

Restoration Hardware Holdings Inc  
Form S-1/A  
October 19, 2012  
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As filed with the Securities and Exchange Commission on October 19, 2012

Registration No. 333-176767

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Amendment No. 7**  
**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)

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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>5712</b> (Primary Standard Industrial Classification Code Number) 15 Koch Road, Suite J  Corte Madera, CA 94925  (415) 924-1005	<b>45-3052669</b> (I.R.S. Employer Identification Number)
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(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.

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

**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

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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.



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

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



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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	<p>We estimate that the net proceeds to us from this offering, after deducting the underwriting discount and estimated offering expenses, will be approximately \$ million, assuming the shares are offered at \$ per share (the midpoint of the estimated price range set forth on the cover of this prospectus).</p> <p>We will not receive any proceeds from the sale of shares by the selling stockholders.</p> <p>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.</p>
Principal stockholders	<p>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.</p> <p>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.</p> <p>Home Holdings and the directors appointed by Home Holdings have certain approval rights. See Certain Relationships and Related Party Transactions Stockholders Agreement.</p>
Dividend policy	<p>We currently intend to retain all available funds and any future earnings for use in the operation of our business, and therefore we do not anticipate paying any cash dividends in the foreseeable future.</p>



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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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	January 30, 2010	Year Ended January 29, 2011	January 28, 2012	Six Months Ended		Last Twelve Months Ended (1)	
				July 30, 2011	July 28, 2012	July 30, 2011	July 28, 2012
	(dollars in thousands, excluding per share and per square foot data)						
<b>Statement of Operations Data:</b>							
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 per share (3):							
Basic			\$		\$		
Diluted			\$		\$		
Pro forma average number of shares outstanding (3):							
Basic							
Diluted							
<b>Other Financial and Operating Data:</b>							
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)	
<b>Balance Sheet Data:</b>		
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 had the same impact on our selling, general and administrative expenses and net income (loss) for all periods presented. The table below presents the impact to our net income (loss) as a result of this change in accounting policy. The impact to fiscal 2009 was immaterial. See Note 3 *Change in Accounting Principle Stock-Based Compensation* to Restoration Hardware, Inc.'s audited consolidated financial statements.

	Year Ended		Six Months Ended		Last Twelve Months Ended (1)	
	January 29, 2011	January 28, 2012	July 30, 2011	July 28, 2012	July 30, 2011	July 28, 2012
	(in thousands)					
Net income (loss) as reported	\$ (8,074)	\$ 20,341	\$ 1,140	\$ 13,989	\$ 4,369	\$ 33,190
Change in accounting policy adjustment	1,023	247	224	(101)	532	(78)
Net income (loss) as revised	\$ (7,051)	\$ 20,588	\$ 1,364	\$ 13,888	\$ 4,901	\$ 33,112

- (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.

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- (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

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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 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



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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