Restoration Hardware Holdings Inc
Form S-1/A
October 11, 2012
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As filed with the Securities and Exchange Commission on October 11, 2012

Registration No. 333-176767

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 6

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

RESTORATION HARDWARE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**5712**	**45-3052669**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

15 Koch Road, Suite J

Corte Madera, CA 94925

(415) 924-1005

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

Carlos E. Alberini

Chief Executive Officer

15 Koch Road, Suite J

Corte Madera, CA 94925

(415) 924-1005

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

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

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

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

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

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

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

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

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BASIS OF PRESENTATION

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

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

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

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

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

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PROSPECTUS SUMMARY

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

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

Our Company

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

Our business is fully integrated across our multiple channels of distribution, consisting of our stores, catalogs and websites. As of July 28, 2012, we operated a total of 73 retail stores, consisting of 71 Galleries and 2 full line Design Galleries, and 10 outlet stores throughout the United States and Canada. In fiscal 2011, we distributed approximately 26.1 million catalogs, and our websites logged over 14.3 million unique visits.

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

- From fiscal 2009 to fiscal 2011, we increased our net revenues 53% to $958.1 million, our Adjusted EBITDA 356% to $80.2 million and our Adjusted EBITDA margin by 555 basis points to 8.4%. Over the same time period we increased our net income by $49.3 million from a net loss of $28.7 million to net income of $20.6 million; and

- We achieved ten consecutive quarters of double-digit net revenue growth through our fiscal quarter ended July 28, 2012. We achieved this growth as we reduced our store base from 95 retail locations as of January 30, 2010, to 73 locations as of July 28, 2012.

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Net revenues	Adjusted EBITDA (dollars in millions)	Net income (loss)

See Selected Historical Consolidated Financial and Operating Data for a discussion of Adjusted EBITDA and a reconciliation of the differences between Adjusted EBITDA and net income (loss).

Our Competitive Strengths

We attribute our success to the following competitive strengths:

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

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

- *Innovation*. We are dedicated to offering products and services that push established boundaries. The scope of our innovation is demonstrated in every aspect of our organization, including in our products and services, our stores and presentation, our channel-agnostic go-to-market strategy and our fully integrated supply chain and systems infrastructure.

- *Curation.* At our core we are not designers, rather we are curators and composers of inspired design and experiences. We travel the world in search of people, ideas, items, experiences and inspiration, and then create a composition that is unique and entirely our own.

- *Integration.* Everything we curate and compose must be beautifully and intelligently integrated, enhancing the appeal of our offering and experience. This process involves both art and science as we integrate new products, categories, services and businesses that enhance our existing offering, and as our supporting functions and infrastructure are integrated to achieve our goals.

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

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

- *Highly Differentiated Product Development Capabilities*. We have established a cross-functional organization centered on product leadership, with teams that collaborate across functions and work closely with our network of artisan partners. Our product development platform and significant scale have enabled us to introduce an increasing number of new products with each collection and dramatically shorten our product lead times, while allowing us to offer greater value to our customers.

Multi-Channel Go-To-Market Ability. We pursue a market-based rather than a channel-based sales strategy where we size our stores to the potential of the area that each location serves and leverage our direct channels to provide access to our complete product offering. This approach is designed to enhance the customer experience, generate greater sales, increase our market share and deliver higher returns on invested capital.

Fully Integrated Infrastructure. Our infrastructure is integrated across our channels, providing strong direct sourcing capabilities, a centrally managed inventory and a reconfigured distribution network and new order management, warehouse management and point-of-sale systems. We believe our sophisticated operating platform provides us with significant capabilities to support our future growth.

Our High-Performance Culture and Team. We have built a high-performance organization driven by a company-wide commitment to our core values of People, Quality, Service and Innovation. We believe our leadership team, led by our Chief Executive Officer, Carlos Alberini, is a key driver of our success and positions us to execute our long-term growth strategy. We also benefit from the vision and advice of Gary Friedman, our former Chairman and Co-Chief Executive Officer, who serves as our Creator and Curator on an advisory basis.

Our Growth Strategy

Key elements of our growth strategy are to:

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

We opened our first two full line Design Galleries in Los Angeles in June 2011 and Houston in November 2011, where we consolidated demand by closing existing retail stores in each market. In the Los Angeles market, we have increased store demand by over 90% and direct demand by over 30% in the first full year of operation of our new full line Design Gallery. In the Houston market, in the first 9 months of operation of the new full line Design Gallery, we have increased store demand by over 60% and direct demand by over 50%. Over the next 24 months, we plan to open full line Design Galleries in iconic or high profile locations in Scottsdale, Boston, Greenwich (Connecticut) and Atlanta. We are also actively exploring opening Design Galleries in other key markets such as New York City, Miami, Dallas and Chicago.

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

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

Increase Brand Awareness. We will continue to increase our brand awareness and customer loyalty through our real estate transformation, our circulation strategy, our digital and social media marketing initiative, and our increased advertising and public relations efforts. Our stores are a critical branding vehicle and we believe the transformation of our real estate platform to a portfolio focused on full line Design Galleries will contribute to increased brand awareness as our customers experience an enhanced expression of our luxury brand positioning. Our Source Books and other catalogs are also an important branding and advertising vehicle. Our Source Book strategy has contributed to a 41% increase in the number of catalog pages circulated and a 27% increase in net revenues for our direct business in fiscal 2011. We plan to increase the number of catalog pages circulated in fiscal 2012 by more than 75% over fiscal 2011.

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

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

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

Our High-Performance Culture

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

Evolution of Our Business

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

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

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

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Our Market

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

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

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

Summary Risk Factors

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

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

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

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

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

- If any of our vendors is not able to meet our product requirements, we may not be able to develop relationships with new alternative vendors to replace those product requirements in a timely and satisfactory manner, which could lead to product shortages and customer backorders, which could harm our business.

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

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

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

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

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

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

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

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

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

Our former Chairman and Co-Chief Executive Officer, Gary Friedman, resigned from these positions and as a director of the Company, following an investigation by a special committee of non-management directors of the board, effective as of , 2012. There can be no assurance that these developments will not have an adverse impact on us.

Reorganization

Restoration Hardware Holdings was incorporated as a Delaware corporation on August 18, 2011, by our sole stockholder, Home Holdings, for the purpose of acquiring all of the stock of Home Holdings wholly owned subsidiary, Restoration Hardware, Inc. Restoration Hardware Holdings will acquire all of the outstanding shares of Restoration Hardware, Inc. prior to the effectiveness of this offering. Outstanding units under the 2008 Home Holdings equity compensation plan, which we refer to as the Team Resto Ownership Plan, will be converted in connection with this offering into shares of our common stock. Immediately prior to this offering, we will effect a for one stock split of our common stock. In this prospectus, we refer to these transactions as the Reorganization.

Principal Equity Holders

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

Home Holdings will remain in place and will continue to be the single largest holder of our common stock immediately after the completion of this offering. Interests of Catterton, Tower Three and Glenhill in our Company will continue to be held indirectly through their ownership interests in Home Holdings immediately following this offering. We intend to enter into a stockholders agreement with Home Holdings in connection with the offering. The stockholders agreement will provide for a waiver of the corporate opportunity doctrine with respect to Home Holdings and its affiliates, including the Principal Equity Holders. The stockholders agreement will provide that, for so long as Home Holdings and the Principal Equity Holders hold at least shares of our common stock, Home Holdings shall have the right to nominate a majority of the members of our board of directors and as long as Home Holdings and the Principal Equity Holders hold at least shares of our

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common stock, Home Holdings shall have the right to nominate two members of our board of directors. Home Holdings currently expects to nominate two directors to our board of directors, one of which will be designated by Catterton and one of which will be designated by Tower Three. For so long as Home Holdings and the Principal Equity Holders own at least shares of our common stock, no action may be taken or vote approved by our board of directors or any committee thereof (other than the audit committee or any other committee of directors that may be created with the approval of Home Holdings as not being subject to this provision) without the affirmative vote of the Catterton and Tower Three designated directors. In addition, for so long as Home Holdings holds at least shares of our common stock, certain actions may not be taken without the approval of Home Holdings.

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

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

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

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

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

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

Payments to Principal Equity Holders and Officers, Directors and Advisor

in Connection with the Offering

In connection with this offering, pursuant to our management services agreement with affiliates of our Principal Equity Holders, we plan to pay Catterton Management Company, LLC, Tower Three Partners LLC and GJK Capital Advisors, LLC, fees in the amount of $, $ and $, respectively. In addition, certain units in Home Holdings held by certain of our officers and our advisor will convert from unvested units into vested shares of our common stock in connection with this offering, resulting in the issuance of the following vested shares in exchange for previously unvested units: shares to Carlos Alberini, our Chief Executive Officer, shares to Ken Dunaj, our Chief Operating Officer, and shares to Gary Friedman, who serves as our Creator and Curator on an advisory basis. See Executive Compensation Employee Benefit and Stock Plans Team Resto Ownership Plan.

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Corporate and Other Information

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

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

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The Offering

Total common stock offered	shares
Common stock offered by us	shares
Common stock offered by the selling stockholders	shares
Common stock to be outstanding immediately after this offering	shares
Use of proceeds	We estimate that the net proceeds to us from this offering, after deducting the underwriting discount and estimated offering expenses, will be approximately $ million, assuming the shares are offered at $ per share (the midpoint of the estimated price range set forth on the cover of this prospectus).
	We will not receive any proceeds from the sale of shares by the selling stockholders.
	We intend to use the net proceeds from the sale of common stock by us in this offering to repay a portion of the outstanding amounts under the Restoration Hardware, Inc. revolving line of credit and term loan and to pay other fees and expenses incurred in connection with this offering, including payments to affiliates of Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement we have entered into with them. See Use of Proceeds.
Principal stockholders	Upon completion of this offering, Home Holdings will own shares, or %, of our outstanding common stock. Of that amount, Catterton will beneficially own shares, or %, of our outstanding common stock, Tower Three will beneficially own shares, or %, of our outstanding common stock, and Glenhill will beneficially own shares, or %, of our outstanding common stock.
	We are a controlled company within the meaning of the NYSE listing rules, and therefore will be exempt from certain of the corporate governance listing requirements of the NYSE. See Management Corporate Governance.
	Home Holdings and the directors appointed by Home Holdings have certain approval rights. See Certain Relationships and Related Party Transactions Stockholders Agreement.
Dividend policy	We currently intend to retain all available funds and any future earnings for use in the operation of our business, and therefore we do not anticipate paying any cash dividends in the foreseeable future.

	Any future determination to pay dividends will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, capital requirements and other factors that our board of directors deems relevant. We are a holding company, and substantially all of our operations are carried out by our subsidiary, Restoration Hardware, Inc., and its subsidiaries. Restoration Hardware, Inc. s ability to pay dividends to us is limited by the terms of its credit agreement, which may in turn limit our ability to pay dividends on our common stock. Our ability to pay dividends may also be restricted by the terms of any future credit agreement or any future debt or preferred securities of ours or of our subsidiaries. See Dividend Policy.
Conflicts of interest	As described under Use of Proceeds, Bank of America, N.A., an affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated, an underwriter in this offering, is a lender under the Restoration Hardware, Inc. revolving line of credit and term loan and may receive more than five percent of the net proceeds of this offering. Thus, Merrill Lynch, Pierce, Fenner & Smith Incorporated may be deemed to have a conflict of interest under the applicable provisions of Rule 5121 of the Conduct Rules of the Financial Industry Regulatory Authority, Inc., or FINRA. Accordingly, this offering will be made in compliance with the applicable provisions of Rules 5110 and 5121 of the Conduct Rules regarding the underwriting of securities of a company with a member that has a conflict of interest within the meaning of those rules. Goldman, Sachs & Co. has agreed to serve as a qualified independent underwriter as defined by FINRA and performed due diligence investigations and reviewed and participated in the preparation of the registration statement of which this prospectus forms a part. No underwriter with a conflict of interest will execute sales in discretionary accounts without the prior written specific approval of the customers. See Underwriting Conflicts of Interest.
Risk factors	Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 18 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.
Proposed symbol for trading on the NYSE	RH

Unless otherwise indicated, all information in this prospectus relating to the number of shares of our common stock to be outstanding immediately after this offering:

- assumes the completion of the Reorganization;

- excludes options to purchase shares of our common stock, each with an exercise price equal to the initial public offering price, that we expect to grant in connection with this offering under the Restoration Hardware 2012 Stock Incentive Plan, which we refer to as the 2012 Plan;

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excludes options to purchase shares of our common stock, with an exercise price equal to $ per share, that we expect to grant in connection with this offering to our Chief Executive Officer, Carlos Alberini, and shares of our common stock, with an exercise price equal to $ per share, that we expect to grant in connection with this offering to Gary Friedman, who serves as our Creator and Curator on an advisory basis;

excludes additional shares of common stock reserved for future grants under the 2012 Plan;

assumes an initial public offering price of $ per share (the midpoint of the estimated price range set forth on the cover of this prospectus); and

assumes no exercise by the underwriters of their option to purchase up to additional shares from the selling stockholders.

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Summary Historical Consolidated Financial and Operating Data

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

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

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

The summary consolidated financial data for the six months ended July 30, 2011, and July 28, 2012, and as of July 28, 2012, were derived from Restoration Hardware, Inc. s unaudited consolidated interim financial statements included elsewhere in this prospectus. The unaudited consolidated interim financial statements were prepared on a basis consistent with that used in preparing our audited consolidated financial statements and include all adjustments, consisting of normal and recurring items, that we consider necessary for a fair presentation of our financial position and results of operations for the unaudited periods. The unaudited financial information for the twelve months ended July 30, 2011, has been derived by adding our financial information for the year ended January 29, 2011, to the financial information for the six months ended July 30, 2011, and subtracting the financial information for the six months ended July 31, 2010. The unaudited financial information for the twelve months ended July 28, 2012, has been derived by adding our financial information for the year ended January 28, 2012, to the financial information for the six months ended July 28, 2012, and subtracting the financial information for the six months ended July 30, 2011. We believe that presentation of unaudited financial information for these twelve-month periods is useful to investors because it presents information about how our business has performed in the twelve-month period immediately preceding the date of our most recent interim financial statements, which allows investors to review our current performance trends over a full year period, and because it presents results for four consecutive quarters, which presentation compensates for seasonal factors that might influence results in a particular quarter within the year.

In the third quarter of 2012, we changed our accounting policy for recognizing stock-based compensation expense which has been applied retrospectively to the periods presented below. For further discussion, see footnote 2 to the table below.

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

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	Year Ended			Six Months Ended		Last Twelve Months Ended (1)	
	January 30, 2010	January 29, 2011	January 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011	July 28, 2012
	(dollars in thousands, excluding per share and per square foot data)						
Statement of Operations Data:							
Net revenues	$ 625,685	$ 772,752	$ 958,084	$ 420,383	$ 510,820	$ 862,281	$ 1,048,521
Cost of goods sold	412,629	501,132	601,735	265,953	321,425	553,001	657,207
Gross profit	213,056	271,620	356,349	154,430	189,395	309,280	391,314
Selling, general and administrative expenses (2)	238,889	274,836	329,506	150,395	171,830	299,493	350,941
Income (loss) from operations	(25,833)	(3,216)	26,843	4,035	17,565	9,787	40,373
Interest expense	(3,241)	(3,150)	(5,134)	(1,888)	(3,054)	(3,459)	(6,300)
Income (loss) before income taxes	(29,074)	(6,366)	21,709	2,147	14,511	6,328	34,073
Income tax expense (benefit)	(423)	685	1,121	783	623	1,427	961
Net income (loss)	$ (28,651)	$ (7,051)	$ 20,588	$ 1,364	$ 13,888	$ 4,901	$ 33,112
Basic and diluted net income (loss) per share	$ (286,510)	$ (70,510)	$ 205,880	$ 13,640	$ 138,880	$ 49,010	$ 331,120
Basic and diluted average number of shares outstanding	100	100	100	100	100	100	100
Pro forma net income (loss) per share (3):							
Basic			$		$		
Diluted			$		$		
Pro forma average number of shares outstanding (3):							
Basic							
Diluted							
Other Financial and Operating Data:							
Growth in net revenues:							
Stores (4)	(6)%	15%	22%	21%	19%	17%	21%
Direct	(15)%	37%	27%	36%	25%	38%	23%
Total	(10)%	24%	24%	27%	22%	26%	22%
Retail (5):							
Comparable store sales change (6)	(7)%	19%	25%	20%	29%	17%	29%
Retail stores open at end of period	95	91	74	87	73	87	73
Average gross square footage (in thousands) (7)	1,042	1,014	913	946	801	977	841
Average selling square footage (in thousands) (7)	660	641	580	599	519	619	540
Retail sales per selling square foot (8)	$ 525	$ 635	$ 846	$ 351	$ 481	$ 710	$ 981
Direct:							
Catalogs circulated (in thousands) (9)	31,336	46,507	26,052	12,723	15,131	40,355	28,460
Catalog pages circulated (in millions) (9)	4,418	6,260	8,848	3,289	7,417	6,726	12,975
Direct as a percentage of net revenues (10)	39%	43%	44%	45%	46%	45%	45%
Capital expenditures	$ 2,024	$ 39,907	$ 25,593	$ 12,168	$ 13,517	$ 37,894	$ 26,942
Adjusted EBITDA (11)	$ 17,596	$ 41,097	$ 80,154	$ 27,747	$ 34,897	$ 59,850	$ 87,304

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	As of July 28, 2012	
	Actual	Pro Forma As Adjusted (12)
	(in thousands)	
Balance Sheet Data:		
Cash and cash equivalents	$ 10,102	$
Working capital (excluding cash and cash equivalents) (13)	192,252	
Total assets	650,874	
Revolving line of credit	129,637	
Term loan	14,815	
Total debt (including current portion) (14)	151,089	
Total stockholders equity	265,123	

(1) The unaudited financial information for the twelve months ended July 30, 2011, has been derived by adding our financial information for the year ended January 29, 2011, to the financial information for the six months ended July 30, 2011, and subtracting the financial information for the six months ended July 31, 2010. The unaudited financial information for the twelve months ended July 28, 2012, has been derived by adding our financial information for the year ended January 28, 2012, to the financial information for the six months ended July 28, 2012, and subtracting the financial information for the six months ended July 30, 2011.

(2) In the third quarter of 2012, we changed our policy for recognizing stock-based compensation expense from the graded method of accounting to the straight-line method of accounting for our time-based units (or service-only awards). This change in accounting resulted in a reduction in selling, general and administrative expenses of $1.0 million, $0.2 million, $0.2 million and $0.5 million in fiscal 2010, fiscal 2011, the first six months of fiscal 2011 and the last twelve months ending July 30, 2011, respectively, and an increase in selling, general and administrative expenses of $0.1 million and $0.1 million in the first six months of fiscal 2012 and the last twelve months ending July 28, 2012, respectively. The impact in fiscal 2009 was immaterial. See Note 3 *Change in Accounting Principle Stock-Based Compensation* to Restoration Hardware, Inc. s audited consolidated financial statements.

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

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

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

(6) Comparable store sales have been calculated based upon retail stores that were open at least fourteen full months as of the end of the reporting period and did not change square footage by more than 20% between periods. Comparable store sales exclude net revenues from outlet stores.

(7) Average square footage (gross or selling, as applicable) is calculated for each quarter by taking the total applicable square footage at the beginning of the quarter plus the total applicable square footage at the end of the quarter and dividing by two. Average square footage for periods of six, nine and twelve months is calculated by averaging the average square footage for the quarters within such periods.

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

(9) The catalogs and catalog pages circulated from period to period do not take into account different page sizes per catalog distributed. Page sizes and page counts vary for different catalog mailings and we sometimes mail different versions of a catalog at the same time. Accordingly, period to period comparisons of catalogs

circulated and catalog pages circulated do not take these variations into account. In fiscal 2010, we mailed a larger number of catalogs that contained fewer pages and in some cases significantly smaller page sizes than in prior periods. In fiscal 2011, we mailed fewer catalogs that contained a significant increase in number of pages as compared to fiscal 2010.

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

(11) A reconciliation of net income (loss) under accounting principles generally accepted in the United States (GAAP) to EBITDA and Adjusted EBITDA is set forth below in Selected Historical Consolidated Financial and Operating Data.

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

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

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

(12) Pro Forma as Adjusted amounts give effect to (i) the Reorganization, (ii) the issuance of shares of common stock in this offering, (iii) the application of $ million of estimated net proceeds of this offering to repay a portion of the outstanding amounts under the Restoration Hardware, Inc. revolving line of credit and term loan, (iv) the use of $ million of the estimated net proceeds to pay other fees and expenses incurred in connection with this offering, including management fees of $ to affiliates of Catterton, Tower Three and Glenhill pursuant to the terms of the management services agreement with

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them, (v) $ non-cash impact to accumulated deficit for stock based compensation charges related to the shares of unvested common stock that will vest upon this offering, (vi) $ non-cash impact to accumulated deficit for stock based compensation charges related to the shares underlying options granted to Mr. Alberini and Mr. Friedman in conjunction with this offering and (vii) additional cash payments of $2.2 million to former employees that are due as a result of this stock offering. A $1.00 increase (decrease) in the assumed initial public offering price of $ per share common stock, the midpoint of the estimated price range set forth on the cover of this prospectus, would increase (decrease) the pro forma as adjusted amount of cash and cash equivalents by $ million, total assets by $ million, revolving line of credit by $ million, term loan by $ million, total debt (including current portion) by $ million and total stockholders equity by $ million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses.

(13) Working capital is defined as current assets, excluding cash and cash equivalents, less current liabilities, excluding the current portion of long-term debt.

(14) Total debt (including current portion) includes amounts outstanding under the Restoration Hardware, Inc. revolving line of credit, term loan and capital lease obligations.

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RISK FACTORS

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

Risks Related to Our Business

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

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

Although we have recently experienced sales growth as a result of a number of new business initiatives, this sales growth may not continue and the level of our sales could return to prior levels if customer response to our product offerings is not sustained. Many factors can influence customer response to our product offerings and store formats including responses from our competitors, who may introduce similar products or merchandise formats. In addition, sales levels for particular merchandise or product categories may not continue over time if customer demand levels are not sustained. The level of customer response to our full line Design Galleries may vary in different markets and store locations. Similarly, the level of customer response to our Source Book large catalog format, in which we display a greater percentage of our product assortment, may vary in different markets. In addition, there can be no assurance that we will be able to migrate customer demand successfully when we choose to close a store in a particular location in favor of a full line Design Gallery in the same or an adjacent market location. While our objective is to retain a high percentage of customer demand from store locations that we close, there can be no assurance that we will retain a high percentage of sales from stores closed in the future or that we will continue to retain a high percentage of sales from stores previously closed.

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

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

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

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

- back orders, order cancellations and lost sales for products that are in high demand for which we did not stock adequate inventory; and

- overstock inventory levels for products that have lower consumer demand, requiring us to take markdowns or other steps to sell slower-moving merchandise.

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

Our former Chairman and Co-Chief Executive Officer, Gary Friedman, resigned from these positions and as a director of the Company effective as of , 2012. There can be no assurance that these developments will not have an adverse impact on us.

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

In connection with his resignation as Chairman, Co-Chief Executive Officer and a director, Mr. Friedman and the Company will enter into an advisory services agreement that provides for Mr. Friedman to advise the Company in a role described as the Creator and Curator with respect to product development, merchandising and other creative matters as more specifically outlined in Certain Relationships and Related Party Transactions Advisory Services Agreement with Gary Friedman. In addition, in connection with this offering, Home Holdings has agreed to invest up to $5 million in one or more tranches, directly or indirectly, in Hierarchy, LLC (Hierarchy), a newly formed entity in which Mr. Friedman will have a controlling interest. We will have the right to acquire all or a portion of Home Holdings interest in Hierarchy between the second and third anniversaries of the offering, at the greater of the then fair market value and the price paid by Home Holdings. Further, Home Holdings will assign to us its right of first refusal and co-sale right over the sale by Mr. Friedman of his interests in Hierarchy, its right of first refusal over the sale of Hierarchy or any of its lines of business and its preemptive rights on issuances of additional interests in Hierarchy. We expect to enter into an agreement with Hierarchy pursuant to which we will provide Hierarchy with back office, logistics, supply chain and administrative support, with pricing determined based on the fair market value of such services. We will also

transfer to Hierarchy our minimal apparel-related assets at fair market value, as more specifically outlined in

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Certain Relationships and Related Party Transactions Arrangements with Hierarchy. Mr. Friedman is also a significant stockholder in the Company and will continue to advise the board of directors in an observer capacity, with the honorary title of Chairman Emeritus.

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

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

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

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

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

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

Any difficulties that we experience in our ability to obtain products in sufficient quality and quantity from our vendors could have a material adverse effect on our business. In fiscal 2011, we purchased approximately

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84% of our merchandise from vendors that are located abroad. Our ability to obtain desired merchandise in sufficient quantities could be impaired by events that adversely affect our vendors or the locations in which they operate, such as difficulties or problems associated with our vendors operations, business, finances, labor, importation of products, costs, production, insurance and reputation. Failure of vendors to produce adequate quantities of merchandise in a timely manner has resulted in back orders and lower revenue in certain periods of our business operation. While we believe our vendors have the capacity to meet our demand, we cannot assure you that our vendors will be able to produce adequate quantities of merchandise in a timely manner in the future.

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

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

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

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

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

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

If products that we purchase from vendors are damaged or prove to be defective, we may not be able to return products to these vendors and obtain refunds of our purchase price or obtain other indemnification from them. Our vendors limited capacities may result in a vendor s inability to replace any defective merchandise in a timely manner. In addition, our vendors limited capitalization or liquidity may mean that a vendor that has supplied defective merchandise will not be able to refund the purchase price to us or pay us any penalties or damages associated with any defects.

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

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

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

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

The success of our business depends upon the continued service of our key personnel, including our Chief Executive Officer, Carlos Alberini. In addition, the leadership and creative talents of Gary Friedman, our former Chairman and Co-Chief Executive Officer, who currently serves as our Creator and Curator on an advisory basis, have been and are expected to continue to be important contributors to our performance. The loss of the services of our key personnel or advisor could make it more difficult to successfully operate our business and achieve our business goals. In addition, we do not maintain key man life insurance policies on any of our key personnel. As a result, we may not be able to cover the financial loss we may incur in losing the services of any of our key personnel.

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

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

In addition, our success depends in part upon our ability to attract, motivate and retain a sufficient number of store employees who understand and appreciate our corporate culture and customers. Turnover in the retail industry is generally high. Excessive store employee turnover will result in higher employee costs associated with finding, hiring and training new store employees. If we are unable to hire and retain store personnel capable of consistently providing a high level of customer service, our ability to open new stores may be impaired, the performance of our existing and new stores could be materially adversely affected and our brand image may be negatively impacted.

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

Our operations have significant liquidity and capital requirements. Among other things, the seasonality of our businesses requires us to purchase merchandise well in advance of the outdoor selling season in our second fiscal quarter and the holiday selling season in our fourth fiscal quarter. In addition, we have invested significant capital expenditures in remodeling and opening new stores and these capital expenditures have increased and will continue to increase in fiscal 2012 and succeeding fiscal periods as we open additional full line Design Galleries. During fiscal 2011, we spent $15.7 million for capital expenditures related to new stores and remodeling, and we incurred $9.9 million of additional capital expenditures related to supply chain investments and systems infrastructure. We anticipate our capital expenditure requirements to be approximately $65 million for fiscal 2012, of which $13.5 million was spent during the first six months of fiscal 2012. We plan to continue our growth and expansion, including opening full line Design Galleries in select major metropolitan markets, pursuing category extensions of our brand, and exploring new business areas. We purchased the building and land for our store in San Francisco but to date we have relied upon leases with landlords for our other locations. As we develop new stores in the future, we may explore other models for our real estate which could include joint ventures or other forms of equity ownership in the real estate interests associated with new sites and buildings. These approaches might require greater capital investment than a traditional store lease with a landlord.

We depend on our ability to generate cash flows from operating activities, as well as revolving borrowings under the Restoration Hardware, Inc. revolving line of credit, to finance the carrying costs of our inventory, to pay for capital expenditures and operating expenses and to support our growth strategy. As of July 28, 2012, we had borrowed $129.6 million under the revolving line of credit and had $86.2 million available for borrowing. In addition, the total amount outstanding under the Restoration Hardware, Inc. term loan was $14.8 million, net of $0.2 million of unamortized debt issuance costs, as of July 28, 2012. Various factors may impact our lenders willingness to provide funds to us, including:

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

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

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

In addition, we may experience cash flow shortfalls in the future, and we may otherwise require additional external funding, or we may need to raise funds to take advantage of unanticipated opportunities, to make acquisitions of other businesses or companies or to respond to changing business conditions or unanticipated competitive pressures. However, we cannot assure you that we will be able to raise funds on favorable terms, if at all, or that future financing requirements would not be dilutive to holders of our capital stock. If we fail to raise sufficient additional funds, we may be required to delay or abandon some of our planned future expenditures or aspects of our current operations.

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

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

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

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

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

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

Our quarterly results have fluctuated in the past and may fluctuate significantly in the future, depending upon a variety of factors, including, among other things, our product offerings, the timing and level of markdowns, promotional events, store openings, store closings, the weather, remodeling or relocations, shifts in

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the timing of holidays, timing of catalog releases or sales, timing of delivery of orders, competitive factors and general economic conditions.

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

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

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

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

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

We are engaged in ongoing efforts to explore new business opportunities that we believe can leverage our current business platform. We have developed a number of new product categories and extensions over the last several years, including Garden & Outdoor, Baby & Child and Big Style, small spaces. We also have introduced other merchandise categories that enhance the customer experience in our full line Design Galleries, including fresh cut flowers, magazines and tea, and plan further brand-enhancing offerings, such as an Art & Culture category, which could include works of art by independent artists, and a café or restaurant adjacent to, or inside of, select full line Design Galleries. We are incubating a number of other new areas for potential expansion of our business, some of which may become new core categories and others of which may be primarily offered as enrichment of the customer experience.

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

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

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

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

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

Disruptions in the global financial markets and banking systems have made credit and capital markets more difficult for companies to access, even for some companies with established revolving or other credit facilities. Under the credit agreement governing the Restoration Hardware, Inc. revolving line of credit, each financial institution that is part of the syndicate for the revolving line of credit is responsible for providing a portion of the loans to be made under the revolving line of credit. Factors that have previously affected our borrowing ability under the revolving line of credit have included the borrowing base formula limitations, adjustments in the appraised value of our inventory used to calculate the borrowing base and the availability of each of our lenders to advance its portion of requested borrowing drawdowns under the facility. If, in connection with a disruption in the global financial markets or otherwise, any participant, or group of participants, with a significant portion of the commitments in the revolving line of credit fails to satisfy its obligations to extend credit under the facility, and if we are unable to find a replacement for such participant or group of participants on a timely basis (if at all), then our liquidity and our business may be materially adversely affected.

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

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

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

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

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

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

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

Increases in the prices of the components and raw materials used in our products could negatively affect the sales of our merchandise and our product margins. These prices may fluctuate based on a number of factors beyond our control, including: commodity prices including prices for oil, lumber and cotton, changes in supply and demand, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates and government regulation. In addition, energy costs have fluctuated dramatically in the past. These

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Labor activities could cause labor relations difficulties for us.

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

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

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

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

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

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

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

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

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

In addition to increased regulatory compliance requirements, changes in laws could make ordinary conduct of our business more expensive or require us to change the way we do business. For example, as a retail business, changes in laws related to employee benefits and treatment of employees, including laws related to limitations on employee hours, supervisory status, leaves of absence, mandated health benefits or overtime pay, could

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negatively impact us by increasing compensation and benefits costs for overtime and medical expenses. In addition, newly enacted United States health care laws and potential global and domestic greenhouse gas emission requirements and other environmental legislation and regulations could result in increased direct compliance costs for us (or may cause our vendors to raise the prices they charge us in order to maintain profitable operations because of increased compliance costs), increased transportation costs or reduced availability of raw materials.

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

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

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

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

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

We experienced net losses of $28.7 million and $7.1 million in fiscal 2009 and fiscal 2010, respectively. We only recently achieved profitability, as we reported net income of $20.6 million in fiscal 2011. We may experience net losses in the future, and we cannot assure you that we will sustain recently achieved profitability in future periods.

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

We are subject to income taxes in the United States and certain foreign jurisdictions. We record tax expense based on our estimates of future payments, which include reserves for uncertain tax positions in multiple tax jurisdictions, and valuation allowances related to certain net deferred tax assets, including net operating loss carryforwards. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. Under United States federal and state income tax laws, if over a rolling three-year period, the cumulative change in our ownership exceeds 50%, our ability to utilize our net operating loss carryforwards to offset future taxable income may be limited. Changes in ownership can occur due to transactions in our stock or the issuance of additional shares of our common stock or, in certain circumstances, securities convertible into our common stock. Certain transactions we have completed, including our going private transaction in June 2008, and the sale of shares contemplated in this offering, may impact the timing of the utilization of our net operating loss carryforwards. Furthermore, it is possible that transactions in our stock that may not be within our control may cause us to exceed the 50% cumulative change threshold and may impose a limitation on the utilization of our net operating loss carryforwards in the future. Any such limitation on the timing of utilizing our net operating loss carryforwards would increase the use of cash to settle our tax obligations. We expect that throughout the year there could be ongoing variability in our quarterly tax rates as events occur and exposures are evaluated.

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

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

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

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

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

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Risks Related to this Offering and Ownership of Our Common Stock

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

After this offering, the market price for our common stock is likely to be volatile, in part because our shares have not been traded publicly. In addition, as a retailer, our results are significantly affected by factors outside our control, particularly consumer spending and consumer confidence, which can significantly affect our stock price. In addition, the market price of our common stock may fluctuate significantly in response to a number of other factors, including those described elsewhere in this Risk Factors section and this prospectus, as well as the following:

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

issuances or expected issuances of capital stock; and

global economic, legal and regulatory changes unrelated to our performance.

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

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

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

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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 after this offering, 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. Upon completion of this offering, we will have million shares of common stock outstanding. The shares of common stock offered in this offering will be freely tradable without restriction under the Securities Act of 1933, as amended (the Securities Act), except for any shares of our common stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which will be restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. Moreover, under a registration rights agreement, Home Holdings, Catterton and Tower Three will have registration rights whereby, at any time following our initial public offering, Home Holdings, Catterton or Tower Three can require us to register under the Securities Act any shares owned by Home Holdings, Catterton or Tower Three as of the date of this prospectus and not sold in this offering. See Certain Relationships and Related Party Transactions Registration Rights Agreement for a more detailed description of the registration rights agreement. If our existing stockholders sell substantial amounts of our common stock in the public market, or if the public perceives that such sales could occur, this could have an adverse impact on the market price of our common stock, even if there is no relationship between such sales and the performance of our business.

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

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

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

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

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

- establish a classified board of directors so that not all members of our board of directors are elected at one time;

- authorize the issuance of undesignated preferred stock, the terms of which may be established and the shares of which may be issued without stockholder approval, and which may include super voting, special approval, dividend or other rights or preferences superior to the rights of the holders of common stock;

- after the date on which Home Holdings no longer holds at least shares of our common stock, prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;

- provide that our board of directors is expressly authorized to make, alter or repeal our bylaws; and

- establish advance notice requirements for nominations for elections to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings.

Our certificate of incorporation will also contain a provision that provides us with protections similar to Section 203 of the Delaware General Corporation Law (DGCL), and will prevent us from engaging in a business combination with a person who acquires at least 15% of our common stock for a period of three years from the date such person acquired such common stock unless board or stockholder approval is obtained prior to the acquisition, except that our Principal Equity Holders and any persons to whom our Principal Equity Holders sell their common stock will be deemed to have been approved by our board of directors, and thereby not subject to these restrictions. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our Company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and to cause us to take other corporate actions you desire.

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

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

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

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

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

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

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

Upon completion of this offering, Home Holdings will own approximately shares, or %, of our outstanding common stock. Of that amount, Catterton will beneficially own approximately shares, or % of our outstanding common stock, Tower Three will beneficially own approximately shares, or % of our outstanding common stock, and Glenhill will beneficially own approximately shares, or % of our outstanding common stock.

Home Holdings, and through Home Holdings, Catterton, Tower Three and Glenhill, will have significant influence over our reporting and corporate management and affairs and will be able to control certain matters requiring stockholder approval after this offering. It is possible that the interests of our Principal Equity Holders may in some circumstances conflict with the interests of our other stockholders, including you. We intend to enter into a stockholders agreement with Home Holdings that will provide for certain approval rights for Home Holdings and designation of directors by Home Holdings. The stockholders agreement will provide that, for so long as Home Holdings and the Principal Equity Holders hold at least shares of our common stock, Home Holdings shall have the right to nominate a majority of the members of our board of directors and as long as Home Holdings and the Principal Equity Holders hold at least shares of our common stock, Home Holdings shall have the right to nominate two members of our board of directors. Home Holdings currently expects to nominate two directors to our board of directors, one of which will be designated by Catterton and one of which will be designated by Tower Three. For so long as Home Holdings and the Principal Equity Holders own at least shares of our common stock, no action may be taken or vote approved by our board of directors or any committee thereof (other than the audit committee or any other committee of directors that may be created with the approval of Home Holdings as not being subject to this provision) without the affirmative vote of the Catterton and Tower Three designated directors. In addition, for so long as Home Holdings holds at least shares of our common stock, certain actions may not be taken without the approval of Home Holdings. The stockholder agreement also will provide for a waiver of the corporate opportunity doctrine with respect to Home Holdings and its affiliates, including the Principal Equity Holders. See Certain Relationships and Related Party Transactions Stockholders Agreement.

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

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

Because of the aggregate voting power over our Company held by Home Holdings, we are considered a controlled company for the purposes of the NYSE listing requirements. As such, we are exempt from the corporate governance requirements that our board of directors, our compensation committee and our nominating and corporate governance committee meet the standard of independence established by those corporate

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governance requirements. The independence standards are intended to ensure that directors who meet the independence standard are free of any conflicting interest that could influence their actions as directors.

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

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

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

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

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

We will incur new costs as a result of becoming a public company, and such costs may increase when and if we cease to be an emerging growth company.

As a public company, we will incur significant legal, accounting, insurance and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect compliance with these public reporting requirements and associated rules and regulations to increase our legal and financial costs, particularly after we are no longer an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act), and to make some activities more time-consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Further, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and, potentially, civil litigation.

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The recently enacted JOBS Act reduces certain disclosure requirements for emerging growth companies, thereby decreasing related regulatory compliance costs. We qualify as an emerging growth company as of the date of this offering. However, we will cease to be an emerging growth company if we have net revenues of $1.0 billion or more in a fiscal year. We had net revenues of $958.1 million in fiscal 2011 and, if our net revenues exceed $1.0 billion in fiscal 2012, we would no longer qualify as an emerging growth company after the end of fiscal 2012, after which time we would not be able to take advantage of the reduced regulatory requirements and any associated cost savings.

As an emerging growth company, we cannot be certain whether taking advantage of the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

The JOBS Act provides that, so long as a company qualifies as an emerging growth company, it will, among other things, be exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that its independent registered public accounting firm provide an attestation report on the effectiveness of its internal control over financial reporting, be exempt from the say on pay and say on golden parachute advisory vote requirements of the Dodd-Frank Wall Street Reform and Customer Protection Act (the Dodd-Frank Act) and certain disclosure requirements of the Dodd-Frank Act relating to compensation of its chief executive officer and be permitted to omit the detailed compensation discussion and analysis from proxy statements and reports filed under the Securities Exchange Act of 1934, as amended (the Exchange Act), and instead provide a reduced level of disclosure concerning executive compensation and be exempt from any rules that may be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotations or a supplement to the auditor s report on the financial statements.

Although we are still evaluating the JOBS Act, we currently intend to take advantage of the reduced disclosure requirements regarding executive compensation. We have irrevocably elected not to take advantage of the extension of time to comply with new or revised financial accounting standards available under Section 107(b) of the JOBS Act. If we remain an emerging growth company after fiscal 2012, we may take advantage of other exemptions, including the exemptions from the advisory vote requirements and executive compensation disclosures under the Dodd-Frank Act and the exemption from the provisions of Section 404(b) of the Sarbanes-Oxley Act. We cannot predict if investors will find our common stock less attractive if we rely on these exemptions, or if taking advantage of these exemptions would result in less active trading or more volatility in the price of our common stock. Also, as a result of our intention to take advantage of some or all of the reduced regulatory and reporting requirements that will be available to us as long as we qualify as an emerging growth company, our financial statements may not be comparable to companies that fully comply with regulatory and reporting requirements upon the public company effective dates.

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FORWARD-LOOKING STATEMENTS AND MARKET DATA

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

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

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

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statements. You should evaluate all forward-looking statements made in this prospectus in the context of these risks and uncertainties.

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

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

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USE OF PROCEEDS

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

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

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

The total outstanding amounts under the Restoration Hardware, Inc. revolving line of credit was $129.6 million as of July 28, 2012. The maturity date of the revolving line of credit is August 3, 2016. Borrowings under the revolving line of credit bear interest at a rate equal to either the bank s reference rate or the London Interbank Offered Rate as published by Reuters, referred to as LIBOR, plus an applicable margin rate. See Description of Certain Indebtedness.

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

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

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

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DIVIDEND POLICY

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

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CAPITALIZATION

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

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

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

	As of July 28, 2012	
	Actual	Pro Forma as Adjusted (1)
	(dollars in thousands, except per share data)	
Cash and cash equivalents	$ 10,102	$
Debt, including current portion:		
Long-term liabilities:		
Revolving line of credit	$ 129,637	$
Term loan	14,815	
Total long term debt (including current portion)	144,452	
Stockholders equity:		
Common stock, $0.01 par value per share, 1,000 shares authorized, 100 issued and outstanding, actual; $0.0001 par value per share, shares authorized, shares issued and outstanding, pro forma as adjusted		
Additional paid-in capital	292,748	

Accumulated other comprehensive income	1,185	
Accumulated deficit	(28,810)	(2)
Total stockholders equity	265,123	
Total capitalization	$ 409,575	$

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, the midpoint of the estimated price range set forth on the cover of this prospectus, would increase (decrease) the pro forma as adjusted amount of cash and cash equivalents by $ million, total assets by $ million, revolving

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line of credit by $ million, term loan by $ million, total debt (including current portion) by $ million and total stockholders equity by $ million, assuming the number of shares offered by us, as set forth on the cover of this prospectus, remains the same and after deducting the underwriting discount and estimated offering expenses.

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

The information set forth above excludes:

- options to purchase shares of our common stock, with an exercise price equal to the initial public offering price, that we expect to grant in connection with this offering under the 2012 Plan (the amount of unrecognized compensation expense related to these options is $);

- options to purchase shares of our common stock, with an exercise price equal to $ per share, that we expect to grant in connection with this offering to our Chief Executive Officer, Carlos Alberini and shares of our common stock, with an exercise price equal to $ per share, that we expect to grant in connection with this offering to Gary Friedman, who serves as our Creator and Curator on an advisory basis; and

- additional shares of common stock reserved for future grants under the 2012 Plan.

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DILUTION

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

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

The following table illustrates this dilution to new investors:

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

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

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

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

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

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

The tables and calculations above exclude:

- options to purchase shares of our common stock, each with an exercise price equal to the initial public offering price, that we expect to grant in connection with this offering under the 2012 Plan;
- options to purchase shares of our common stock, with an exercise price equal to $ per share, that we expect to grant in connection with this offering to our Chief Executive Officer, Carlos Alberini, and shares of our common stock, with an exercise price equal to $ per share, that we expect to grant in connection with this offering to Gary Friedman, who serves as our Creator and Curator on an advisory basis; and
- additional shares of common stock reserved for future grants under the 2012 Plan.

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

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA

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

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

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

The selected consolidated financial data for the six months ended July 30, 2011, and July 28, 2012, and as of July 28, 2012, were derived from Restoration Hardware, Inc. s unaudited consolidated interim financial statements included elsewhere in this prospectus. The unaudited consolidated interim financial statements were prepared on a basis consistent with that used in preparing our audited consolidated financial statements and include all adjustments, consisting of normal and recurring items, that we consider necessary for a fair presentation of our financial position and results of operations for the unaudited periods. The unaudited financial information for the twelve months ended July 30, 2011, has been derived by adding our financial information for the year ended January 29, 2011, to the financial information for the six months ended July 30, 2011, and subtracting the financial information for the six months ended July 31, 2010. The unaudited financial information for the twelve months ended July 28, 2012, has been derived by adding our financial information for the year ended January 28, 2012, to the financial information for the six months ended July 28, 2012, and subtracting the financial information for the six months ended July 30, 2011. We believe that presentation of unaudited financial information for these twelve-month periods is useful to investors because it presents information about how our business has performed in the twelve-month period immediately preceding the date of our most recent interim financial statements, which allows investors to review our current performance trends over a full year period, and presenting results for four consecutive quarters compensates for seasonal factors that might influence results in a particular quarter within the year.

In the third quarter of 2012, we changed our accounting policy for recognizing stock-based compensation expense which has been applied retrospectively to the periods presented below. For further discussion, see footnote 2 to the table below.

Restoration Hardware, Inc. s historical results are not necessarily indicative of future operating results, and interim results for the six months ended July 28, 2012 are not projections for the results to be expected for the

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fiscal year ending February 2, 2013. The selected historical consolidated data presented below should be read in conjunction with the sections entitled Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes thereto and other financial data included elsewhere in this prospectus.

	Predecessor		Successor							
				Year Ended			Six Months Ended		Last Twelve Months Ended (1)	
	Year Ended February 2, 2008	Period from February 3, 2008 Through June 16, 2008	Period from June 17, 2008 Through January 31, 2009	January 30, 2010	January 29, 2011	January 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011	July 28, 2012
	(dollars in thousands, excluding per share and per square foot data)									
Statement of Operations Data:										
Net revenues	$ 722,243	$ 195,437	$ 498,581	$ 625,685	$ 772,752	$ 958,084	$ 420,383	$ 510,820	$ 862,281	$ 1,048,521
Cost of goods sold	490,935	140,088	308,448	412,629	501,132	601,735	265,953	321,425	553,001	657,207
Gross profit	231,308	55,349	190,133	213,056	271,620	356,349	154,430	189,395	309,280	391,314
Selling, general and administrative expenses (2)	274,454	75,396	213,011	238,889	274,836	329,506	150,395	171,830	299,493	350,941
Income (loss) from operations	(43,146)	(20,047)	(22,878)	(25,833)	(3,216)	26,843	4,035	17,565	9,787	40,373
Interest expense	(8,663)	(2,731)	(4,907)	(3,241)	(3,150)	(5,134)	(1,888)	(3,054)	(3,459)	(6,300)
Income (loss) before income taxes	(51,809)	(22,778)	(27,785)	(29,074)	(6,366)	21,709	2,147	14,511	6,328	34,073
Income tax expense (benefit)	127	508	(201)	(423)	685	1,121	783	623	1,427	961
Net income (loss)	$ (51,936)	$ (23,286)	$ (27,584)	$ (28,651)	$ (7,051)	$ 20,588	$ 1,364	$ 13,888	$ 4,901	$ 33,112
Net income (loss) per share:										
Basic	$ (1.34)	$ (0.60)	$ (275,840)	$ (286,510)	$ (70,510)	$ 205,880	$ 13,640	$ 138,880	$ 49,010	$ 331,120
Diluted	$ (1.34)	$ (0.60)	$ (275,840)	$ (286,510)	$ (70,510)	$ 205,880	$ 13,640	$ 138,880	$ 49,010	$ 331,120
Average number of shares outstanding:										
Basic	38,831,000	38,969,000	100	100	100	100	100	100	100	100
Diluted	38,831,000	38,969,000	100	100	100	100	100	100	100	100
Pro forma net income per share (3):										
Basic						$		$		

Diluted						$		$		
Pro forma average number of shares outstanding (3):										
Basic										
Diluted										
Other Financial and Operating Data:										
Growth in net revenues:										
Stores (4)	(10)%			(6)%	15%	22%	21%	19%	17%	21%
Direct	28%			(15)%	37%	27%	36%	25%	38%	23%
Total	1%			(10)%	24%	24%	27%	22%	26%	22%
Retail (5):										
Comparable store sales change (6)	(10)%	(12)%	(8)%	(7)%	19%	25%	20%	29%	17%	29%
Retail stores open at end of period	102	100	99	95	91	74	87	73	87	73
Average gross square footage (in thousands) (7)	1,084	1,072	1,060	1,042	1,014	913	946	801	977	841
Average selling square footage (in thousands) (7)	685	677	671	660	641	580	599	519	619	540
Retail sales per selling square foot (8)	$ 600	$ 147	$ 406	$ 525	$ 635	$ 846	$ 351	$ 481	$ 710	$ 981
Direct:										
Catalogs circulated (in thousands) (9)	57,501	13,771	26,831	31,336	46,507	26,052	12,723	15,131	40,355	28,460
Catalog pages circulated (in millions) (9)	8,636	2,168	3,507	4,418	6,260	8,848	3,289	7,417	6,726	12,975
Direct as a percentage of net revenues (10)	38%	43%	41%	39%	43%	44%	45%	46%	45%	45%
Capital expenditures	$ 13,282	$ 3,821	$ 13,428	$ 2,024	$ 39,907	$ 25,593	$ 12,168	$ 13,517	$ 37,894	$ 26,942
Adjusted EBITDA (11)	$ (4,033)	$ (8,219)	$ 4,386	$ 17,596	$ 41,097	$ 80,154	$ 27,747	$ 34,897	$ 59,850	$ 87,304

	Predecessor	Successor				
	February 2, 2008	January 31, 2009	January 30, 2010	January 29, 2011	January 28, 2012	July 28, 2012
			(in thousands)			
Balance Sheet Data:						
Cash and cash equivalents	$ 1,229	$ 8,603	$ 13,186	$ 13,364	$ 8,511	$ 10,102
Working capital (excluding cash and cash equivalents) (12)	103,734	102,850	57,058	103,894	156,505	192,252
Total assets	342,546	494,773	431,528	501,991	586,809	650,874
Line of credit	78,367	110,696	57,442	111,837	107,502	129,637
Term loan					14,798	14,815
Total debt (including current portion) (13)	110,774	117,515	61,652	116,995	131,040	151,089
Total stockholders equity	43,830	238,670	221,079	215,804	250,462	265,123

(1) The unaudited financial information for the twelve months ended July 30, 2011, has been derived by adding our financial information for the year ended January 29, 2011, to the financial information for the six months ended July 30, 2011, and subtracting the financial information for the six months ended July 31, 2010. The unaudited financial information for the twelve months ended July 28, 2012, has been derived by adding our financial information for the year ended January 28, 2012, to the financial information for the six months ended July 28, 2012, and subtracting the financial information for the six months ended July 30, 2011.

(2) In the third quarter of 2012, we changed our policy for recognizing stock-based compensation expense from the graded method of accounting to the straight-line method of accounting for our time-based units (or service-only awards). This change in accounting resulted in a reduction in selling, general and administrative expenses of $1.0 million, $0.2 million, $0.2 million and $0.5 million in fiscal 2010, fiscal 2011, the first six months of fiscal 2011 and the last twelve months ending July 30, 2011, respectively, and an increase in selling, general and administrative expenses of $0.1 million and $0.1 million in the first six months of fiscal 2012 and the last twelve months ending July 28, 2012, respectively. The impact in fiscal 2009 was immaterial and there was no impact for years prior to 2009. See Note 3 *Change in Accounting Principle Stock-Based Compensation* to Restoration Hardware, Inc. s audited consolidated financial statements.

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

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

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

(6) Comparable store sales have been calculated based upon retail stores that were open at least fourteen full months as of the end of the reporting period and did not change square footage by more than 20% between periods. Comparable store net revenues exclude revenues from outlet stores.

(7) Average square footage (gross or selling, as applicable) is calculated for each quarter by taking the total applicable square footage at the beginning of the quarter plus the total applicable square footage at the end of the quarter and dividing by two. Average square footage for periods of six, nine and twelve months is calculated by averaging the average square footage for the quarters within such periods.

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

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

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

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

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

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

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

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

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

	Predecessor (a)		Successor							
				Year Ended			Six Months Ended		Last Twelve Months Ended	
	Year Ended February 2, 2008	Period from February 3, 2008 Through June 16, 2008	Period from June 17, 2008 Through January 31, 2009	January 30, 2010	January 29, 2011	January 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011	July 28, 2012
					(in thousands)					
Net income (loss)	$ (51,936)	$ (23,286)	$ (27,584)	$ (28,651)	$ (7,051)	$ 20,588	$ 1,364	$ 13,888	$ 4,901	$ 33,112
Depreciation and amortization	23,120	7,934	50,222	43,065	31,263	29,186	14,983	12,892	32,499	27,095
Interest expense	8,663	2,731	4,907	3,241	3,150	5,134	1,888	3,054	3,459	6,300
Income tax expense (benefit)	127	508	(201)	(423)	685	1,121	783	623	1,427	961
EBITDA	(20,026)	(12,113)	27,344	17,232	28,047	56,029	19,018	30,457	42,286	67,468
Management and board fees (b)	517	91	1,985	4,620	4,793	10,715	2,396	2,087	4,715	10,406
Non-cash compensation (c)	2,706	2,319		592	1,119	7,907	876	738	1,455	7,769
Terminated operations (d)	6,800	884	3,821	2,604	352	1,580	1,666		1,599	(86)
Severance and other transaction costs (e)	886	600	368	1,521	1,797	621	28		1,324	593
Impairment of long-lived assets (f)	5,084		3,868	2,304	2,115				2,115	
Lease termination costs (g)						3,110	3,571	(386)	3,571	(847)
Amortization of inventory fair value adjustment (h)			(35,075)	(12,780)						
Non-capitalized IPO costs (i)					2,351				2,351	
Special committee investigation and remediation (j)								1,989		1,989
Other adjustments allowable under our agreements with our stockholders (k)			2,075	1,503	523	192	192	12	434	12
Adjusted EBITDA	$ (4,033)	$ (8,219)	$ 4,386	$ 17,596	$ 41,097	$ 80,154	$ 27,747	$ 34,897	$ 59,850	$ 87,304

(a) We have presented Adjusted EBITDA for the Predecessor periods consistently with the Successor periods to present information on a comparable basis for those periods.

(b) Includes fees paid in accordance with our management services agreement with Home Holdings in the Successor periods, as well as fees and expense reimbursements paid to our board of directors in both the Predecessor and Successor periods.

(c) Represents non-cash charges related to stock-based compensation programs. Fiscal 2011 includes a $6.4 million compensation charge related to the repayment of loans owed to Home Holdings by Gary Friedman, through the reclassification by Home Holdings of Mr. Friedman s Class A and Class A-1 ownership units into an equal number of Class A Prime and Class A-1 Prime ownership units. Mr. Friedman served as our Chairman and Co-Chief Executive Officer at the time of such loan repayment.

(d) Includes the impact of divesting our Brocade Home brand, closing four temporary clearance centers operated from October 2008 to March 2010, costs related to closing of The Michaels Furniture Company and costs related to the restructuring of our Shanghai office location.

(e) Amounts in the 2008 Predecessor period and the 2008 Successor period include severance costs, and transaction costs associated with our Acquisition by Home Holdings. Amounts in fiscal 2009, fiscal 2010, and fiscal 2011 generally include executive severance and other related costs.

(f) Includes costs related to impairment of long-lived assets related to our retail store operations.

(g) Includes lease termination costs for retail stores that were closed prior to their respective lease termination dates. The amount in the first six months of fiscal 2012 relates to changes in estimates regarding liabilities for future lease payments for closed stores.

(h) Represents non-cash impact of amortizing the net fair value adjustment to inventory recorded in connection with the purchase price allocation for the Acquisition over the period of the inventory turn.

(i) Represents costs related to our efforts to pursue an initial public offering.

(j) Represents legal and other professional fees, incurred in connection with the investigation conducted by the special committee of the board of directors (as described in Risk Factors *Our former Chairman and Co-Chief Executive Officer, Gary Friedman, resigned from these positions and as a director of the Company effective as of , 2012. There can be no assurance that these developments will not have an adverse impact on us.*), and our subsequent remedial actions.

(k) Represents items which management believes are not indicative of our ongoing operating performance. The 2008 Successor period includes consulting fees related to organizational matters following the Acquisition. Fiscal 2009 includes one-time start-up costs associated with Baby & Child and occupancy costs for corporate office space exited by us as part of the Acquisition. Fiscal 2010 and fiscal 2011 include consulting fees related to organizational matters and state franchise tax amounts. All periods include foreign exchange gains and losses.

(12) Working capital is defined as current assets, excluding cash and cash equivalents, less current liabilities, excluding the current portion of long-term debt.

(13) Total debt (including current portion) includes the revolving line of credit, term loan, and capital lease obligations.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We believe RH is one of the fastest growing and most innovative luxury brands in the home furnishings marketplace. Our collections of timeless, updated classics and reproductions are presented consistently across our sales channels in sophisticated and unique lifestyle settings that we believe are on par with world-class interior designers. We offer dominant merchandise assortments across a growing number of categories, including furniture, lighting, textiles, bathware, décor, outdoor, garden, and baby and child products. Our business is fully integrated across our multiple channels of distribution, consisting of our stores, catalogs and websites. We position our stores as showrooms for our brand, while our catalogs and websites act as virtual extensions of our stores. As of July 28, 2012, we operated 71 Galleries, 2 full line Design Galleries and 10 outlet stores throughout the United States and Canada. In fiscal 2011, we distributed approximately 26.1 million catalogs, and our websites logged over 14.3 million unique visits.

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

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

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

- From fiscal 2009 to fiscal 2011, we increased our net revenues 53% to $958.1 million, our Adjusted EBITDA 356% to $80.2 million and our Adjusted EBITDA margin by 555 basis points to 8.4%. Over the same time period, we increased our net income by $49.3 million from a net loss of $28.7 million to net income of $20.6 million; and
- We achieved ten consecutive quarters of double-digit net revenue growth through our fiscal quarter ended July 28, 2012. We achieved this growth as we contracted our store base from 95 retail locations as of January 30, 2010, to 73 locations as of July 28, 2012.

Factors Affecting Our Operating Results

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

Overall Economic Trends. The industry in which we operate is cyclical, and consequently our revenues are affected by general economic conditions. For example, reduced consumer confidence and lower availability and higher cost of consumer credit reduces demand for our products and limits our ability to increase prices or sustain price increases. We expect that some of the economic factors that have been in place for the last several years, including the continuing economic uncertainty (particularly in the housing market in the United States) may continue in future periods. Based on our research, we believe that the domestic housewares and home furnishings market is anticipated to grow at a compound annual growth rate of 3 4% between 2011 and 2015. However, there can be no assurance that the market will grow at this rate. The growth rate of the market could be affected by macroeconomic conditions in the United States. Although we believe our annual net revenues currently represent less than 1% of the domestic housewares and home furnishings market and therefore we have opportunities to grow market share in future periods, slower rates of growth could negatively impact our results. For more information, see Risk Factors *Changes in consumer spending or the housing market may significantly harm our revenue and results of operations*.

Our Strategic Initiatives. We are in the process of implementing a number of significant business initiatives that have had and will continue to have an impact on our results of operations, including the development of new larger full line Design Galleries in a number of new locations, the optimization of our store sizes to better fit anticipated demand in a given market, the expansion of our product categories and services and changes in the ways in which we market with our catalogs. Although these initiatives are designed to create growth in our business and continuing improvement in our operating results, the timing of expenditures related to these initiatives, as well as the achievement of returns on our investments, may affect our results of operation in future periods, and we may not achieve the desired benefits. Opening full line Design Galleries will require significant capital expenditures, and retail store closures may lead to charges including lease termination and other exit costs. These changes could affect our results of operation in future periods. In addition, the investments required to continue our strategic initiatives may have a negative impact on cash flows in future periods and could create pressure on our liquidity if we do not achieve the desired results from these initiatives in a timely manner. We expect that we will continue to incur significant capital expenditures as part of our initiative to open more full line Design Galleries over the next several years, and that these expenditures will have an impact on our cash flows during this time. For fiscal 2011, we incurred total capital expenditures of $25.6 million and we anticipate our capital expenditure requirements to be approximately $65 million for fiscal 2012, of which $13.5 million was spent during the first six months of fiscal 2012.

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

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

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

How We Assess the Performance of Our Business

In assessing the performance of our business, we consider a variety of financial and operating measures that affect our operating results. The key measure for determining how our business is performing is Adjusted

EBITDA. Additionally, we review other important metrics such as net revenues, gross profit, gross margin, net income (loss), comparable store sales, selling, general and administrative expenses, catalogs circulated and circulated catalog pages.

Adjusted EBITDA. We believe that Adjusted EBITDA is a superior measure of operating performance, as it provides a clearer picture of operating results by eliminating expenses that are not reflective of underlying business performance. We use Adjusted EBITDA to facilitate a comparison of our operating performance on a consistent basis from period-to-period and to provide for a more complete understanding of factors and trends affecting our business. We also use Adjusted EBITDA as one of the primary methods for planning and forecasting overall expected performance and for evaluating on a quarterly and annual basis actual results against such expectations, and as the basis of our MIP.

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

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

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

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

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

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

Gross Profit. Gross profit is equal to our net revenues less cost of goods sold. Gross profit as a percentage of our net revenues is referred to as gross margin. Cost of goods sold include the direct cost of purchased merchandise; inventory shrinkage; inventory adjustments due to obsolescence, including excess and slow-moving inventory and lower of cost or market reserves; inbound freight; all freight costs to get merchandise to

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our stores; design, buying and allocation costs; occupancy costs related to store operations, such as rent and common area maintenance; depreciation and amortization of leasehold improvements, equipment and other assets in our stores and distribution centers; and all logistics costs associated with shipping product to our customers, which are only partially offset by shipping income collected from customers. We expect gross profit to increase to the extent that we successfully grow our net revenues and leverage the fixed portion of cost of goods sold.

Our gross profit can be favorably impacted by sales volume increases, as occupancy and certain other costs that are largely fixed do not necessarily increase proportionally with volume increases. Changes in the mix of our products may also impact our gross profit. We review our inventory levels on an ongoing basis in order to identify slow-moving merchandise and use product markdowns and our outlet stores to efficiently sell these products. The timing and level of markdowns are driven primarily by customer acceptance of our merchandise. The primary drivers of the costs of individual goods are raw materials costs, which fluctuate based on a number of factors beyond our control, including commodity prices, changes in supply and demand, general economic conditions, competition, import duties, tariffs and government regulation, logistics costs (which may increase in the event of, for example, interruptions in the operation of our distribution centers, furniture home delivery hubs and customer care center or damage or interruption to our information systems) and labor costs in the countries where we source our merchandise. We place orders with merchandise vendors primarily in United States dollars and, as a result, are not exposed to significant foreign currency exchange risk.

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

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

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

Other Factors Affecting Our Results

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

Purchase Accounting Impact of the Acquisition. All of the outstanding capital stock of Restoration Hardware, Inc. was acquired on June 16, 2008, by Home Holdings (which we refer to as the Acquisition) through a transaction that was accounted for under Statement of Financial Accounting Standards 141, Business Combinations. The purchase price was allocated to state our assets and liabilities at fair value, which took into account work performed by an independent third-party valuation firm. The allocation of the purchase price had the net effect of reducing the carrying amount of inventory by $47.9 million, increasing property and equipment by $17.6 million and increasing amortizable intangible assets by $55.7 million. The $47.9 million decrease in inventory value was due to the prevailing adverse economic situation at the date of the Acquisition and the application of a market participant approach to the valuation of inventory on hand. Such decrease was amortized to cost of goods sold over approximately nine months and resulted in increased gross profit during fiscal 2009.

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We are depreciating the $17.6 million increase in property and equipment over the useful life of each asset, which has had the effect of reducing gross profit and increasing selling, general and administrative expenses subsequent to the Acquisition. The $55.7 million increase in amortizable intangible assets is being amortized over the remaining life of each asset and has had the effect of reducing gross profit and increasing selling, general and administrative expenses subsequent to the Acquisition. We also recorded intangible assets with an indefinite life, which consisted of goodwill and trademarks, at their fair values of $122.3 million and $47.1 million, respectively.

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

	Year Ended						Six Months Ended			
	January 30, 2010		January 29, 2011		January 28, 2012		July 30, 2011		July 28, 2012	
	(dollars in thousands)									
Net revenues	$ 625,685	100%	$ 772,752	100%	$ 958,084	100%	$ 420,383	100%	$ 510,820	100%
Gross profit increase (decrease)										
Amortization of inventory fair value adjustment	$ 12,780	2.0%	$	%	$	%	$	%	$	%
Depreciation related to step up of property and equipment	(5,427)	(0.9)%	(3,076)	(0.4)%	(1,783)	(0.2)%	(984)	(0.2)%	(628)	(0.1)%
Amortization of intangible related to net fair value of leases	(2,899)	(0.3)%	(1,975)	(0.3)%	(1,507)	(0.1)%	(857)	(0.2)%	(454)	(0.1)%
	$ 4,454	0.8%	$ (5,051)	(0.7)%	$ (3,290)	(0.3)%	$ (1,841)	(0.4)%	$ (1,082)	(0.2)%
Selling general and administrative increase (decrease)										
Amortization of intangible related to customer relationships	$ 12,500	2.0%	$	%	$	%	$	%	$	%
Amortization of intangible related to core technologies	1,316	0.2%	1,316	0.2%	1,316	0.1%	658	0.2%	658	0.1%
Depreciation related to step up of property and equipment	451	0.1%	150	%		%		%		%
Amortization of intangible related to net fair value of leases	465	0.1%	140	%	(21)	%	(11)	%	(9)	%
	$ 14,732	2.4%	$ 1,606	0.2%	$ 1,295	0.1%	$ 647	0.2%	$ 649	0.1%

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

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Basis of Presentation and Results of Operations

The following discussion contains references to fiscal years 2009, 2010 and 2011, which represent our fiscal years ended January 30, 2010, January 29, 2011, and January 28, 2012, respectively. Our fiscal year ends on the Saturday closest to January 31. Fiscal years 2009, 2010 and 2011 were 52-week periods. The first six months of fiscal 2011 and fiscal 2012 were 26-week periods.

Prior to the completion of this offering, all of the outstanding shares of capital stock of Restoration Hardware, Inc., will be contributed by Home Holdings to Restoration Hardware Holdings, Inc. as a capital contribution. Outstanding units under the Team Resto Ownership Plan will be converted in connection with this offering into shares of common stock.

	Year Ended			Six Months Ended	
	January 30, 2010	January 29, 2011	January 28, 2012	July 30, 2011	July 28, 2012
	(dollars in thousands, excluding per square foot store data)				
Statement of Operations Data:					
Net revenues	$ 625,685	$ 772,752	$ 958,084	$ 420,383	$ 510,820
Cost of goods sold	412,629	501,132	601,735	265,953	321,425
Gross profit	213,056	271,620	356,349	154,430	189,395
Selling, general and administrative expenses	238,889	274,836	329,506	150,395	171,830
Income (loss) from operations	(25,833)	(3,216)	26,843	4,035	17,565
Interest expense	(3,241)	(3,150)	(5,134)	(1,888)	(3,054)
Income (loss) before income taxes	(29,074)	(6,366)	21,709	2,147	14,511
Income tax expense (benefit)	(423)	685	1,121	783	623
Net income (loss)	$ (28,651)	$ (7,051)	$ 20,588	$ 1,364	$ 13,888
Other Financial and Operating Data:					
Growth in net revenues:					
Stores (1)	(6)%	15%	22%	21%	19%
Direct	(15)%	37%	27%	36%	25%
Total	(10)%	24%	24%	27%	22%
Retail (2):					
Comparable store sales change (3)	(7)%	19%	25%	20%	29%
Retail stores open at beginning of period	99	95	91	91	74
Stores opened		4	5	3	3
Stores closed	4	8	22	7	4
Retail stores open at end of period	95	91	74	87	73
Average gross square footage (in thousands) (4)	1,042	1,014	913	946	801
Average selling square footage (in thousands) (4)	660	641	580	599	519
Retail sales per selling square foot (5)	$ 525	$ 635	$ 846	$ 351	$ 481
Direct:					
Catalogs circulated (in thousands) (6)	31,336	46,507	26,052	12,723	15,131
Catalog pages circulated (in millions) (6)	4,418	6,260	8,848	3,289	7,417
Direct as a percentage of net revenues (7)	39%	43%	44%	45%	46%
Capital expenditures	$ 2,024	$ 39,907	$ 25,593	$ 12,168	$ 13,517

(1) Store data represent retail stores plus outlet stores. Net revenues for outlet stores were $34.7 million in fiscal 2009, $31.2 million in fiscal 2010 and $43.9 million in fiscal 2011. In the first six months of fiscal 2011 and 2012, net revenues for outlet stores were $20.5 million and $24.3 million, respectively.

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

(3) Comparable store sales have been calculated based upon retail stores that were open at least fourteen full months as of the end of the reporting period and did not change square footage by more than 20% between periods. Comparable store net revenues exclude revenues from outlet stores.

(4) Average square footage (gross or selling, as applicable) is calculated for each quarter by taking the total applicable square footage at the beginning of the quarter plus the total applicable square footage at the end of the quarter and dividing by two. Average square footage for periods of six, nine and twelve months is calculated by averaging the average square footage for the quarters within such periods.

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

(6) The catalogs and catalog pages circulated from period to period do not take into account different page sizes per catalog distributed. Page sizes and page counts vary for different catalog mailings and we sometimes mail different versions of a catalog at the same time. Accordingly, period to period comparisons of catalogs circulated and catalog pages circulated do not take these variations into account. In fiscal 2010, we mailed a larger number of catalogs that contained fewer pages and in some cases significantly smaller page sizes than in prior periods. In fiscal 2011 and in the first six months of fiscal 2012, we mailed fewer catalogs that contained a significant increase in number of pages as compared to fiscal 2010.

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

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

	Year Ended			Six Months Ended	
	January 30, 2010	**January 29, 2011**	**January 28, 2012**	**July 30, 2011**	**July 28, 2012**
Statement of Operations Data:					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	65.9	64.9	62.8	63.3	62.9
Gross margin	34.1	35.1	37.2	36.7	37.1
Selling, general and administrative expenses	38.2	35.5	34.4	35.8	33.7
Income (loss) from operations	(4.1)	(0.4)	2.8	0.9	3.4
Interest expense	(0.6)	(0.4)	(0.5)	(0.4)	(0.6)
Income (loss) before income taxes	(4.7)	(0.8)	2.3	0.5	2.8
Income tax expense (benefit)	(0.1)	0.1	0.1	0.2	0.1
Net income (loss)	(4.6)%	(0.9)%	2.2%	0.3%	2.7%

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

	Year Ended			Six Months Ended	
	January 30, 2010	**January 29, 2011**	**January 28, 2012**	**July 30, 2011**	**July 28, 2012**
			(in thousands)		
Stores	$ 380,854	$ 438,463	$ 534,411	$ 230,722	$ 273,928
Direct	244,831	334,289	423,673	189,661	236,892
Net revenues	$ 625,685	$ 772,752	$ 958,084	$ 420,383	$ 510,820

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

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

	Six Months Ended				Increase	
	July 30, 2011		July 28, 2012			
	(dollars in thousands)					
Net revenues	$ 420,383	100.0%	$ 510,820	100.0%	$ 90,437	
Gross profit excluding purchase accounting adjustments	$ 156,271	37.2%	$ 190,477	37.3%	$ 34,206	0.1%
Decrease in gross profit from purchase accounting adjustments	(1,841)	(0.5)%	(1,082)	(0.2)%	759	0.3%
Gross profit	$ 154,430	36.7%	$ 189,395	37.1%	$ 34,965	0.4%

Net revenues

Net revenues increased $90.4 million, or 21.5%, to $510.8 million in the first six months of fiscal 2012 compared to $420.4 million in the first six months of fiscal 2011. We had 73 and 87 retail stores open at July 28, 2012 and July 30, 2011, respectively. In the first six months of fiscal 2012, we opened three stores and closed four stores. Of the four closed stores, two were closed at the lease expiration date and two were closed prior to the lease expiration date. There were no charges associated with the early closure as the related lease allowed for early termination without charge. Stores sales increased $43.2 million, or 18.7%, to $273.9 million in the first six months of fiscal 2012 compared to $230.7 million in the first six months of fiscal 2011 due in large part to our comparable store sales increase of 29% in the first six months of fiscal 2012 compared to fiscal 2011, partially offset by having fewer stores open during the first six months of fiscal 2012 compared to the first six months of fiscal 2011. Direct sales increased $47.2 million, or 24.9%, to $237.0 million in the first six months of fiscal 2012 compared to $189.7 million in the first six months of fiscal 2011. We believe that the increase in both comparable store and direct sales was due primarily to our customers favorable reaction to our merchandise assortment, including new product categories, expansions of existing product categories, and an increase in circulated catalog pages.

Gross profit

Gross profit increased $35.0 million, or 22.6%, to $189.4 million in the first six months of fiscal 2012 from $154.4 million in the first six months of fiscal 2011. As a percentage of net revenues, gross margin increased 0.4%, to 37.1% of net revenues in the first six months of fiscal 2012 from 36.7% of net revenues in the first six months of fiscal 2011. Gross profit in the first six months of fiscal 2012 included $1.1 million of unfavorable gross profit impact due to purchase accounting compared to $1.8 million of unfavorable gross profit impact due to purchase accounting in the first six months of fiscal 2011.

Excluding the impact of purchase accounting, gross margin increased 0.1% as a percentage of net revenues. This increase was primarily driven by a 240 basis point improvement in occupancy costs achieved due to improved leverage on the fixed portion of our store and distribution center occupancy costs. This increase was partially offset by a decrease in gross margin of 160 basis points due to increased promotional activity in the first six months of fiscal 2012 and a decrease in gross margin of 70 basis points due to increased freight costs as a result of a higher percentage of furniture sales during such period, which incur greater shipping costs than our other products.

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Selling, general and administrative expenses

Selling, general and administrative expenses increased $21.4 million, or 14.3%, to $171.8 million in the first six months of fiscal 2012 compared to $150.4 million in the first six months of fiscal 2011. The increase in selling, general and administrative expenses of $21.4 million was primarily related to an increase of $15.7 million in advertising and marketing costs associated with increased catalog circulation, as well as an increase of $1.9 million in credit cards fees due to the growth in revenues. Selling, general and administrative expenses in the first six months of fiscal 2012 also increased due to $2.0 million of legal and other professional fees incurred in connection with the investigation conducted by the special committee of the board of directors (see Risk Factors *Our former Chairman and Co-Chief Executive Officer, Gary Friedman, resigned from th*