

Restoration Hardware Holdings Inc  
Form S-1  
April 29, 2013  
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As filed with the Securities and Exchange Commission on April 26, 2013

Registration No. 333-

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

Washington, D.C. 20549

**FORM S-1**  
**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

**RESTORATION HARDWARE HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

5712  
(Primary Standard Industrial  
Classification Code Number)

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

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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. "

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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  (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.**

### CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum	
	Aggregate Offering Price(1)(2)	Amount of Registration Fee
Common stock, \$0.0001 par value	\$200,000,000.00	\$27,280.00

(1) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.

(2) Includes offering price of shares that the underwriters have the option to purchase.

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

**Subject to Completion**

**Preliminary Prospectus Dated April 26, 2013**

## **Shares**

### **Common Stock**

Certain stockholders of Restoration Hardware Holdings, Inc. are offering \_\_\_\_\_ shares of our common stock. We will not receive any of the proceeds from the sale of shares to be offered in this offering.

Our shares are listed on the New York Stock Exchange under the symbol RH.

**Investing in our common stock involves risks that are described in the Risk Factors section beginning on page 15 of this prospectus.**

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to the selling stockholders (1)	\$	\$

(1) We will pay the filing fees and expenses (including reasonable legal fees and disbursements) incident to securing any required review by the Financial Industry Regulatory Authority, Inc. of the sale of the shares of our common stock. See Underwriting. The underwriters may also exercise their option to purchase up to \_\_\_\_\_ additional shares from the selling stockholders, at the public offering price, less the underwriting discount, for 30 days after the date of this prospectus.

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

The shares will be ready for delivery on or about \_\_\_\_\_, 2013.

**BofA Merrill Lynch**

**Baird**

**William Blair**

**Goldman, Sachs & Co.**

**Piper Jaffray**

**Stifel**

The date of this prospectus is \_\_\_\_\_, 2013.

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

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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 2012, fiscal 2012 or similar references refer to the fiscal year ended February 2, 2013.

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 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.

In this prospectus, when we refer to GAAP, we mean accounting principles generally accepted in the United States.

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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 April 26, 2013, we operated a total of 70 retail stores, consisting of 63 Galleries, 4 Full Line Design Galleries and 3 Baby & Child Galleries, as well as 13 outlet stores throughout the United States and Canada. In fiscal 2012, we distributed approximately 32.7 million Source Books, and our websites logged over 18.9 million unique visits.

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

From fiscal 2009 to fiscal 2012, we increased our net revenues 91% to \$1,193 million, our adjusted EBITDA 449% to \$96.6 million and our adjusted EBITDA margin by 530 basis points to 8.1%.

From fiscal 2009 to fiscal 2012, we increased our adjusted net income by \$56.2 million from an adjusted net loss of \$18.5 million to adjusted net income of \$37.7 million. Over the same time period, our GAAP net loss decreased from \$28.7 million to a net loss of \$12.8 million.

We have achieved 12 consecutive quarters of double-digit net revenue growth through our fiscal quarter ended February 2, 2013. We achieved this growth as we reduced our store base from 95 retail locations as of January 30, 2010 to 71 locations as of February 2, 2013.

See Selected Historical Consolidated Financial and Operating Data for a discussion of adjusted EBITDA and adjusted net income (loss), and a reconciliation of adjusted EBITDA and adjusted net income (loss) to net income (loss).



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### **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.



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*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 Chairman Emeritus, Creator and Curator.

### **Our Growth Strategy**

Key elements of our growth strategy are to:

*Transform Our Real Estate Platform.* We believe we have an opportunity to significantly increase our sales by transforming our real estate platform from our existing retail footprint to a portfolio focused on Full Line Design Galleries. Our Full Line Design Galleries are sized based on the market potential and the size of our assortment. We currently have four Full Line Design Galleries that average approximately 23,400 selling square feet, more than three times the size of our average Gallery. Our Full Line Design Galleries allow consumers to experience a broader merchandise assortment in a highly differentiated retail setting. We have found that we experience higher sales across all of our channels when we showcase more of our assortment. We have identified approximately 50 key metropolitan markets where we can open new Full Line Design Galleries in iconic or high profile locations that are representative of our luxury brand positioning. We believe, based on our analysis of the market, that we have the opportunity to more than double our current selling square footage in the United States and Canada over the next 5 to 10 years as we transform our real estate platform by opening Full Line Design Galleries in these 50 identified markets.

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

*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, tableware, children's furnishings and decorative accessories;

Expanding our service offerings, including interior design, product customization and gift registry services; and

Exploring and testing new business opportunities complementary to our core business that leverage our defining strengths of taste, style and innovation, such as the planned introduction of our Contemporary Art business.

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

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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 an 81% increase in the number of catalog pages circulated and a 30% increase in net revenues for our direct business in fiscal 2012.

*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. 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. Over the last twelve 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.

## **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

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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

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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 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 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.

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 within the time frames we initially target 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.

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

Our 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, recently 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. There can be no assurance that this transition will not have an adverse impact on us.

### **Principal Equity Holders**

Home Holdings' equity interests are held 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 is the single largest holder of our common stock. We entered into a stockholders agreement with Home Holdings in connection with our initial public offering. The stockholders agreement (and our certificate of incorporation) provide for a waiver of the corporate opportunity doctrine with respect to Home Holdings and its affiliates, including the Principal Equity Holders. If Home Holdings or its affiliates, including the Principal Equity Holders, participate in any such corporate opportunity, Thomas Mottola and Barry Sternlicht, two of our directors, will also be afforded a waiver of the corporate opportunity doctrine in connection with any participation by them in any such corporate opportunity. The stockholders agreement provides that, for so long as Home Holdings and the Principal Equity Holders hold a majority of the voting power of our outstanding common stock, Home Holdings shall have the right to nominate a majority of the members of our board of directors and as long as Home Holdings and the Principal Equity Holders hold at least 30% of the voting power of our outstanding common stock, Home Holdings shall have the right to nominate two members of our board of directors. Home Holdings currently has designated two directors to our board of directors, one of which is designated by Catterton and one of which is designated by Tower Three. For so long as Home Holdings and the Principal Equity Holders own a majority of the voting power of our outstanding common stock, no action may be taken or vote approved by our board of directors or any committee thereof (other than the audit committee or any other committee of directors that may be created with the approval of Home Holdings as not being subject to this provision) without the affirmative vote of the Catterton and Tower Three designated directors. In addition, for so long as Home Holdings and the Principal Equity Holders hold at least 30% of the voting power of our outstanding common stock, certain actions may not be taken without the approval of Home Holdings.

*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.



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

### **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](http://www.restorationhardware.com) and [www.rh.com](http://www.rh.com). We also operate a website for our Baby & Child brand at [www.rhbabyandchild.com](http://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**

Common stock offered by the selling stockholders                      shares

Common stock to be outstanding immediately after this offering                      shares

Use of proceeds                      The selling stockholders, which include certain of our officers, directors and employees will receive all of the proceeds from this offering and we will not receive any proceeds from the sale of shares in this offering. See Principal and Selling Stockholders.

Principal stockholders                      Immediately following the completion of this offering, Home Holdings will own                      shares, or                      %, of our outstanding common stock (including outstanding unvested shares). 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.

Risk factors                      Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 15 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in our common stock.



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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:

excludes an aggregate of 748,159 shares of unvested common stock issued to Mr. Alberini and Mr. Friedman under the Restoration Hardware 2012 Equity Replacement Plan, which we refer to as the Replacement Plan, in connection with the Reorganization, which shares begin to vest during the 36-month period following our initial public offering when the ten-day trailing price of our common stock exceeds a price per share of \$37.79 per share for at least ten consecutive trading days, and such shares shall fully vest when the price our common stock reaches a price per share of \$46.50 for at least ten consecutive trading days (with proportional vesting in between);

excludes vested options to purchase an aggregate of \_\_\_\_\_ shares of our common stock granted under the Restoration Hardware 2012 Stock Incentive Plan (which we refer to as the 2012 Stock Incentive Plan), with a weighted-average exercise price equal to \$ \_\_\_\_\_ per share (the shares issuable upon exercise of these options are subject to selling restrictions that will lapse over time);

excludes vested options to purchase an aggregate of \_\_\_\_\_ shares of our common stock granted under the Restoration Hardware 2012 Stock Option Plan, which we refer to as the Option Plan, with an exercise price of \$29.00 per share (the shares issuable upon exercise of these options are subject to selling restrictions that will lapse over time);

excludes vested options to purchase an aggregate of 5,953,652 shares of our common stock granted to Mr. Alberini and Mr. Friedman under the Option Plan, with an exercise price per share of \$46.50, with restrictions on sale that will lapse in increments when our stock price reaches specified levels ranging from \$50.75 to \$111.25;

excludes \_\_\_\_\_ additional shares of common stock reserved for future grants under the 2012 Stock Incentive Plan; 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 Holdings, Inc.'s summary historical consolidated financial and operating data as of the dates and for the periods indicated.

Restoration Hardware Holdings, Inc. was formed as a Delaware corporation on August 18, 2011. On November 7, 2012, Restoration Hardware Holdings, Inc. completed an initial public offering and acquired all of the outstanding shares of capital stock of Restoration Hardware, Inc. In connection with the initial public offering, common stock of Restoration Hardware Holdings, Inc. was issued to Home Holdings and in replacement of prior unit awards under the Team Resto Ownership Plan. These transactions are referred to as the Reorganization. Prior to the Reorganization, Restoration Hardware Holdings, Inc. had not engaged in any business or other activities except in connection with its formation and the Reorganization. Accordingly, all financial and other information herein relating to periods prior to the completion of the Reorganization is that of Restoration Hardware, Inc.

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 29, 2011, January 28, 2012, February 2, 2013 and as of February 2, 2013, were derived from Restoration Hardware Holdings, Inc.'s consolidated financial statements included elsewhere in this prospectus. The summary consolidated financial data for the fiscal year ended January 30, 2010 was derived from Restoration Hardware, Inc.'s consolidated financial statements for such year not included herein.

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

The 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			
	January 30, 2010	January 29, 2011	January 28, 2012	February 2, 2013
	(dollars in thousands, excluding share, per share and per square foot data)			
<b>Statement of Operations Data:</b>				
Net revenues	\$ 625,685	\$ 772,752	\$ 958,084	\$ 1,193,046
Cost of goods sold	412,629	501,132	601,735	756,597
Gross profit	213,056	271,620	356,349	436,449
Selling, general and administrative expenses (1)	238,889	274,836	329,506	505,485
Income (loss) from operations	(25,833)	(3,216)	26,843	(69,036)
Interest expense	(3,241)	(3,150)	(5,134)	(5,776)
Income (loss) before income taxes	(29,074)	(6,366)	21,709	(74,812)
Income tax expense (benefit) (2)	(423)	685	1,121	(62,023)
Net income (loss)	\$ (28,651)	\$ (7,051)	\$ 20,588	\$ (12,789)
Weighted-average number of basic and diluted shares outstanding	100	100	468	9,428,828
Basic and diluted net income (loss) per share	\$ (286,510)	\$ (70,510)	\$ 43,991	\$ (1.36)
<b>Other Financial and Operating Data:</b>				
Growth in net revenues:				
Stores (3)	(6)%	15%	22%	20%
Direct	(15)%	37%	27%	30%
Total	(10)%	24%	24%	25%
Retail (4):				
Comparable store sales change (5)	(7)%	19%	25%	28%
Retail stores open at end of period	95	91	74	71
Total leased square footage at end of period (in thousands)	1,015	970	808	768
Total leased selling square footage at end of period (in thousands) (6)	642	613	516	501
Retail sales per leased selling square foot (7)	\$ 525	\$ 635	\$ 846	\$ 1,143
Direct:				
Catalogs circulated (in thousands) (8)	31,336	46,507	26,052	32,712
Catalog pages circulated (in millions) (8)	4,418	6,260	8,848	16,029
Direct as a percentage of net revenues (9)	39%	43%	44%	46%
Capital expenditures	\$ 2,024	\$ 39,907	\$ 25,593	\$ 49,058
Adjusted EBITDA (10)	\$ 17,596	\$ 41,097	\$ 80,154	\$ 96,571
Adjusted net income (loss) (10)	\$ (18,483)	\$ 3,025	\$ 26,451	\$ 37,739
Pro forma diluted weighted-average shares used in calculating adjusted diluted net income per share (11)				37,242,178
Adjusted diluted net income per share (10)				\$ 1.01

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	As of February 2, 2013 (in thousands)
<b>Balance Sheet Data:</b>	
Cash and cash equivalents	\$ 8,354
Working capital (excluding cash and cash equivalents) (12)	\$ 267,905
Total assets	\$ 789,613
Revolving line of credit	\$ 82,501
Term loan	
Total debt (including current portion) (13)	\$ 87,029
Total stockholders' equity	\$ 451,611

- (1) In the third quarter of fiscal 2012, we changed our policy for recognizing stock-based compensation expense from the graded method of accounting to the straight-line method of accounting for our pre-Reorganization time-based units (or service-only awards). This change in accounting had the same impact on our selling, general and administrative expenses and net income (loss) for all periods presented. The table below presents the impact to our net income (loss) as a result of this change in accounting policy. The impact to fiscal 2009 was immaterial and there was no impact for years prior to 2009. See Note 3 *Change in Accounting Principle Stock-Based Compensation* to our audited consolidated financial statements.

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

- (2) As of the end of fiscal 2012, our U.S. operations achieved a position of cumulative profits (adjusted for permanent differences) for the most recent three-year period. We concluded that this record of cumulative profitability in recent years, coupled with our business plan for profitability in future periods, provided assurance that our future tax benefits more likely than not would be realized. Accordingly, in the three and twelve months ended February 2, 2013, we released all of our U.S. valuation allowance of \$57.2 million against net deferred tax assets.
- (3) Stores data represents retail stores plus outlet stores.
- (4) Retail data has been calculated based upon our retail stores and excludes our outlet stores.
- (5) Comparable store sales have been calculated based upon retail stores that were open at least fourteen full months as of the end of the reporting period and did not change square footage by more than 20% between periods. If a store is closed for seven days during a month, that month will be excluded from comparable store sales. Comparable store net revenues exclude revenues from outlet stores. Because fiscal 2012 was a 53-week year, comparable store sales percentage for fiscal 2012 excludes the extra week of sales.
- (6) Leased selling square footage is retail space at our stores used to sell our products. Leased selling square footage excludes backrooms at retail stores used for storage office space or similar matters. Leased selling square footage excludes exterior sales space located outside a store, such as courtyards, gardens and rooftops. Leased selling square footage for fiscal 2012, fiscal 2011 and fiscal 2010 includes approximately 4,500 square feet related to one owned store location.
- (7) Retail sales per leased selling square foot is calculated by dividing total net revenues for all retail stores, comparable and non-comparable, by the average leased selling square footage for the period.
- (8) The catalogs and catalog pages circulated from period to period do not take into account different page sizes per catalog distributed. Page sizes and page counts vary for different catalog mailings and we sometimes mail different versions of a catalog at the same time. Accordingly, period to period comparisons of catalogs circulated and catalog pages circulated do not take these variations into account.

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- (9) Direct revenues include sales through our catalogs and websites.
- (10) EBITDA, adjusted EBITDA, adjusted net income and adjusted diluted net income per share 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. We define adjusted EBITDA as consolidated net income (loss) before depreciation and amortization, interest expense and provision for income taxes, adjusted for the impact of certain non-recurring and other items that we do not consider representative of our ongoing operating performance. We define adjusted net income as consolidated net income (loss), adjusted for the impact of certain non-recurring and other items that we do not consider representative of our ongoing operating performance. We define adjusted diluted net income per share as adjusted net income divided by our pro forma diluted weighted-average shares as of February 2, 2013. Reconciliations of these measures to the equivalent measures under GAAP are set forth below in Selected Historical Consolidated Financial and Operating Data.

We believe that EBITDA, adjusted EBITDA and adjusted net income are useful measures of operating performance, as they eliminate expenses that are not reflective of the underlying business performance, facilitate a comparison of our operating performance on a consistent basis from period-to-period and provide for a more complete understanding of factors and trends affecting our business. We also use adjusted EBITDA as one of the primary methods for planning and forecasting overall expected performance and for evaluating on a quarterly and annual basis actual results against such expectations, and as the basis of our Management Incentive Plan ( MIP ), which is our cash based-incentive compensation program designed to motivate and reward annual performance for eligible employees. Additionally, EBITDA is frequently used by analysts, investors and other interested parties to evaluate companies in our industry. We use EBITDA and adjusted EBITDA, alongside other GAAP measures such as gross profit, operating income (loss) and net income (loss), to measure profitability, as a key profitability target in our annual and other budgets, and to compare our performance against that of peer companies.

EBITDA, adjusted EBITDA, adjusted net income and adjusted diluted net income per share are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income (loss) or net income (loss) per share as a measure of financial performance, cash flows from operating activities as a measure of liquidity, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, EBITDA and adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not consider certain cash requirements such as tax payments and debt service requirements and certain other cash costs that may recur in the future. EBITDA and adjusted EBITDA contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In addition, these non-GAAP measures exclude certain non-recurring and other charges.

In evaluating these non-GAAP measures, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in these non-GAAP measures. Our presentation of these non-GAAP measures should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying primarily on our GAAP results and by using these non-GAAP only supplementally. These non-GAAP measures are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

- (11) On a pro forma basis, basic and diluted shares outstanding include (1) the impact of the Reorganization, as well as (2) the 4,782,609 shares of common stock that we issued and sold on November 7, 2012 in our initial public offering, as if such events had been completed as of the beginning of the respective periods and the common stock resulting therefrom was outstanding for the respective periods.



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- (12) Working capital is defined as current assets, excluding cash and cash equivalents, less current liabilities, excluding the current portion of long term debt.
- (13) Total debt (including current portion) includes amounts outstanding under the 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 decrease if customer response to our product offerings is not sustained. Many factors can influence customer response to our product offerings and store formats including responses from our competitors, who may introduce similar products or merchandise formats. In addition, sales levels for particular merchandise or product categories may not continue over time if customer demand levels are not sustained. The level of customer response to our Full Line Design Galleries may vary in different markets and store locations. Similarly, the level of customer response to our Source Book catalog format, in which we display a greater percentage of our product assortment, may vary in different markets. In addition, there can be no assurance that we will be able to migrate customer demand successfully when we choose to close a store in a particular location in favor of a Full Line Design Gallery in the same or an adjacent market location. While our objective is to retain a high percentage of customer demand from store locations that we close, there can be no assurance that we will retain a high percentage of sales from stores closed in the future or that we will continue to retain a high percentage of sales from stores previously closed.

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

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

Our success depends in large part on our ability to originate and define home product trends, as well as to anticipate, gauge and react to changing consumer demands in a timely manner. Our products must appeal to a range of consumers whose preferences cannot always be predicted with certainty. We cannot assure you that we

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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.

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

Our business depends on consumer demand for our products and, consequently, is sensitive to a number of factors that influence consumer spending in the retail home furnishings sector, including, among other things, the general state of the economy, capital and credit markets, consumer confidence, general business conditions, the availability and cost of consumer credit, the level of consumer debt, interest rates, level of taxes affecting consumers, housing prices, new construction and other activity in the housing sector and the state of the mortgage industry and other aspects of consumer credit tied to housing, including the availability and pricing of mortgage refinancings and home equity lines of credit. We believe that a number of these factors have had, and may continue to have, an adverse impact on the retail home furnishings sector, and have also affected our business and results, and these factors may make it difficult for us to accurately predict our operating and financial results for future periods. The housing market may be commencing a recovery after a prolonged downtrend, and rising levels of home purchases and remodelings, in turn, may increase consumer spending on home furnishings. However, the overall economic outlook remains uncertain and there can be no assurance that any economic or housing recovery will be sustained or that our business will continue to perform well even in a stronger housing market.

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

We are experiencing rapid growth and undertaking a large number of new business initiatives. For example, we have developed and continue to refine and enhance our Full Line Design Gallery format which involves larger store square footage. We plan to continue to open Full Line Design Galleries in select major metropolitan markets and we expect to close a number of our older stores and replace them with the Full Line Design Gallery format. We also continue to add new product categories and to expand product assortments. For example, we introduced our new Tableware category in Spring 2013. We are currently contemplating other new product lines and extensions and complementary brand-enhancing businesses, as well as expanding sales to international markets. In addition, we are continuing a number of new initiatives in other areas of our business, including product sourcing and distribution and management information systems. For example, we have reduced the use of third-party buying agents in most foreign locations. Further, we continue to evolve our Source Book strategy. We may incur costs for these new initiatives before we realize any corresponding revenue.

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

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

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

Any difficulties that we experience in our ability to obtain products in sufficient quality and quantity from our vendors could have a material adverse effect on our business. In fiscal 2012, we purchased approximately 85% of our merchandise from vendors that are located abroad. Our ability to obtain desired merchandise in sufficient quantities could be impaired by events that adversely affect our vendors or the locations in which they operate, such as difficulties or problems associated with our vendors' operations, business, finances, labor, economic environment, importation of products, costs, production, insurance and reputation. Failure of vendors to produce adequate quantities of merchandise in a timely manner has resulted in back orders and lower revenue in certain periods of our business operation. While we believe our vendors have the capacity to meet our demand, we cannot assure you that our vendors will be able to produce adequate quantities of merchandise in a timely manner in the future.

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

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

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

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***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.

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

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

In connection with his resignation as Chairman, Co-Chief Executive Officer and a director, Mr. Friedman and the Company entered into an advisory services agreement that provides for Mr. Friedman to advise the Company in a role described as the Creator and Curator with respect to product development, merchandising and other creative matters as more specifically outlined in Executive Compensation Employment and Other Agreements. In addition, in connection with our initial public offering, Home Holdings agreed to invest \$5 million, consisting of \$2.5 million in an initial tranche and \$2.5 million in one or more additional tranches, directly or indirectly, in Hierarchy, LLC ( Hierarchy ), a recently formed entity in which Mr. Friedman has a

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controlling interest. If requested by Home Holdings and agreed to by us, we may make such subsequent tranche investments. We will have the right to acquire all or a portion of Home Holdings' interest in Hierarchy between the second and third anniversaries of our initial public offering, at the greater of the then fair market value and the price paid by Home Holdings. Further, Home Holdings has assigned to us its right of first offer and co-sale right over the sale by Mr. Friedman of his interests in Hierarchy, its right of first offer over the sale of Hierarchy or any of its lines of business and its preemptive rights on issuances of additional interests in Hierarchy. Unless otherwise agreed by Home Holdings, for two years from the date of the Hierarchy operating agreement, Hierarchy's lines of business will be limited to apparel and apparel related businesses. In addition, Hierarchy will be permanently prohibited from entering into lines of business in which we are engaged and certain lines of business in which we may become engaged (other than luggage, which Hierarchy may enter into after such two year period). The agreements among Hierarchy, Home Holdings, Mr. Friedman and the Company contemplate that we will enter into an agreement to provide Hierarchy with back office, logistics, supply chain and administrative support, with pricing determined based on the fair market value of such services. We also transferred to Hierarchy our minimal apparel-related assets at fair market value, as more specifically outlined in 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 continue to benefit from Mr. Friedman's contributions as the Company's Creator and Curator on an advisory basis, and as Chairman Emeritus, there can be no assurance that the absence of Mr. Friedman in his former roles will not have an adverse impact on us.

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

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

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

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

In addition, our success depends in part upon our ability to attract, motivate and retain a sufficient number of store employees who understand and appreciate our corporate culture and customers. Turnover in the retail industry is generally high. Excessive store employee turnover will result in higher employee costs associated

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with finding, hiring and training new store employees. If we are unable to hire and retain store personnel capable of consistently providing a high level of customer service, our ability to open new stores may be impaired, the performance of our existing and new stores could be materially adversely affected and our brand image may be negatively impacted.

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

Our operations have significant liquidity and capital requirements. Among other things, the seasonality of our businesses requires us to purchase merchandise well in advance of the outdoor selling season in our second fiscal quarter and the holiday selling season in our fourth fiscal quarter. In addition, we have invested significant capital expenditures in remodeling and opening new stores and these capital expenditures have increased and will continue to increase in fiscal 2013 and succeeding fiscal periods as we open additional Full Line Design Galleries, which may require us to undertake upgrades to historical buildings or construction of new buildings. During fiscal 2012, we spent \$27.8 million for capital expenditures related to new stores and remodeling, and we incurred \$21.3 million of additional capital expenditures related to supply chain investments and systems infrastructure. We anticipate our capital expenditure requirements to be approximately \$95 million to \$100 million for fiscal 2013. We plan to continue our growth and expansion, including opening Full Line Design Galleries in select major metropolitan markets, pursuing category extensions of our brand, and exploring new business areas. We purchased the building and land for our store in San Francisco but we have relied upon leases with landlords for our other locations to date. As we develop new stores in the future, we may explore other models for our real estate which could include joint ventures or other forms of equity ownership in the real estate interests associated with new sites and buildings. These approaches might require greater capital investment than a traditional store lease with a landlord.

We depend on our ability to generate cash flows from operating activities, as well as revolving borrowings under the Restoration Hardware, Inc. revolving line of credit, to finance the carrying costs of our inventory, to pay for capital expenditures and operating expenses and to support our growth strategy. As of February 2, 2013, we had borrowed \$82.5 million under the revolving line of credit and had \$188.5 million available for borrowing. Various factors may impact our lenders' willingness to provide funds to us, including:

our continuing compliance with the terms of our revolving line of credit;

the amount of availability under the revolving line of credit, which depends on various factors, including the amount of collateral available under the revolving line of credit, which relies on a borrowing base formula tied principally to the value of our assets, including our inventory; and

our lenders' financial strength and ability to perform under the revolving line of credit.

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

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

In addition, we may experience cash flow shortfalls in the future, and we may otherwise require additional external funding, or we may need to raise funds to take advantage of unanticipated opportunities, to make acquisitions of other businesses or companies or to respond to changing business conditions or unanticipated

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competitive pressures. However, we cannot assure you that we will be able to raise funds on favorable terms, if at all, or that future financing requirements would not be dilutive to holders of our capital stock. If we fail to raise sufficient additional funds, we may be required to delay or abandon some of our planned future expenditures or aspects of our current operations.

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

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

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

identify suitable locations, the availability of which is largely outside of our control;

size the store locations to the market opportunity;

retain customers in certain geographic markets when we close stores in that market;

negotiate acceptable new lease terms or lease renewals, modifications or terminations;

efficiently build and equip new stores or further remodel existing locations;

source sufficient levels of inventory to meet the needs of changes in our store footprint on a timely basis;

successfully integrate changes in our store base into our existing operations and information technology systems;

obtain or maintain adequate capital resources on acceptable terms;

avoid construction or local permit delays and cost overruns in connection with the opening of new stores or the expansion or further remodeling of existing stores;

maintain adequate distribution facilities, information systems and other operational systems to serve our new stores and remodeled stores; and

address competitive, merchandising, marketing, distribution and other challenges encountered in connection with expansion into new geographic areas and markets.



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

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

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

In addition, we historically have realized, and expect to continue to realize, higher net revenue and profitability in the fourth quarter of our fiscal year due to the holiday selling season and to a lesser extent in the second quarter due to the outdoor selling season. In fiscal 2012, we recorded net revenues of \$292.9 million and \$398.1 million in the second and fourth fiscal quarters or 24.6% and 33.4%, respectively, of our fiscal 2012 net revenue. In fiscal 2012, our gross profit for the second and fourth quarters was \$114.1 million and \$145.2 million or 26.1% and 33.3% of our fiscal 2012 gross profit, respectively. In anticipation of increased sales activity for the outdoor selling season during our second fiscal quarter and the holiday selling season during our fourth fiscal quarter, our working capital requirements are typically higher in the first and third fiscal quarters due to inventory-related working capital requirements for the outdoor selling season and the holiday selling season.

Accordingly, our results of operation may fluctuate on a seasonal basis and relative to corresponding periods in prior years. We may take certain pricing, merchandising or marketing actions that could have a disproportionate effect on our business, financial condition and results of operations in a particular quarter or selling season. For example, we periodically engage in sales promotional activities that are designed to increase our sales but can have the effect of reducing our gross margins. These initiatives and promotional activities may disproportionately impact results in a particular quarter and we believe that period to period comparisons of our operating results are not necessarily meaningful and cannot be relied upon as indicators of future performance.

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

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

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

We are engaged in ongoing efforts to explore new business opportunities that we believe can leverage our current business platform. We have developed a number of new product categories and extensions over the last several years, including Garden & Outdoor, Baby & Child and Small Spaces. We also have introduced other merchandise categories that enhance the customer experience in our Full Line Design Galleries, including fresh cut flowers, magazines and tea. We plan further brand-enhancing offerings, such as the planned introduction of

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our Contemporary Art business, or a café, wine bar or restaurant adjacent to, or inside of, select Full Line Design Galleries. We are incubating a number of other new ideas for potential expansion of our business, some of which may become new core categories or new store concepts and others of which may be primarily offered as enrichment of the customer experience.

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

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

The home furnishings sector within the retail market is highly competitive. We compete with the interior design trade and specialty stores, as well as antique dealers and other merchants that provide unique items and custom-designed product offerings at higher price points. We also compete with national and regional home furnishing retailers and department stores. In addition, we compete with mail order catalogs and online retailers focused on home furnishings. We compete with these and other retailers for customers, suitable retail locations, vendors, qualified employees and management personnel. Many of our competitors have significantly greater financial, marketing and other resources than we do and therefore may be able to adapt to changes in customer preferences more quickly, devote greater resources to the marketing and sale of their products, generate greater national brand recognition or adopt more aggressive pricing policies than we can. In addition, increased catalog 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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