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

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended November 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

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**RESTORATION HARDWARE HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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**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

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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 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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 December 10, 2013, 38,905,743 shares of registrant's common stock were outstanding.

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[Table of Contents](#)

RESTORATION HARDWARE HOLDINGS, INC.  
INDEX TO FORM 10-Q

	<b>Page</b>	
<b><u>PART I. FINANCIAL INFORMATION</u></b>		
Item 1.	<a href="#">Financial Statements</a>	
	<a href="#">Condensed Consolidated Balance Sheets (Unaudited) as of November 2, 2013, and February 2, 2013</a>	2
	<a href="#">Condensed Consolidated Statements of Operations (Unaudited) for the three and nine months ended November 2, 2013, and October 27, 2012</a>	3
	<a href="#">Condensed Consolidated Statements of Comprehensive Income (Loss) (Unaudited) for the three and nine months ended November 2, 2013, and October 27, 2012</a>	4
	<a href="#">Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended November 2, 2013, and October 27, 2012</a>	5
	<a href="#">Notes to Condensed Consolidated Financial Statements (Unaudited)</a>	6
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	13
Item 3.	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	22
Item 4.	<a href="#">Controls and Procedures</a>	22
<b><u>PART II. OTHER INFORMATION</u></b>		
Item 1.	<a href="#">Legal Proceedings</a>	23
Item 1A.	<a href="#">Risk Factors</a>	23
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	25
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	25
Item 4.	<a href="#">Mine Safety Disclosures</a>	25
Item 5.	<a href="#">Other Information</a>	25
Item 6.	<a href="#">Exhibits</a>	26
	<a href="#">Signatures</a>	27

## PART I

## Item 1. Financial Statements

RESTORATION HARDWARE HOLDINGS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS(In thousands, except share amounts)  
(Unaudited)

	November 2, 2013	February 2, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 8,197	\$ 8,354
Accounts receivable—net	22,041	17,040
Merchandise inventories	448,150	353,329
Current deferred tax assets	36,993	37,006
Prepaid expense and other current assets	88,181	77,029
Total current assets	603,562	492,758
Property and equipment—net	190,069	111,406
Goodwill	122,529	122,601
Trademarks and domain names	47,410	47,410
Other intangible assets—net	1,541	2,713
Non-current deferred tax assets	19,741	6,873
Other assets	7,246	5,852
Total assets	<u>\$ 992,098</u>	<u>\$ 789,613</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 209,228	\$ 145,353
Deferred revenue and customer deposits	51,250	41,643
Other current liabilities	50,465	32,428
Total current liabilities	310,943	219,424
Revolving line of credit	108,245	82,501
Deferred rent and lease incentives	34,151	30,784
Other long-term obligations	29,850	5,293
Total liabilities	483,189	338,002
Commitments and contingencies (See Note 13 to the unaudited Condensed Consolidated Financial Statements)	—	—
Stockholders' equity:		
Common stock, \$0.0001 par value per share, 180,000,000 shares authorized, 38,905,743 shares issued and outstanding as of November 2, 2013 and 38,856,251 shares issued and 37,967,635 shares outstanding as of February 2, 2013	4	4
Additional paid-in capital	574,428	505,883
Accumulated other comprehensive income	935	1,211
Accumulated deficit	(63,934)	(55,487)
Treasury stock, at cost	(2,524)	—
Total stockholders' equity	508,909	451,611
Total liabilities and stockholders' equity	<u>\$ 992,098</u>	<u>\$ 789,613</u>

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

[Table of Contents](#)

**RESTORATION HARDWARE HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(In thousands, except share and per share amounts)**  
**(Unaudited)**

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net revenues	\$ 395,832	\$ 284,171	\$ 1,079,267	\$ 794,991
Cost of goods sold	255,032	182,291	697,364	503,716
Gross profit	140,800	101,880	381,903	291,275
Selling, general and administrative expenses	116,940	99,886	385,312	271,716
Income (loss) from operations	23,860	1,994	(3,409)	19,559
Interest expense	(2,165)	(1,544)	(4,196)	(4,598)
Income (loss) before income taxes	21,695	450	(7,605)	14,961
Income tax expense (benefit)	12,146	(1,235)	842	(612)
Net income (loss)	<u>\$ 9,549</u>	<u>\$ 1,685</u>	<u>\$ (8,447)</u>	<u>\$ 15,573</u>
Weighted-average shares used in computing basic net income (loss) per share	38,888,208	1,000	38,558,952	1,000
Basic net income (loss) per share	\$ 0.25	\$ 1.685	\$ (0.22)	\$ 15.573
Weighted-average shares used in computing diluted net income (loss) per share	41,053,211	1,000	38,558,952	1,000
Diluted net income (loss) per share	\$ 0.23	\$ 1.685	\$ (0.22)	\$ 15.573

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

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

(In thousands)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net income (loss)	\$ 9,549	\$ 1,685	\$ (8,447)	\$ 15,573
Foreign currency translation adjustment—net of tax	(203)	66	(276)	101
Total comprehensive income (loss)	<u>\$ 9,346</u>	<u>\$ 1,751</u>	<u>\$ (8,723)</u>	<u>\$ 15,674</u>

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

[Table of Contents](#)

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

(In thousands)  
(Unaudited)

	Nine Months Ended	
	November 2, 2013	October 27, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss)	\$ (8,447)	\$ 15,573
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	19,959	19,485
Excess tax benefit from exercise of stock options	(1,440)	—
Stock-based compensation expense	65,847	1,102
Deferred income taxes	(12,872)	(260)
Non-cash interest expense	897	472
Change in assets and liabilities:		
Accounts receivable	(5,003)	(7,287)
Merchandise inventories	(94,980)	(87,933)
Prepaid expense and other current assets	(10,053)	(35,170)
Other assets	(1,920)	(733)
Accounts payable and accrued expenses	48,258	48,504
Deferred revenue and customer deposits	9,607	16,529
Other current liabilities	18,323	1,157
Deferred rent and lease incentives	3,476	10,171
Other long-term obligations	(1,197)	(1,629)
Net cash provided by (used in) operating activities	<u>30,455</u>	<u>(20,019)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(57,622)	(25,631)
Purchase of trademarks and other intangible assets	—	(310)
Net cash used in investing activities	<u>(57,622)</u>	<u>(25,941)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Gross borrowings under revolving line of credit	1,190,178	910,551
Gross repayments under revolving line of credit	(1,164,434)	(845,357)
Payments on capital leases	(1,418)	(3,088)
Stock options exercised	1,436	—
Excess tax benefit from exercise of stock options	1,440	—
Tax withholdings related to issuance of stock-based awards	(178)	—
Capitalized initial public offering costs	—	(9,118)
Net cash provided by financing activities	<u>27,024</u>	<u>52,988</u>
Effects of foreign currency exchange rate translation	(14)	28
Net increase (decrease) in cash and cash equivalents	(157)	7,056
Cash and cash equivalents		
Beginning of period	8,354	8,512
End of period	<u>\$ 8,197</u>	<u>\$ 15,568</u>
Non-cash transactions:		
Capital expenditures included in accounts payable and accrued expenses at period end	\$ 15,667	\$ 2,182
Property and equipment acquired under build-to-suit transactions	\$ 24,734	\$ —

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

**RESTORATION HARDWARE HOLDINGS, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**NOTE 1—THE COMPANY**

**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, décor, outdoor and garden, tableware and children’s furnishings. These products are sold through the Company’s stores, catalogs and websites. As of November 2, 2013, the Company operated a total of 70 retail stores and 17 outlet stores in 29 states, the District of Columbia and Canada, and had sourcing operations in Shanghai and Hong Kong.

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 was a direct subsidiary of Home Holdings, LLC, a Delaware limited liability company (“Home Holdings”) until May 20, 2013.

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. Restoration Hardware, Inc. was a direct, wholly owned subsidiary of Home Holdings prior to the Company’s initial public offering. 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. 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.

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.

On May 20, 2013, the Company completed a follow-on offering of 9,974,985 shares of common stock at an offering price of \$50.00 per share, which included 1,301,085 shares sold in connection with the full exercise of the option to purchase additional shares granted to the underwriters. All of the shares sold in the offering were sold by existing stockholders of the Company. No shares were sold by the Company in the offering, and, as such, the Company did not receive any of the proceeds from such sales. Effective May 20, 2013, the Company ceased being a subsidiary of Home Holdings, as a result of the sale, by Home Holdings, of a majority of our voting common stock.

On July 17, 2013, the Company completed a second follow-on offering of 8,000,000 shares of common stock at an offering price of \$70.00 per share. On August 14, 2013, in connection with the full exercise of the option to purchase additional shares granted to the underwriters, an additional 1,200,000 shares were sold at a price of \$70.00 per share. All of the shares sold in the offering were sold by existing stockholders of the Company. No shares were sold by the Company in the offering, and, as such, the Company did not receive any of the proceeds from such sales.

During the nine months ended November 2, 2013, the Company determined that lease agreements for three future Full Line Design Gallery locations met the capitalization criteria under ASC 840, *Leases*. As a result, the Company recorded \$24.7 million related to build-to-suit transactions, which is recorded within property and equipment, and other long-term obligations on the condensed consolidated balance sheets. Additionally, during the nine months ended November 2, 2013, the Company recorded \$0.6 million related to interest expense for these build-to-suit transactions.

**Basis of Presentation**

The accompanying unaudited interim condensed consolidated financial statements have been prepared from the Company’s records and, in management’s opinion, include all adjustments necessary to fairly state the Company’s financial position as of November 2, 2013, and the results of operations for the thirteen and thirty-nine weeks ended November 2, 2013 and October 27, 2012, and changes of cash flows for the thirty-nine weeks ended November 2, 2013 and October 27, 2012. The Company’s current fiscal year ends on February 1, 2014 (“fiscal 2013”).

## Table of Contents

Certain information and disclosures normally included in the notes to annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted for purposes of these interim condensed consolidated financial statements.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2013 ("fiscal 2012").

The results of operations for the three and nine months ended November 2, 2013 presented herein are not necessarily indicative of the results to be expected for the full fiscal year.

### NOTE 2—RECENT ACCOUNTING PRONOUNCEMENTS

The FASB is currently working on amendments to existing accounting standards governing a number of areas including, but not limited to, accounting for leases. In May 2013, the FASB issued a new exposure draft, *Leases* (the "Exposure Draft"), which would replace the existing guidance in ASC Topic 840, *Leases*. Under the Exposure Draft, among other changes in practice, a lessee's rights and obligations under most leases, including existing and new arrangements, would be recognized as assets and liabilities, respectively, on the balance sheet. Other significant provisions of the Exposure Draft include (i) defining the "lease term" to include the noncancellable period together with periods for which there is a significant economic incentive for the lessee to extend or not terminate the lease; (ii) defining the initial lease liability to be recorded on the balance sheet to contemplate only those variable lease payments that depend on an index or that are in substance "fixed"; and (iii) a dual approach for determining whether lease expense is recognized on a straight-line or accelerated basis, depending on whether the lessee is expected to consume more than an insignificant portion of the leased asset's economic benefits. The comment period for the Exposure Draft ended on September 13, 2013. If and when effective, this Exposure Draft will likely have a significant impact on the Company's consolidated financial statements. However, as the standard-setting process is still ongoing, the Company is unable to determine the impact this proposed change in accounting standards will have on its consolidated financial statements.

### NOTE 3—PREPAID EXPENSE AND OTHER CURRENT ASSETS

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

	November 2, 2013	February 2, 2013
Prepaid catalog	\$ 46,969	\$ 43,828
Vendor deposits	26,665	20,383
Prepaid expense and other current assets	14,547	12,818
Total prepaid expense and other current assets	<u>\$ 88,181</u>	<u>\$ 77,029</u>

### NOTE 4—GOODWILL AND INTANGIBLE ASSETS

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

	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net Book Value	Useful Life
Intangible assets subject to amortization:					
Core technologies	\$ 6,580	\$ (6,580)	\$ —	\$ —	5 years
Fair value of leases					
Fair market write-up	10,443	(8,947)	45	1,541	(2)
Fair market write-down	(2,591)	2,006	—	(585) <sup>(1)</sup>	(2)
Total intangible assets subject to amortization	14,432	(13,521)	45	956	
Intangible assets not subject to amortization:					
Goodwill	122,285	—	244	122,529	
Trademarks and domain names	47,410	—	—	47,410	
Total intangible assets	<u>\$184,127</u>	<u>\$ (13,521)</u>	<u>\$ 289</u>	<u>\$170,895</u>	

(1) The fair market write-down of leases is included in other long-term obligations on the condensed consolidated balance sheets.

(2) The fair value of each lease is amortized over the life of the respective lease. The longest lease for which a fair value adjustment was recorded has a termination date in January 2019.



## Table of Contents

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

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Foreign Currency Translation</u>	<u>Net Book Value</u>	<u>Useful Life</u>
<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 names	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 condensed consolidated balance sheets.

(2) The fair value of each lease is amortized over the life of the respective lease. The longest lease for which a fair value adjustment was recorded has a termination date in January 2019.

## NOTE 5—ACCOUNTS PAYABLE AND ACCRUED EXPENSES

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

	<u>November 2, 2013</u>	<u>February 2, 2013</u>
Accounts payable	\$ 123,143	\$ 81,608
Accrued compensation	26,697	16,621
Accrued freight and duty	21,320	17,639
Accrued sales taxes	12,908	12,783
Accrued occupancy	10,097	5,842
Accrued catalog costs	7,052	6,906
Other accrued expenses	8,011	3,954
Total accounts payable and accrued expenses	<u>\$ 209,228</u>	<u>\$ 145,353</u>

Accounts payable includes negative cash balances due to outstanding checks of \$20.2 million and \$28.1 million as of November 2, 2013 and February 2, 2013, respectively.

## NOTE 6—OTHER LONG-TERM LIABILITIES

Other long-term liabilities consist of the following (*in thousands*):

	<u>November 2, 2013</u>	<u>February 2, 2013</u>
Financing obligations under build-to-suit transactions	\$ 23,716	\$ —
Long-term notes payable for share repurchases	2,524	—
Unrecognized tax benefits	1,814	2,311
Other long-term liabilities	1,796	2,982
Total other long-term liabilities	<u>\$ 29,850</u>	<u>\$ 5,293</u>

## NOTE 7—LINE OF CREDIT

As of November 2, 2013, \$108.2 million was outstanding under the revolving line of credit and the undrawn borrowing availability under the revolving line of credit was \$290.6 million. There were \$18.0 million and \$19.5 million in outstanding letters of credit as of November 2, 2013 and February 2, 2013, respectively.

## **Table of Contents**

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 2.9% as of November 2, 2013.

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. As of November 2, 2013, the Company was in compliance with all covenants contained in the credit agreement.

### **NOTE 8—INCOME TAXES**

The effective tax rate was 55.99% and (274.75)% for the three months ended November 2, 2013 and October 27, 2012, respectively. The effective tax rate was 11.07% and (4.09)% for the nine months ended November 2, 2013 and October 27, 2012, respectively. The increase in the effective tax rate for the three and nine months ended November 2, 2013 was primarily due to non-deductible stock-based compensation charges, the fact that the Company is no longer recording a U.S. valuation allowance against net deferred tax assets, and other non-deductible expenses. Additionally, the effective tax rate for the three and nine months ended October 27, 2012 reflected a net favorable income tax benefit due to the reversal of income tax contingencies resulting from the conclusion of a Canadian audit examination.

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

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

As of November 2, 2013 and February 2, 2013, \$1.5 million and \$1.8 million, respectively, of the exposures related to unrecognized tax benefits would affect the effective tax rate if realized and are included in other long-term obligations on the condensed consolidated balance sheets. These amounts are primarily associated with foreign tax exposures that would, if realized, reduce the amount of net operating losses that would ultimately be utilized. As of November 2, 2013, \$0.4 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 \$0.3 million and \$0.5 million of interest expense associated with exposures as of November 2, 2013 and February 2, 2013, respectively.

### **NOTE 9—EARNINGS PER SHARE**

For the three months ended November 2, 2013, options and restricted stock units of 1,294,006 and 37,662, respectively, were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. For the nine months ended November 2, 2013, basic and diluted shares were equal as the Company was in a loss position. The Company did not have any anti-dilutive securities in the three and nine months ended October 27, 2012 because all securities granted in those periods were granted by Home Holdings.

The weighted-average number of shares for the three and nine months ended October 27, 2012 is calculated by giving effect to the capitalization of Restoration Hardware Holdings, Inc., as if such event had been completed as of the beginning of the periods.

### **NOTE 10—SHARE REPURCHASES**

Certain options and awards granted under the Company's ownership and stock plans contain a repurchase right, which may be exercised at the Company's discretion in the event that the employee terminates employment with the Company. During the three months ended November 2, 2013, the Company repurchased 37,883 shares of common stock from former employees. The shares were purchased at a weighted-average price of \$66.64 per share and were settled with the issuance of promissory notes bearing interest at 5%, paid annually, with principal due at the end of the 10-year term. As of November 2, 2013, the aggregate unpaid principal amount of the promissory notes was approximately \$2.5 million.

## NOTE 11—STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation in accordance with applicable guidance, which requires the Company to estimate the value of securities issued based upon an option-pricing model and recognize this estimated value as compensation expense over the vesting periods.

Stock-based compensation expense is included in selling, general and administrative expenses on the condensed consolidated statements of operations. The Company recorded stock-based compensation expense of \$1.6 million and \$0.4 million in the three months ended November 2, 2013 and October 27, 2012, respectively. The Company recorded stock-based compensation expense of \$65.8 million and \$1.1 million in the nine months ended November 2, 2013 and October 27, 2012, respectively. No stock-based compensation cost has been capitalized in the accompanying condensed consolidated financial statements.

The Company recognizes expense associated with performance-based awards when it becomes probable that the performance condition will be met. Once it becomes probable that an award will vest, the Company recognizes compensation expense for employees of the Company 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 the Reorganization and initial public offering, Mr. Friedman received shares of unvested stock in replacement of certain performance-based units. These units were marked to market every period through the satisfaction of the vesting criteria in accordance with ASC Topic 718, *Stock Compensation*, due to his advisory role of Creator and Curator from October 2012 to June 2013. The Company recorded stock-based compensation expense related to performance-based awards of \$29.9 million in the nine months ended November 2, 2013, which is included in the total stock-based compensation amounts above. No expense was recorded related to performance-based awards in the three months ended November 2, 2013 or in the three or nine months ended October 27, 2012.

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

On July 2, 2013, in connection with Mr. Friedman's reappointment as Chairman and Co-Chief Executive Officer, the Company granted a stock option to Mr. Friedman under the 2012 Stock Incentive Plan to purchase 1,000,000 shares of its common stock, with an exercise price of \$75.43, which is equal to the closing price of the Company's common stock on the date of grant. This option was fully vested as of the date of grant but any shares issued upon exercise of the option will be subject to selling restrictions which are scheduled to lapse in three equal installments on the third, fourth and fifth anniversaries of the grant date. The fully vested option resulted in a one-time non-cash stock-based compensation charge of \$33.7 million recorded during the three month period ended August 3, 2013.

As of November 2, 2013, 9,410,530 options were outstanding with a weighted-average exercise price of \$46.02 per share and 8,931,530 options were vested with a weighted-average exercise price of \$45.59 per share. The aggregate intrinsic value of options outstanding, options vested or expected to vest, and options exercisable as of November 2, 2013 was \$219.8 million, \$219.8 million, and \$212.7 million, respectively. Stock options exercisable as of November 2, 2013 had a weighted-average remaining contractual life of 9.08 years. As of November 2, 2013, the total unrecognized compensation expense related to unvested options was \$8.3 million, which is expected to be recognized on a straight-line basis over a weighted-average period of 4.11 years.

As of November 2, 2013, the Company had 273,283 unvested restricted stock unit awards with a weighted-average grant date fair value of \$65.21 per share. During the three and nine months ended November 2, 2013, 6,666 restricted stock unit awards with a weighted-average grant date fair value of \$39.00 per share vested. As of November 2, 2013, there was \$14.2 million of total unrecognized compensation expense related to unvested restricted stock unit awards which is expected to be recognized over a weighted-average period of 3.90 years.

### *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 were unvested restricted shares issued to Carlos Alberini and Gary Friedman, the Company's Co-Chief Executive Officers, 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 began to vest during the period following the initial public offering when the price of the Company's common stock reached a 10-day average closing price per share of \$31.00 for at least 10 consecutive trading days, and such shares fully vested when the price of the Company's common stock reached a 10-day average closing price per share of \$46.50 for at least 10 consecutive trading days. 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 began to vest during the period following the initial public offering when the 10-day average closing price of the Company's common stock exceeded the initial public offering price of \$24.00 per share for at least 10 consecutive trading days, and such shares fully vested when the 10-day average closing price of the Company's common stock reached a price per share of \$31.00 for at least 10 consecutive trading days.

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## **Table of Contents**

During the three and six months ended August 3, 2013, 748,159 shares and 888,616 shares of the 1,331,548 shares received by Mr. Alberini and Mr. Friedman in replacement of certain of their performance-based units vested in accordance with the performance objectives described above. As all of these shares received by Mr. Alberini and Mr. Friedman had vested as of August 3, 2013, no additional compensation expense was recorded in the three months ended November 2, 2013.

In October 2012, Mr. Friedman resigned from his positions of Chairman and Co-Chief Executive Officer and entered into an advisory services agreement that provided 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. In July 2013, Mr. Friedman was reappointed by the Company as Chairman and Co-Chief Executive Officer. In connection with the Reorganization and initial public offering, Mr. Friedman received 1,185,511 shares of unvested stock in replacement of certain performance-based units. These units were marked to market every period through the satisfaction of the vesting criteria in accordance with ASC Topic 718, *Stock Compensation*, due to his advisory role as Creator and Curator from October 2012 to June 2013. As all such shares were vested as of June 2013, no expense related to these awards was recorded during the three months ended November 2, 2013. During the nine months ended November 2, 2013, the Company recorded non-cash compensation charges of \$29.5 million related to these awards.

### **NOTE 12—RELATED PARTY TRANSACTIONS**

On July 2, 2013, at the time of Mr. Friedman's reappointment as Co-Chief Executive Officer and Chairman of the Company's Board of Directors, Mr. Friedman and Hierarchy, LLC ("Hierarchy"), a newly formed entity in which Mr. Friedman had a controlling interest, waived all of Home Holdings' obligations to invest in Hierarchy and all of Home Holdings' rights with respect to Hierarchy were canceled, and the Company subsequently acquired all the outstanding interests of Hierarchy. As a result of the acquisition of Hierarchy, in the three months ended August 3, 2013 the Company wrote off all outstanding receivables in connection with certain consulting services provided to Hierarchy, and recorded a charge of \$0.2 million.

### **NOTE 13—COMMITMENTS AND CONTINGENCIES**

#### ***Commitments***

The Company has no off balance sheet commitments as of November 2, 2013.

#### ***Contingencies***

The Company is involved in lawsuits, claims and proceedings incident to the ordinary course of its business. These disputes, are increasing in number as the business expands and the Company grows larger. Litigation is inherently unpredictable. As a result, the outcome of matters in which the Company is involved could result in unexpected expenses and liability that could adversely affect the Company's operations. In addition, any claims against the Company, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources.

The Company reviews the need for any loss contingency reserves and establishes reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount of loss, if any, can be reasonably estimated. Generally, in view of the inherent difficulty of predicting the outcome of those matters, particularly in cases in which claimants seek substantial or indeterminate damages, it is not possible to determine whether a liability has been incurred or to reasonably estimate the ultimate or minimum amount of that liability until the case is close to resolution, in which case no reserve is established until that time. As of November 2, 2013, we have recorded a liability for the estimated loss related to these disputes. There is a possibility that additional losses may be incurred in excess of the amounts that we have accrued. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our condensed consolidated financial statements.

### **NOTE 14—SEGMENT REPORTING**

The Company defines an operating segment on the same basis that it uses to evaluate performance internally by the Chief Operating Decision Maker ("CODM"). The Company has determined that the Co-Chief Executive Officers (or Chief Executive Officer during the time period in which Mr. Friedman did not hold such position) are its CODM and there is one operating segment. Therefore, the Company reports as a single segment. This includes all sales channels accessed by the Company's customers, including sales through catalogs, sales through the Company's website and sales through the Company's stores.

## [Table of Contents](#)

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 2, 2013</b>	<b>October 27, 2012</b>	<b>November 2, 2013</b>	<b>October 27, 2012</b>
Furniture	\$ 232,898	\$ 156,216	\$ 626,712	\$ 438,129
Non-furniture	162,934	127,955	452,555	356,862
Total net revenues	<u>\$ 395,832</u>	<u>\$ 284,171</u>	<u>\$ 1,079,267</u>	<u>\$ 794,991</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 the three or nine months ended November 2, 2013 or October 27, 2012.

### **NOTE 15—SUBSEQUENT EVENTS**

On November 27, 2013, the Company entered into an Asset Purchase Agreement which is expected to close on February 3, 2014, upon which the Company will acquire certain assets for a purchase price of \$2.5 million. This agreement was entered into with a company that is owned by an employee of the Company.

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## [Table of Contents](#)

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

*The following discussion and analysis of the financial condition and results of our operations should be read together with our condensed consolidated financial statements and the related notes included in Item 1 of Part I of this Quarterly Report on Form 10-Q and with our audited consolidated financial statements and the related notes included in our most recent Form 10-K filed on April 29, 2013.*

#### **FORWARD-LOOKING STATEMENTS AND MARKET DATA**

This quarterly report contains forward-looking statements that are subject to risks and uncertainties. Forward-looking statements give our current expectations and projections relating to our financial condition, results of operations, plans, objectives, future performance and business. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “should,” “likely” and other words and terms of similar 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 under the sections entitled “Risk Factors” in Part II of this quarterly report and in our most recent Form 10-K filed on April 29, 2013 (the “2012 Form 10-K”), “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and elsewhere in this quarterly report. All forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by these cautionary statements, as well as other cautionary statements. You should evaluate all forward-looking statements made in this quarterly report in the context of these risks and uncertainties.

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

#### **Overview**

We are a leading luxury retailer in the home furnishings marketplace. Our collections of timeless, updated classics and reproductions are presented consistently across our sales channels in sophisticated and unique lifestyle settings that we believe are on par with world-class interior designers. We offer dominant merchandise assortments across a growing number of categories, including furniture, lighting, textiles, bathware, décor, outdoor and garden, tableware and children’s furnishings. Our business is fully integrated across our multiple channels of distribution, consisting of our stores, catalogs and websites. We position our stores as showrooms for our brand, while our catalogs and websites act as virtual extensions of our stores. As of November 2, 2013, we operated a total of 70 retail stores, consisting of 62 Galleries, 5 Full Line Design Galleries and 3 Baby & Child Galleries, as well as 17 outlet stores throughout the United States and Canada.

## Table of Contents

### Basis of Presentation and Results of Operations

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

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. Outstanding units under the Team Resto Ownership Plan were exchanged for common stock of Restoration Hardware Holdings, Inc. at the time of its initial public offering. 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.

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
	(dollars in thousands, excluding per square foot store data)			
<b>Statement of Operations Data:</b>				
Net revenues	\$ 395,832	\$ 284,171	\$ 1,079,267	\$ 794,991
Cost of goods sold	255,032	182,291	697,364	503,716
Gross profit	140,800	101,880	381,903	291,275
Selling, general and administrative expenses	116,940	99,886	385,312	271,716
Income (loss) from operations	23,860	1,994	(3,409)	19,559
Interest expense	(2,165)	(1,544)	(4,196)	(4,598)
Income (loss) before income taxes	21,695	450	(7,605)	14,961
Income tax expense (benefit)	12,146	(1,235)	842	(612)
Net income (loss)	\$ 9,549	\$ 1,685	\$ (8,447)	\$ 15,573
<b>Other Financial and Operating Data:</b>				
Growth in net revenues:				
Stores (1)	33%	21%	33%	19%
Direct	47%	24%	39%	25%
Total	39%	22%	36%	22%
Retail (2):				
Comparable store sales change (3)	29%	29%	31%	29%
Retail stores open at beginning of period	70	73	71	74
Stores opened	—	—	2	3
Stores closed	—	—	3	4
Retail stores open at end of period	70	73	70	73
Total leased square footage at end of period (in thousands)	796	780	796	780
Total leased selling square footage at end of period (in thousands)(4)	521	502	521	502
Retail sales per selling square foot (5)	\$ 364	\$ 282	\$ 1,002	\$ 763
Direct:				
Catalogs circulated (in thousands)(6)	4,330	11,721	12,325	26,851
Catalog pages circulated (in millions)(6)	892	7,944	6,583	15,360
Direct as a percentage of net revenues(7)	46%	44%	47%	46%
Capital expenditures	\$ 27,005	\$ 12,114	\$ 57,622	\$ 25,631
Adjusted net income (8)	\$ 13,017	\$ 2,662	\$ 35,067	\$ 13,582

## Table of Contents

- (1) Store data represents retail stores plus outlet stores. Net revenues for outlet stores for the three months ended November 2, 2013 and October 27, 2012 were \$22.4 million and \$13.9 million, respectively. Net revenues for outlet stores for the nine months ended November 2, 2013 and October 27, 2012 were \$57.5 million and \$38.2 million, respectively.
- (2) Retail data has been calculated based upon retail stores, which includes our Baby & Child stores and excludes outlet stores.
- (3) Comparable store sales have been calculated based upon retail stores that were open at least fourteen full months as of the end of the reporting period and did not change square footage by more than 20% between periods. 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.
- (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, generally accepted accounting principles (“GAAP”). We define adjusted net income as consolidated net income (loss), adjusted for the impact of certain non-recurring and other items that we do not consider representative of our ongoing operating performance. Adjusted net income is included in this filing because management believes that adjusted net income provides meaningful supplemental information for investors regarding the performance of our business and facilitates a meaningful evaluation of actual results on a comparable basis with historical results. Our management uses this non-GAAP financial measure in order to have comparable financial results to analyze changes in our underlying business from quarter to quarter. The following table presents a reconciliation of net income (loss), the most directly comparable GAAP financial measure, to adjusted net income for the periods indicated below (*in thousands*).

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Net income (loss)	\$ 9,549	\$ 1,685	\$ (8,447)	\$ 15,573
Adjustments pre-tax:				
Management and pre-IPO board fees (a)	—	1,198	—	3,285
Non-cash compensation (b)	—	—	63,155	—
Follow-on offering fees (c)	—	—	2,895	—
Lease termination costs (d)	—	—	—	(386)
Special committee investigation and remediation (e)	—	2,789	—	4,778
Subtotal adjusted items	—	3,987	66,050	7,677
Impact of income tax items (f)	3,468	(3,010)	(22,536)	(9,668)
Adjusted net income	<u>\$ 13,017</u>	<u>\$ 2,662</u>	<u>\$ 35,067</u>	<u>\$ 13,582</u>

- (a) Represents fees paid in accordance with our management services agreement with Home Holdings, as well as fees and expense reimbursements paid to our Board of Directors prior to the initial public offering. All management fees were paid in full at the time of the initial public offering. Board fees and expenses subsequent to the initial public offering are not included in the above adjustments and are included in both the GAAP and adjusted net income (loss) amounts.
- (b) Includes non-cash compensation charges related to the performance-based vesting of certain shares granted to Mr. Friedman, as well as the one-time, fully vested option granted to Mr. Friedman upon his reappointment as Chairman and Co-Chief Executive Officer in July 2013. All other equity related awards granted to employees are not included in the above adjustments and are included in both the GAAP and adjusted net income (loss) amounts.
- (c) Represents legal and other professional fees incurred in connection with our follow-on offerings in May 2013 and July 2013.
- (d) Includes lease termination costs for retail stores that were closed prior to their respective lease termination dates. The amount in the nine months ended October 27, 2012 relates to changes in estimates regarding liabilities for future lease payments for closed stores.
- (e) Represents 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.
- (f) Assumes a normalized tax rate of 40% for all periods presented.



## Table of Contents

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

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
<b>Statements of Operations:</b>				
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	64.4	64.1	64.6	63.4
Gross profit	35.6	35.9	35.4	36.6
Selling, general and administrative expenses	29.5	35.2	35.7	34.1
Income (loss) from operations	6.1	0.7	(0.3)	2.5
Interest expense	(0.6)	(0.5)	(0.4)	(0.6)
Income (loss) before income taxes	5.5	0.2	(0.7)	1.9
Income tax expense (benefit)	3.1	(0.4)	0.1	(0.1)
Net income (loss)	2.4%	0.6%	(0.8)%	2.0%

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 (*in thousands*).

	Three Months Ended		Nine Months Ended	
	November 2, 2013	October 27, 2012	November 2, 2013	October 27, 2012
Stores	\$ 211,950	\$ 159,193	\$ 575,572	\$ 433,121
Direct	183,882	124,978	503,695	361,870
Net revenues	<u>\$ 395,832</u>	<u>\$ 284,171</u>	<u>\$ 1,079,267</u>	<u>\$ 794,991</u>

### Three Months Ended November 2, 2013 Compared to Three Months Ended October 27, 2012

#### *Net revenues*

Net revenues increased \$111.7 million, or 39%, to \$395.8 million in the three months ended November 2, 2013 compared to \$284.2 million in the three months ended October 27, 2012. We had 70 and 73 retail stores open at November 2, 2013 and October 27, 2012, respectively. Stores sales increased \$52.8 million, or 33%, to \$212.0 million in the three months ended November 2, 2013 compared to \$159.2 million in the three months ended October 27, 2012 due in large part to our comparable store sales increase of 29% over the same period. Direct sales increased \$58.9 million, or 47%, to \$183.9 million in the three months ended November 2, 2013 compared to \$125.0 million in the three months ended October 27, 2012. 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 and the introduction of new product categories.

#### *Gross profit*

Gross profit increased \$38.9 million, or 38%, to \$140.8 million in the three months ended November 2, 2013 from \$101.9 million in the three months ended October 27, 2012.

Gross profit as a percentage of net revenues decreased 0.3% to 35.6% in the three months ended November 2, 2013 from 35.9% in the three months ended October 27, 2012. This decrease was primarily driven by strategic pricing on new product introductions, changes in product mix and increases in distribution center occupancy costs. These decreases in gross profit as a percentage of net revenues were partially offset by improvement in store occupancy costs from improved leverage on the fixed portion of such costs.

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## **Table of Contents**

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

Selling, general and administrative expenses increased \$17.1 million, or 17%, to \$116.9 million in the three months ended November 2, 2013 compared to \$99.9 million in the three months ended October 27, 2012.

The increase in selling, general and administrative expenses was primarily related to an increase in employment costs, an increase in credit card fees due to increased revenues and an increase in corporate occupancy costs. These increases were partially offset by a decrease in advertising and marketing costs as a result of modifying our Source Book strategy for fiscal 2013 and eliminating our Fall Sourcebook.

Selling, general and administrative expenses were 29.5% of net revenues for the three months ended November 2, 2013 compared to 35.2% of net revenues for the three months ended October 27, 2012. The improvement in selling, general and administrative expenses as a percentage of net revenues was primarily driven by the reduction in our advertising and marketing costs noted above, as well as lower professional fees and other corporate expenses as a percentage of sales. These reductions were partially offset by increased corporate occupancy costs.

### ***Interest expense***

Interest expense was \$2.2 million in the three months ended November 2, 2013 compared to \$1.5 million in the three months ended October 27, 2012. This increase was primarily due to interest expense of \$0.4 million related to accounting for three of our Full Line Design Galleries as build-to-suit transactions.

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

Income tax expense was \$12.1 million in the three months ended November 2, 2013 compared to a benefit of \$1.2 million in the three months ended October 27, 2012. Our effective tax rate was 55.99% in the three months ended November 2, 2013 compared to (274.75)% in the three months ended October 27, 2012. The increase in the effective tax rate for the three months ended November 2, 2013 was primarily due to non-deductible stock-based compensation charges, the fact that the Company is no longer recording a U.S. valuation allowance against net deferred tax assets, and other non-deductible expenses. Additionally, the effective tax rate for the three months ended October 27, 2012 reflected a net favorable income tax benefit due to the reversal of income tax contingencies resulting from the conclusion of a Canadian audit examination.

## **Nine months Ended November 2, 2013 Compared to Nine months Ended October 27, 2012**

### ***Net revenues***

Net revenues increased \$284.3 million, or 36%, to \$1.1 billion in the nine months ended November 2, 2013 compared to \$795.0 million in the nine months ended October 27, 2012. We had 70 and 73 retail stores open at November 2, 2013 and October 27, 2012, respectively. Stores sales increased \$142.5 million, or 33%, to \$575.6 million in the nine months ended November 2, 2013 compared to \$433.1 million in the nine months ended October 27, 2012 due in large part to our comparable store sales increase of 31% over the same period. Direct sales increased \$141.8 million, or 39%, to \$503.7 million in the nine months ended November 2, 2013 compared to \$361.9 million in the nine months ended October 27, 2012. 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 and the introduction of new product categories.

### ***Gross profit***

Gross profit increased \$90.6 million, or 31%, to \$381.9 million in the nine months ended November 2, 2013 from \$291.3 million in the nine months ended October 27, 2012.

Gross profit as a percentage of net revenues decreased 1.3% to 35.4% in the nine months ended November 2, 2013 from 36.6% in the nine months ended October 27, 2012. This decrease was primarily driven by strategic pricing on new product introductions and changes in product mix. In addition, gross profit as a percentage of net revenues decreased due to increased freight costs resulting from a larger percentage of furniture sales during the period, which incur higher shipping costs than our other products. These decreases in gross profit as a percentage of net revenues were partially offset by improvement in store occupancy costs from improved leverage on the fixed portion of such costs.

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## **Table of Contents**

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

Selling, general and administrative expenses increased \$113.6 million, or 42%, to \$385.3 million in the nine months ended November 2, 2013 compared to \$271.7 million in the nine months ended October 27, 2012.

Selling, general and administrative expenses for the nine months ended November 2, 2013 included: (i) a \$33.7 million non-cash compensation charge related to the one-time, fully vested option to Mr. Friedman upon his reappointment as Chairman and Co-Chief Executive Officer, (ii) a \$29.5 million non-cash compensation charge related to the performance-based vesting of certain shares granted to Mr. Friedman in connection with the Reorganization and initial public offering, and (iii) \$2.9 million of costs incurred in connection with our follow-on offerings in May 2013 and July 2013.

The increase in selling, general and administrative expenses, excluding the one-time and non-cash compensation items mentioned above, was primarily related to an increase in employment costs, an increase in credit card fees due to increased revenues, an increase in corporate occupancy costs and an increase in Gallery preopening costs. These increases were partially offset by a decrease in advertising and marketing costs as a result of modifying our Source Book strategy for fiscal 2013 and eliminating our Fall Sourcebook. The increase was also offset by decreases in professional fees and other corporate expenses.

Excluding the one-time and non-cash compensations items for the nine months ended November 2, 2013 mentioned above, selling, general and administrative expenses were 29.6% of net revenues for the nine months ended November 2, 2013 compared to 34.1% of net revenues for the nine months ended October 27, 2012. The improvement in selling, general and administrative expenses as a percentage of net revenues was primarily driven by a decrease in advertising and marketing costs as well as lower professional fees and other corporate expenses.

### ***Interest expense***

Interest expense was \$4.2 million in the nine months ended November 2, 2013 compared to \$4.6 million in the nine months ended October 27, 2012. This decrease was primarily due to the repayment of the term loan in the fourth quarter of fiscal 2012 and a decrease in the average borrowings under the revolving line of credit in the nine months ended November 2, 2013 compared to the nine months ended October 27, 2012. This decrease was partially offset by an increase in interest expense of \$0.6 million related to accounting for three of our Full Line Design Galleries as build-to-suit transactions.

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

Income tax expense was \$0.8 million in the nine months ended November 2, 2013 compared to a benefit of \$0.6 million in the nine months ended October 27, 2012. Our effective tax rate was 11.07% in the nine months ended November 2, 2013 compared to (4.09)% in the nine months ended October 27, 2012. The increase in our effective tax rate was primarily due to non-deductible stock-based compensation charges, the fact that the Company is no longer recording a U.S. valuation allowance against our net deferred tax assets, and other non-deductible expenses. Additionally, the effective tax rate for the nine months ended October 27, 2012 reflected a net favorable income tax benefit due to the reversal of income tax contingencies resulting from the conclusion of a Canadian audit examination.

## **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 merchandise inventories, capitalized catalog costs, 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 also 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 our availability to borrow 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 2013 are planned at approximately \$95 million to \$100 million, of which \$57.6 million was spent during the nine months ended November 2, 2013. Our fiscal 2013 capital expenditures will primarily be related to our efforts to continue our growth and expansion, including construction of Full Line Design Galleries and infrastructure investments.

## Table of Contents

### **Cash Flow Analysis**

The following table presents a summary of operating, investing, and financing activities (*in thousands*):

	Nine Months Ended	
	November 2, 2013	October 27, 2012
Provided by (used in) operating activities	\$ 30,455	\$ (20,019)
Used in investing activities	(57,622)	(25,941)
Provided by financing activities	27,024	52,988
Increase (decrease) in cash and cash equivalents	(157)	7,056
Cash and cash equivalents at end of period	8,197	15,568

### **Net Cash Provided By (Used In) Operating Activities**

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

For the nine months ended November 2, 2013, net cash provided by operating activities was \$30.5 million and consisted of non-cash items of \$72.4 million offset by a net loss of \$8.4 million and an increase in working capital and other activities of \$33.5 million. Working capital and other activities consisted primarily of an increase in inventory of \$95.0 million in anticipation of the 2013 fall and winter selling seasons and in order to improve our in-stock positions and reduce backorders, and an increase in prepaid expense of \$10.1 million primarily due to increased catalog costs related to our Holiday 2013 and Spring 2014 Source Books. These uses of cash from working capital components were partially offset by increases in accounts payable and accrued expenses of \$48.3 million primarily due to timing of payments, increases in other liabilities primarily related to an increase in income tax payables, and increases in deferred revenue and customers deposits of \$9.6 million due to the timing of shipments made at fiscal quarter end and increased special orders.

For the nine months ended October 27, 2012, net cash used in operating activities was \$20.0 million and consisted of an increase in working capital and other activities of \$56.4 million, offset by net income of \$15.6 million and non-cash items of \$20.8 million. Working capital and other activities consisted primarily of increases in inventory of \$87.9 million in anticipation of the 2012 fall and winter selling seasons, prepaid expenses of \$35.2 million primarily due to an increase in catalog costs associated with the Fall 2012 Source Books, 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 partially offset by increases in accrued liabilities and accounts payable of \$48.5 million primarily due to timing of payments, increases in deferred revenue and customer deposits of \$16.5 million due to the timing of shipments made at fiscal quarter end, and increases in deferred rent and lease incentives of \$10.2 million due to construction of our new Boston location.

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

Investing activities consist primarily of investments in supply chain and systems infrastructure and capital expenditures related to growth and expansion, including construction of Full Line Design Galleries.

For the nine months ended November 2, 2013, net cash used in investing activities was \$57.6 million primarily as a result of investment in supply chain of \$33.5 million, investments in new stores of \$18.6 million and investment in systems infrastructure of \$4.9 million.

For the nine months ended October 27, 2012, net cash used in investing activities was \$25.9 million primarily as a result of investments in new stores of \$13.9 million and investment in supply chain and systems infrastructure of \$11.7 million and the purchase of a new domain name for \$0.3 million.

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

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

For the nine months ended November 2, 2013, net cash provided by financing activities was \$27.0 million primarily due to an increase in net borrowings under the revolving line of credit of \$25.7 million, as well as net proceeds from the exercise of stock options of \$1.4 million and excess tax benefits from the exercise of stock options of \$1.4 million. This overall increase in cash provided by financing activities was partially offset by payments on capital lease obligations of \$1.4 million.

For the nine months ended October 27, 2012, net cash provided by financing activities was \$53.0 million primarily due to an increase in net borrowings under the revolving line of credit of \$65.2 million. This overall increase in cash provided by financing activities was partially offset by capitalized initial public offering costs of \$9.1 million and payments on capital lease obligations of \$3.1 million.

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## Table of Contents

### *Revolving Line of Credit*

In August 2011, Restoration Hardware, Inc., along with its Canadian subsidiary, Restoration Hardware Canada, Inc., entered into a credit agreement with Bank of America, N.A., as administrative agent, and certain other lenders. This credit agreement modified a previous facility under which Restoration Hardware, Inc. had a revolving line of credit for up to \$190.0 million 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 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 our initial public offering. Upon the repayment of the term loan in full, the remaining debt issuance costs of \$0.2 million related to the term loan were expensed.

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

Borrowings under the revolving line of credit are subject to interest, at borrowers' option, at either the bank's reference rate or LIBOR (or the BA Rate or the Canadian Prime Rate, as such terms are defined in the credit agreement, 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 2.9% as of November 2, 2013.

As of November 2, 2013, \$108.2 million was outstanding under the revolving line of credit and the undrawn borrowing availability under the revolving line of credit was \$290.6 million. There were \$18.0 million in outstanding letters of credit as of November 2, 2013.

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 November 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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## **Table of Contents**

### ***Contractual Obligations***

As of November 2, 2013, there were no material changes outside of the ordinary course of business to our contractual obligations described in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Contractual Obligations” section of our 2012 Form 10-K.

### ***Off Balance Sheet Arrangements***

We have no material off balance sheet arrangements as of November 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:

- Revenue Recognition
- Gift Certificates and Merchandise Credits
- Merchandise Inventories
- Impairment of Goodwill and Long-Lived Assets
- Stock-Based Compensation
- Income Taxes

For further discussion regarding these policies, refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” in our 2012 Form 10-K. There have been no material changes to the critical accounting policies and estimates listed in our 2012 Form 10-K.

### **Recent Accounting Pronouncements**

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

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## [Table of Contents](#)

### **Item 3. Quantitative and Qualitative Disclosure of Market Risks**

#### ***Interest Rate Risk***

We are subject to interest rate risk in connection with borrowings under our revolving line of credit and, prior to its repayment on November 7, 2012, our term loan, which bear interest at variable rates. At November 2, 2013, \$108.2 million was outstanding under the revolving line of credit and the undrawn borrowing availability under the revolving line of credit was \$290.6 million. There were \$18.0 million in outstanding letters of credit as of November 2, 2013. 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 weighted-average interest rate on the revolving line of credit during the three and nine months ended November 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.

### **Item 4. 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 Co-Principal Executive Officers and our Principal Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation of our Co-Chief Executive Officers and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report. Based on that evaluation, our Co-Chief Executive Officers and Chief Financial Officer have concluded that as of the end of the period covered by this Quarterly 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 Co-Chief Executive Officers and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

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

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

## PART II

### Item 1. Legal Proceedings.

From time to time we and/or our management are involved in litigation, claims and other proceedings relating to the conduct of our business, including 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 1A. Risk Factors.

We operate in a rapidly changing environment that involves a number of risks that could materially and adversely affect our business, financial condition, prospects, operating results or cash flows. In addition to information regarding risk factors that appears in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements” in Part I, Item 2, of this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A, and Part II, Items 7 and 7A, of our Annual Report on Form 10-K for the fiscal year ended February 2, 2013 (the “2012 Form 10-K”). We have updated the risk factors identified below which were previously disclosed in Part I, Item 1A of our 2012 Form 10-K and in Part II, Item 1A of our Form 10-Q for the quarterly period ended August 3, 2013, and we have added a risk factor concerning new regulations related to conflict minerals as noted below:

- The risk factor entitled *“If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.”*
- The risk factor entitled *“Our Co-Chief Executive Officer, Carlos Alberini, recently resigned from his position as Co-Chief Executive Officer, which may harm our operations and expose us to significant financial obligations.”*
- The risk factor entitled *“Gary Friedman was recently re-appointed as our Chairman and Co-Chief Executive Officer. Mr. Friedman previously resigned from his positions as Chairman and Co-Chief Executive Officer in October 2012 following an investigation by a special committee of non-management directors of the board and thereafter served as our advisor for approximately eight months. There can be no assurance that this transition will not have an adverse impact on us.”*
- The risk factor entitled *“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.”*
- The risk factor entitled *“New regulations related to “conflict minerals” may force us to incur additional expenses, may make the sourcing of our products more complex and may result in damage to our reputation with customers.”*
- The risk factor entitled *“Substantial future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.”*
- The risk factor entitled *“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.”* is replaced by the risk factor entitled *“Effective May 20, 2013, we ceased to be a “controlled company” within the meaning of the New York Stock Exchange (“NYSE”) rules upon completion of our May 2013 offering. However, we may continue to rely on exemptions from certain corporate governance requirements during a one-year transition period until May 20, 2014.”*

In addition, the risk factor entitled *“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.”* is no longer applicable to us.



## [Table of Contents](#)

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

#### ***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 Chairman and Co-Chief Executive Officer, Gary Friedman. The loss of the services of our key personnel could make it more difficult to successfully operate our business and achieve our business goals. In addition, we do not maintain key man life insurance policies on any of our key personnel. As a result, we may not be able to cover the financial loss we may incur in losing the services of any of our key personnel.

Mr. Friedman's equity ownership in our Company has given him a substantial amount of personal wealth. As a result, it may be difficult for us to continue to retain and motivate him, and this wealth could affect decisions about whether or not he will continue to perform services for us. If we do not succeed in retaining and motivating 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 Co-Chief Executive Officer, Carlos Alberini, recently resigned from his position as Co-Chief Executive Officer, which may harm our operations and expose us to significant financial obligations.***

We recently announced that our Co-Chief Executive Officer, Carlos Alberini, resigned from his position as Co-Chief Executive Officer effective January 31, 2014. Mr. Alberini has been a key contributor to the Company's recent success. While we plan to implement a transition plan and to search for a replacement for Mr. Alberini, the Company faces a variety of risks and uncertainties due to his resignation. Our business may experience adverse consequences as a result of his resignation and the resulting changes we make to our management organizational structure. A search for a new member of senior management may be long, costly and may divert the board of directors' and management's attention from other business concerns. There can be no assurances that we will be successful in finding a suitable replacement for Mr. Alberini or that we will not experience other disruptions in our management structure arising from transitions in our leadership, or changes in our management structure, including as a result of the resignation of Mr. Alberini or the retention, in the future, of new executives to assist Mr. Friedman in his role as Chairman and Co-Chief Executive Officer.

Mr. Alberini owns a substantial number of shares of the Company and although he has indicated an intention to retain a significant ownership position in the Company, he may later determine to sell some or all of those shares, which could adversely impact the market price of our common stock. In addition, while Mr. Alberini's employment and equity-related agreements provide the Company with the right, in connection with his resignation from the Company, to repurchase certain of the shares that may be held by Mr. Alberini and that are subject to selling restrictions, no determination has yet been made with respect to whether the Company will repurchase any such shares. If we elect to repurchase any of Mr. Alberini's shares, this could result in the Company incurring substantial financial obligations to fund such repurchase.

#### ***Gary Friedman was recently re-appointed as our Chairman and Co-Chief Executive Officer. Mr. Friedman previously resigned from his positions as Chairman and Co-Chief Executive Officer in October 2012 following an investigation by a special committee of non-management directors of the board and thereafter served as our advisor for approximately eight months. There can be no assurance that this transition will not have an adverse impact on us.***

Effective July 2, 2013, Gary Friedman was appointed to serve as our Co-Chief Executive Officer along with Carlos Alberini, and at the time of effectiveness of Mr. Alberini's resignation, Mr. Friedman will be serving as our Chief Executive Officer. Mr. Friedman also serves as Creator and Curator, and as Chairman of our Board of Directors. Mr. Friedman previously served as Chairman and as Co-Chief Executive Officer with Mr. Alberini from June 2010 through October 2012. Prior to June 2010, Mr. Friedman was our Chief Executive Officer and Chairman. In October 2012, Mr. Friedman resigned as Co-Chief Executive Officer and as a director and agreed to serve in an advisory capacity as our Creator and Curator 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, may occur in the future.

#### ***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 Co-Chief Executive Officer, Mr. Alberini was employed by Guess?, Inc., which was subject to a tax audit and assessment proceeding in Italy that was settled in January 2013. There was also a related proceeding by a prosecutor in Italy that had been initiated with respect to several current and former members of the Guess Europe management team as well as Mr. Alberini. In July 2013, the matter was closed based on the prosecutor's recommendation. 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.

#### ***New regulations related to "conflict minerals" may force us to incur additional expenses, may make the sourcing of our products more complex and may result in damage to our reputation with customers.***

On August 22, 2012, under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank"), the SEC adopted new requirements for companies that use certain minerals and metals in their products, known as "conflict minerals," whether or not these products are manufactured by third parties. Some of these minerals are commonly used in many products and may be used in some of the products we offer. These requirements require companies to diligence, disclose, and report whether such minerals, if used in the manufacture of the products of the company, originate from the Democratic Republic of Congo and adjoining countries. The implementation of these new requirements could adversely affect the sourcing, availability, and pricing of such minerals if they are found to be used in our products and necessary for their functionality. Since we source substantially all of our products abroad, we may not be able to sufficiently verify the origins of these minerals and metals used

in our products through the due diligence procedures that we implement, which may harm our reputation. The first report is due on May 31, 2014 for the 2013 calendar year.

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

##### ***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. All of our outstanding shares of common stock are freely tradable, except for (i) 345,111 shares issued under our 2012 Equity Replacement Plan that are subject to additional time-based resale restrictions and (ii) any other 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 Act of 1933, as amended (the “Securities Act”), which are restricted securities under the Securities Act. 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.

## Table of Contents

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.

*Effective May 20, 2013, we ceased to be a “controlled company” within the meaning of the New York Stock Exchange (“NYSE”) rules upon completion of our May 2013 offering. However, we may continue to rely on exemptions from certain corporate governance requirements during a one-year transition period until May 20, 2014.*

Effective May 20, 2013, Home Holdings ceased to control a majority of our voting common stock. As a result, we ceased to be a “controlled company” within the meaning of the NYSE corporate governance standards. In accordance with NYSE requirements, before we ceased to be a “controlled company,” we appointed at least one independent member to each of the compensation and nominating and governance committees. NYSE rules also require that we appoint at least a majority of independent members to such committees within 90 days of the date we ceased to be a “controlled company,” or August 13, 2013. We complied with this requirement within the period prescribed by the rules.

NYSE rules also require that we appoint compensation and nominating and governance committees composed entirely of independent directors and appoint a majority of independent directors to our board of directors within one year of such date, or May 20, 2014. During these transition periods, we may elect not to comply with certain NYSE corporate governance requirements, including:

- the requirement that a majority of our board of directors consists of independent directors;
- the requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities; and
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities.

Accordingly, during this transition period, stockholders will not have the same protections afforded to stockholders of companies that are subject to such corporate governance requirements.

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

#### *Repurchases of Common Stock during the Three Months Ended November 2, 2013*

The following table provides information with respect to shares of common stock we repurchased during the three months ended November 2, 2013. For additional information, please see Note 10 to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q. These repurchases are related to certain options and awards granted under the Company’s ownership and stock plans that contain a repurchase right.

	<u>Number of Shares</u>	<u>Average Purchase Price Per Share</u>
<i>August 4, 2013 to August 31, 2013</i>		
No activity	36,001	\$ 66.45
<i>September 1, 2013 to October 5, 2013</i>		
Employee transactions	—	—
<i>October 6, 2013 to November 2, 2013</i>		
Employee transactions	1,882	70.21
Total	<u>37,883</u>	<u>\$ 66.64</u>

### **Item 3. Defaults Upon Senior Securities.**

Not applicable.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

Not applicable.

**Table of Contents**

**Item 6. Exhibits.**

<u>Exhibit Number</u>	<u>Exhibit Description</u>	<u>Form</u>	<u>Incorporated by Reference</u>			<u>Filed Herewith</u>
			<u>File Number</u>	<u>Date of First Filing</u>	<u>Exhibit Number</u>	
3.1	Amended and Restated Bylaws of Restoration Hardware Holdings, Inc.	8-K	001-3572	July 2, 2013	3.1	
10.1	Second Amendment to Ninth Amended and Restated Credit Agreement dated as of September 16, 2013 among Restoration Hardware, Inc., Restoration Hardware Canada, Inc., Bank of America, N.A., Wells Fargo Bank, National Association, U.S. Bank National Association, Union Bank, N.A., Union Bank, Canada Branch, CIT Bank and RBS Citizens Business Capital.	8-K	001-3572	September 20, 2013	10.1	
10.2	Form of 2012 Stock Incentive Plan and 2012 Stock Option Plan related documents, as amended and restated.	—	—	—	—	X
31.1	Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	—	—	—	—	X
31.2	Certification of Co-Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended.	—	—	—	—	X
31.3	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 Co-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 Co-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
32.3	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

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[Table of Contents](#)

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Restoration Hardware Holdings, Inc.

Date: December 16, 2013

By: \_\_\_\_\_  
/s/ Gary Friedman  
Gary Friedman  
*Chairman, Co-Chief Executive Officer, Creator and Curator*  
*(Co-Principal Executive Officer)*

Date: December 16, 2013

By: \_\_\_\_\_  
/s/ Carlos Alberini  
Carlos Alberini  
*Co-Chief Executive Officer and Director*  
*(Co-Principal Executive Officer)*

Date: December 16, 2013

By: \_\_\_\_\_  
/s/ Karen Boone  
Karen Boone  
*Chief Financial Officer*  
*(Principal Financial Officer and Principal Accounting Officer)*

RESTORATION HARDWARE HOLDINGS, INC. 2012 STOCK INCENTIVE PLAN

NOTICE OF STOCK OPTION AWARD

Grantee's Name and Address: \_\_\_\_\_

You (the "Grantee") have been granted an option to purchase shares of Common Stock, subject to the terms and conditions of this Notice of Stock Option Award (the "Notice"), the Restoration Hardware Holdings, Inc. 2012 Stock Incentive Plan, as amended from time to time (the "Plan") and the Stock Option Award Agreement (the "Option Agreement") attached hereto, as follows. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Notice.

Award Number \_\_\_\_\_
Date of Award \_\_\_\_\_
Exercise Price per Share \$ \_\_\_\_\_
Total Number of Shares Subject to the Option (the "Shares") \_\_\_\_\_
Total Exercise Price \$ \_\_\_\_\_
Type of Option: \_\_\_\_\_ Incentive Stock Option
\_\_\_\_\_ Non-Qualified Stock Option
Expiration Date: \_\_\_\_\_

Vesting Schedule:

Subject to the Grantee's Continuous Service and other limitations set forth in this Notice, the Plan and the Option Agreement, the Option may be exercised, in whole or in part, in accordance with the following schedule:

The Option shall be fully vested upon the Date of Award.

Selling Restrictions:

Notwithstanding anything herein to the contrary, neither the Grantee nor a transferee (either referred to herein as the "Holder") may transfer the Shares issued upon exercise of the Option (except by will or by the laws of descent and distribution) until twenty (20) years following the Registration Date (the "Selling Restrictions"). However, subject to the Grantee's Continuous Service, the Selling Restrictions shall lapse with respect to the number of Shares set forth in the table below on the corresponding date:

Table with 2 columns: Number of Shares, Lapse Date. Rows include [ ] Shares, [ ] Shares, [ ] Shares, [ ] Shares.

Repurchase Right

1. In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity for Cause pursuant to clause (iv) or (v) of the definition of Cause, the Company shall have the right, for a period of ninety (90) days commencing on the date of such termination, to elect to purchase from such Grantee any Shares that remain subject to the Selling Restrictions as of the date of such termination. The repurchase date shall be the trading day immediately following the 185th calendar day after the expiration of the Grantee's applicable post-termination exercise period set forth in Section 5, 6 or 7, and the repurchase price shall be the Fair Market Value of

the Shares as of the repurchase date. The purchase price payable by the Company under this Section 1 may be paid in lump sum in cash on the repurchase date or, in the Administrator's sole discretion, on a deferred basis by an unsecured promissory note providing for interest at a rate appropriate for the Company's credit risk as of the repurchase date, a term of up to nine years from the date of repurchase and such other terms and conditions as determined by the Administrator (including restrictions on assignment and transferability). In the event the Company elects to pay such purchase price with a note, the Grantee may elect to forgo such payment and convey the Shares to the Company for no additional cash consideration. In the event the Company fails to exercise its repurchase right within the applicable ninety (90) day period set forth in this Section 1, the Selling Restrictions then applicable to any Shares held by the Grantee pursuant to the exercise of the Option shall continue to lapse in accordance with the terms and conditions set forth above other than the requirement of Continuous Service.

2. In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity without Cause [or by the Grantee for Good Reason], or is terminated on account of the Grantee's death or Disability, the Company shall have the right, for a period of ninety (90) days commencing on the date of such termination, to elect to purchase from the Grantee any Shares that remain subject to the Selling Restrictions as of the date of termination. The repurchase date shall be the trading day immediately following the 185<sup>th</sup> calendar day after the expiration of the Grantee's applicable post-termination exercise period set forth in Section 5, 6 or 7, and the repurchase price shall be the Fair Market Value of the Shares as of the repurchase date. The purchase price payable by the Company under this Section 2 shall be paid in lump sum in cash on the repurchase date. In the event the Company fails to exercise its repurchase right within the applicable ninety (90) day period set forth in this Section 2, the Selling Restrictions then applicable to any Shares held by the Grantee pursuant to the exercise of the Option shall continue to lapse in accordance with the terms and conditions set forth above other than the requirement of Continuous Service.

3. In the event the Grantee's Continuous Service is terminated by the Grantee [without Good Reason] [for any reason], the Company shall have the right, for a period of ninety (90) days commencing on the date of such termination, to elect to purchase from such Grantee any Shares that remain subject to the Selling Restrictions as of the date of such termination. The repurchase date shall be the trading day immediately following the 185<sup>th</sup> calendar day after the expiration of the Grantee's applicable post-termination exercise period set forth in Section 5, 6 or 7, and the repurchase price shall be the Fair Market Value of the Shares as of the repurchase date. The purchase price payable by the Company under this Section 3 may be paid in lump sum in cash on the repurchase date or, in the Administrator's sole discretion, on a deferred basis by an unsecured promissory note providing for interest at a rate appropriate for the Company's credit risk as of the repurchase date. The term of any such promissory note shall be (1) up to nine years from the date of repurchase if such termination occurs prior to the first anniversary of the Registration Date, (2) up to seven years from the date of repurchase if such termination occurs after the first, but prior to the second anniversary of the Registration Date, (3) up to four years from the date of repurchase if such termination occurs after the second, but prior to the third anniversary of Registration Date and (4) up to one year from the date of repurchase if such termination occurs after the third anniversary of the Registration Date. The promissory note shall contain such other terms and conditions as determined by the Administrator (including restrictions on assignment and transferability). In the event the Company elects to pay such purchase price with a note, the Grantee may elect to forgo such payment and convey the Shares to the Company for no additional cash consideration. In the event the Company fails to exercise its repurchase right within the applicable ninety (90) day period set forth in this Section 3, the Selling Restrictions then applicable to any Shares held by the Grantee pursuant to the exercise of the Option shall continue to lapse in accordance with the terms and conditions set forth above other than the requirement of Continuous Service.

The Company's repurchase right described in each of Sections 1-3 is referred to herein as the "Repurchase Right".

#### Definitions

1. For purposes of the terms and conditions related to the Repurchase Right and the lapse of the Selling Restrictions described above and notwithstanding anything in the Plan to the contrary, "Fair Market Value" means, on the date of determination, the fair market value of the Common Stock, as determined in good faith by the Administrator, in its sole and absolute discretion (taking into account all of the terms applicable to the Option, including the Selling Restrictions).

2. "Cause" shall mean a finding by the Administrator, with respect to the termination by the Company or a Related Entity of the Grantee's Continuous Service, that the Grantee (i) committed theft, dishonesty or falsification of any documents or records related to the Company or any of its Related Entities; (ii) improperly used or disclosed the Company's or any of its Related Entity's confidential or proprietary information; (iii) took any action which has a material detrimental effect on the reputation or business of the Company or any of its Related Entities; (iv) failed or was unable to perform any reasonable assigned duties, provided, however, that if such failure or inability is reasonably capable of being cured, the Grantee is provided with a reasonable opportunity to cure such failure or inability; (v) materially breached any employment or service agreement between the Grantee and the Company or any of its Related Entities or applicable policy of the Company or any of its Related Entities, which breach is not cured pursuant to the terms of such agreement or policy; or (vi) was convicted (including any plea of guilty or nolo contendere) of any criminal act that, in the determination of the Board, impairs the Grantee's ability to perform his or her duties with the Company or any of its Related Entities.

3. ["Good Reason" shall have the meaning ascribed to such term in the written employment or advisory agreement entered into by and between the Grantee and the Company effective as of [INSERT DATE]; provided, however, that no subsequent amendments to such agreement that affect the definition of Good Reason will be taken into account for purposes of this Option unless explicitly provided for in the governing documents for such amendment.]

IN WITNESS WHEREOF, the Company and the Grantee have executed this Notice and agree that the Option is to be governed by the terms and conditions of this Notice, the Plan, and the Option Agreement.

Restoration Hardware Holdings, Inc.,  
a Delaware corporation

By: \_\_\_\_\_  
Title: \_\_\_\_\_

THE GRANTEE ACKNOWLEDGES AND AGREES THAT THE SHARES SUBJECT TO THE OPTION SHALL VEST, IF AT ALL, ONLY DURING THE PERIOD OF THE GRANTEE'S CONTINUOUS SERVICE (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER). THE GRANTEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS NOTICE, THE OPTION AGREEMENT, OR THE PLAN SHALL CONFER UPON THE GRANTEE ANY RIGHT WITH RESPECT TO FUTURE AWARDS OR CONTINUATION OF THE GRANTEE'S CONTINUOUS SERVICE, NOR SHALL IT INTERFERE IN ANY WAY WITH THE GRANTEE'S RIGHT OR THE RIGHT OF THE COMPANY OR RELATED ENTITY TO WHICH THE GRANTEE PROVIDES SERVICES TO TERMINATE THE GRANTEE'S CONTINUOUS SERVICE, WITH OR WITHOUT CAUSE, AND WITH OR WITHOUT NOTICE. THE GRANTEE ACKNOWLEDGES THAT UNLESS THE GRANTEE HAS A WRITTEN EMPLOYMENT AGREEMENT WITH THE COMPANY TO THE CONTRARY, THE GRANTEE'S STATUS IS AT WILL.

The Grantee acknowledges receipt of a copy of the Plan and the Option Agreement, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts the Option subject to all of the terms and provisions hereof and thereof. The Grantee has reviewed this Notice, the Plan, and the Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Notice, and fully understands all provisions of this Notice, the Plan and the Option Agreement. The Grantee hereby agrees that all questions of interpretation and administration relating to this Notice, the Plan and the Option Agreement shall be resolved by the Administrator in accordance with Section 15 of the Option Agreement. The Grantee further agrees to the venue selection and waiver of a jury trial in accordance with Section 16 of the Option Agreement. The Grantee further agrees to notify the Company upon any change in the residence address indicated in this Notice.

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_  
Grantee



RESTORATION HARDWARE HOLDINGS, INC. 2012 STOCK INCENTIVE PLAN

STOCK OPTION AWARD AGREEMENT

1. Grant of Option. Restoration Hardware Holdings, Inc., a Delaware corporation (the "Company"), hereby grants to the Grantee (the "Grantee") named in the Notice of Stock Option Award (the "Notice"), an option (the "Option") to purchase the Total Number of Shares of Common Stock subject to the Option (the "Shares") set forth in the Notice, at the Exercise Price per Share set forth in the Notice (the "Exercise Price") subject to the terms and provisions of the Notice, this Stock Option Award Agreement (the "Option Agreement") and the Company's 2012 Stock Incentive Plan, as amended from time to time (the "Plan"), which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

If designated in the Notice as an Incentive Stock Option, the Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. However, notwithstanding such designation, the Option will qualify as an Incentive Stock Option under the Code only to the extent the \$100,000 dollar limitation of Section 422(d) of the Code is not exceeded. The \$100,000 limitation of Section 422(d) of the Code is calculated based on the aggregate Fair Market Value of the Shares subject to options designated as Incentive Stock Options which become exercisable for the first time by the Grantee during any calendar year (under all plans of the Company or any Parent or Subsidiary of the Company). For purposes of this calculation, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the shares subject to such options shall be determined as of the grant date of the relevant option.

2. Exercise of Option.

(a) Right to Exercise. The Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice and with the applicable provisions of the Plan and this Option Agreement. The Option shall be subject to the provisions of Section 13 of the Plan relating to the exercisability or termination of the Option in the event of a Corporate Transaction or Change in Control. The Grantee shall be subject to reasonable limitations on the number of requested exercises during any monthly or weekly period as determined by the Administrator. In no event shall the Company issue fractional Shares.

(b) Method of Exercise. The Option shall be exercisable by delivery of an exercise notice (a form of which is attached as Exhibit A) or by such other procedure as specified from time to time by the Administrator which shall state the election to exercise the Option, the whole number of Shares in respect of which the Option is being exercised, and such other provisions as may be required by the Administrator. The exercise notice shall be delivered in person, by certified mail, or by such other method (including electronic transmission) as determined from time to time by the Administrator to the Company accompanied by payment of the Exercise Price and all applicable income and employment taxes required to be withheld. The Option shall be deemed to be exercised upon receipt by the Company of such notice accompanied by the Exercise Price and all applicable withholding taxes, which, to the extent selected, shall be deemed to be satisfied by use of the broker-dealer sale and remittance procedure to pay the Exercise Price provided in Section 3(d) below to the extent such procedure is available to the Grantee at the time of exercise and such an exercise would not violate any Applicable Law.

(c) Taxes. No Shares will be delivered to the Grantee or other person pursuant to the exercise of the Option until the Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of applicable income tax and employment tax withholding obligations, including, without limitation, such other tax obligations of the Grantee incident to the receipt of Shares. Upon exercise of the Option, the Company or the Grantee's employer may offset or withhold (from any amount owed by the Company or the Grantee's employer to the Grantee) or collect from the Grantee or other person an amount sufficient to satisfy such tax withholding obligations. Furthermore, in the event of any determination that the Company has failed to withhold a sum sufficient to pay all withholding taxes due in connection with the Option, the Grantee agrees to pay the Company the amount of such deficiency in cash within five (5) days after receiving a written demand from the Company to do so, whether or not the Grantee is an employee of the Company at that time.

(d) Section 16(b). Notwithstanding any provision of this Option Agreement to the contrary, other than termination of the Grantee's Continuous Service for Cause, if a sale within the applicable time periods set forth in Sections 5, 6 or 7 herein of Shares acquired upon the exercise of the Option would subject the Grantee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such Shares by the Grantee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Grantee's termination of Continuous Service, or (iii) the date on which the Option expires.

3. Method of Payment. Payment of the Exercise Price shall be made by any of the following, or a combination thereof, at the election of the Grantee; provided, however, that such exercise method does not then violate any Applicable Law and, provided further, that the portion of the Exercise Price equal to the par value of the Shares must be paid in cash or other legal consideration permitted by the Delaware General Corporation Law:

(a) cash;

(b) check;

(c) surrender of Shares held for the requisite period, if any, necessary to avoid a charge to the Company's earnings for financial reporting purposes, or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require which have a Fair Market Value on the date of surrender or attestation equal to the aggregate Exercise Price of the Shares as to which the Option is being exercised;

(d) if permitted by the Administrator and only with respect to that portion of the Option no longer subject to Selling Restrictions, payment through a "net exercise" such that, without the payment of any funds, the Grantee may exercise the Option and receive the net number of Shares equal to (i) the number of Shares as to which the Option is being exercised, multiplied by (ii) a fraction, the numerator of which is the Fair Market Value per Share (on such date as is determined by the Administrator) less the Exercise Price per Share, and the denominator of which is such Fair Market Value per Share (the number of net Shares to be received shall be rounded down to the nearest whole number of Shares); or]

(e) if permitted by the Administrator and only with respect to that portion of the Option no longer subject to Selling Restrictions, payment through a broker-dealer sale and remittance procedure pursuant to which the Grantee (i) shall provide written instructions to a Company-designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (ii) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.]

4. Restrictions on Exercise. The Option may not be exercised if the issuance of the Shares subject to the Option upon such exercise would constitute a violation of any Applicable Laws. If the exercise of the Option within the applicable time periods set forth in Section 5, 6 and 7 of this Option Agreement is prevented by the provisions of this Section 4, the Option shall remain exercisable until one (1) month after the date the Grantee is notified by the Company that the Option is exercisable, but in any event no later than the Expiration Date set forth in the Notice.

#### 5. Termination or Change of Continuous Service.

(a) In the event of the Grantee's change in status from Employee, Director or Consultant to any other status of Employee, Director or Consultant, the Option shall remain in effect and the Option shall continue to vest in accordance with the Vesting Schedule set forth in the Notice; provided, however, that with respect to any Incentive Stock Option that shall remain in effect after a change in status from Employee to Director or Consultant, such Incentive Stock Option shall cease to be treated as an Incentive Stock Option and shall be treated as a Non-Qualified Stock Option on the day three (3) months and one (1) day following such change in status.

(b) In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity for Cause (other than pursuant to clause (iv) or (v) of the definition of Cause), the Grantee's right to exercise the Option shall terminate on the date of the Grantee's termination (the "Termination Date").

(c) In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity for Cause pursuant to clause (iv) or (v) of the definition of Cause or terminated by the Grantee [without Good Reason] [for any reason], the Grantee may, but only within one hundred twenty (120) days commencing on the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date.

(d) In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity without Cause [or terminated by the Grantee for Good Reason], the Grantee may, but only within one hundred eighty (180) days commencing on the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date.

(e) The post-termination exercise periods described in this Section 5 shall commence on the Termination Date. In no event shall the Option be exercised later than the Expiration Date set forth in the Notice.

(f) If the Grantee does not exercise the Option within the applicable post-termination exercise period, the Option shall terminate.

6. Disability of Grantee. In the event the Grantee's Continuous Service terminates as a result of his or her Disability, the Grantee may, but only within one hundred eighty (180) days commencing on the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date. If the Grantee does not exercise the Option within the time specified herein, the Option shall terminate.

7. Death of Grantee. In the event of the termination of the Grantee's Continuous Service as a result of his or her death, the person who acquired the right to exercise the Option pursuant to Section 8 may exercise the portion of the Option that was vested at the date of termination within one hundred eighty (180) days commencing on the date of death (but in no event later than the Expiration Date). If the Option is not exercised within the time specified herein, the Option shall terminate.

8. Transferability of Option. The Option, if an Incentive Stock Option, may not be transferred in any manner other than by will or by the laws of descent and distribution and may be exercised during the lifetime of the Grantee only by the Grantee. The Option, if a Non-Qualified Stock Option, may not be transferred in any manner other than by will or by the laws of descent and distribution, provided, however, that a Non-Qualified Stock Option may be transferred during the lifetime of the Grantee to the extent and in the manner authorized by the Administrator. Notwithstanding the foregoing, the Grantee may designate one or more beneficiaries of the Grantee's Incentive Stock Option or Non-Qualified Stock Option in the event of the Grantee's death on a beneficiary designation form provided by the Administrator. Following the death of the Grantee, the Option, to the extent provided in Section 7, may be exercised (a) by the person or persons designated under the deceased Grantee's beneficiary designation or (b) in the absence of an effectively designated beneficiary, by the Grantee's legal representative or by any person empowered to do so under the deceased Grantee's will or under the then applicable laws of descent and distribution. The terms of the Option shall be binding upon the executors, administrators, heirs, successors and transferees of the Grantee.

9. Additional Terms Related to Selling Restrictions.

(a) Transfer upon Death. Notwithstanding the Selling Restrictions set forth in the Notice, the Shares may be transferred by will or by the laws of descent and distribution, provided, that the Selling Restrictions shall continue to apply to and be binding upon the executors, administrators, heirs, successors and transferees of the Holder.

(b) Legends. The Grantee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE RESTRICTED BY THE TERMS OF THAT CERTAIN OPTION AGREEMENT BETWEEN THE COMPANY AND THE NAMED STOCKHOLDER. THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH SUCH AGREEMENT, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(c) Stop Transfer Notices. In order to ensure compliance with the Selling Restrictions, the Company may issue appropriate “stop transfer” instructions to its transfer agent, if any, and, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(d) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Option Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

(e) Additional Shares or Substituted Securities. In the event of any transaction described in Sections 10 or 11 of the Plan, any new, substituted or additional securities or other property which is by reason of any such transaction distributed with respect to the Shares shall be immediately subject to the Selling Restrictions, but only to the extent the Shares are at the time covered by such Selling Restrictions.

(f) Escrow of Stock. For purposes of facilitating the enforcement of the provisions of the Selling Restrictions, the Grantee agrees, immediately upon receipt of the certificate(s) for the Shares, to deliver such certificate(s), together with an Assignment Separate from Certificate in the form attached hereto as Exhibit B, executed in blank by the Grantee with respect to each such stock certificate, to the Secretary or Assistant Secretary of the Company, or their designee, to hold in escrow for so long as such Shares are subject to the Selling Restrictions, with the authority to take all such actions and to effectuate all such transfers and/or releases as may be necessary or appropriate to accomplish the objectives of this Option Agreement in accordance with the terms hereof. The Grantee hereby acknowledges that the appointment of the Secretary or Assistant Secretary of the Company (or their designee) as the escrow holder hereunder with the stated authorities is a material inducement to the Company to make this Option Agreement and that such appointment is coupled with an interest and is accordingly irrevocable. The Grantee agrees that the Shares may be held electronically in a book entry system maintained by the Company’s transfer agent or other third-party and that all the terms and conditions of this Section 9(g) applicable to certificated Shares will apply with the same force and effect to such electronic method for holding the Shares. The Grantee agrees that such escrow holder shall not be liable to any party hereto (or to any other party) for any actions or omissions unless such escrow holder is grossly negligent relative thereto. The escrow holder may rely upon any letter, notice or other document executed by any signature purported to be genuine and may resign at any time. Subject to the provisions of any security agreement relating to Grantee’s purchase of the Shares, upon the expiration of the Selling Restrictions, the escrow holder will transmit to the Grantee the certificate evidencing the Shares with respect to which the Selling Restrictions have lapsed.

10. Term of Option. The Option must be exercised no later than the Expiration Date set forth in the Notice or such earlier date as otherwise provided herein. After the Expiration Date or such earlier date, the Option shall be of no further force or effect and may not be exercised.

#### 11. Additional Terms Related to the Company’s Repurchase Right.

(a) Assignment. Whenever the Company shall have the right to purchase Shares under this Repurchase Right, the Company may designate and assign one or more employees, officers, directors or shareholders of the Company or other persons or organizations, to exercise all or a part of the Company’s Repurchase Right.

(b) Additional Shares or Substituted Securities. In the event of any transaction described in Sections 10 or 11 of the Plan, any new, substituted or additional securities or other property which is by reason of any such transaction distributed with respect to the Shares shall be immediately subject to the Repurchase Right, but only to the extent the Shares are at the time covered by such right.

12. Tax Consequences. The Grantee may incur tax liability as a result of the Grantee's purchase or disposition of the Shares. THE GRANTEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THE OPTION OR DISPOSING OF THE SHARES.

13. Entire Agreement: Governing Law. The Notice, the Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. Nothing in the Notice, the Plan and this Option Agreement (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties. The Notice, the Plan and this Option Agreement are to be construed in accordance with and governed by the internal laws of the State of Delaware without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Delaware to the rights and duties of the parties. Should any provision of the Notice, the Plan or this Option Agreement be determined to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

14. Construction. The captions used in the Notice and this Option Agreement are inserted for convenience and shall not be deemed a part of the Option for construction or interpretation. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

15. Administration and Interpretation. Any question or dispute regarding the administration or interpretation of the Notice, the Plan or this Option Agreement shall be submitted by the Grantee or by the Company to the Administrator. The resolution of such question or dispute by the Administrator shall be final and binding on all persons.

16. Venue and Waiver of Jury Trial. The Company, the Grantee, and the Grantee's assignees pursuant to Section 8 (the "parties") agree that any suit, action, or proceeding arising out of or relating to the Notice, the Plan or this Option Agreement shall be brought in the United States District Court for the Northern District of California (or should such court lack jurisdiction to hear such action, suit or proceeding, in a California state court in the County of San Francisco) and that the parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING. If any one or more provisions of this Section 16 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

17. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown in these instruments, or to such other address as such party may designate in writing from time to time to the other party.

**END OF AGREEMENT**

**EXHIBIT A**

**RESTORATION HARDWARE HOLDINGS, INC. 2012 STOCK INCENTIVE PLAN**

**EXERCISE NOTICE**

Restoration Hardware Holdings, Inc.  
15 Koch Road, Suite J  
Corte Madera, CA 94925  
Attention: Secretary

1. **Exercise of Option.** Effective as of today, \_\_\_\_\_, the undersigned (the "Grantee") hereby elects to exercise the Grantee's option to purchase \_\_\_\_\_ shares of the Common Stock (the "Shares") of \_\_\_\_\_, Inc. (the "Company") under and pursuant to the Company's 2012 Stock Incentive Plan, as amended from time to time (the "Plan") and the [ ] Incentive [ ] Non-Qualified Stock Option Award Agreement (the "Option Agreement") and Notice of Stock Option Award (the "Notice") dated \_\_\_\_\_, \_\_\_\_\_. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Exercise Notice.

2. **Representations of the Grantee.** The Grantee acknowledges that the Grantee has received, read and understood the Notice, the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

3. **Rights as Stockholder.** Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

4. **Delivery of Payment.** The Grantee herewith delivers to the Company the full Exercise Price for the Shares, which, to the extent selected, shall be deemed to be satisfied by use of the broker-dealer sale and remittance procedure to pay the Exercise Price provided in Section 3(e) of the Option Agreement.

5. **Tax Consultation.** The Grantee understands that the Grantee may suffer adverse tax consequences as a result of the Grantee's purchase or disposition of the Shares. The Grantee represents that the Grantee has consulted with any tax consultants the Grantee deems advisable in connection with the purchase or disposition of the Shares and that the Grantee is not relying on the Company for any tax advice.

6. **Taxes.** The Grantee agrees to satisfy all applicable foreign, federal, state and local income and employment tax withholding obligations and herewith delivers to the Company the full amount of such obligations or has made arrangements acceptable to the Company to satisfy such obligations. In the case of an Incentive Stock Option, the Grantee also agrees, as partial consideration for the designation of the Option as an Incentive Stock Option, to notify the Company in writing within thirty (30) days of any disposition of any shares acquired by exercise of the Option if such disposition occurs within two (2) years from the Date of Award or within one (1) year from the date the Shares were transferred to the Grantee.

7. **Successors and Assigns.** The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this agreement shall inure to the benefit of the successors and assigns of the Company. This Exercise Notice shall be binding upon the Grantee and his or her heirs, executors, administrators, successors and assigns.

8. **Construction.** The captions used in this Exercise Notice are inserted for convenience and shall not be deemed a part of this agreement for construction or interpretation. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

9. Administration and Interpretation. The Grantee hereby agrees that any question or dispute regarding the administration or interpretation of this Exercise Notice shall be submitted by the Grantee or by the Company to the Administrator. The resolution of such question or dispute by the Administrator shall be final and binding on all persons.

10. Governing Law; Severability. This Exercise Notice is to be construed in accordance with and governed by the internal laws of the State of Delaware without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Delaware to the rights and duties of the parties. Should any provision of this Exercise Notice be determined by a court of law to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

11. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown below beneath its signature, or to such other address as such party may designate in writing from time to time to the other party.

12. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this agreement.

13. Entire Agreement. The Notice, the Plan and the Option Agreement are incorporated herein by reference and together with this Exercise Notice constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. Nothing in the Notice, the Plan, the Option Agreement and this Exercise Notice (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties.

Submitted by:  
GRANTEE:

\_\_\_\_\_  
(Signature)

Address:  
\_\_\_\_\_  
\_\_\_\_\_

Accepted by:  
RESTORATION HARDWARE HOLDINGS, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Address:  
15 Koch Road, Suite J  
Corte Madera, CA 94925

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**EXHIBIT B**

**STOCK ASSIGNMENT SEPARATE FROM CERTIFICATE**

**[Please sign this document but do not date it. The date and information of the transferee will be completed if and when the shares are assigned.]**

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_, \_\_\_\_\_ (\_\_) shares of the Common Stock of Restoration Hardware Holdings, Inc., a Delaware corporation (the "Company"), standing in his name on the books of, represented by Certificate No. \_\_ herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company attorney to transfer the said stock in the books of the Company with full power of substitution.

DATED: \_\_\_\_\_



**RESTORATION HARDWARE HOLDINGS, INC. 2012 STOCK OPTION PLAN**

**NOTICE OF STOCK OPTION AWARD**

Grantee's Name and Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

You (the "Grantee") have been granted an option to purchase shares of Common Stock, subject to the terms and conditions of this Notice of Stock Option Award (the "Notice"), the Restoration Hardware Holdings, Inc. 2012 Stock Option Plan, as amended from time to time (the "Plan") and the Stock Option Award Agreement (the "Option Agreement") attached hereto, as follows. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Notice.

Award Number \_\_\_\_\_  
Date of Award \_\_\_\_\_  
Exercise Price per Share \$ \_\_\_\_\_  
Total Number of Shares Subject to the Option (the "Shares") \_\_\_\_\_  
Total Exercise Price \$ \_\_\_\_\_  
Type of Option: \_\_\_\_\_ Incentive Stock Option  
\_\_\_\_\_ Non-Qualified Stock Option  
Expiration Date: \_\_\_\_\_

Vesting Schedule:

Subject to the Grantee's Continuous Service and other limitations set forth in this Notice, the Plan and the Option Agreement, the Option may be exercised, in whole or in part, in accordance with the following schedule:

The Option shall be fully vested upon the Date of Award.

Selling Restrictions:

Notwithstanding anything herein to the contrary, neither the Grantee nor a transferee (either referred to herein as the "Holder") may transfer the Shares issued upon exercise of the Option (except by will or by the laws of descent and distribution) until twenty (20) years following the Registration Date (the "Selling Restrictions"). However, subject to the Grantee's Continuous Service, the Selling Restrictions shall lapse with respect to the number of Shares set forth in the table below on the corresponding date:

Number of Shares	Lapse Date
[ ] Shares	
[ ] Shares	
[ ] Shares	
[ ] Shares	

Repurchase Right

1. In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity for Cause pursuant to clause (iv) or (v) of the definition of Cause, the Company shall have the right, for a period of ninety (90) days commencing on the date of such termination, to elect to purchase from such Grantee any Shares that remain subject to the Selling Restrictions as of the date of such termination. The repurchase date shall be the trading day immediately following the 185<sup>th</sup> calendar day after the expiration of the Grantee's applicable post-termination exercise period set forth in Section 5, 6 or 7, and the repurchase price shall be the Fair Market Value of

the Shares as of the repurchase date. The purchase price payable by the Company under this Section 1 may be paid in lump sum in cash on the repurchase date or, in the Administrator's sole discretion, on a deferred basis by an unsecured promissory note providing for interest at a rate appropriate for the Company's credit risk as of the repurchase date, a term of up to nine years from the date of repurchase and such other terms and conditions as determined by the Administrator (including restrictions on assignment and transferability). In the event the Company elects to pay such purchase price with a note, the Grantee may elect to forgo such payment and convey the Shares to the Company for no additional cash consideration. In the event the Company fails to exercise its repurchase right within the applicable ninety (90) day period set forth in this Section 1, the Selling Restrictions then applicable to any Shares held by the Grantee pursuant to the exercise of the Option shall continue to lapse in accordance with the terms and conditions set forth above other than the requirement of Continuous Service.

2. In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity without Cause [or by the Grantee for Good Reason], or is terminated on account of the Grantee's death or Disability, the Company shall have the right, for a period of ninety (90) days commencing on the date of such termination, to elect to purchase from the Grantee any Shares that remain subject to the Selling Restrictions as of the date of termination. The repurchase date shall be the trading day immediately following the 185<sup>th</sup> calendar day after the expiration of the Grantee's applicable post-termination exercise period set forth in Section 5, 6 or 7, and the repurchase price shall be the Fair Market Value of the Shares as of the repurchase date. The purchase price payable by the Company under this Section 2 shall be paid in lump sum in cash on the repurchase date. In the event the Company fails to exercise its repurchase right within the applicable ninety (90) day period set forth in this Section 2, the Selling Restrictions then applicable to any Shares held by the Grantee pursuant to the exercise of the Option shall continue to lapse in accordance with the terms and conditions set forth above other than the requirement of Continuous Service.

3. In the event the Grantee's Continuous Service is terminated by the Grantee [without Good Reason] [for any reason], the Company shall have the right, for a period of ninety (90) days commencing on the date of such termination, to elect to purchase from such Grantee any Shares that remain subject to the Selling Restrictions as of the date of such termination. The repurchase date shall be the trading day immediately following the 185<sup>th</sup> calendar day after the expiration of the Grantee's applicable post-termination exercise period set forth in Section 5, 6 or 7, and the repurchase price shall be the Fair Market Value of the Shares as of the repurchase date. The purchase price payable by the Company under this Section 3 may be paid in lump sum in cash on the repurchase date or, in the Administrator's sole discretion, on a deferred basis by an unsecured promissory note providing for interest at a rate appropriate for the Company's credit risk as of the repurchase date. The term of any such promissory note shall be (1) up to nine years from the date of repurchase if such termination occurs prior to the first anniversary of the Registration Date, (2) up to seven years from the date of repurchase if such termination occurs after the first, but prior to the second anniversary of the Registration Date, (3) up to four years from the date of repurchase if such termination occurs after the second, but prior to the third anniversary of Registration Date and (4) up to one year from the date of repurchase if such termination occurs after the third anniversary of the Registration Date. The promissory note shall contain such other terms and conditions as determined by the Administrator (including restrictions on assignment and transferability). In the event the Company elects to pay such purchase price with a note, the Grantee may elect to forgo such payment and convey the Shares to the Company for no additional cash consideration. In the event the Company fails to exercise its repurchase right within the applicable ninety (90) day period set forth in this Section 3, the Selling Restrictions then applicable to any Shares held by the Grantee pursuant to the exercise of the Option shall continue to lapse in accordance with the terms and conditions set forth above other than the requirement of Continuous Service.

The Company's repurchase right described in each of Sections 1-3 is referred to herein as the "Repurchase Right".

#### Definitions

1. For purposes of the terms and conditions related to the Repurchase Right and the lapse of the Selling Restrictions described above and notwithstanding anything in the Plan to the contrary, "Fair Market Value" means, on the date of determination, the fair market value of the Common Stock, as determined in good faith by the Administrator, in its sole and absolute discretion (taking into account all of the terms applicable to the Option, including the Selling Restrictions).

2. "Cause" shall mean a finding by the Administrator, with respect to the termination by the Company or a Related Entity of the Grantee's Continuous Service, that the Grantee (i) committed theft, dishonesty or falsification of any documents or records related to the Company or any of its Related Entities; (ii) improperly used or disclosed the Company's or any of its Related Entity's confidential or proprietary information; (iii) took any action which has a material detrimental effect on the reputation or business of the Company or any of its Related Entities; (iv) failed or was unable to perform any reasonable assigned duties, provided, however, that if such failure or inability is reasonably capable of being cured, the Grantee is provided with a reasonable opportunity to cure such failure or inability; (v) materially breached any employment or service agreement between the Grantee and the Company or any of its Related Entities or applicable policy of the Company or any of its Related Entities, which breach is not cured pursuant to the terms of such agreement or policy; or (vi) was convicted (including any plea of guilty or nolo contendere) of any criminal act that, in the determination of the Board, impairs the Grantee's ability to perform his or her duties with the Company or any of its Related Entities.

3. ["Good Reason" shall have the meaning ascribed to such term in the written employment or advisory agreement entered into by and between the Grantee and the Company effective as of [INSERT DATE]; provided, however, that no subsequent amendments to such agreement that affect the definition of Good Reason will be taken into account for purposes of this Option unless explicitly provided for in the governing documents for such amendment.]

IN WITNESS WHEREOF, the Company and the Grantee have executed this Notice and agree that the Option is to be governed by the terms and conditions of this Notice, the Plan, and the Option Agreement.

Restoration Hardware Holdings, Inc.,  
a Delaware corporation

By: \_\_\_\_\_  
Title: \_\_\_\_\_

THE GRANTEE ACKNOWLEDGES AND AGREES THAT THE SHARES SUBJECT TO THE OPTION SHALL VEST, IF AT ALL, ONLY DURING THE PERIOD OF THE GRANTEE'S CONTINUOUS SERVICE (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER). THE GRANTEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS NOTICE, THE OPTION AGREEMENT, OR THE PLAN SHALL CONFER UPON THE GRANTEE ANY RIGHT WITH RESPECT TO FUTURE AWARDS OR CONTINUATION OF THE GRANTEE'S CONTINUOUS SERVICE, NOR SHALL IT INTERFERE IN ANY WAY WITH THE GRANTEE'S RIGHT OR THE RIGHT OF THE COMPANY OR RELATED ENTITY TO WHICH THE GRANTEE PROVIDES SERVICES TO TERMINATE THE GRANTEE'S CONTINUOUS SERVICE, WITH OR WITHOUT CAUSE, AND WITH OR WITHOUT NOTICE. THE GRANTEE ACKNOWLEDGES THAT UNLESS THE GRANTEE HAS A WRITTEN EMPLOYMENT AGREEMENT WITH THE COMPANY TO THE CONTRARY, THE GRANTEE'S STATUS IS AT WILL.

The Grantee acknowledges receipt of a copy of the Plan and the Option Agreement, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts the Option subject to all of the terms and provisions hereof and thereof. The Grantee has reviewed this Notice, the Plan, and the Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Notice, and fully understands all provisions of this Notice, the Plan and the Option Agreement. The Grantee hereby agrees that all questions of interpretation and administration relating to this Notice, the Plan and the Option Agreement shall be resolved by the Administrator in accordance with Section 15 of the Option Agreement. The Grantee further agrees to the venue selection and waiver of a jury trial in accordance with Section 16 of the Option Agreement. The Grantee further agrees to notify the Company upon any change in the residence address indicated in this Notice.

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_  
Grantee

RESTORATION HARDWARE HOLDINGS, INC. 2012 STOCK OPTION PLAN

STOCK OPTION AWARD AGREEMENT

1. Grant of Option. Restoration Hardware Holdings, Inc., a Delaware corporation (the "Company"), hereby grants to the Grantee (the "Grantee") named in the Notice of Stock Option Award (the "Notice"), an option (the "Option") to purchase the Total Number of Shares of Common Stock subject to the Option (the "Shares") set forth in the Notice, at the Exercise Price per Share set forth in the Notice (the "Exercise Price") subject to the terms and provisions of the Notice, this Stock Option Award Agreement (the "Option Agreement") and the Company's 2012 Stock Option Plan, as amended from time to time (the "Plan"), which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

If designated in the Notice as an Incentive Stock Option, the Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. However, notwithstanding such designation, the Option will qualify as an Incentive Stock Option under the Code only to the extent the \$100,000 dollar limitation of Section 422(d) of the Code is not exceeded. The \$100,000 limitation of Section 422(d) of the Code is calculated based on the aggregate Fair Market Value of the Shares subject to options designated as Incentive Stock Options which become exercisable for the first time by the Grantee during any calendar year (under all plans of the Company or any Parent or Subsidiary of the Company). For purposes of this calculation, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the shares subject to such options shall be determined as of the grant date of the relevant option.

2. Exercise of Option.

(a) Right to Exercise. The Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice and with the applicable provisions of the Plan and this Option Agreement. The Option shall be subject to the provisions of Section 13 of the Plan relating to the exercisability or termination of the Option in the event of a Corporate Transaction or Change in Control. The Grantee shall be subject to reasonable limitations on the number of requested exercises during any monthly or weekly period as determined by the Administrator. In no event shall the Company issue fractional Shares.

(b) Method of Exercise. The Option shall be exercisable by delivery of an exercise notice (a form of which is attached as Exhibit A) or by such other procedure as specified from time to time by the Administrator which shall state the election to exercise the Option, the whole number of Shares in respect of which the Option is being exercised, and such other provisions as may be required by the Administrator. The exercise notice shall be delivered in person, by certified mail, or by such other method (including electronic transmission) as determined from time to time by the Administrator to the Company accompanied by payment of the Exercise Price and all applicable income and employment taxes required to be withheld. The Option shall be deemed to be exercised upon receipt by the Company of such notice accompanied by the Exercise Price and all applicable withholding taxes, which, to the extent selected, shall be deemed to be satisfied by use of the broker-dealer sale and remittance procedure to pay the Exercise Price provided in Section 3(d) below to the extent such procedure is available to the Grantee at the time of exercise and such an exercise would not violate any Applicable Law.

(c) Taxes. No Shares will be delivered to the Grantee or other person pursuant to the exercise of the Option until the Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of applicable income tax and employment tax withholding obligations, including, without limitation, such other tax obligations of the Grantee incident to the receipt of Shares. Upon exercise of the Option, the Company or the Grantee's employer may offset or withhold (from any amount owed by the Company or the Grantee's employer to the Grantee) or collect from the Grantee or other person an amount sufficient to satisfy such tax withholding obligations. Furthermore, in the event of any determination that the Company has failed to withhold a sum sufficient to pay all withholding taxes due in connection with the Option, the Grantee agrees to pay the Company the amount of such deficiency in cash within five (5) days after receiving a written demand from the Company to do so, whether or not the Grantee is an employee of the Company at that time.

(d) Section 16(b). Notwithstanding any provision of this Option Agreement to the contrary, other than termination of the Grantee's Continuous Service for Cause, if a sale within the applicable time periods set forth in Sections 5, 6 or 7 herein of Shares acquired upon the exercise of the Option would subject the Grantee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such Shares by the Grantee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Grantee's termination of Continuous Service, or (iii) the date on which the Option expires.

3. Method of Payment. Payment of the Exercise Price shall be made by any of the following, or a combination thereof, at the election of the Grantee; provided, however, that such exercise method does not then violate any Applicable Law and, provided further, that the portion of the Exercise Price equal to the par value of the Shares must be paid in cash or other legal consideration permitted by the Delaware General Corporation Law:

(a) cash;

(b) check;

(c) surrender of Shares held for the requisite period, if any, necessary to avoid a charge to the Company's earnings for financial reporting purposes, or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require which have a Fair Market Value on the date of surrender or attestation equal to the aggregate Exercise Price of the Shares as to which the Option is being exercised;

(d) if permitted by the Administrator and only with respect to that portion of the Option no longer subject to Selling Restrictions, payment through a "net exercise" such that, without the payment of any funds, the Grantee may exercise the Option and receive the net number of Shares equal to (i) the number of Shares as to which the Option is being exercised, multiplied by (ii) a fraction, the numerator of which is the Fair Market Value per Share (on such date as is determined by the Administrator) less the Exercise Price per Share, and the denominator of which is such Fair Market Value per Share (the number of net Shares to be received shall be rounded down to the nearest whole number of Shares); or]

(e) if permitted by the Administrator and only with respect to that portion of the Option no longer subject to Selling Restrictions, payment through a broker-dealer sale and remittance procedure pursuant to which the Grantee (i) shall provide written instructions to a Company-designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (ii) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.]

4. Restrictions on Exercise. The Option may not be exercised if the issuance of the Shares subject to the Option upon such exercise would constitute a violation of any Applicable Laws. If the exercise of the Option within the applicable time periods set forth in Section 5, 6 and 7 of this Option Agreement is prevented by the provisions of this Section 4, the Option shall remain exercisable until one (1) month after the date the Grantee is notified by the Company that the Option is exercisable, but in any event no later than the Expiration Date set forth in the Notice.

#### 5. Termination or Change of Continuous Service.

(a) In the event of the Grantee's change in status from Employee, Director or Consultant to any other status of Employee, Director or Consultant, the Option shall remain in effect and the Option shall continue to vest in accordance with the Vesting Schedule set forth in the Notice; provided, however, that with respect to any Incentive Stock Option that shall remain in effect after a change in status from Employee to Director or Consultant, such Incentive Stock Option shall cease to be treated as an Incentive Stock Option and shall be treated as a Non-Qualified Stock Option on the day three (3) months and one (1) day following such change in status.

(b) In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity for Cause (other than pursuant to clause (iv) or (v) of the definition of Cause), the Grantee's right to exercise the Option shall terminate on the date of the Grantee's termination (the "Termination Date").

(c) In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity for Cause pursuant to clause (iv) or (v) of the definition of Cause or terminated by the Grantee [without Good Reason] [for any reason], the Grantee may, but only within one hundred twenty (120) days commencing on the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date.

(d) In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity without Cause [or terminated by the Grantee for Good Reason], the Grantee may, but only within one hundred eighty (180) days commencing on the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date.

(e) The post-termination exercise periods described in this Section 5 shall commence on the Termination Date. In no event shall the Option be exercised later than the Expiration Date set forth in the Notice.

(f) If the Grantee does not exercise the Option within the applicable post-termination exercise period, the Option shall terminate.

6. Disability of Grantee. In the event the Grantee's Continuous Service terminates as a result of his or her Disability, the Grantee may, but only within one hundred eighty (180) days commencing on the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date. If the Grantee does not exercise the Option within the time specified herein, the Option shall terminate.

7. Death of Grantee. In the event of the termination of the Grantee's Continuous Service as a result of his or her death, the person who acquired the right to exercise the Option pursuant to Section 8 may exercise the portion of the Option that was vested at the date of termination within one hundred eighty (180) days commencing on the date of death (but in no event later than the Expiration Date). If the Option is not exercised within the time specified herein, the Option shall terminate.

8. Transferability of Option. The Option, if an Incentive Stock Option, may not be transferred in any manner other than by will or by the laws of descent and distribution and may be exercised during the lifetime of the Grantee only by the Grantee. The Option, if a Non-Qualified Stock Option, may not be transferred in any manner other than by will or by the laws of descent and distribution, provided, however, that a Non-Qualified Stock Option may be transferred during the lifetime of the Grantee to the extent and in the manner authorized by the Administrator. Notwithstanding the foregoing, the Grantee may designate one or more beneficiaries of the Grantee's Incentive Stock Option or Non-Qualified Stock Option in the event of the Grantee's death on a beneficiary designation form provided by the Administrator. Following the death of the Grantee, the Option, to the extent provided in Section 7, may be exercised (a) by the person or persons designated under the deceased Grantee's beneficiary designation or (b) in the absence of an effectively designated beneficiary, by the Grantee's legal representative or by any person empowered to do so under the deceased Grantee's will or under the then applicable laws of descent and distribution. The terms of the Option shall be binding upon the executors, administrators, heirs, successors and transferees of the Grantee.

9. Additional Terms Related to Selling Restrictions.

(a) Transfer upon Death. Notwithstanding the Selling Restrictions set forth in the Notice, the Shares may be transferred by will or by the laws of descent and distribution, provided, that the Selling Restrictions shall continue to apply to and be binding upon the executors, administrators, heirs, successors and transferees of the Holder.

(b) Legends. The Grantee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE RESTRICTED BY THE TERMS OF THAT CERTAIN OPTION AGREEMENT BETWEEN THE COMPANY AND THE NAMED STOCKHOLDER. THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH SUCH AGREEMENT, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(c) Stop Transfer Notices. In order to ensure compliance with the Selling Restrictions, the Company may issue appropriate “stop transfer” instructions to its transfer agent, if any, and, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(d) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Option Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

(e) Additional Shares or Substituted Securities. In the event of any transaction described in Sections 10 or 11 of the Plan, any new, substituted or additional securities or other property which is by reason of any such transaction distributed with respect to the Shares shall be immediately subject to the Selling Restrictions, but only to the extent the Shares are at the time covered by such Selling Restrictions.

(f) Escrow of Stock. For purposes of facilitating the enforcement of the provisions of the Selling Restrictions, the Grantee agrees, immediately upon receipt of the certificate(s) for the Shares, to deliver such certificate(s), together with an Assignment Separate from Certificate in the form attached hereto as Exhibit B, executed in blank by the Grantee with respect to each such stock certificate, to the Secretary or Assistant Secretary of the Company, or their designee, to hold in escrow for so long as such Shares are subject to the Selling Restrictions, with the authority to take all such actions and to effectuate all such transfers and/or releases as may be necessary or appropriate to accomplish the objectives of this Option Agreement in accordance with the terms hereof. The Grantee hereby acknowledges that the appointment of the Secretary or Assistant Secretary of the Company (or their designee) as the escrow holder hereunder with the stated authorities is a material inducement to the Company to make this Option Agreement and that such appointment is coupled with an interest and is accordingly irrevocable. The Grantee agrees that the Shares may be held electronically in a book entry system maintained by the Company’s transfer agent or other third-party and that all the terms and conditions of this Section 9(g) applicable to certificated Shares will apply with the same force and effect to such electronic method for holding the Shares. The Grantee agrees that such escrow holder shall not be liable to any party hereto (or to any other party) for any actions or omissions unless such escrow holder is grossly negligent relative thereto. The escrow holder may rely upon any letter, notice or other document executed by any signature purported to be genuine and may resign at any time. Subject to the provisions of any security agreement relating to Grantee’s purchase of the Shares, upon the expiration of the Selling Restrictions, the escrow holder will transmit to the Grantee the certificate evidencing the Shares with respect to which the Selling Restrictions have lapsed.

10. Term of Option. The Option must be exercised no later than the Expiration Date set forth in the Notice or such earlier date as otherwise provided herein. After the Expiration Date or such earlier date, the Option shall be of no further force or effect and may not be exercised.

11. Additional Terms Related to the Company’s Repurchase Right.

(a) Assignment. Whenever the Company shall have the right to purchase Shares under this Repurchase Right, the Company may designate and assign one or more employees, officers, directors or shareholders of the Company or other persons or organizations, to exercise all or a part of the Company’s Repurchase Right.

(b) Additional Shares or Substituted Securities. In the event of any transaction described in Sections 10 or 11 of the Plan, any new, substituted or additional securities or other property which is by reason of any such transaction distributed with respect to the Shares shall be immediately subject to the Repurchase Right, but only to the extent the Shares are at the time covered by such right.

12. Tax Consequences. The Grantee may incur tax liability as a result of the Grantee's purchase or disposition of the Shares. THE GRANTEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THE OPTION OR DISPOSING OF THE SHARES.

13. Entire Agreement: Governing Law. The Notice, the Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. Nothing in the Notice, the Plan and this Option Agreement (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties. The Notice, the Plan and this Option Agreement are to be construed in accordance with and governed by the internal laws of the State of Delaware without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Delaware to the rights and duties of the parties. Should any provision of the Notice, the Plan or this Option Agreement be determined to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

14. Construction. The captions used in the Notice and this Option Agreement are inserted for convenience and shall not be deemed a part of the Option for construction or interpretation. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

15. Administration and Interpretation. Any question or dispute regarding the administration or interpretation of the Notice, the Plan or this Option Agreement shall be submitted by the Grantee or by the Company to the Administrator. The resolution of such question or dispute by the Administrator shall be final and binding on all persons.

16. Venue and Waiver of Jury Trial. The Company, the Grantee, and the Grantee's assignees pursuant to Section 8 (the "parties") agree that any suit, action, or proceeding arising out of or relating to the Notice, the Plan or this Option Agreement shall be brought in the United States District Court for the Northern District of California (or should such court lack jurisdiction to hear such action, suit or proceeding, in a California state court in the County of San Francisco) and that the parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING. If any one or more provisions of this Section 16 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

17. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown in these instruments, or to such other address as such party may designate in writing from time to time to the other party.

**END OF AGREEMENT**



**EXHIBIT A**

**RESTORATION HARDWARE HOLDINGS, INC. 2012 STOCK OPTION PLAN**

**EXERCISE NOTICE**

Restoration Hardware Holdings, Inc.  
15 Koch Road, Suite J  
Corte Madera, CA 94925  
Attention: Secretary

1. **Exercise of Option.** Effective as of today, \_\_\_\_\_, \_\_\_\_\_ the undersigned (the "Grantee") hereby elects to exercise the Grantee's option to purchase \_\_\_\_\_ shares of the Common Stock (the "Shares") of \_\_\_\_\_, Inc. (the "Company") under and pursuant to the Company's 2012 Stock Option Plan, as amended from time to time (the "Plan") and the [ ] Incentive [ ] Non-Qualified Stock Option Award Agreement (the "Option Agreement") and Notice of Stock Option Award (the "Notice") dated \_\_\_\_\_, \_\_\_\_\_. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Exercise Notice.

2. **Representations of the Grantee.** The Grantee acknowledges that the Grantee has received, read and understood the Notice, the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

3. **Rights as Stockholder.** Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

4. **Delivery of Payment.** The Grantee herewith delivers to the Company the full Exercise Price for the Shares, which, to the extent selected, shall be deemed to be satisfied by use of the broker-dealer sale and remittance procedure to pay the Exercise Price provided in Section 3(e) of the Option Agreement.

5. **Tax Consultation.** The Grantee understands that the Grantee may suffer adverse tax consequences as a result of the Grantee's purchase or disposition of the Shares. The Grantee represents that the Grantee has consulted with any tax consultants the Grantee deems advisable in connection with the purchase or disposition of the Shares and that the Grantee is not relying on the Company for any tax advice.

6. **Taxes.** The Grantee agrees to satisfy all applicable foreign, federal, state and local income and employment tax withholding obligations and herewith delivers to the Company the full amount of such obligations or has made arrangements acceptable to the Company to satisfy such obligations. In the case of an Incentive Stock Option, the Grantee also agrees, as partial consideration for the designation of the Option as an Incentive Stock Option, to notify the Company in writing within thirty (30) days of any disposition of any shares acquired by exercise of the Option if such disposition occurs within two (2) years from the Date of Award or within one (1) year from the date the Shares were transferred to the Grantee.

7. **Successors and Assigns.** The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this agreement shall inure to the benefit of the successors and assigns of the Company. This Exercise Notice shall be binding upon the Grantee and his or her heirs, executors, administrators, successors and assigns.

8. **Construction.** The captions used in this Exercise Notice are inserted for convenience and shall not be deemed a part of this agreement for construction or interpretation. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

9. Administration and Interpretation. The Grantee hereby agrees that any question or dispute regarding the administration or interpretation of this Exercise Notice shall be submitted by the Grantee or by the Company to the Administrator. The resolution of such question or dispute by the Administrator shall be final and binding on all persons.

10. Governing Law; Severability. This Exercise Notice is to be construed in accordance with and governed by the internal laws of the State of Delaware without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Delaware to the rights and duties of the parties. Should any provision of this Exercise Notice be determined by a court of law to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

11. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown below beneath its signature, or to such other address as such party may designate in writing from time to time to the other party.

12. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this agreement.

13. Entire Agreement. The Notice, the Plan and the Option Agreement are incorporated herein by reference and together with this Exercise Notice constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. Nothing in the Notice, the Plan, the Option Agreement and this Exercise Notice (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties.

Submitted by:  
GRANTEE:

\_\_\_\_\_  
(Signature)

Address:

\_\_\_\_\_

\_\_\_\_\_

Accepted by:  
RESTORATION HARDWARE HOLDINGS, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Address:  
15 Koch Road, Suite J  
Corte Madera, CA 94925

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**EXHIBIT B**

**STOCK ASSIGNMENT SEPARATE FROM CERTIFICATE**

**[Please sign this document but do not date it. The date and information of the transferee will be completed if and when the shares are assigned.]**

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_, ( \_\_\_\_\_ ) shares of the Common Stock of Restoration Hardware Holdings, Inc., a Delaware corporation (the "Company"), standing in his name on the books of, represented by Certificate No. \_\_\_\_\_ herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company attorney to transfer the said stock in the books of the Company with full power of substitution.

DATED: \_\_\_\_\_

**RESTORATION HARDWARE HOLDINGS, INC. 2012 STOCK OPTION PLAN**

**NOTICE OF STOCK OPTION AWARD**

Grantee's Name and Address:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

You (the "Grantee") have been granted an option to purchase shares of Common Stock, subject to the terms and conditions of this Notice of Stock Option Award (the "Notice"), the Restoration Hardware Holdings, Inc. 2012 Stock Option Plan, as amended from time to time (the "Plan") and the Stock Option Award Agreement (the "Option Agreement") attached hereto, as follows. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Notice.

Award Number		_____
Date of Award		_____
Exercise Price per Share	\$	_____
Total Number of Shares Subject to the Option (the "Shares")		_____
Total Exercise Price	\$	_____
Type of Option:		_____
	_____	Incentive Stock Option
	_____	Non-Qualified Stock Option
Expiration Date:		_____

Vesting Schedule:

Subject to the Grantee's Continuous Service and other limitations set forth in this Notice, the Plan and the Option Agreement, the Option may be exercised, in whole or in part, in accordance with the following schedule:

The Option shall be fully vested upon the Date of Award.

Selling Restrictions:

Notwithstanding anything herein to the contrary, neither the Grantee nor a transferee (either referred to herein as the "Holder") may transfer the Shares issued upon exercise of the Option (except by will or by the laws of descent and distribution) until twenty (20) years following the Registration Date (the "Selling Restrictions"). However, subject to the Grantee's Continuous Service, the Selling Restrictions shall lapse with respect to the number of Shares set forth in the table below on the date on which the Ten Day Average Price has reached and remained for ten (10) consecutive trading days at the corresponding Lapse Price set forth below:

Number of Shares	Lapse Price
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share
[ ] Shares	[\$ ] per share

For purposes of the Notice and Option Agreement, "Ten Day Average Price" shall mean, as of any date, the average Fair Market Value of the Common Stock for the last ten (10) consecutive trading days, as determined after market close on the tenth (10th) such consecutive trading day.

The Lapse Prices shall be subject to adjustment for changes in capitalization as provided in Section 10 of the Plan. Notwithstanding anything herein to the contrary, in the event of a Corporate Transaction, the Selling Restrictions shall lapse immediately prior to the specified effective date of such Corporate Transaction with respect to the total number of Shares set forth in the table above that corresponds to the highest Lapse Price (and each lower Lapse Price) set forth above that (a) has not been achieved in accordance with the terms and conditions hereof prior to the Corporate Transaction and (b) is equal to or less than the value of the per share consideration payable to holders of Common Stock in the Corporate Transaction with respect to their shares of Common Stock, as determined by the Company in accordance with the terms and conditions of the applicable definitive agreement pursuant to which the Corporate Transaction will be consummated.

For purposes of clarity, the Selling Restrictions will lapse only once as to a particular installment attributable to attaining (and remaining for ten (10) consecutive trading days at) a Ten Day Average Price equal to the Lapse Price and there shall be no requirement that the Fair Market Value remain above the Lapse Price after such date. In addition, each Lapse Price includes each lower Lapse Price, if any, so that if the specific Ten Day Average Price attained and maintained for such ten (10) consecutive trading day period exceeds other Lapse Prices for installments that have not yet lapsed, the Selling Restrictions shall lapse with respect to all installments attributable to the highest Lapse Price maintained and all lower Lapse Prices. For example, once the Selling Restrictions lapse with respect to [ ] Shares due to the Ten Day Average Price equaling or exceeding \$[ ] for ten (10) consecutive trading days, the Selling Restrictions will not lapse with respect to another [ ] Shares for any other ten (10) consecutive trading day period during which the Ten Day Average Price equals or exceeds \$[ ]. However, if the Ten Day Average Price equals or exceeds \$[ ] for ten (10) consecutive trading days and the Selling Restrictions have not previously lapsed with respect to the installment attributable to the lower Lapse Price of \$[ ], the Selling Restrictions will lapse as to a total of [ ] Shares (which is the sum of the installments attributable to the Lapse Prices of \$[ ] and \$[ ]).

**Repurchase Right**

1. In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity for Cause pursuant to clauses (B) or (E) of the definition of Cause, the Company shall have the right, for a period of ninety (90) days commencing on the date of such termination, to elect to purchase from such Grantee any Shares that remain subject to the Selling Restrictions as of the date of such termination. The repurchase date shall be the trading day immediately following the 185<sup>th</sup> calendar day after the expiration of the Grantee's applicable post-termination exercise period set forth in Section 5, 6 or 7, and the repurchase price shall be the Fair Market Value of the Shares as of the repurchase date. The purchase price payable by the Company under this Section 1 may be paid in lump sum in cash on the repurchase date or, in the Administrator's sole discretion, on a deferred basis by an unsecured promissory note providing for interest at a rate appropriate for the Company's credit risk as of the repurchase date, a term of up to nine years from the date of repurchase and such other terms and conditions as determined by the Administrator (including restrictions on assignment and transferability). In the event the

Company fails to exercise its repurchase right within the applicable ninety (90) day period set forth in this Section 1, the Selling Restrictions then applicable to any Shares held by the Grantee pursuant to the exercise of the Option shall continue to lapse in accordance with the terms and conditions set forth above other than the requirement of Continuous Service.

2. In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity without Cause or by the Grantee for Good Reason, or is terminated on account of the Grantee's death or Disability, the Company shall have the right, for a period of ninety (90) days commencing on the date that is two (2) years following the date of such termination, to elect to purchase from the Grantee any Shares that remain subject to the Selling Restrictions as of the date that is two (2) years following the date of termination. The repurchase date shall be the trading day immediately following the 185<sup>th</sup> calendar day after the expiration of the Grantee's applicable post-termination exercise period set forth in Section 5, 6 or 7, and the repurchase price shall be the Fair Market Value of the Shares as of the repurchase date. The purchase price payable by the Company under this Section 2 shall be paid in lump sum in cash on the repurchase date. In the event the Company fails to exercise its repurchase right within the applicable ninety (90) day period set forth in this Section 2, the Selling Restrictions then applicable to any Shares held by the Grantee pursuant to the exercise of the Option shall continue to lapse in accordance with the terms and conditions set forth above other than the requirement of Continuous Service.

3. In the event the Grantee's Continuous Service is terminated by the Grantee without Good Reason, the Company shall have the right, for a period of ninety (90) days commencing on the date of such termination, to elect to purchase from such Grantee any Shares that remain subject to the Selling Restrictions as of the date of such termination. The repurchase date shall be the trading day immediately following the 185<sup>th</sup> calendar day after the expiration of the Grantee's applicable post-termination exercise period set forth in Section 5, 6 or 7, and the repurchase price shall be the Fair Market Value of the Shares as of the repurchase date. The purchase price payable by the Company under this Section 3 may be paid in lump sum in cash on the repurchase date or, in the Administrator's sole discretion, on a deferred basis by an unsecured promissory note providing for interest at a rate appropriate for the Company's credit risk as of the repurchase date. The term of any such promissory note shall be (1) up to nine years from the date of repurchase if such termination occurs prior to the first anniversary of the Registration Date, (2) up to seven years from the date of repurchase if such termination occurs after the first, but prior to the second anniversary of the Registration Date, (3) up to four years from the date of repurchase if such termination occurs after the second, but prior to the third anniversary of Registration Date and (4) up to one year from the date of repurchase if such termination occurs after the third anniversary of the Registration Date. The promissory note shall contain such other terms and conditions as determined by the Administrator (including restrictions on assignment and transferability). In the event the Company fails to exercise its repurchase right within the applicable ninety (90) day period set forth in this Section 3, the Selling Restrictions then applicable to any Shares held by the Grantee pursuant to the exercise of the Option shall continue to lapse in accordance with the terms and conditions set forth above other than the requirement of Continuous Service.

The Company's repurchase right described in each of Sections 1-3 is referred to herein as the "Repurchase Right".

#### Definitions

1. For purposes of the terms and conditions related to the Repurchase Right and the lapse of the Selling Restrictions described above and notwithstanding anything in the Plan to the contrary, "Fair Market Value" means, on the date of determination, the fair market value of the Common Stock, as reasonably determined in good faith by the Administrator, in its sole and absolute discretion (taking into account all of the terms applicable to the Option, including the Selling Restrictions).

2. "Cause" shall have the meaning ascribed to such term in the Grantee's [Employment Agreement] [Advisory Agreement] entered into by and between the Grantee and the Company effective as of [INSERT DATE]; provided, however, that no subsequent amendments to such agreement that affect the definition of Cause will be taken into account for purposes of this Option unless explicitly provided for in the governing documents for such amendment.

3. "Good Reason" shall have the meaning ascribed to such term in the Grantee's [Employment Agreement] [Advisory Agreement] entered into by and between the Grantee and the Company effective as of [INSERT DATE]; provided, however, that no subsequent amendments to such agreement that affect the definition of Good Reason will be taken into account for purposes of this Option unless explicitly provided for in the governing documents for such amendment.

IN WITNESS WHEREOF, the Company and the Grantee have executed this Notice and agree that the Option is to be governed by the terms and conditions of this Notice, the Plan, and the Option Agreement.

Restoration Hardware Holdings, Inc.,  
a Delaware corporation

By: \_\_\_\_\_  
Title: \_\_\_\_\_

THE GRANTEE ACKNOWLEDGES AND AGREES THAT THE SHARES SUBJECT TO THE OPTION SHALL VEST, IF AT ALL, ONLY DURING THE PERIOD OF THE GRANTEE'S CONTINUOUS SERVICE (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THE OPTION OR ACQUIRING SHARES HEREUNDER). THE GRANTEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS NOTICE, THE OPTION AGREEMENT, OR THE PLAN SHALL CONFER UPON THE GRANTEE ANY RIGHT WITH RESPECT TO FUTURE AWARDS OR CONTINUATION OF THE GRANTEE'S CONTINUOUS SERVICE, NOR SHALL IT INTERFERE IN ANY WAY WITH THE GRANTEE'S RIGHT OR THE RIGHT OF THE COMPANY OR RELATED ENTITY TO WHICH THE GRANTEE PROVIDES SERVICES TO TERMINATE THE GRANTEE'S CONTINUOUS SERVICE, WITH OR WITHOUT CAUSE, AND WITH OR WITHOUT NOTICE. THE GRANTEE ACKNOWLEDGES THAT UNLESS THE GRANTEE HAS A WRITTEN EMPLOYMENT AGREEMENT WITH THE COMPANY TO THE CONTRARY, THE GRANTEE'S STATUS IS AT WILL.

The Grantee acknowledges receipt of a copy of the Plan and the Option Agreement, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts the Option subject to all of the terms and provisions hereof and thereof. The Grantee has reviewed this Notice, the Plan, and the Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Notice, and fully understands all provisions of this Notice, the Plan and the Option Agreement. The Grantee hereby agrees that all questions of interpretation and administration relating to this Notice, the Plan and the Option Agreement shall be resolved by the Administrator in accordance with Section 15 of the Option Agreement. The Grantee further agrees to the venue selection and waiver of a jury trial in accordance with Section 16 of the Option Agreement. The Grantee further agrees to notify the Company upon any change in the residence address indicated in this Notice.

Dated: \_\_\_\_\_

Signed: \_\_\_\_\_  
Grantee

RESTORATION HARDWARE HOLDINGS, INC. 2012 STOCK OPTION PLAN

STOCK OPTION AWARD AGREEMENT

1. Grant of Option. Restoration Hardware Holdings, Inc., a Delaware corporation (the "Company"), hereby grants to the Grantee (the "Grantee") named in the Notice of Stock Option Award (the "Notice"), an option (the "Option") to purchase the Total Number of Shares of Common Stock subject to the Option (the "Shares") set forth in the Notice, at the Exercise Price per Share set forth in the Notice (the "Exercise Price") subject to the terms and provisions of the Notice, this Stock Option Award Agreement (the "Option Agreement") and the Company's 2012 Stock Option Plan, as amended from time to time (the "Plan"), which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option Agreement.

If designated in the Notice as an Incentive Stock Option, the Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code. However, notwithstanding such designation, the Option will qualify as an Incentive Stock Option under the Code only to the extent the \$100,000 dollar limitation of Section 422(d) of the Code is not exceeded. The \$100,000 limitation of Section 422(d) of the Code is calculated based on the aggregate Fair Market Value of the Shares subject to options designated as Incentive Stock Options which become exercisable for the first time by the Grantee during any calendar year (under all plans of the Company or any Parent or Subsidiary of the Company). For purposes of this calculation, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the shares subject to such options shall be determined as of the grant date of the relevant option.

2. Exercise of Option.

(a) Right to Exercise. The Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice and with the applicable provisions of the Plan and this Option Agreement. The Option shall be subject to the provisions of Section 11 of the Plan relating to the exercisability or termination of the Option in the event of a Corporate Transaction or Change in Control. The Grantee shall be subject to reasonable limitations on the number of requested exercises during any monthly or weekly period as determined by the Administrator. In no event shall the Company issue fractional Shares. For purposes of clarity, the Shares received upon exercise of the Option shall be those Shares subject to Selling Restrictions with the lowest Lapse Price (as compared to the then-remaining unexercised portion of the Option) unless otherwise indicated by the Grantee at the time of exercise.

(b) Method of Exercise. The Option shall be exercisable by delivery of an exercise notice (a form of which is attached as Exhibit A) or by such other procedure as specified from time to time by the Administrator which shall state the election to exercise the Option, the whole number of Shares in respect of which the Option is being exercised, and such other provisions as may be required by the Administrator. The exercise notice shall be delivered in person, by certified mail, or by such other method (including electronic transmission) as determined from time to time by the Administrator to the Company accompanied by payment of the Exercise Price and all applicable income and employment taxes required to be withheld. The Option shall be deemed to be exercised upon receipt by the Company of such notice accompanied by the Exercise Price and all applicable withholding taxes, which, to the extent selected, shall be deemed to be satisfied by use of the broker-dealer sale and remittance procedure to pay the Exercise Price provided in Section 3(d) below to the extent such procedure is available to the Grantee at the time of exercise and such an exercise would not violate any Applicable Law.

(c) Taxes. No Shares will be delivered to the Grantee or other person pursuant to the exercise of the Option until the Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of applicable income tax and employment tax withholding obligations, including, without limitation, such other tax obligations of the Grantee incident to the receipt of Shares. Upon exercise of the Option, the Company or the Grantee's employer may offset or withhold (from any amount owed by the Company or the Grantee's employer to the Grantee) or collect from the Grantee or other person an amount sufficient to satisfy such tax withholding obligations. Furthermore, in the event of any determination that the Company has failed to withhold a sum sufficient to pay all withholding taxes due in connection with the Option, the Grantee agrees to pay the Company the amount of such deficiency in cash within five (5) days after receiving a written demand from the Company to do so, whether or not the Grantee is an employee of the Company at that time.



(d) Section 16(b). Notwithstanding any provision of this Option Agreement to the contrary, other than termination of the Grantee's Continuous Service for Cause, if a sale within the applicable time periods set forth in Sections 5, 6 or 7 herein of Shares acquired upon the exercise of the Option would subject the Grantee to suit under Section 16(b) of the Exchange Act, the Option shall remain exercisable until the earliest to occur of (i) the tenth (10th) day following the date on which a sale of such Shares by the Grantee would no longer be subject to such suit, (ii) the one hundred and ninetieth (190th) day after the Grantee's termination of Continuous Service, or (iii) the date on which the Option expires.

3. Method of Payment. Payment of the Exercise Price shall be made by any of the following, or a combination thereof, at the election of the Grantee; provided, however, that such exercise method does not then violate any Applicable Law and, provided further, that the portion of the Exercise Price equal to the par value of the Shares must be paid in cash or other legal consideration permitted by the Delaware General Corporation Law:

(a) cash;

(b) check;

(c) surrender of Shares held for the requisite period, if any, necessary to avoid a charge to the Company's earnings for financial reporting purposes, or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require which have a Fair Market Value on the date of surrender or attestation equal to the aggregate Exercise Price of the Shares as to which the Option is being exercised;

(d) if permitted by the Administrator and only with respect to that portion of the Option no longer subject to Selling Restrictions, payment through a "net exercise" such that, without the payment of any funds, the Grantee may exercise the Option and receive the net number of Shares equal to (i) the number of Shares as to which the Option is being exercised, multiplied by (ii) a fraction, the numerator of which is the Fair Market Value per Share (on such date as is determined by the Administrator) less the Exercise Price per Share, and the denominator of which is such Fair Market Value per Share (the number of net Shares to be received shall be rounded down to the nearest whole number of Shares); or

(e) if permitted by the Administrator and only with respect to that portion of the Option no longer subject to Selling Restrictions, payment through a broker-dealer sale and remittance procedure pursuant to which the Grantee (i) shall provide written instructions to a Company-designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (ii) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction.

4. Restrictions on Exercise. The Option may not be exercised if the issuance of the Shares subject to the Option upon such exercise would constitute a violation of any Applicable Laws. If the exercise of the Option within the applicable time periods set forth in Section 5, 6 and 7 of this Option Agreement is prevented by the provisions of this Section 4, the Option shall remain exercisable until one (1) month after the date the Grantee is notified by the Company that the Option is exercisable, but in any event no later than the Expiration Date set forth in the Notice.

#### 5. Termination or Change of Continuous Service.

(a) In the event of the Grantee's change in status from Employee, Director or Consultant to any other status of Employee, Director or Consultant, the Option shall remain in effect and the Option shall continue to vest in accordance with the Vesting Schedule set forth in the Notice; provided, however, that with respect to any Incentive Stock Option that shall remain in effect after a change in status from Employee to Director or Consultant, such Incentive Stock Option shall cease to be treated as an Incentive Stock Option and shall be treated as a Non-Qualified Stock Option on the day three (3) months and one (1) day following such change in status.

(b) In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity for Cause (other than pursuant to clauses (B) and (E) of the definition of Cause), the Grantee's right to exercise the Option shall terminate on the date of the Grantee's termination (the "Termination Date").

(c) In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity for Cause pursuant to clause (B) and (E) of the definition of Cause or terminated by the Grantee without Good Reason, the Grantee may, but only within one hundred twenty (120) days commencing on the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date.

(d) In the event the Grantee's Continuous Service is terminated by the Company or a Related Entity without Cause or terminated by the Grantee for Good Reason, the Grantee may, but only within the two (2) years and ninety (90) days commencing on the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date.

(e) The post-termination exercise periods described in this Section 5 shall commence on the Termination Date. In no event shall the Option be exercised later than the Expiration Date set forth in the Notice.

(f) If the Grantee does not exercise the Option within the applicable post-termination exercise period, the Option shall terminate.

6. Disability of Grantee. In the event the Grantee's Continuous Service terminates as a result of his or her Disability, the Grantee may, but only within the two (2) years and ninety (90) days commencing on the Termination Date (but in no event later than the Expiration Date), exercise the portion of the Option that was vested on the Termination Date. If the Grantee does not exercise the Option within the time specified herein, the Option shall terminate.

7. Death of Grantee. In the event of the termination of the Grantee's Continuous Service as a result of his or her death, the person who acquired the right to exercise the Option pursuant to Section 8 may exercise the portion of the Option that was vested at the date of termination within the two (2) years and ninety (90) days commencing on the date of death (but in no event later than the Expiration Date). If the Option is not exercised within the time specified herein, the Option shall terminate.

8. Transferability of Option. The Option, if an Incentive Stock Option, may not be transferred in any manner other than by will or by the laws of descent and distribution and may be exercised during the lifetime of the Grantee only by the Grantee. The Option, if a Non-Qualified Stock Option, may not be transferred in any manner other than by will or by the laws of descent and distribution, provided, however, that a Non-Qualified Stock Option may be transferred during the lifetime of the Grantee to the extent and in the manner authorized by the Administrator. Notwithstanding the foregoing, the Grantee may designate one or more beneficiaries of the Grantee's Incentive Stock Option or Non-Qualified Stock Option in the event of the Grantee's death on a beneficiary designation form provided by the Administrator. Following the death of the Grantee, the Option, to the extent provided in Section 7, may be exercised (a) by the person or persons designated under the deceased Grantee's beneficiary designation or (b) in the absence of an effectively designated beneficiary, by the Grantee's legal representative or by any person empowered to do so under the deceased Grantee's will or under the then applicable laws of descent and distribution. The terms of the Option shall be binding upon the executors, administrators, heirs, successors and transferees of the Grantee.

#### 9. Additional Terms Related to Selling Restrictions.

(a) Transfer upon Death. Notwithstanding the Selling Restrictions set forth in the Notice, the Shares may be transferred by will or by the laws of descent and distribution, provided, that the Selling Restrictions shall continue to apply to and be binding upon the executors, administrators, heirs, successors and transferees of the Holder.

(b) Legends. The Grantee understands and agrees that the Company shall cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE RESTRICTED BY THE TERMS OF THAT CERTAIN OPTION AGREEMENT BETWEEN THE COMPANY AND THE NAMED STOCKHOLDER. THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH SUCH AGREEMENT, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

(c) Stop Transfer Notices. In order to ensure compliance with the Selling Restrictions, the Company may issue appropriate “stop transfer” instructions to its transfer agent, if any, and, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

(d) Refusal to Transfer. The Company shall not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Option Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares shall have been so transferred.

(e) Additional Shares or Substituted Securities. In the event of any transaction described in Sections 10 or 11 of the Plan, any new, substituted or additional securities or other property which is by reason of any such transaction distributed with respect to the Shares shall be immediately subject to the Selling Restrictions, but only to the extent the Shares are at the time covered by such Selling Restrictions.

(f) Escrow of Stock. For purposes of facilitating the enforcement of the provisions of the Selling Restrictions, the Grantee agrees, immediately upon receipt of the certificate(s) for the Shares, to deliver such certificate(s), together with an Assignment Separate from Certificate in the form attached hereto as Exhibit B, executed in blank by the Grantee with respect to each such stock certificate, to the Secretary or Assistant Secretary of the Company, or their designee, to hold in escrow for so long as such Shares are subject to the Selling Restrictions, with the authority to take all such actions and to effectuate all such transfers and/or releases as may be necessary or appropriate to accomplish the objectives of this Option Agreement in accordance with the terms hereof. The Grantee hereby acknowledges that the appointment of the Secretary or Assistant Secretary of the Company (or their designee) as the escrow holder hereunder with the stated authorities is a material inducement to the Company to make this Option Agreement and that such appointment is coupled with an interest and is accordingly irrevocable. The Grantee agrees that the Shares may be held electronically in a book entry system maintained by the Company’s transfer agent or other third-party and that all the terms and conditions of this Section 9(g) applicable to certificated Shares will apply with the same force and effect to such electronic method for holding the Shares. The Grantee agrees that such escrow holder shall not be liable to any party hereto (or to any other party) for any actions or omissions unless such escrow holder is grossly negligent relative thereto. The escrow holder may rely upon any letter, notice or other document executed by any signature purported to be genuine and may resign at any time. Subject to the provisions of any security agreement relating to Grantee’s purchase of the Shares, upon the expiration of the Selling Restrictions, the escrow holder will transmit to the Grantee the certificate evidencing the Shares with respect to which the Selling Restrictions have lapsed.

10. Term of Option. The Option must be exercised no later than the Expiration Date set forth in the Notice or such earlier date as otherwise provided herein. After the Expiration Date or such earlier date, the Option shall be of no further force or effect and may not be exercised.

#### 11. Additional Terms Related to the Company’s Repurchase Right.

(a) Assignment. Whenever the Company shall have the right to purchase Shares under this Repurchase Right, the Company may designate and assign one or more employees, officers, directors or shareholders of the Company or other persons or organizations, to exercise all or a part of the Company’s Repurchase Right.

(b) Additional Shares or Substituted Securities. In the event of any transaction described in Sections 10 or 11 of the Plan, any new, substituted or additional securities or other property which is by reason of any such transaction distributed with respect to the Shares shall be immediately subject to the Repurchase Right, but only to the extent the Shares are at the time covered by such right.

12. Tax Consequences. The Grantee may incur tax liability as a result of the Grantee's purchase or disposition of the Shares. THE GRANTEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THE OPTION OR DISPOSING OF THE SHARES.

13. Entire Agreement: Governing Law. The Notice, the Plan and this Option Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. Nothing in the Notice, the Plan and this Option Agreement (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties. The Notice, the Plan and this Option Agreement are to be construed in accordance with and governed by the internal laws of the State of Delaware without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Delaware to the rights and duties of the parties. Should any provision of the Notice, the Plan or this Option Agreement be determined to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

14. Construction. The captions used in the Notice and this Option Agreement are inserted for convenience and shall not be deemed a part of the Option for construction or interpretation. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

15. Administration and Interpretation. Any question or dispute regarding the administration or interpretation of the Notice, the Plan or this Option Agreement shall be submitted by the Grantee or by the Company to the Administrator. The resolution of such question or dispute by the Administrator shall be final and binding on all persons.

16. Venue and Waiver of Jury Trial. The Company, the Grantee, and the Grantee's assignees pursuant to Section 8 (the "parties") agree that any suit, action, or proceeding arising out of or relating to the Notice, the Plan or this Option Agreement shall be brought in the United States District Court for the Northern District of California (or should such court lack jurisdiction to hear such action, suit or proceeding, in a California state court in the County of San Francisco) and that the parties shall submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING. If any one or more provisions of this Section 16 shall for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions shall be modified to the minimum extent necessary to make it or its application valid and enforceable.

17. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown in these instruments, or to such other address as such party may designate in writing from time to time to the other party.

**END OF AGREEMENT**

**EXHIBIT A**

**RESTORATION HARDWARE HOLDINGS, INC. 2012 STOCK OPTION PLAN**

**EXERCISE NOTICE**

Restoration Hardware Holdings, Inc.  
15 Koch Road, Suite J  
Corte Madera, CA 94925  
Attention: Secretary

1. **Exercise of Option.** Effective as of today, \_\_\_\_\_, the undersigned (the "Grantee") hereby elects to exercise the Grantee's option to purchase \_\_\_\_\_ shares of the Common Stock (the "Shares") of \_\_\_\_\_, Inc. (the "Company") under and pursuant to the Company's 2012 Stock Option Plan, as amended from time to time (the "Plan") and the [ ] Incentive [ ] Non-Qualified Stock Option Award Agreement (the "Option Agreement") and Notice of Stock Option Award (the "Notice") dated \_\_\_\_\_, \_\_\_\_\_. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Exercise Notice.

2. **Representations of the Grantee.** The Grantee acknowledges that the Grantee has received, read and understood the Notice, the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

3. **Rights as Stockholder.** Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 10 of the Plan.

4. **Delivery of Payment.** The Grantee herewith delivers to the Company the full Exercise Price for the Shares, which, to the extent selected, shall be deemed to be satisfied by use of the broker-dealer sale and remittance procedure to pay the Exercise Price provided in Section 3(e) of the Option Agreement.

5. **Tax Consultation.** The Grantee understands that the Grantee may suffer adverse tax consequences as a result of the Grantee's purchase or disposition of the Shares. The Grantee represents that the Grantee has consulted with any tax consultants the Grantee deems advisable in connection with the purchase or disposition of the Shares and that the Grantee is not relying on the Company for any tax advice.

6. **Taxes.** The Grantee agrees to satisfy all applicable foreign, federal, state and local income and employment tax withholding obligations and herewith delivers to the Company the full amount of such obligations or has made arrangements acceptable to the Company to satisfy such obligations. In the case of an Incentive Stock Option, the Grantee also agrees, as partial consideration for the designation of the Option as an Incentive Stock Option, to notify the Company in writing within thirty (30) days of any disposition of any shares acquired by exercise of the Option if such disposition occurs within two (2) years from the Date of Award or within one (1) year from the date the Shares were transferred to the Grantee.

7. **Successors and Assigns.** The Company may assign any of its rights under this Exercise Notice to single or multiple assignees, and this agreement shall inure to the benefit of the successors and assigns of the Company. This Exercise Notice shall be binding upon the Grantee and his or her heirs, executors, administrators, successors and assigns.

8. **Construction.** The captions used in this Exercise Notice are inserted for convenience and shall not be deemed a part of this agreement for construction or interpretation. Except when otherwise indicated by the context, the singular shall include the plural and the plural shall include the singular. Use of the term "or" is not intended to be exclusive, unless the context clearly requires otherwise.

9. Administration and Interpretation. The Grantee hereby agrees that any question or dispute regarding the administration or interpretation of this Exercise Notice shall be submitted by the Grantee or by the Company to the Administrator. The resolution of such question or dispute by the Administrator shall be final and binding on all persons.

10. Governing Law; Severability. This Exercise Notice is to be construed in accordance with and governed by the internal laws of the State of Delaware without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of Delaware to the rights and duties of the parties. Should any provision of this Exercise Notice be determined by a court of law to be illegal or unenforceable, such provision shall be enforced to the fullest extent allowed by law and the other provisions shall nevertheless remain effective and shall remain enforceable.

11. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown below beneath its signature, or to such other address as such party may designate in writing from time to time to the other party.

12. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this agreement.

13. Entire Agreement. The Notice, the Plan and the Option Agreement are incorporated herein by reference and together with this Exercise Notice constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. Nothing in the Notice, the Plan, the Option Agreement and this Exercise Notice (except as expressly provided therein) is intended to confer any rights or remedies on any persons other than the parties.

Submitted by:  
GRANTEE:

\_\_\_\_\_  
(Signature)

Address:  
\_\_\_\_\_  
\_\_\_\_\_

Accepted by:  
RESTORATION HARDWARE HOLDINGS, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Address:  
15 Koch Road, Suite J  
Corte Madera, CA 94925

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**EXHIBIT B**

**STOCK ASSIGNMENT SEPARATE FROM CERTIFICATE**

**[Please sign this document but do not date it. The date and information of the transferee will be completed if and when the shares are assigned.]**

FOR VALUE RECEIVED, hereby sells, assigns and transfers unto \_\_\_\_\_, ( ) shares of the Common Stock of Restoration Hardware Holdings, Inc., a Delaware corporation (the "Company"), standing in his name on the books of, represented by Certificate No. \_\_\_\_\_ herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company attorney to transfer the said stock in the books of the Company with full power of substitution.

DATED: \_\_\_\_\_

**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Gary Friedman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 officers 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 16, 2013

/s/ Gary Friedman

Gary Friedman

Chairman, Co-Chief Executive Officer, Creator and Curator



**CERTIFICATION OF PERIODIC REPORT UNDER SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Carlos Alberini, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 officers 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 16, 2013

/s/ Carlos Alberini

Carlos Alberini  
Co-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 Quarterly Report on Form 10-Q 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 officers 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 16, 2013

/s/ Karen Boone

Karen Boone  
Chief Financial Officer

**CERTIFICATION OF CO-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, Gary Friedman, Co-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 Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended November 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 Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: December 16, 2013

By: /s/ Gary Friedman  
Name: Gary Friedman  
Title: Chairman, Co-Chief Executive Officer, Creator and Curator

This certification accompanies this Quarterly Report on Form 10-Q 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 CO-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, Co-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 Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended November 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 Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: December 16, 2013

By: /s/ Carlos Alberini  
Name: Carlos Alberini  
Title: Co-Chief Executive Officer

This certification accompanies this Quarterly Report on Form 10-Q 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 Quarterly Report of the Company on Form 10-Q for the fiscal quarter ended November 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 Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date: December 16, 2013

By: /s/ Karen Boone  
Name: Karen Boone  
Title: Chief Financial Officer

This certification accompanies this Quarterly Report on Form 10-Q 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.