware of its legal effect; and (iii) they are entering into this Agreement freely and voluntarily, and based on each Party's own judgment and not on any representations or promises made by the other Party, other than those contained in this Agreement.

**16. Counterparts.** This Agreement may be executed in counterparts. True copies of such executed counterparts may be used in lieu of an original for any purpose.

**17. Effective Date.** This Agreement shall become effective as of seven (7) days after the date executed by the Executive ("Effective Date"), but only if the Agreement is not revoked as provided in Section 6. If the Agreement is revoked, it shall be null and void.

The Parties have duly executed this Agreement as of the dates noted below.

\_\_\_\_\_  
Executive

Restoration Hardware, Inc.

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

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**EXHIBIT B**

**Proprietary Information and Inventions Agreement**

# RESTORATION HARDWARE

## Proprietary Information and Inventions Agreement

I am entering into this Proprietary Information and Inventions Agreement (the "Agreement") with Restoration Hardware, Inc. (the "Company") for the purpose of protecting the trade secrets of the Company and prohibiting the unauthorized use of confidential information by me.

In consideration of my employment or continued employment by the Company, and the compensation now and hereafter paid to me, I hereby agree as follows:

- 1) Recognition of Company's Rights: Nondisclosure. At all times during the term of my employment and thereafter, I will hold in strictest confidence and will not disclose, use, lecture upon or publish any of the Company's Proprietary Information (defined below), except as such disclosure, use or publication may be required in connection with my work for the Company, or unless an officer of the Company expressly authorizes such in writing. I hereby assign to the Company any rights I may have or acquire in such Proprietary Information and recognize that all Proprietary Information shall be the sole property of the Company and its assigns and that the Company and its assigns shall be the sole owner of all patent rights, copyrights, trade secret rights and all other rights throughout the world (collectively, "Proprietary Rights") in connection therewith.

The term "Proprietary Information" shall mean trade secrets confidential knowledge, data or any other proprietary information of the Company. Proprietary Information includes, but is not limited to, (a) inventions, trade secrets, ideas, data, other works of authorship, know-how, improvements, discoveries, developments, designs and techniques (hereinafter collectively referred to as "Inventions"); and (b) information regarding plans for research, development, new products, branding, marketing and selling business plans, budgets and unpublished financial statements, licenses, prices and costs, suppliers and customers, details of contracts; and information regarding the skills and compensation of other associates of the Company.

- 2) Third Party Information. I understand, in addition, that the Company has received and in the future will receive from third parties confidential or proprietary information ("Third Party Information") subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of my employment and thereafter, I will hold Third Party Information in the strictest confidence and will not disclose (to anyone other than Company personnel who need to know such information in connection with their work for the Company) or use, except in connection with my work for the Company, Third Party Information unless expressly authorized by an officer of the Company in writing.

- 3) Assignment of Inventions I shall promptly disclose to the Company any and all inventions that I may conceive or develop, alone or with others, during the term of my employment, and I agree that all inventions belong to and be the exclusive property of the Company. I agree to assign, and upon their creation do hereby automatically assign, all of my right, title and interest (in the United States and other countries) in and to all Inventions (and all Proprietary Rights with respect thereto) whether or not patentable or registerable under copyright or similar statutes, made or conceived or reduced to practice or learned by me, either alone or jointly with others, during the period of my employment with the Company. I recognize that this Agreement does not require assignment of any invention which qualifies fully for protection under Section 2870 of the California Labor Code (hereinafter "Section 2870"), which provides as follows:

- a) Any provision in an employment agreement which provides that an associate shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the associate developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:
  - i) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.
  - ii) Result from any work performed by the associate for the employer.
  - iii) To the extent a provision in an employment agreement purports to require an associate to assign an invention otherwise excluded from being required to be assigned under subdivision (I), the provision is against the public policy of this state and is unenforceable.

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- b) I also assign to or as directed by the Company all my right, title and interest in and to any and all Inventions, full title to which is required to be in the United States by a contract between the Company and the United States or any of its agencies.
- c) I acknowledge that all original works of authorship which are made by me (solely or jointly with others) within the scope of my employment and which are protectable by copyright are “works made for hire”, as that term is defined in the United States Copyright Act (17 U.S.C., Section 101). Inventions assigned to or as directed by the Company by this paragraph 3 are hereinafter referred to as “Company Inventions”.
- 4) Prior Inventions. Inventions, if any patented or unpatented, which I made prior to the commencement of my employment with the Company are excluded from the scope of this Agreement. To preclude any possible uncertainty, I have set forth on Exhibit A attached hereto a complete list of all Inventions that I have, alone or jointly with others, conceived, developed or reduced to practice prior to commencement of my employment with the Company, that I consider to be my property or the property of third parties and that I wish to have excluded from the scope of this Agreement. If disclosure of any such Invention on Exhibit A would cause me to violate any prior confidentiality agreement, I understand that I am not to list such Inventions in Exhibit A but am to inform the Company that all Inventions have not been listed for that reason.
- 5) No Improper Use of materials. During my employment by the Company I will not improperly use or disclose any confidential information or trade secrets, if any, of any former employer or any other person to whom I have an obligation of confidentiality, and I will not bring onto the premises of the Company any unpublished documents or any property belonging to any former employer or any other person to whom I have an obligation of confidentiality unless consented to in writing by that former employer or person.
- 6) No Conflicting Obligation. I represent that my performance of all the terms of this Agreement and as an associate of the Company does not breach any agreement to keep in confidence information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any agreement either in written or oral in conflict herewith.
- 7) Right to Inspection. I agree that any property situated on the Company’s premises and owned by the Company, including disks and other storage media, filing cabinets or other work areas, is subject to inspection by Company personnel at any time with or without notice. Prior to leaving, I will cooperate with the Company in completing and signing the Company’s termination statement for technical and management personnel.
- 8) Legal and Equitable Remedies. Because my services are personal and unique and because I may have access to and become acquainted with the Proprietary Information of the Company, the Company shall have the right to enforce this Agreement and any of its provisions by injunction, specific performance or other equitable relief, without bond, without prejudice to any other rights and remedies that the Company may have for a breach of this Agreement; provided that the limitations on such rights and remedies other stated in Executive’s Employment Agreement executed concurrently herewith shall equally apply hereunder.
- 9) Notices. Any notices required or permitted hereunder shall be given to the appropriate party at the address specified below or at such other address as the party shall specify in writing. Such notice shall be deemed given upon personal delivery to the appropriate address or if sent by certified or registered mail, three days after the date of mailing.
- 10) General Provisions,
- a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California.

- b) Entire Agreement. This Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter hereof and supersedes and merges all prior discussions between us. No modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in my duties, salary or compensation will not affect the validity or scope of this Agreement. As used in this Agreement, the period of my employment includes any time during which I may be retained by the Company as a consultant.
- c) Severability. If one or more of the provisions in this Agreement are deemed unenforceable by law, then the remaining provisions will continue in full force and effect.
- d) Successors and Assigns. This Agreement will be binding upon my heirs, executors, administrators and other legal representatives and will be for the benefit of the Company, its successors and assigns.
- e) Survival. The provisions of the Agreement shall survive the termination of my employment and the assignment of this Agreement by the Company to any successor in interest or other assignee.
- f) Employment. I agree and understand that nothing in this Agreement shall confer any right with respect to continuation of employment with the Company, nor shall it interfere in any way with my right or the Company's right to terminate my employment at any time, with or without cause.
- g) Waiver. No waiver by the Company of any breach of this Agreement shall be a waiver of any preceding or succeeding breach. No waiver by the Company of any right under this Agreement shall be construed as a waiver of any other right. The Company shall not be required to give notice to enforce strict adherence to all terms of this Agreement.

I UNDERSTAND THAT THIS AGREEMENT AFFECTS MY RIGHTS TO INVENTIONS I MAKE DURING MY EMPLOYMENT, AND RESTRICTS MY RIGHT TO DISCLOSE OR USE THE COMPANY'S PROPRIETARY INFORMATION DURING OR SUBSEQUENT TO MY EMPLOYMENT.

I HAVE READ THIS AGREEMENT CAREFULLY AND UNDERSTAND ITS TERMS. I HAVE COMPLETELY FILLED OUT EXHIBIT A TO THIS AGREEMENT.

Dated as of \_\_\_\_\_, 2012

Signature

Name of Associate

Address

ACCEPTED AND AGREED TO:

Restoration Hardware, Inc.

By:

Name:

Title:

Schedule of Inventions

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**EXHIBIT C**

**Confirmation of Confidential Treatment**

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# RESTORATION HARDWARE

## Confirmation of Confidential Treatment

This shall confirm that as an associate of Restoration Hardware, Inc. (the "Company"), and in accordance with the Proprietary Information and Inventions Agreement (the "Confidentiality Agreement") entered into between me and the Company, understand, agree and acknowledge that all information and materials relating to my work on the Company's development of new retail concepts, new merchandise programs and new brands (including without limitation all information and materials related to the development of new Company brands, logos and corporate identities), shall be treated as Proprietary Information (as that term is defined under the Confidentiality Agreement). Without limiting the generality of the foregoing, and for the avoidance of doubt, I hereby agree to hold all ideas, data, documents, drawings, notes, memoranda, and other information and materials regarding Company's new retail concepts, new merchandise programs and new brands including branding plans, brand development and branding strategy, in strictest confidence, and will not disclose, lecture upon or publish any such information or materials unless an officer of the Company expressly authorizes such in writing, and will not use such information and materials for any purpose other than in furtherance of the business of the Company as directed by the Company.

Because I may have access to and become acquainted with such information and materials, the Company shall have the right to enforce my duties of confidentiality by injunction, specific performance or other equitable relief, without bond, without prejudice to any other rights and remedies that the Company may have.

I HAVE READ THIS DOCUMENT CAREFULLY AND UNDERSTAND ITS TERMS.

Dated:

Signature

Associate Name



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**EXHIBIT D**

**Arbitration Agreement**

Restoration Hardware, Inc. (the "Company") and Karen Boone (the "Executive") hereby agree, effective as of November 1, 2012, that, to the fullest extent permitted by law, any and all claims or controversies between them (or between the Executive and any present or former officer, director, agent, or employee of the Company or any parent, subsidiary, or other entity affiliated with the Company) relating in any manner to the employment or the termination of employment of the Executive shall be resolved by final and binding arbitration. Except as specifically provided herein, any arbitration proceeding shall be conducted by the Judicial Arbitration and Mediation Services ("JAMS") under the JAMS Employment Arbitration Rules and Procedures then in effect (the "JAMS Rules").

Claims subject to arbitration shall include, without limitation: contract claims, tort claims, claims relating to compensation, as well as claims based on any federal, state, or local law, statute, or regulation, including but not limited to any claims arising under Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans with Disabilities Act, the California Fair Employment and Housing Act, equity purchases or repurchases, and any and all claims for any other compensation, wages and/or benefits of any type, including any claims arising from the Executive's Employment Agreement with the Company. However, claims for unemployment benefits, workers' compensation claims, and claims under the National Labor Relations Act shall not be subject to arbitration.

A neutral and impartial arbitrator shall be chosen by mutual agreement of the parties; however, if the parties are unable to agree upon an arbitrator within a reasonable period of time, then a neutral and impartial arbitrator shall be appointed in accordance with the arbitrator nomination and selection procedure set forth in the JAMS Rules. The arbitrator shall prepare a written decision containing the essential findings and conclusions on which the award is based so as to ensure meaningful judicial review of the decision. The arbitrator shall apply the same substantive law, with the same statutes of limitations and same remedies, that would apply if the claims were brought in a court of law.

Either the Company or the Executive may bring an action in court to compel arbitration under this Agreement and to enforce an arbitration award. Otherwise, neither party shall initiate or prosecute any lawsuit of claim in any way related to any arbitrable claim, including without limitation any claim as to the making, existence, validity, or enforceability of the agreement to arbitrate. Nothing in this Agreement, however, precludes a party from filing an administrative charge before an agency that has jurisdiction over an arbitrable claim. Moreover, nothing in this Agreement prohibits either party from seeking provisional relief pursuant to Section 1281.8 of the California Code of Civil Procedure.

All arbitration hearings under this Agreement shall be conducted in San Francisco, California, unless otherwise agreed by the parties. The arbitration provisions of this Arbitration Agreement shall be governed by the Federal Arbitration Act. In all other respects, this Arbitration Agreement shall be construed in accordance with the laws of the State of California, without reference to conflicts of law principles.

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Each party shall pay its own costs and attorney's fees, unless a party prevails on a statutory claim, and the statute provides that the prevailing party is entitled to payment of its attorneys' fees. In that case, the arbitrator may award reasonable attorneys' fees and costs to the prevailing party as provided by law.

This Agreement does not alter the Executive's at-will employment status. Accordingly, the Executive understands that the Company may terminate the Executive's employment, as well as discipline or demote the Executive, at any time, with or without prior notice, and with or without cause. The parties also understand that the Executive is free to leave the Company at any time and for any reason, with or without cause and with or without advance notice.

If any provision of this Agreement shall be held by a court or the arbitrator to be invalid, unenforceable, or void, such provision shall be enforced to the fullest extent permitted by law, and the remainder of this Agreement shall remain in full force and effect. The parties' obligations under this Agreement shall survive the termination of the Executive's employment with the Company and the expiration of this Agreement.

The Company and the Executive understand and agree that this Arbitration Agreement contains a full and complete statement of any agreements and understandings regarding resolution of disputes between the parties, and the parties agree that this Arbitration Agreement supersedes all previous agreements, whether written or oral, express or implied, relating to the subjects covered in this agreement. The parties also agree that the terms of this Arbitration Agreement cannot be revoked or modified except in a written document signed by both the Executive and an officer of the Company.

THE PARTIES ALSO UNDERSTAND AND AGREE THAT THIS AGREEMENT CONSTITUTES A WAIVER OF THEIR RIGHT TO A TRIAL BY JURY OF ANY CLAIMS OR CONTROVERSIES COVERED BY THIS AGREEMENT. THE PARTIES AGREE THAT NONE OF THOSE CLAIMS OR CONTROVERSIES SHALL BE RESOLVED BY A JURY TRIAL.

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THE PARTIES FURTHER ACKNOWLEDGE THAT THEY HAVE BEEN GIVEN THE OPPORTUNITY TO DISCUSS THIS AGREEMENT WITH THEIR LEGAL COUNSEL AND HAVE AVAILED THEMSELVES OF THAT OPPORTUNITY TO THE EXTENT THEY WISH TO DO SO.

RESTORATION HARDWARE, INC.

By: \_\_\_\_\_

\_\_\_\_\_  
Karen Boone

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-184716) of Restoration Hardware Holdings, Inc. of our report dated April 25, 2013 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Francisco, California  
April 25, 2013

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Carlos Alberini, certify that:

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

Date: April 26, 2013

/s/ Carlos Alberini

Carlos Alberini  
Chief Executive Officer

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Karen Boone, certify that:

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

Date: April 26, 2013

/s/ Karen Boone

Karen Boone  
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Carlos Alberini, Chief Executive Officer of Restoration Hardware Holdings, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Annual Report of the Company on Form 10-K for the year ended February 2, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: April 26, 2013

By: /s/ Carlos Alberini

Name: Carlos Alberini

Title: Chief Executive Officer

This certification accompanies this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Karen Boone, Chief Financial Officer of Restoration Hardware Holdings, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- the Annual Report of the Company on Form 10-K for the year ended February 2, 2013 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: April 26, 2013

By: /s/ Karen Boone

Name: Karen Boone

Title: Chief Financial Officer

This certification accompanies this Annual Report on Form 10-K pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.