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UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN FRANCISCO DIVISION

situated,

Plaintiff

v.

RH, INC., GARY FRIEDMAN, KAREN
BOONE

Defendants.

COMPLAINT

CLASS ACTION

DEMAND FOR JURY TRIAL

1
2 (“Plaintiff”) by and through its counsel, alleges the following upon information and belief, except
3 as to those allegations concerning Plaintiff, which are alleged upon personal knowledge.
4 Plaintiff’s information and belief is based upon, among other things, counsel’s investigation, which
5 includes review and analysis of, (a) regulatory filings made by RH, Inc. (“RH” or the “Company”)
6 with the United States Securities and Exchange Commission (“SEC”); (b) press releases and media
7 reports issued by and disseminated by the Company; (c) analyst reports concerning RH; (d) a
8 proprietary investigation by Plaintiff’s counsel and (e) other public information regarding the
9 Company.

10 **I. INTRODUCTION**

11 1. This securities fraud class action is brought on behalf of all persons and other
12 entities that purchased or otherwise acquired RH common stock from March 26, 2015 to June 8,
13 2016, inclusive (the “Class Period”). The claims asserted herein are alleged against RH and certain
14 of the Company’s current and former senior executives (collectively, “Defendants”), and arise
15 under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”) and
16 Rule 10b-5 promulgated thereunder.

17 2. RH, headquartered in Corte Madera, California, is a leading luxury retailer in the
18 home furnishings marketplace. The Company operates an integrated business with multiple
19 channels of distribution including over 70 retail stores in the United States, source book magazines
20 and websites.

21 3. This case arises from misstatements the Company made regarding its new product
22 line, RH Modern. Specifically, the Company and its executives publicly touted RH Modern as its
23 “finest work ever,” a “game-changer” that was poised to double the Company’s revenue, and “the
24 most important and significant new home furnishings business to be launched in the last 15 or 20
25 years.” Bolstering these statements, the Company repeatedly issued revenue guidance that led
26 investors to expect substantial increases in revenue due in significant part to the supposed new
27 revenue to be generated by RH Modern.

28 4. In early 2015, the Company’s core product line was facing headwinds as same store

1 sales were decreasing. Specifically, in the RH's earnings report for the first quarter of 2015, the
2 Company announced its comparable store sales were down 9% from the previous quarter. To
3 reinvigorate RH's earnings, the Company began implementing its critical new product line, RH
4 Modern. On June 11, 2015, the Company officially announced it would be releasing RH Modern
5 later that fall. From the start of the Class Period, the Company touted its preparedness for the
6 launch of RH Modern and increased its fiscal 2015 revenue guidance to \$2.146 billion to \$2.176
7 billion, representing growth in the range of 15% to 17% from the prior year. After raising its
8 earnings-per-share ("EPS") guidance to \$2.95 to \$3.10 for fiscal 2015 the previous quarter, the
9 Company again raised its earnings guidance to a range of \$3.02 to \$3.15, representing growth in
10 the range of 28% to 33% year-over-year. RH attributed the growth in revenue and earnings, in
11 large part, to the release of RH Modern. In the months leading up to the release of RH Modern,
12 the Company continued to tout the new product line, including the Company's ability to have the
13 new RH Modern products in-stock so that customers would receive furniture they ordered in a
14 timely manner. In truth, the Company was woefully unprepared to launch RH Modern and to
15 capitalize on the new product line. In December 2015, when RH Modern inventory problems
16 began to emerge, the Company repeatedly downplayed the significance of the problems related to
17 RH Modern, preventing investors from learning the full truth. As a result of these
18 misrepresentations, RH stock traded at artificially inflated prices during the Class Period.

19 5. Contrary to Defendants' representations that the Company was prepared for the
20 launch of RH Modern, in reality, the launch of RH Modern was an abject catastrophe. The
21 Company knew that it was not prepared to introduce RH Modern on a timetable and at the quality
22 level that its clients expected, but Defendants nonetheless assured investors of near-term profits to
23 be driven by the new product line. As Defendants knew during the Class Period, the introduction
24 of RH Modern was beset with a host of problems, including a near-complete lack of inventory,
25 countless shipping delays, customer cancelations and returned products.

26 6. The truth began to be revealed on December 10, 2015, when the Company
27 announced that it had missed its earnings projections due, in part, to the fact that RH Modern
28 furniture was not fully in-stock. As a result of these disclosures, shares of RH declined by

1 approximately \$9 per share, closing at \$78.65 per share on December 14. To stem the decline, the
2 Company made a number of reassuring statements, including touting the launch of RH Modern as
3 “phenomenal” and falsely attributing the low inventory of RH Modern products to a purported
4 strategy of conservatively managing purchases for the new product line.

5 7. Then, on February 9, 2016, the Company announced the surprise resignation of its
6 Chief Operating Officer (“COO”), Kenneth Dunaj (“Dunaj”), who just one year prior had been put
7 in charge of inventory management.

8 8. On February 24, 2016, the Company announced disappointing earnings for the
9 fourth quarter of 2015 due to shipping delays of the RH Modern furniture. This disclosure caused
10 RH stock to decline by \$13.43 per share. In an effort to mitigate the market reaction, the Company
11 continued to tout RH Modern as a success and assured investors that the RH Modern inventory
12 problems were behind them.

13 9. Then on June 8, 2016, the Company significantly reduced its earnings guidance for
14 fiscal 2016, which the Company attributed to “accommodations largely due to RH Modern
15 production delays.” These disclosures caused RH stock to decline by \$7.66 per share.

16 10. As a result of Defendants’ wrongful acts and omissions, and the precipitous decline
17 in the market value of the Company’s common stock, Plaintiff and other Class members have
18 suffered significant damages.

19 **II. JURISDICTION AND VENUE**

20 11. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange
21 Act, 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R.
22 § 240.10b-5. This Court has jurisdiction over the subject matter of this action pursuant to 28
23 U.S.C. §§ 1331 and 1337, and Section 27 of the Exchange Act, 15 U.S.C. § 78aa.

24 12. Venue is proper in this District pursuant to Section 27 of the Exchange Act and 28
25 U.S.C. § 1391(b). RH is headquartered in California and conducts business in this District, and
26 many of the acts and conduct that constitute the violations of law complained of herein, including
27 the materially false and misleading statements of fact, occurred in and/or were issued from this
28 District. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly,

1 used the means and instrumentalities of interstate commerce, including, but not limited to, the
2 mails, interstate telephone communications, and the facilities of the national securities markets.

3 **III. PARTIES**

4 13. Plaintiff purchased shares of RH stock on the New York Stock Exchange during the
5 Class Period and suffered damages as a result of the violations of the federal securities laws alleged
6 herein.

7 14. Defendant RH is incorporated in Delaware and maintains its headquarters in Corte
8 Madera, California. RH is one of the leading luxury retailers in home furnishings in the United
9 States. The Company's stock trades on the New York Stock Exchange, which is an efficient
10 market, under ticker symbol "RH." As of October 31, 2016, there were approximately 41 million
11 shares of RH stock outstanding.

12 15. Defendant Gary Friedman ("Friedman") is, and was at all relevant times, RH's
13 Chief Executive Officer ("CEO") and Chairman.

14 16. Defendant Karen Boone ("Boone") is, and was at all relevant times, RH's Co-
15 President and Chief Financial and Administrative Officer.

16 17. Defendants Friedman and Boone are collectively referred to hereinafter as the
17 "Individual Defendants." The Individual Defendants, because of their positions with RH,
18 possessed the power and authority to control the contents of RH's reports to the SEC, press
19 releases, and presentations to securities analysts, money and portfolio managers, and institutional
20 investors. Each of the Individual Defendants was provided with copies of the Company's reports
21 and press releases alleged herein to be misleading prior to, or shortly after, their issuance and had
22 the ability and opportunity to prevent their issuance or cause them to be corrected. Because of
23 their positions and access to material non-public information available to them, each of the
24 Individual Defendants knew that the adverse facts and omissions specified herein had not been
25 disclosed to, and were being concealed from, the public, and that the positive representations and
26 omissions which were being made were then materially false and/or misleading.

27 **IV. BACKGROUND**

28 18. RH is a leading luxury retailer in the home furnishings marketplace that operates

1 an integrated business with multiple channels of distribution, including over 70 retail stores in the
2 United States, source book magazines and websites. In early 2015, the Company's core product
3 line was facing headwinds as same store sales were decreasing. Specifically, in RH's earnings
4 report for the first quarter of 2015, the Company announced its comparable store sales were down
5 9% from the previous quarter. To reinvigorate RH's earnings, the Company began implementing
6 its critical new product line, RH Modern. The Company's CEO, Friedman, touted RH Modern as
7 "the most innovative and new concept in the world of home design" and claimed it "represents our
8 finest work to date." He went on to describe RH Modern as "the most important and significant
9 new home furnishings business to be launched in the last 15 or 20 years."

10 19. Prior to the release of RH Modern, Defendants repeatedly assured investors that the
11 Company was prepared for the launch of the product and would have the appropriate amount of
12 inventory in stock so that customers would not experience delays in receiving RH Modern products
13 they ordered. For example, Friedman stated "[o]n the Modern side, and the lead times, the wait
14 times are a real disadvantage for the people in the marketplace today. We are going to compete on
15 speed just like we would our current business." He continued, "it's going to be a huge competitive
16 advantage versus how the marketplace exists and operates today."

17 20. In truth, the Company was woefully unprepared for the RH Modern launch as it
18 knowingly gave vendors unrealistic timelines to manufacture products. This led to the Company
19 having a near-total lack of inventory when the product line was launched leading to severe shipping
20 delays and customer cancelations. Further, many customers who did receive RH Modern products
21 ended up returning the products because they were defective due to the fact that vendors had to
22 rush to create the product.

23 21. In addition, after the release of RH Modern, Defendants repeatedly downplayed
24 issues surrounding RH Modern, including low inventory levels, shipping delays, and customer
25 cancelations, thus preventing investors from realizing the true nature and impact of the problems.

26 **V. DEFENDANTS' FALSE AND MISLEADING STATEMENTS AND OMISSIONS**

27 22. The Class Period starts on March 26, 2015, the day the Company reported its results
28 for the fourth quarter and fiscal year 2014, and announced the release of RH Modern later in the

1 year. On that day, the Company touted RH Modern as its “finest work ever” and a “game-changer”
2 for the Company. Based on this, the Company raised its 2015 EPS guidance to \$2.95 to \$3.10,
3 representing growth in the range of 25% to 31% from fiscal 2014. The Company emphasized to
4 investors that it would have no trouble meeting the inventory needs that the new RH Modern
5 product line would require. Boone stressed that the Company would “continue to make inventory
6 investments to make sure that [the Company] improve[s] our in-stocks and make sure we're not
7 having high back orders.” Friedman further emphasized the Company’s strong inventory
8 management stating, “Ken Dunaj, our Chief Operating Officer, has recently taken over inventory
9 management. He has a new leader in that area of the business. I think we have more intelligence,
10 more energy and passion behind inventory management than ever in the history of our Company
11 right now.”

12 23. On June 11, 2015, during RH’s 2015 first quarter earnings call, the Company
13 announced that RH Modern would officially be released in the fall and increased its revenue
14 guidance to \$2.146 billion to \$2.176 billion, representing growth in the range of 15% to 17%, and
15 raised its EPS guidance to a range of \$3.02 to \$3.15, representing growth in the range of 28% to
16 33% from fiscal 2014 based largely on the RH Modern release. Friedman continued to tout RH
17 Modern, calling it the “most innovative and new concept in the world of home design” and
18 claiming it could double the Company’s revenue saying, “could RH Modern, in and of itself, take
19 \$4 billion to \$5 billion up? Yes, it could.” Friedman assured investors that the RH Modern
20 inventory would be in-stock stating, “[i]nventory at the end of the first quarter was up 24%, and
21 we expect to end the year with inventory growth that is higher than our sales growth given the
22 inventory investments in RH Modern.” Further, Boone stated, “[w]e are adding 1.5 million square
23 foot DC [in] northern California in the coming months, actually it's opening this summer. That
24 was planned partially for Modern, both to keep up with the growth we have in the core business
25 but also knowing that Modern was coming. So, we should be very good on supply chain capacity
26 for a while.” The Company also emphasized that not only would its delivery window be
27 comparable with what the Company has done in the past, but would also be an advantage for the
28 Company. Friedman stated “[o]n the Modern side, and the lead times, the wait times are a real

1 disadvantage for the people in the marketplace today. We are going to compete on speed just like
2 we would our current business.” He continued, “it’s going to be a huge competitive advantage
3 versus how the marketplace exists and operates today.”

4 24. On September 10, 2015, approximately a month before RH Modern’s official
5 release, Friedman continued to tout RH Modern, stating that the new product line “can be as big
6 as RH is today or bigger than we are today. There is no reason to believe that RH Modern can’t
7 be a multi-billion dollar business in the US.” He further stated that RH Modern “is the most
8 important and significant new home furnishings business to be launched in the last 15 or 20 years.”
9 The Company again raised revenue guidance to \$2.158 billion to \$2.178 billion, representing
10 growth in the range of 16% to 17% from fiscal 2014. The Company also increased its EPS
11 guidance to a range of \$3.06 to \$3.16, representing growth in the range of 30% to 34%, based on
12 the RH Modern launch. Friedman also reassured investors that bringing the critical new product
13 line to market would not be a problem for the Company stating, “[s]o the great thing about this
14 and why we can go so fast is we know this business. This is a parallel business with a different
15 aesthetic that can be presented in a compelling way that I think is going to completely open up the
16 aperture and the acceptance of the RH brand.” Further, Boone reported that inventory was up 29%,
17 stating that inventory growth “is higher than our sales growth given the inventory investments
18 necessary for the launches of RH Modern and RH Teen.”

19 25. The statements set forth in ¶¶22-24 were materially false and misleading. Contrary
20 to Defendants’ representations that the Company was prepared for the launch of RH Modern, that
21 inventory was adequate, and that customers would not face shipping delays, in reality, the
22 Company had severely inadequate inventory and was woefully unprepared to launch RH Modern.
23 Indeed, the Company knowingly placed orders over vendors’ capacity, and gave vendors
24 unrealistic deadlines, leading to the Company having grossly inadequate RH Modern inventory in-
25 stock at the time of the launch. Even when vendors were able to manufacture RH Modern
26 furniture, it was often damaged or unfinished as vendors had to rush to meet unrealistic deadlines,
27 which led to numerous customers canceling their orders or returning defective RH Modern
28 furniture.

1 **VI. IN RESPONSE TO BELATED DISCLOSURE OF RH**
2 **MODERN PROBLEMS, THE COMPANY MAKES FALSE**
3 **EXCUSES AS INVESTORS SUFFER SIGNIFICANT LOSSES**

4 26. On December 10, 2015, just two months after the official launch of RH Modern,
5 the Company disclosed that it had missed its earnings projection due to “deceleration from the
6 second quarter based on a shift in the timing of our new product introductions.” Specifically, the
7 Company announced that the RH Modern source book magazine had been issued a month later
8 than expected and thus sales for RH Modern were also delayed. The Company further disclosed
9 that while its inventory was up 25% year-over-year, RH Modern furniture was not fully in-stock
10 stating, “[w]e expect RH Modern volumes to build as in-stocks improve.” These disclosures
11 caused RH stock to decline by \$3.78 per share, wiping out over \$153 million in market value on
12 December 11, 2015. The market continued to react to the news on December 14, 2015, causing
13 RH stock to decline \$5.16 per share, wiping out an additional \$210 million in market value.

14 27. To stem this decline, Defendants made false statements to reassure investors about
15 the RH Modern launch, stating “[t]he early data would tell us that [RH Modern is] opening up an
16 entirely new market, it’s bringing in new customers, and it’s accretive to our current core
17 customers we’re seeing hits on multiple levels, and that’s why we’re seeing the early response
18 that we’re seeing today.” Further, while the Company disclosed that RH Modern was not fully in-
19 stock, it continued to assure investors the Company’s industry position was strong, stating that
20 inventory was up 25% year-over-year and that the Company expected “to end the year with
21 inventory growth higher than our sales growth given the inventory investments in RH Modern and
22 RH Teen The investments we have made in our supply chain and systems infrastructure will
23 enable us to continue to improve our customer experience and support our long term growth.”
24 Boone continued that, despite her previous assurances that the Company would be prepared for
25 the release of RH Modern, the reason the Company was low on RH Modern inventory was because
26 it wanted to be conservative initially in purchasing inventory, stating, “[I]et me just clarify, it's not
27 that we were in and then we were out, it's really just a build of getting some of those most initial
28 products. Its every week we get more of the initial runs of things, and a certain -- we certainly

1 want to be conservative with how we buy the inventory.” Friedman further reassured investors
2 that the RH Modern launch had been successful and that the lack of inventory was because demand
3 for the product was so high stating, “the best sellers in a new business are always going to sell out,
4 and you're going to always have to respond and catch up with those.” Based on these statements,
5 the Company further raised its revenue guidance to a range of \$2.17 to \$2.18 billion, representing
6 growth in the range of 16% to 17% and also raised its EPS guidance to a range of \$3.11 to \$3.16
7 or 32% to 34% increase from fiscal 2014.

8 28. On February 9, 2016, the Company announced that its COO, Dunaj, would be
9 resigning from the Company just one year after he was put in charge of inventory management.
10 Analysts noted that the reasons behind Dunaj’s resignation seemed strange. For example, analysts
11 from Buckingham Research stated “[w]hile we were not given any indication as to the nature of
12 Ken Dunaj’s resignation other than for personal reasons, we note that the company did not have a
13 good explanation as to the timing of Mr. Dunaj’s resignation.”

14 29. On February 24, 2016, the Company released its 2015 fourth quarter earnings
15 results one month early and announced disappointing earnings. The Company further disclosed
16 that it would be investing \$8-\$10 million in customer accommodations during the first quarter due
17 to “higher cancellation rates, shipping delays, and our overall initiative to elevate the customer
18 experience We anticipate that these investments will moderate by the end of the second quarter
19 as we reach optimal in-stock levels for RH Modern and improve our execution.” These disclosures
20 caused RH stock to decline by \$13.43 per share, wiping out over \$546 million in market value.

21 30. However, in an effort to stop this decline, the Company downplayed its poor
22 quarterly performance, and falsely reassured investors that the problems related to RH Modern
23 were over. Specifically, in the Company’s earnings call for the fiscal fourth quarter ended
24 December 31, 2015, Friedman stated, “we’re on the backside of the mountain, if you will. So I
25 think we are on the backside of this now. I think we're past the peak. The in stocks in Modern are
26 going up.” Friedman assured investors that 70% of RH Modern products were in-stock stating,
27 “[w]e're currently in the 70% range as far as our in stocks today, and we expect that to build to the
28 mid-80% by the end of the quarter which is more at a normalized level.” Defendants also offered

1 two reasons for its poor performance that shifted blame away from the Company itself. First,
2 Friedman stated, “we are experiencing shipping delays as certain vendors are struggling to ramp
3 up production of this new product line.” Second, the Company blamed the underperformance on
4 “markets affected by energy, oil, or currency fluctuations.”

5 31. While these statements mollified the market, analysts continued to raise questions
6 about the Company’s inventory levels related to RH Modern. For example, on May 9, 2016,
7 analysts from BB&T Capital Markets surveyed 50 RH Modern products in order to determine how
8 many were currently in-stock. The analysts found that only 40% of RH Modern products were in-
9 stock and that the survey results “run counter to management’s late March commentary [that] 70%
10 of RH Modern inventory was currently in stock.” The analysts noted that the “survey results
11 indicate RH has made scant progress in ‘catching up’ with RH Modern backorders.”

12 32. The statements set forth in ¶¶26-31 were materially false and misleading. Contrary
13 to Defendants’ representations that the RH Modern launch was a remarkable success, in reality,
14 the launch of RH Modern was plagued by a severe lack of inventory leading to numerous shipping
15 delays, and customers canceling orders and returning defective RH Modern furniture. Further,
16 Defendants’ representations that the problems surrounding RH Modern were in the past, and were
17 the result of factors external to the Company, were materially false and misleading. In truth, RH
18 Modern inventory was grossly inadequate throughout the Class Period.

19 33. Then, on June 8, 2016, just two months after Defendants had assured investors that
20 the worst problems related to RH Modern were over, the Company announced that it was
21 dramatically lowering its earnings guidance for fiscal 2016 “largely due to RH Modern production
22 delays during the first half.” On the same day, the Company held a conference call with analysts
23 and investors to discuss the Company’s earnings and operations for the first quarter of 2016.
24 During that call, Boone disclosed the Company had “invested approximately \$18 million during
25 the first quarter in customer accommodations and related expenses, largely as a result of RH
26 Modern production delays,” nearly twice as much as the Company stated it would spend to
27 accommodate customers just months earlier.

28 34. Analysts noted their shock and disappointment in the true state of RH’s operations.

1 For example, analysts from BB&T Capital Markets stated they were “flabbergasted by how
2 quickly the wheels appear to be falling off of RH, and think the last two quarters’ debacles cast
3 significant doubt on management’s credibility and ability to achieve its long-term financial
4 targets.”

5 35. As a result of these disclosures, RH stock declined by \$7.66 per share, wiping out
6 over \$311 million in market value on that day alone.

7 **VII. LOSS CAUSATION**

8 36. During the Class Period, as detailed herein, Defendants made materially false and
9 misleading statements and omissions, and engaged in a scheme to deceive the market. This
10 artificially inflated the price of RH common stock and operated as a fraud or deceit on the Class
11 (as defined below). When Defendants’ prior misrepresentations and fraudulent conduct began to
12 be revealed on December 10, 2015 and February 24, 2016, Defendants made falsely reassuring
13 statements to prevent the stock from declining further. Then, when Defendants’ prior
14 misrepresentations and fraudulent conduct were fully revealed on June 8, 2016, the price of RH
15 common stock fell precipitously again, as the prior artificial inflation came out of the stock price.
16 As a result of their purchases of RH common stock during the Class Period, Plaintiff and other
17 members of the Class suffered economic loss, *i.e.*, damages, under the federal securities laws.

18 **VIII. CLASS ACTION ALLEGATIONS**

19 37. Plaintiff brings this action as a class action pursuant to Rule 23 of the Federal Rules
20 of Civil Procedure on behalf of all persons who purchased the common stock of RH during the
21 Class Period (the “Class”). Excluded from the Class are Defendants and their families, directors,
22 and officers of RH and their families and affiliates.

23 38. The members of the Class are so numerous that joinder of all members is
24 impracticable. The disposition of their claims in a class action will provide substantial benefits to
25 the parties and the Court. As of December 2, 2016, there were approximately 41 million shares of
26 RH stock outstanding.

27 39. Questions of law and fact common to the members of the Class which predominate
28 over questions which may affect individual Class members include:

1 (a) Whether Defendants violated the Exchange Act;

2 (b) Whether Defendants omitted and/or misrepresented material facts;

3 (c) Whether Defendants' statements omitted material facts necessary in order
4 to make the statements made, in light of the circumstances under which they were made, not
5 misleading;

6 (d) Whether Defendants knew or recklessly disregarded that their statements
7 and/or omissions were false and misleading;

8 (e) Whether the price of RH common stock was artificially inflated;

9 (f) Whether Defendants' conduct caused the members of the Class to sustain
10 damages; and

11 (g) The extent of damages sustained by Class members and the appropriate
12 measure of damages.

13 40. Plaintiff's claims are typical of those of the Class because Plaintiff and the Class
14 sustained damages from Defendants' wrongful conduct.

15 41. Plaintiff will adequately protect the interests of the Class and has retained counsel
16 experienced in class action securities litigation. Plaintiff has no interests which conflict with those
17 of the Class.

18 42. A class action is superior to other available methods for the fair and efficient
19 adjudication of this controversy.

20 **IX. INAPPLICABILITY OF STATUTORY SAFE HARBOR**

21 43. RH's "Safe Harbor" warnings accompanying its forward-looking statements issued
22 during the Class Period were ineffective to shield those statements from liability.

23 44. Defendants are also liable for any false or misleading forward-looking statements
24 pleaded herein because, at the time each such statement was made, the speaker knew the statement
25 was false or misleading and the statement was authorized and/or approved by an executive officer
26 of RH who knew that the statement was false. None of the historic or present tense statements
27 made by Defendants were assumptions underlying or relating to any plan, projection, or statement
28 of future economic performance, as they were not stated to be such assumptions underlying or

1 relating to any projection or statement of future economic performance when made, nor were any
2 of the projections or forecasts made by Defendants expressly related to, or stated to be dependent
3 on, those historic or present tense statements when made.

4 **X. PRESUMPTION OF RELIANCE**

5 45. At all relevant times, the market for RH common stock was an efficient market for
6 the following reasons, among others:

7 (a) RH stock met the requirements for listing, and was listed and actively traded
8 on the New York Stock Exchange, a highly efficient and automated market;

9 (b) As a regulated issuer, RH filed periodic public reports with the SEC and the
10 New York Stock Exchange;

11 (c) RH regularly and publicly communicated with investors via established
12 market communication mechanisms, including through regular disseminations of press releases on
13 the national circuits of major newswire services and through other wide-ranging public disclosures,
14 such as communications with the financial press and other similar reporting services; and

15 (d) RH was followed by several securities analysts employed by major
16 brokerage firm(s) who wrote reports which were distributed to the sales force and certain
17 customers of their respective brokerage firm(s). Each of these reports was publicly available and
18 entered the public marketplace.

19 46. As a result of the foregoing, the market for RH securities promptly digested current
20 information regarding RH from all publicly available sources and reflected such information in the
21 price of RH common stock. Under these circumstances, all purchasers of RH common stock
22 during the Class Period suffered similar injury through their purchase of RH common stock at
23 artificially inflated prices and the presumption of reliance applies.

24 **COUNT I**

25 **For Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Against All Defendants**

26 47. Plaintiff repeats and realleges each and every allegation contained above as if fully
27 set forth herein.

28 48. During the Class Period, Defendants carried out a plan, scheme, and course of

1 conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing
2 public, including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and
3 other members of the Class to purchase RH common stock at artificially inflated prices.

4 49. Defendants: (i) employed devices, schemes, and artifices to defraud; (ii) made
5 untrue statements of material fact and/or omitted to state material facts necessary to make the
6 statements not misleading; and (iii) engaged in acts, practices, and a course of business which
7 operated as a fraud and deceit upon the purchasers of the Company's common stock in an effort
8 to maintain artificially high market prices for RH common stock in violation of Section 10(b) of
9 the Exchange Act and Rule 10b-5 promulgated thereunder.

10 50. Defendants, individually and in concert, directly and indirectly, by the use, means
11 or instrumentalities of interstate commerce and/or of the mails, engaged and participated in a
12 continuous course of conduct to conceal adverse material information about the Company's
13 financial well-being, operations and prospects.

14 51. During the Class Period, Defendants made the false statements specified above,
15 which they knew or recklessly disregarded to be false or misleading in that they contained
16 misrepresentations and failed to disclose material facts necessary in order to make the statements
17 made, in light of the circumstances under which they were made, not misleading.

18 52. Defendants had actual knowledge of the misrepresentations and omissions of
19 material fact set forth herein, or recklessly disregarded the true facts that were available to them.
20 Defendants engaged in this misconduct to conceal RH's true condition from the investing public
21 and to support the artificially inflated prices of the Company's common stock.

22 53. Plaintiff and the Class have suffered damages in that, in reliance on the integrity of
23 the market, they paid artificially inflated prices for RH common stock. Plaintiff and the Class
24 would not have purchased the Company's common stock at the prices they paid, or at all, had they
25 been aware that the market prices for RH common stock had been artificially inflated by
26 Defendants' fraudulent course of conduct.

27 54. As a direct and proximate result of Defendants' wrongful conduct, Plaintiff and the
28 other members of the Class suffered damages in connection with their respective purchases of the

1 Company's common stock during the Class Period.

2 55. By virtue of the foregoing, Defendants violated Section 10(b) of the Exchange Act
3 and Rule 10b-5 promulgated thereunder.

4 **COUNT II**

5 **For Violation of Section 20(a) of the Exchange Act Against the Individual Defendants**

6 56. Plaintiff repeats, incorporates, and realleges each and every allegation set forth
7 above as if fully set forth herein.

8 57. The Individual Defendants acted as controlling persons of RH within the meaning
9 of Section 20(a) of the Exchange Act. By virtue of their high-level positions, participation in
10 and/or awareness of the Company's operations, direct involvement in the day-to-day operations of
11 the Company, and/or intimate knowledge of the Company's actual performance, and their power
12 to control public statements about RH, the Individual Defendants had the power and ability to
13 control the actions of RH and its employees. By reason of such conduct, the Individual Defendants
14 are liable pursuant to Section 20(a) of the Exchange Act.

15 **XI. PRAYER FOR RELIEF**

16 WHEREFORE, Plaintiff prays for judgment as follows:

- 17 A. Determining that this action is a proper class action under Rule 23 of the Federal
18 Rules of Civil Procedure;
- 19 B. Awarding compensatory damages in favor of Plaintiff and other Class members
20 against all Defendants, jointly and severally, for all damages sustained as a result
21 of Defendants' wrongdoing, in an amount to be proven at trial, including interest
22 thereon;
- 23 C. Awarding Plaintiff and the Class their reasonable costs and expenses incurred in
24 this action, including attorneys' fees and expert fees; and
- 25 D. Awarding such equitable/injunctive or other further relief as the Court may deem
26 just and proper.
- 27
28