

Container Store Group, Inc.  
Form 10-K  
May 08, 2015

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

(Mark One)

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

For the fiscal year ended February 28, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-36161

**THE CONTAINER STORE GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**500 Freeport Parkway Coppell, TX**

(Addresses of principal executive offices)

**26-0565401**

(IRS Employer  
Identification No.)

**75019**

(Zip Codes)

Registrant's telephone number in the United States, including area code, is: **(972) 538-6000**

Securities registered pursuant to Section 12(b) of the Act:

**Title of each class**

Common Stock, par value \$.01 per share

**Name of each exchange on which registered**

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES  NO

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES  NO

As of August 29, 2014, the last business day of the registrant's most recently completed second quarter, the approximate market value of the registrant's common stock held by non-affiliates was \$358,082,427. Solely for purposes of this disclosure, shares of common stock held by executive officers and directors of the registrant as of such date have been excluded because such persons may be deemed to be affiliates.

As of April 24, 2015, the number of shares of common stock outstanding was 47,983,732.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive Proxy Statement for its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**Cautionary note regarding forward-looking statements**

This Annual Report on Form 10-K contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions. The forward-looking statements in this report include, but are not limited to, statements related to: anticipated financial performance and increased profitability, ability to increase our market share, expectations with respect to new store openings and relocations, expectations regarding new product introductions and roll-outs, expectations regarding impact of marketing programs, and our ability to attract new customers and increase brand loyalty. These forward-looking statements are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations.

These forward-looking statements speak only as of the date of this report and are subject to a number of risks, uncertainties and assumptions, including the important factors described in the "Risk Factors" section of this Annual Report on Form 10-K. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as accurate predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein after the date of this report, whether as a result of any new information, future events or otherwise.

Unless the context otherwise requires, references in this Annual Report on Form 10-K to the "Company," "we," "us," and "our" refer to The Container Store Group, Inc. and, where appropriate, its subsidiaries.

Our fiscal year is the 52- or 53-week period ending on the Saturday closest to February 28. The following discussion contains references to fiscal 2015, fiscal 2014, fiscal 2013, and fiscal 2012, which represent our fiscal years ending February 27, 2016, February 28, 2015, March 1, 2014, and March 2, 2013, respectively.

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**PART I**

**ITEM 1. BUSINESS**

**General**

We are the original and leading specialty retailer of storage and organization products in the United States and the only national retailer solely devoted to the category. We provide creative, multifunctional, customizable storage and organization solutions that help our customers save time, save space and improve the quality of their lives. Through a differentiated shopping experience delivered by expert salespeople, our goal is to deliver the promise of an organized life to our customers. These customers are predominantly female, highly educated and busy from college students to empty nesters.

We were founded in 1978 in Dallas, Texas as The Container Store, Inc. In 2007, The Container Store, Inc. was sold to The Container Store Group, Inc. In November 2013, we completed the initial public offering of our common stock (the "IPO"). Our common stock now trades on the New York Stock Exchange ("NYSE") under the symbol "TCS." In fiscal 2014, we generated net sales of \$781.9 million. Today our operations consist of two operating segments:

*The Container Store ("TCS")*, which consists of our retail stores, website and call center, as well as our installation services business. We operate 70 stores with an average size of approximately 25,000 square feet (19,000 selling square feet) in 25 states and the District of Columbia. Our stores present our products in a unique and engaging atmosphere. Our visual merchandising team works to ensure that all of our merchandise is appropriately showcased to highlight the value and functionality of our products and maximize the appeal of our image and brand. We maintain a consistent store layout which creates a familiar shopping experience across our store base. Our stores are clean and spacious with strict, orderly merchandising and strategic product placements to optimize our selling space and increase productivity. We allow our customers to shop with us in a variety of ways anywhere, anytime, any way she wants through an omnichannel shopping experience. Our stores receive substantially all of our products directly from our distribution center co-located with our corporate headquarters in Coppell, Texas. In fiscal 2014, TCS had net sales of \$697.7 million, which represented approximately 89% of our total net sales.

*Elfa*, The Container Store, Inc.'s wholly owned Swedish subsidiary, Elfa International AB ("Elfa"), which designs and manufactures component-based shelving and drawer systems and made-to-measure sliding doors. Elfa was founded in 1948 and is headquartered in Malmö, Sweden. Elfa's shelving and drawer systems are customizable for any area of the home, including closets, kitchens, offices and garages. Elfa operates four manufacturing facilities with two located in Sweden, one in Finland and one in Poland. The Container Store began selling elfa® products in 1978 and acquired Elfa in 1999. Today our TCS segment is the exclusive distributor of elfa® products in the U.S. and represented approximately 38% of Elfa's total sales in fiscal 2014. Elfa also sells its products on a wholesale basis to various retailers in approximately 30 countries around the world, with a concentration in the Nordic region of Europe. In fiscal 2014, the Elfa segment had \$84.2 million of third party net sales, which represented approximately 11% of our total net sales.

For information on key financial highlights and segment financial information, see Item 6, Selected Financial and Operating Data, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Item 8, Financial Statements and Supplemental Data and Note 14 thereto. For financial information by geographic area, see Note 14 to our audited consolidated financial statements.

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**What We Stand For Organization with Heart**

The Container Store has been getting people organized for more than 36 years, and since 1978, we've also been running our business guided by our values-based set of principles. Back then, we just called it doing business. Today, we're proud to be one of the founding companies in a movement called Conscious Capitalism®, which includes a group of like-minded businesses, thought leaders, authors and academics all working together to change the way business is done in America and around the world. Businesses that practice Conscious Capitalism® have leaders who "walk the talk" by developing and nurturing a conscious culture. We have a firm belief that creating value for and optimizing relationships between all of the stakeholders of our business—employees, customers, vendors, community and shareholders—are the right things to do.

Consistent with our commitment to Conscious Capitalism, we believe that happy employees lead directly to better performance and higher profits. We believe in putting employees first and staying true to our seven Foundation Principles—simple business philosophies that guide each decision we make. One of those Foundation Principles is 1 Great Person = 3 Good People in terms of business productivity—that's our hiring philosophy. In fact, we hire only 4% of job applicants. Our employee-first culture includes a tremendous commitment to communication, training and career development that helps deliver a differentiated experience to our customers, which we believe results in a higher average ticket, repeat visits and frequent referrals to other potential customers. In fact, full-time store employees receive more than 260 hours of formal training in their first year alone—significantly higher than industry average. We offer flexible work schedules, comprehensive benefits and above industry average compensation to both full-time and part-time employees. As a result, TCS has an average full-time employee turnover rate of approximately 11% annually, significantly below the retail average. It's for these reasons and more that The Container Store has been named by FORTUNE Magazine to its annual list of 100 Best Companies to Work For® 16 years in a row.

As of February 28, 2015, the Company had approximately 4,900 employees, of which approximately 4,300 were TCS employees and approximately 600 were Elfa employees. Of the 4,300 TCS employees, approximately 2,800 were part-time employees.

You can learn about our Foundation Principles® and Conscious Capitalism® on our blog, [www.whatwestandfor.com](http://www.whatwestandfor.com). The information contained on our blog is not incorporated by reference into this Annual Report on Form 10-K.

**Our Unique Product Mix and Distinctive Vendor Relationships**

We merchandise more than 10,500 products in each of our stores and online and well over half of our sales come from exclusive or proprietary products. Each year, we introduce approximately 2,000 new SKUs on average into the assortment. Additionally, we execute a solutions-based (versus items-based) approach to selling through our highly trained salespeople. We believe by selling solutions made up of exclusive proprietary products that you simply can't find anywhere else, it helps to differentiate us from competition.

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Our stores are typically organized into 17 distinct lifestyle departments. The products sold in each department are as follows:

<b>Lifestyle departments</b>	<b>Select products</b>
Bath	Countertop Organizers, Cosmetic and Jewelry Organizers, Shower and Bathtub Organizers, Drawer Organization, Cabinet Storage
Box	Corrugated Boxes, Packing Material, Tape, Storage Bags, Specialty Boxes
Closets	Shoe Racks, Hangers, Drawer Organizers, Boxes and Bins, Hanging Storage Bags, Garment Racks
Collections	Media Storage, Photo Storage, Display, Small Craft and Parts Organizers
Containers	Small Boxes, Small Baskets, Tins, Divided Boxes, Decorative Containers
elfa®	Wall and Door Rack Systems, Drawer Systems and Accessories, Ventilated and Solid Shelving Systems, Utility and Garage Systems
Food Storage	Canisters, Jars, Lunchtime Essentials, Bulk Food Storage, Plastic and Glass Food Storage
Gift Packaging	Gift Wrap and Tags, Ribbons and Bows, Gift Wrap Organizers, Gift Bags and Sacks, Gift Boxes
Hooks	Wall Mounted, Self Adhesive, Magnetic, Overdoor, Removable
Kitchen	Drawer Liners and Organizers, Countertop Organizers, Dish Drying Racks, Cabinet Storage, Pantry Organizers
Laundry	Step Stools, Hampers, Laundry Bags and Baskets, Clothes Drying Racks, Cleaning Tools
Office	Desktop Collections, Paper Storage, File Carts and Cabinets, Literature Organizers, Message Boards
Shelving	Free Standing Shelving, Wall Mounted Shelving, Cube Systems, Component Shelving, Desks, Chairs
Storage	Drawers, Boxes and Bins, Totes, Crates, Carts
TCS Closets™	Exclusive custom solid system with doors, drawers, lighting package and accessories
Trash	Recycle Bins, Wastebaskets, Open Cans, Step-on Cans, Bags
Travel	Luggage, Totes, Clothing Organizers, Cosmetic and Jewelry Organizers, Travel Bottles

We strive to form meaningful, long-lasting relationships with our over 700 vendors from around the world. We have been developing and refining our distinctive relationship-focused approach to our vendors for over 36 years. We do not view vendor negotiations as a zero-sum game, but rather as an opportunity to creatively craft mutually beneficial relationships, which we believe has fostered a unique sense of loyalty among our vendors. Seventeen of our top 20 vendors have been with us for at least 10 years and several of those vendors have been with us since our inception in 1978. Our strong vendor relationships benefit us in a number of ways, including an increased number of exclusive products, competitive pricing and favorable payment terms. We estimate that over half of our net sales in fiscal 2014 were generated from merchandise exclusive to the Company, and we believe that only a small portion of our merchandise is carried by other national retailers.

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For the TCS segment, our top 10 vendors, excluding Elfa, accounted for less than 28% of our total purchases in fiscal 2014. Approximately 20% of our fiscal 2014 TCS segment purchases was attributed to intercompany purchases from our Elfa segment. In order to maximize our purchasing flexibility, we generally do not enter into long-term contracts with our vendors. Accordingly, we generally operate without any contractual assurances of continued supply, pricing or access to new products. Further, due to our vertical integration of Elfa, the Company has control over the sourcing and availability of our best selling and highest margin product, elfa®. We are the exclusive distributor of elfa® products in the United States. Each of our stores includes an elfa® Custom Design Center where our highly trained experts can assist customers in designing and installing a customized storage solution. In fiscal 2014, the elfa® department represented approximately \$168.9 million, or approximately 24%, of TCS net sales, which included approximately \$120.8 million of elfa® Custom Design Center net sales with an average ticket of \$631.32. This compares to an average ticket of \$60.58 for the entire TCS segment.

**Key Growth Initiatives**

***Expanding our store base:***

We believe that our expansion opportunities in the United States are significant. We endeavor to grow our square footage by at least 12% a year and we believe that we have a long runway of growth to more than 300 stores. The rate of future store additions in any particular period is inherently uncertain and is subject to numerous factors that are outside of the Company's control. As a result, we do not currently have an anticipated time frame for such expansion. We have adopted a disciplined expansion strategy designed to leverage the strength of our business model and nationally recognized brand name to successfully develop new stores in an array of markets that are primed for growth, including new, existing, small and large markets. Our current footprint of 70 stores extends to 25 states and the District of Columbia. We opened seven new stores and relocated one store during fiscal 2014. We expect to open nine new stores and relocate one store in fiscal 2015. While our current expansion focus is on domestic markets, we believe international expansion may provide additional growth opportunities for us in the future. Our new store opening execution strategy involves a strategic formula of hiring, training, marketing, and public relations and culminates in a multi-day grand opening celebration in partnership with a local charity. This distinctive approach enables our new stores to deliver strong sales volume more quickly.

***Driving comparable store sales growth with three new initiatives:***

We believe we can grow our comparable store sales by increasing our average ticket, driving traffic, and improving customer conversion by continuing to provide a differentiated shopping experience through our solutions-based selling approach, new product and service introductions and well-maintained stores.

We have three key initiatives that are designed to increase average ticket and traffic: POP!®, Contained Home<sup>SM</sup>, and TCS Closets<sup>TM</sup>. Contained Home and TCS Closets will continue to roll out through the end of fiscal 2015.

**POP! Perfectly Organized Perks®:** As of February 28, 2015, our new customer frequency program has reached more than 1.7 million customer enrollments. For stores in which POP! had been launched, approximately 54% of the fiscal 2014 sales since the launch of the program came from POP! Stars (members of the program). The POP! program should become even more impactful in fiscal 2015 with the deployment of additional technology to support deeper, one-on-one, customized connections, offers and conversations with these loyal, omnichannel customers.

**Contained Home<sup>TM</sup>:** Our in-home, customized design and organization service where expert organizers come directly into your home is expected to be available in all stores by the end of



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fiscal 2015 and was available in 34 stores as of February 28, 2015. We are encouraged by the service's average ticket of over \$2,000 as of February 28, 2015.

**TCS Closets™:** Our new, exclusive collection of solid, custom-built closet solutions crafted from high quality materials is available in six exclusive wood grain finishes and extras including lighting, glass doors, mirrors and innovative storage options for shoes, jewelry and handbags. Custom-built from the floor up to fit the customer's space and showcase her wardrobe, TCS Closets is highly differentiated from other closet solutions in the market, starting with luxurious one-inch-thick construction and extraordinary craftsmanship in every solution, such as back panels, dovetail joints and 5-piece French miter construction on drawers and doors. We offer customized design and installation services, including demolition, with one-day installation for most closets. TCS Closets piloted in seven stores in the Dallas/Fort Worth market beginning in November 2014 and we plan to roll the program out to our remaining stores by the end of fiscal 2015.

### *Enhancing our Omnichannel Presence:*

We are a fully-integrated omnichannel retailer. In addition to our retail stores, we also offer our products directly to our customers through our fully-integrated website, optimized mobile site and call center, which collectively accounted for 6.1% of TCS net sales in fiscal 2014. Our website, [www.containerstore.com](http://www.containerstore.com), is intended to replicate the store experience as much as possible and offers the same product assortment found in the stores, as well as certain product found exclusively online. Additionally, our customers are able to order from the website or call center and pick-up at a store, with curbside pick-up in most markets, or request same-day home delivery, in select markets. These omnichannel sales accounted for approximately 6.3% of TCS net sales in fiscal 2014, and for an aggregate of approximately 12.4% of TCS net sales in fiscal 2014 originating from our website, optimized mobile site and call center. Our website also allows our customers to provide product ratings and reviews which our merchandising team reads, responds to and incorporates into product design discussions with vendors. We continue to create opportunities to further improve the customer experience by leveraging our omnichannel infrastructure and we aim to continuously create more capabilities and continuity throughout the length of the shopping experience by synergistically combining the strengths of each channel online, mobile and in-store. As a result, customer loyalty is enhanced through a more engaging experience having a wider variety of convenient shopping options, each executed consistently with excellence.

### **Distribution**

In the TCS segment, substantially all of our merchandise flows through a centralized distribution center prior to transport to our retail stores. Our distribution center is co-located with our corporate offices in Coppell, Texas. The approximately 1.1 million square foot facility was designed and constructed specifically for The Container Store and is comprised of approximately 78,000 square feet of corporate office space and over 1 million square feet of warehouse space.

Our Coppell, Texas distribution center serves as our distribution center for retail store replenishment and direct-to-customer orders. With the exception of the Dallas / Fort Worth market, we utilize third party truckload carriers to transport all of our products to our stores. We utilize best in class logistics technology to optimize operations and current processes for picking, packing and shipping while providing a strong foundation for future growth. We have built a scalable infrastructure with significant capacity to support future growth and we believe our enhanced distribution and supply chain operations allow us to distribute merchandise to our stores and customers in an efficient and cost-effective manner, improving our customer's overall buying experience. We continue to strengthen our distribution operations with enhanced automation to improve our fulfillment and delivery logistics

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performance in order to achieve even greater efficiencies in service levels and the management of our inventory.

Within our distribution operations, we have a culture of safety and efficiency, with a robust metric program and a commitment to continuous improvement. All processes, teams and individuals are held to high efficiency and performance standards. We believe that the size and scalability of the distribution center, in addition to the currently unused space, is more than sufficient to support our future expansion over the next 3 to 4 years.

Elfa utilizes a broad network of third-party carriers to deliver products from its manufacturing facilities to customers worldwide.

**Intellectual property**

Our "The Container Store," "Contain Yourself", "Foundation Principles", "POP! Perfectly Organized Perks", "TCS Closets", "Contained Home", and "elfa" trademarks and certain variations thereon, such as our "The Container Store" logo and many trademarks used for our product lines and sales campaigns are registered or are the subject of pending trademark applications with the U.S. Patent and Trademark Office and with the trademark registries of many foreign countries. In addition, we own many domain names, including "www.containerstore.com," "www.whatwestandfor.com" and others that include our trademarks. We also own a patent for our proprietary retail shopping computer systems and copyrights in our catalogs, websites, and other marketing material. We believe that our trademarks, product designs and copyrighted works have significant value and we vigorously protect them against infringement.

**Competition**

We operate within the storage and organization category which extends across many retail segments including housewares, office supplies and travel, among many others. Our category of retail is highly fragmented and we are the only national retailer solely devoted to it. However, storage and organization products are sold by a variety of retailers, including mass merchants and specialty retail chains that devote a smaller portion of their merchandise assortment to storage and organization than our stores, and internet-based retailers. Some of these retailers are larger and have greater financial, marketing and other resources than The Container Store. We compete with such retailers on the basis of vendor relationships, product selection, product quality, brand recognition, price, customer service, effective consumer marketing and promotional activities, and the ability to identify and satisfy emerging consumer preferences, among other things. We believe that the strength of our solutions-based selling with highly trained employees, exclusive offerings and vendor relationships, our passionate and loyal customer base and the quality, differentiation and breadth of product assortment compare favorably to those of our competitors.

**Seasonality**

Our storage and organization product offering makes us less susceptible to holiday season shopping patterns than many retailers. Historically, our business has realized a higher portion of net sales, operating income and cash flows from operations in the fourth fiscal quarter, attributable primarily to the impact of Our Annual elfa® Sale, which starts on December 24th and traditionally runs into February. As such, our business has historically realized greater leverage on our selling, general and administrative expenses during our fiscal fourth quarter. In fact, in excess of 60% of our adjusted net income was derived in the fiscal fourth quarter in the past three years.

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**Regulation and legislation**

We are subject to labor and employment laws, laws governing truth-in-advertising, privacy laws, safety regulations and other laws, including consumer protection regulations, such as the Consumer Product Safety Improvement Act of 2008, that regulate retailers and govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

We source a significant portion of our products from outside the United States. The U.S. Foreign Corrupt Practices Act, and other similar anti-bribery and anti-kickback laws and regulations generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies and our vendor compliance agreements mandate compliance with applicable law, including these laws and regulations.

**Where you can find more information**

We maintain a website at <http://investor.containerstore.com> and make available, free of charge, through this site our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers and holders of more than 10% of our common stock, as well as any amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act") as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also put on our websites the charters for our Board of Directors' Audit Committee, Culture and Compensation Committee, Nominating and Corporate Governance Committee, as well as our Code of Business Conduct and Ethics, which applies to all of our directors, officers, and employees, including our principal executive officer and our principal financial and accounting officers, our Corporate Governance Guidelines and other related materials. The information on our websites is not part of this annual report.

Our Investor Relations Department can be contacted at The Container Store Group, Inc., 500 Freeport Parkway, Coppell, TX 75019-3863, Attention: Investor Relations; telephone: 972-538-6504; email: [InvestorRelations@containerstore.com](mailto:InvestorRelations@containerstore.com)

**ITEM 1A. RISK FACTORS**

Our business faces significant risks and uncertainties. Certain important factors may have a material adverse effect on our business prospects, financial condition and results of operations, and you should carefully consider them. Accordingly, in evaluating our business, we encourage you to consider the following discussion of risk factors, in its entirety, in addition to other information contained in or incorporated by reference into this Annual Report on Form 10-K and our other public filings with the SEC.

**Risks related to our business**

***An overall decline in the health of the economy and consumer spending may affect consumer purchases of discretionary items, which could reduce demand for our products and materially harm our sales, profitability and financial condition.***

Our business depends on consumer demand for our products and, consequently, is sensitive to a number of factors that influence consumer spending generally and for discretionary items in particular. Factors influencing consumer spending include general economic conditions, consumer disposable income, fuel prices, recession and fears of recession, unemployment, war and fears of war, inclement weather, availability of consumer credit, consumer debt levels, conditions in the housing market, interest rates, sales tax rates and rate increases, inflation, consumer confidence in future economic

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conditions and political conditions, and consumer perceptions of personal well-being and security. For example, a decrease in home purchases may lead to decreased consumer spending on home-related products. Prolonged or pervasive economic downturns could slow the pace of new store openings or cause current stores to close. Adverse changes in factors affecting discretionary consumer spending have reduced and may continue to further reduce consumer demand for our products, thus reducing our sales and harming our business and operating results. In particular, consumer purchases of discretionary items, such as our elfa® closet systems, tend to decline during recessionary periods when disposable income is lower.

***Costs and risks relating to new store openings could severely limit our growth opportunities.***

Our growth strategy depends on opening stores in new and existing markets. We must successfully choose store sites, execute favorable real estate transactions on terms that are acceptable to us, hire competent personnel and effectively open and operate these new stores. Our plans to increase our number of retail stores will depend in part on the availability of existing retail stores or store sites. A lack of available financing on terms acceptable to real estate developers or a tightening credit market may adversely affect the number or quality of retail sites available to us. We cannot assure you that stores or sites will be available to us, or that they will be available on terms acceptable to us. If additional retail store sites are unavailable on acceptable terms, we may not be able to carry out a significant part of our growth strategy.

***If we are unable to source and market new products to meet our high standards and customer preferences or are unable to offer our customers an aesthetically pleasing shopping environment, our results of operations may be adversely affected.***

Our success depends on our ability to source and market new products that both meet our standards for quality and appeal to customers' preferences. A small number of our employees, including our buying team, are primarily responsible for both sourcing products that meet our high specifications and identifying and responding to changing customer preferences. Failure to source and market such products, or to accurately forecast changing customer preferences, could lead to a decrease in the number of customer transactions at our stores and a decrease in the amount customers spend when they visit our stores. In addition, the sourcing of our products is dependent, in part, on our relationships with our vendors. If we are unable to maintain these relationships we may not be able to continue to source products at competitive prices that both meet our standards and appeal to our customers. We also attempt to create a pleasant and appealing shopping experience. If we are not successful in creating a pleasant and appealing shopping experience we may lose customers. If we do not succeed in introducing and sourcing new products that consumers want to buy or maintaining good relationships with our vendors, or are unable to provide a pleasant and appealing shopping environment or maintain our level of customer service, our sales, operating margins and market share may decrease, which would adversely impact our business, financial condition and results of operations.

***If our operating and financial performance in any given period does not meet the guidance that we provide to the public, our stock price may decline.***

We may provide public guidance on our expected operating and financial results for future periods. Such guidance is comprised of forward-looking statements subject to the risks and uncertainties described in this report and in our other public filings and public statements. Our actual results have not always been and may not always be in line with or exceed the guidance we have provided, especially in times of economic uncertainty or when there are periods of severe weather. If, in the future, our operating or financial results for a particular period do not meet our guidance or the expectations of investment analysts or if we reduce our guidance for future periods, the market price of our common stock may decline as well.

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Our comparable store sales have fluctuated significantly in the past based on a number of economic, seasonal, and competitive factors, and we expect them to continue to fluctuate in the future. Since the beginning of fiscal 2010, our quarterly comparable store sales growth has ranged from a decrease of 12% to an increase of 12.9%. This variability could cause our comparable store sales to fall below the expectations of securities analysts or investors, which could result in a decline in the market price of our common stock. Our comparable store sales growth could vary for many reasons, including the impact of new stores entering into the comparable store base, the opening of new stores that cannibalize store sales in existing locations, general economic conditions, increased competition, price changes in response to competitive factors, possible supply shortages, and cycling against any prior year of above-average sales results.

***We are undertaking a number of significant 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 rapidly increasing the number of our stores and undertaking several new business initiatives, such as Contained Home™, our in-home, customized design and organization service, POP! Perfectly Organized Perks®, our new customer frequency program, and TCS Closets™, our new, exclusive collection of solid, custom-built closet solutions. We may incur costs for these new initiatives before we realize any corresponding revenue.

The number of current business initiatives could strain our financial, operational and management resources. In addition, these initiatives may not be successful or may take longer than planned to be successful. If we are not successful in managing our current store growth and the new initiatives that are underway, we could experience an adverse impact on our financial condition 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 or all of our business initiatives, which would have a negative effect on our operating results.

***We depend on a single distribution center for all of our stores.***

We handle merchandise distribution for all of our stores from a single facility in Coppell, Texas, a suburb of Dallas, Texas. We use independent third party transportation companies as well as leased trucks to deliver our merchandise to our stores and our clients. Any significant interruption in the operation of our distribution center or the domestic transportation infrastructure due to natural disasters, accidents, inclement weather, system failures, work stoppages, slowdowns or strikes by employees of the transportation companies, or other causes could delay or impair our ability to distribute merchandise to our stores, which could result in lower sales, a loss of loyalty to our brands and excess inventory and would have a material adverse effect on our business, financial condition and results of operations. Our business depends upon the successful operation of our distribution center, as well as our ability to fulfill orders and to deliver our merchandise to our customers in a timely manner.

***Our facilities and systems, as well as those of our vendors, are vulnerable to natural disasters and other unexpected events, and as a result we may lose merchandise and be unable to effectively deliver it to our stores and online customers.***

Our retail stores, corporate offices, distribution center, infrastructure projects and direct-to-customer operations, as well as the operations of our vendors from which we receive goods and services, are vulnerable to damage from earthquakes, tornadoes, hurricanes, fires, floods, power losses, telecommunications failures, hardware and software failures, computer viruses and similar events. If any of these events result in damage to our facilities or systems, or those of our vendors, we may experience interruptions in our business until the damage is repaired, resulting in the potential loss

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of customers and revenues. In addition, we may incur costs in repairing any damage beyond our applicable insurance coverage.

***We rely upon independent third-party transportation providers for substantially all of our product shipments and are subject to increased shipping costs as well as the potential inability of our third-party transportation providers to deliver on a timely basis.***

We rely upon independent third-party transportation providers for substantially all of our product shipments, including shipments to and from all of our stores. Our utilization of these delivery services for shipments is subject to risks, including increases in fuel prices, which would increase our shipping costs, and employee strikes and inclement weather which may impact a shipping company's ability to provide delivery services that adequately meet our shipping needs. If we change the shipping companies we use, we could face logistical difficulties that could adversely affect deliveries and we would incur costs and expend resources in connection with such change. Moreover, we may not be able to obtain terms as favorable as those received from independent third-party transportation providers, which in turn would increase our costs.

***Our business depends in part on a strong brand image. If we are not able to protect our brand, 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 has contributed significantly to the success of our business to date. We also believe that protecting The Container Store brand is integral to our business and to the implementation of our strategies for expanding our business. Our brand image may be diminished if we do not 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, online sales and employee training. Our brand image may be further diminished if new products fail to maintain or enhance our distinctive brand image. Furthermore, our reputation could be jeopardized if we fail to maintain high standards for merchandise 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 negative publicity or other negative events that affect our image or reputation, some of which may be beyond our ability to control, such as the effects of negative publicity regarding our vendors. Any failure to maintain a strong brand image could have an adverse effect on our sales and results of operations.

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

Our success depends in large part on our ability to identify, originate and define storage and organization product trends, as well as to anticipate, gauge and react to changing consumer demands in a timely manner. Our products must appeal to a range of consumers whose preferences cannot always be predicted with certainty. We cannot assure you that we will be able to continue to develop products that customers respond to positively 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, and we may be required to mark down certain products to sell the resulting excess inventory, 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 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

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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.

New stores in new markets, where we are less familiar with the target customer and less well-known, may face different or additional risks and increased costs compared to stores operated in existing markets or new stores in existing markets. We also may not be able to advertise cost-effectively in new or smaller markets in which we have less store density, which could slow sales growth at such stores.

***Successful expansion increases the complexity of our business and we may not be able to effectively manage our growth, which may cause our brand image and financial performance to suffer.***

Our expansion in new and existing markets may present competitive, distribution, merchandising and regulatory challenges that differ from our current challenges, including competition among our stores, diminished novelty of our store design and concept, added strain on our distribution center, additional information to be processed by our management information systems and diversion of management attention from operations, such as the control of inventory levels in our stores. We also cannot guarantee that we will be able to obtain and distribute adequate product supplies to our stores or maintain adequate warehousing and distribution capability at acceptable costs. New stores also may have lower than anticipated sales volumes relative to previously opened stores during their comparable years of operation, and sales volumes at new stores may not be sufficient to achieve store-level profitability or profitability comparable to that of existing stores. To the extent that we are not able to meet these various challenges, our sales could decrease, our operating costs could increase and our operating profitability could be impacted.

***Our business requires that we lease substantial amounts of space and there can be no assurance that we will be able to continue to lease space on terms as favorable as the leases negotiated in the past.***

We do not own any real estate at our TCS segment. Instead, we lease all of our store locations, as well as our corporate headquarters and distribution center in Coppell, Texas. Our stores are leased from third parties and generally have an initial term of ten to fifteen years. Many of our lease agreements also have additional five-year renewal options. We believe that we have been able to negotiate favorable rental rates and tenant allowances over the last few years due in large part to the state of the economy and higher than usual vacancy rates in a number of regional malls and shopping centers. These trends may not continue, and there is no guarantee that we will be able to continue to negotiate such favorable terms. Many of our leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if the shopping venue does not meet specified occupancy standards. In addition to fixed minimum lease payments, most of our store leases provide for additional rental payments based on a percentage of sales, or "percentage rent," if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions.

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Increases in our already substantial occupancy costs and difficulty in identifying economically suitable new store locations could have significant negative consequences, which include:

requiring that a greater portion of our available cash be applied to pay our rental obligations, thus reducing cash available for other purposes and reducing our operating profitability;

increasing our vulnerability to general adverse economic and industry conditions; and

limiting our flexibility in planning for, or reacting to changes in, our business or in the industry in which we compete.

Additional sites that we lease may be subject to long-term non-cancelable leases if we are unable to negotiate our current standard lease terms. If an existing or future store is not profitable, and we decide to close it, we may nonetheless be committed to perform our obligations under the applicable lease including, among other things, paying the base rent for the balance of the lease term. Moreover, even if a lease has an early cancellation clause, we may not satisfy the contractual requirements for early cancellation under that lease. In addition, if we are not able to enter into new leases or renew existing leases on terms acceptable to us, this could have an adverse effect on our results of operations.

***Our costs and financial results may change as a result of currency exchange rate fluctuations.***

During fiscal 2014, approximately 79% of our merchandise was manufactured abroad based on cost of merchandise purchased. The prices charged by foreign manufacturers may be affected by the fluctuation of their local currency against the U.S. dollar. We source goods from various countries, including China, and thus changes in the value of the U.S. dollar compared to other currencies may affect the costs of goods that we purchase.

Our largest exposure to currency exchange rate fluctuations is between the U.S. dollar and Swedish krona. The TCS segment purchases all products from the Elfa segment in Swedish krona. Approximately 20% of our U.S. dollar merchandise purchases in the TCS segment in fiscal 2014 were originally made in Swedish krona from our Elfa segment. Additionally, all assets and liabilities of our Elfa segment are translated at year end rates of exchange, with the exception of certain assets and liabilities that are translated at historical rates of exchange. Revenues, expenses, and cash flows of our Elfa segment are translated at average rates of exchange for the year. As a result, our financial results may be adversely affected by fluctuations in the Swedish krona as compared to the U.S. dollar. Based on the average exchange rate from Swedish krona to U.S. dollar during fiscal 2014, and results of operations in functional currency, we believe that a 10% increase or decrease in the exchange rate of the Swedish krona would increase or decrease net income (loss) by approximately \$0.7 million.

***A security breach or cyber-attack of our website or information technology systems could damage our reputation and our relationships with our customers or employees, expose us to litigation risk and adversely affect our business and the trading price of our common stock.***

In conducting our business, including our e-commerce business, we obtain and transmit confidential information about our customers, including credit card information, through our website and our information technology systems, and we depend on the secure transmission of such information. We also receive and maintain confidential information about our employees in the normal course of business. A security breach or cyber-attack could adversely affect our business and operations, including damaging our reputation and our relationships with our customers and employees, and exposing us to risks of litigation and liability. We cannot assure that any breaches, attacks or unauthorized disclosures will not occur. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, as a result of recent security breaches at a number of prominent retailers, the media and



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public scrutiny of information security and privacy has become more intense. As a result, we may incur significant costs to change our business practices or modify our service offerings in connection with the protection of personally identifiable information. Further, we may be subject to one or more claims or lawsuits related to intentional or unintentional exposure of our customer's personally identifiable information. Any security breach or resulting lawsuit could cause our customers to lose confidence in the security of our information systems, and choose not to do business with us, thereby adversely affecting our business and the trading price of our common stock.

In addition, states and the federal government have increasingly enacted additional laws and regulations to protect consumers against identity theft, including laws governing treatment of personally identifiable information. These laws have increased the costs of doing business and we cannot assure you that our vendors and employees will comply with all applicable laws, regulations and contractual provisions pertaining to the use of personal information. If we fail to implement appropriate safeguards or we fail to detect and provide prompt notice of unauthorized access as required by some of these laws and regulations, we could be subject to potential claims for damages and other remedies. If we were required to pay any significant amounts in satisfaction of claims under these laws and regulations, our business, results of operations and financial condition could be adversely affected.

Finally, there can be no assurance that in the future we will be able to operate our business in accordance with the PCI Data Security Standards or other industry recommended practices. We intend to maintain compliance with PCI Data Security Standards and will incur additional expenses to maintain PCI compliance. Even if we are compliant with such standards, we still may be vulnerable and unable to prevent security breaches involving customer transaction data.

***If we are unable to effectively manage our online sales, our reputation and operating results may be harmed.***

E-commerce has been our fastest growing business over the last several years and continues to be a growing part of our business. The success of our e-commerce business depends, in part, on factors over which we may not control. We must successfully respond to changing consumer preferences and buying trends relating to e-commerce usage. We are also vulnerable to certain additional risks and uncertainties associated with our e-commerce websites, including: changes in required technology interfaces; website downtime and other technical failures; costs and technical issues as we upgrade our website software; computer viruses; changes in applicable federal and state regulations; security breaches; and consumer privacy concerns. In addition, we must keep up to date with competitive technology trends, including the use of new or improved technology, creative user interfaces and other e-commerce marketing tools such as paid search and mobile applications, among others, which may increase our costs and which may not succeed in increasing sales or attracting customers. Our competitors, some of whom have greater resources than us, may also be able to benefit from changes in e-commerce technologies, which could harm our competitive position. Our failure to successfully respond to these risks and uncertainties might adversely affect the sales in our e-commerce business, as well as damage our reputation and brands.

***Competition, including internet-based competition, could negatively impact our business, adversely affecting our ability to generate higher net sales and our ability to obtain favorable store locations.***

A variety of retailers offer products that are similar to the ones we offer in our stores and through our website. We compete primarily based on level of service and by product quality and selection. Competitive products can be found in mass merchants, as well as specialty retail chains. Some of our competitors, particularly the mass merchants, are larger and have greater financial resources than we do. We also face competition from internet-based retailers, in addition to traditional store-based retailers. This could result in increased price competition since our customers can more readily search and compare similar products.

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***We will require significant capital to fund our expanding business, which may not be available to us on satisfactory terms or at all. We plan to use cash from operations to fund our operations and execute our growth strategy. If we are unable to maintain sufficient levels of cash flow, we may not meet our growth expectations or we may require additional financing which could adversely affect our financial health and impose covenants that limit our business activities.***

We plan to continue our growth and expansion, including opening a number of new stores, remodeling existing stores and upgrading our information technology systems and other infrastructure, as opportunities arise. Our plans to expand our store base may not be successful and the implementation of these other plans may not result in expected increases in our net sales even though they increase our costs. We will require significant capital to support our expanding business and execute on our growth strategy.

We currently primarily depend on cash flow from operations and the Revolving Credit Facility to fund our business and growth plans. If our business does not generate sufficient cash flow from operations to fund these activities, we may need additional equity or debt financing. If such financing is not available to us, or is not available on satisfactory terms, our ability to operate and expand our business or respond to competitive pressures would be curtailed and we may need to delay, limit or eliminate planned store openings or operations or other elements of our growth strategy. If we raise additional capital by issuing equity securities or securities convertible into equity securities, your ownership would be diluted.

***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 Revolving Credit Facility, each member of the syndicate for the Revolving Credit Facility is responsible for providing a portion of the loans to be made under the facility. Factors that have previously affected our borrowing ability under the Revolving Credit Facility 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 the 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 Credit Facility fails to satisfy its obligations to extend credit under the facility and we are unable to find a replacement for such participant or group of participants on a timely basis (if at all), our liquidity and our business may be materially adversely affected.

***Our ability to obtain merchandise on a timely basis at competitive prices could suffer as a result of any deterioration or change in our vendor relationships or events that adversely affect our vendors or their ability to obtain financing for their operations.***

We believe our vendor relationships are critical to our success. We do not have long-term contracts with any of our vendors and we generally transact business on an order-by-order basis, operating without any contractual assurances of continued supply, pricing or access to new products. Any of our vendors could discontinue supplying us with desired products in sufficient quantities for a variety of reasons.

The benefits we currently experience from our vendor relationships could be adversely affected if our vendors:

discontinue selling merchandise to us;

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enter into exclusivity arrangements with our competitors;

sell similar merchandise to our competitors with similar or better pricing, many of whom already purchase merchandise in significantly greater volume and, in some cases, at lower prices than we do;

raise the prices they charge us;

change pricing terms to require us to pay on delivery or upfront, including as a result of changes in the credit relationships some of our vendors have with their various lending institutions;

lengthen their lead times; or

initiate or expand sales of storage and organization products to retail customers directly through their own stores, catalogs or on the internet and compete with us directly.

We historically have established excellent working relationships with many small- to mid-size vendors that generally have more limited resources, production capacities and operating histories. Market and economic events that adversely impact our vendors could impair our ability to obtain merchandise in sufficient quantities. Such events include difficulties or problems associated with our vendors' business, finances, labor, ability to export or import, as the case may be, merchandise, costs, production, insurance and reputation. There can be no assurance that we will be able to acquire desired merchandise in sufficient quantities on acceptable terms or at all in the future, especially if we need significantly greater amounts of inventory in connection with the growth of our business. We may need to develop new relationships with larger vendors, as our current vendors may be unable to supply us with needed quantities and we may not be able to find similar merchandise on the same terms from larger vendors. If we are unable to acquire suitable merchandise in sufficient quantities, at acceptable prices with adequate delivery times due to the loss of or a deterioration or change in our relationship with one or more of our key vendors or events harmful to our vendors occur, it may adversely affect our business and results of operations.

***There is a risk that our vendors may sell similar or identical products to our competitors, which could harm our business.***

Although many of our products are sold by our vendors only to The Container Store, products related to the majority of our non-elfa® sales are not sold to us on an exclusive basis. Of the non-elfa® products that we purchase on an exclusive basis, none of these products are sold pursuant to agreements with exclusivity provisions. As a result, most of our vendors have no obligation to refrain from selling similar or identical products to our competitors, some of whom purchase products in significantly greater volume, or entering into exclusive arrangements with other retailers that could limit our access to their 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 depend on key executive management.***

We depend on the leadership and experience of our key executive management, including Kip Tindell, Sharon Tindell, Melissa Reiff and Jodi Taylor. The loss of the services of any of our executive management members could have a material adverse effect on our business and prospects, and as there is a high level of competition for experienced, successful personnel in the retail industry, we may not be able to find suitable individuals to replace such personnel on a timely basis or without incurring increased costs, or at all. We do not maintain key-man life insurance policies on any of our executive officers. We believe that our future success will depend on our continued ability to attract and retain

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highly skilled and qualified personnel. Our inability to meet our staffing requirements in the future could impair our growth and harm our business.

***If we are unable to find, train and retain key personnel, including new employees that reflect our brand image and embody our culture, we may not be able to grow or sustain our operations.***

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of store employees, including general managers and store managers, who understand and appreciate our customers, products, brand and corporate culture, and are able to adequately and effectively represent our culture and establish credibility with our customers. Our planned growth will require us to hire and train even more personnel to manage such growth. If we are unable to hire and retain personnel capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture, understanding of our customers and knowledge of the merchandise we offer, 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. There is a high level of competition for experienced, qualified personnel in the retail industry and we compete for personnel with a variety of companies looking to hire for retail positions. Our growth plans could strain our ability to staff our new stores, particularly at the store manager level, which could have an adverse effect on our ability to maintain a cohesive and consistently strong team, which in turn could have an adverse impact on our business. If we are unable to attract, train and retain employees in the future, we may not be able to serve our customers effectively, thus reducing our ability to continue our growth and to operate our existing stores as profitably as we have in the past.

***Labor activities could cause labor relations difficulties for us.***

None of our U.S.-based employees is currently subject to a collective bargaining agreement. As we continue to grow and enter different regions, unions may attempt to organize all or part of our employee base at certain stores or within certain regions. Responding to such organization attempts may distract management and employees and may have a negative financial impact on individual stores, or on our business as a whole. As of February 28, 2015, approximately 64% of Elfa's employees (approximately 8% of our total employees) were covered by collective bargaining agreements. A dispute with a union or employees represented by a union, including a failure to extend or renew our collective bargaining agreements, could result in production interruptions caused by work stoppages. If a strike or work stoppage were to occur, our results of operations could be adversely affected.

***Our costs may increase due to factors that may or may not be controllable by us, which may negatively affect our financial results.***

Increases in our costs that are beyond our control, including items such as increases in commodity prices for raw materials that are directly or indirectly related to the production of our products, such as the prices of steel, oil, resin and pulp, increases in fuel and transportation costs, higher interest rates, increases in losses from damaged merchandise, inflation, fluctuations in foreign currency rates, higher costs of labor, labor disputes around the world, increases in the costs of insurance and healthcare, increases in postage and media costs, higher tax rates and the cost of compliance with changes in laws and regulations, including accounting standards, may negatively impact our financial results.

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

During fiscal 2014, excluding purchases for Elfa, we purchased approximately 27% of our merchandise from manufacturers located in the United States and approximately 73% from manufacturers located outside the United States (including approximately 43% from manufacturers located in China). In addition, some of the merchandise we purchase from manufacturers in the United States also depends, in whole or in part, on manufacturers located outside the United States. As a

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

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

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

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

We source a significant portion of our products from outside the United States. The U.S. Foreign Corrupt Practices Act, and other similar anti-bribery and anti-kickback laws and regulations generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. While our vendor compliance agreements mandate compliance with applicable law, we cannot assure you that we will be successful in preventing our employees or other agents from taking actions in violation of these laws or regulations. Such violations, or allegations of such violations, could disrupt our business and result in a material adverse effect on our financial condition, results of operations and cash flows.

***We face risks related to our indebtedness.***

As of February 28, 2015, we had total outstanding debt of \$334.9 million and an additional \$72.8 million of availability under the Revolving Credit Facility and the Elfa Revolving Credit Facility.

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We may incur additional indebtedness in the future. Our high degree of leverage could have important consequences to us, including:

making it more difficult for us to make payments on our debt;

limiting our ability to pay future dividends;

increasing our vulnerability to downturns in our business, the storage and organization retail industry or the general economy and limiting our flexibility in planning for, or reacting to, changes in our business;

requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our debt, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures, and future business opportunities;

exposing us to the risk of increased interest rates as our borrowings under the Senior Secured Term Loan Facility, the Revolving Credit Facility and the Elfa Senior Secured Credit Facilities are at variable rates;

restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;

requiring us to comply with financial and operational covenants, restricting us, among other things from placing liens on our assets, making investments, incurring debt, making payments to our equity or debt holders and engaging in transactions with affiliates;

limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions, and general corporate or other purposes;

preventing us from taking advantage of business opportunities as they arise or successfully carrying out our plans to expand our store base and product offerings; and

placing us at a competitive disadvantage compared to our competitors who may be less highly leveraged.

In addition, if we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets or issue equity to obtain necessary funds. We do not know whether we would be able to take any of these actions on a timely basis, on terms satisfactory to us, or at all. A failure by us or our subsidiaries to comply with the agreements governing our indebtedness could result in an event of default under such indebtedness, which could adversely affect our ability to respond to changes in our business and manage our operations. Upon the occurrence of an event of default under any of the agreements governing our indebtedness, the lenders could elect to declare all amounts outstanding to be due and payable and exercise other remedies as set forth in the agreements. If any of our indebtedness were to be accelerated, there can be no assurance that our assets would be sufficient to repay this indebtedness in full, which could have a material adverse effect on our ability to continue to operate as a going concern.

### ***Our fixed lease obligations could adversely affect our financial performance.***

Our fixed lease obligations will require us to use a significant portion of cash generated by our operations to satisfy these obligations, and could adversely impact our ability to obtain future financing to support our growth or other operational investments. We will require substantial cash flows from operations to make our payments under our operating leases, all of which provide for periodic increases in rent. If we are not able to make the required payments under the leases, the lenders or owners of the stores may, among other things, repossess those assets, which could adversely affect our ability to conduct our operations. In addition, our failure to make payments under our operating leases could trigger defaults under other leases or under agreements governing our indebtedness, which could cause the counterparties under those agreements to

accelerate the obligations due thereunder.

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

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

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

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

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

***There are claims made against us from time to time that may result in litigation that could distract management from our business activities and result in significant liability or damage to our brand.***

From time to time we are involved in litigation, claims and other proceedings relating to the conduct of our business, including but not limited to consumer protection class action litigation, claims related to our business, or employment practices and claims of intellectual property infringement. In addition, from time to time, we are subject to product liability and personal injury claims for the products that we sell and the stores we operate. Our purchase orders generally require the vendor to indemnify us against any product liability claims; however, if the vendor does not have insurance or becomes insolvent, we may not be indemnified. In addition, we could face a wide variety of employee claims against us, including general discrimination, privacy, labor and employment, Employee Retirement Income Security Act of 1974, as amended, and disability claims. Any claims could also result in litigation against us and could also result in regulatory proceedings being brought against us by various federal and state agencies that regulate our business, including the U.S. Equal Employment Opportunity Commission. Often these cases raise complex factual and legal issues, which are subject to risks and uncertainties and which could require significant management time. Litigation and other claims and regulatory proceedings against us could result in unexpected expenses and liability and could also materially adversely affect our operations and our reputation.



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***Product recalls and/or product liability, as well as changes in product safety and other consumer protection laws, may adversely impact our operations, merchandise offerings, reputation, results of operations, cash flow and financial condition.***

We are subject to regulations by a variety of federal, state and international regulatory authorities, including the Consumer Product Safety Commission. During fiscal 2014, we purchased merchandise from approximately 700 vendors. If our vendors fail to manufacture or import merchandise that adheres to product safety requirements or our quality control standards, our reputation and brands could be damaged, potentially leading to increases in customer litigation against us. It is possible that one or more of our vendors might not adhere to product safety requirements or our quality control standards, and we might not identify the deficiency before merchandise is sold. Any issues of product safety could cause us to recall some of those products. If our vendors are unable or unwilling to recall products failing to meet product safety requirements or our quality standards, we may be required to recall those products at a substantial cost to us. Furthermore, to the extent we are unable to replace any recalled products, we may have to reduce our merchandise offerings, resulting in a decrease in sales, especially if a recall occurs near a seasonal period.

Moreover, changes in product safety or other consumer protection laws could lead to increased costs to us for certain merchandise, or additional labor costs associated with readying merchandise for sale. Long lead times on merchandise ordering cycles increase the difficulty for us to plan and prepare for potential changes to applicable laws. In particular, The Consumer Product Safety Improvement Act of 2008 imposes significant requirements on manufacturing, importing, testing and labeling requirements for some of our products. In the event that we are unable to timely comply with regulatory changes, significant fines or penalties could result, and could adversely affect our reputation, results of operations, cash flow and financial condition.

***Changes in statutory, regulatory, accounting, and other legal requirements could potentially impact our operating and financial results.***

We are subject to numerous statutory, regulatory and legal requirements, domestically and abroad. Our operating results could be negatively impacted by developments in these areas due to the costs of compliance in addition to possible government penalties and litigation in the event of deemed noncompliance. Changes in the regulatory environment in the area of product safety, environmental protection, privacy and information security, wage and hour laws, among others, could potentially impact our operations and financial results.

We lease all of our properties at the TCS segment and the group headquarters and sales offices at the Elfa segment, and each is classified as an operating lease. The Financial Accounting Standards Board ("FASB") has issued an exposure draft that will revise lease accounting and require many leases currently considered to be operating leases to instead be classified as capital leases. The primary impact to this exposure draft would be that such leases would be recorded on the balance sheet as debt, and they currently have an off-balance sheet classification as operating leases. The timeline for effectiveness of this pronouncement, as well as the final guidelines and potential financial impact, are unclear at this point.

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

Our total assets include intangible assets with an indefinite life, goodwill and trademarks, and substantial amounts of property and equipment. We make certain estimates and projections in connection with impairment analyses for these long lived assets, in accordance with FASB Accounting

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Standards Codification ("ASC") 360, "Property, Plant and Equipment" ("ASC 360"), and ASC 350, "Intangibles Goodwill and Other" ("ASC 350"). We also review the carrying value of these assets for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable in accordance with ASC 360 or ASC 350. We will record an impairment loss when the carrying value of the underlying asset, asset group or reporting unit exceeds its fair value. These calculations require us to make a number of estimates and projections of future results. If these estimates or projections change, we may be required to record additional impairment charges on certain of these assets. If these impairment charges are significant, our results of operations would be adversely affected. We recorded impairment charges of \$15.5 million related to the elfa® trade name in fiscal 2012.

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

We are subject to income taxes in various U.S. and certain foreign jurisdictions. We record tax expense based on our estimates of future payments, which may include reserves for uncertain tax positions in multiple tax jurisdictions, and valuation allowances related to certain net deferred tax assets, including net operating loss carryforwards. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. We expect that throughout the year there could be ongoing variability in our quarterly tax rates as events occur and exposures are evaluated.

In addition, our effective tax rate in a given financial statement period may be materially impacted by a variety of factors including but not limited to changes in the mix and level of earnings, varying tax rates in the different jurisdictions in which we operate, fluctuations in the valuation allowance, timing of the utilization of net operating loss carryforwards, or by changes to existing accounting rules or regulations. Further, tax legislation may be enacted in the future which could negatively impact our current or future tax structure and effective tax rates.

***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 our product offerings, promotional events, store openings, 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, among other things, and may fluctuate significantly in the future. As a result of these factors, the demands on our product distribution and delivery network may fluctuate during the fiscal year.

Accordingly, our results of operations may fluctuate on a seasonal and quarterly basis and relative to corresponding periods in prior years. We historically have realized, and expect to continue to realize, a higher portion of net sales, operating income and cash flows from operations in the fourth fiscal quarter, attributable primarily to the impact of Our Annual elfa® Sale (which starts on December 24th and traditionally runs through early February). In fact, in excess of 60% of our adjusted net income was derived in the fiscal fourth quarter in the past three years. Moreover, we may take certain pricing or marketing actions that could have a disproportionate effect on our business, financial condition and results of operations in a particular quarter or selling season. These initiatives may disproportionately impact results in a particular quarter and we believe that comparisons of our operating results from period to period are not necessarily meaningful and cannot be relied upon as indicators of future performance.

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***Material disruptions at one of our Elfa manufacturing facilities could negatively affect our business.***

Elfa operates four manufacturing facilities: two in Sweden, one in Poland and one in Finland. A material operational disruption in one of our Elfa manufacturing facilities could occur as a result of any number of events including, but not limited to, major equipment failures, labor stoppages, transportation failures affecting the supply and shipment of materials and finished goods, severe weather conditions and disruptions in utility services. Such a disruption could negatively impact production, customer deliveries and financial results.

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

We attempt to protect our intellectual property rights, both in the United States and in foreign countries, through a combination of copyright, patent, trademark, trade secret, trade dress and unfair competition laws, as well as confidentiality procedures, and assignment and licensing arrangements. Our failure to obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition. Further, we cannot assure you that competitors or other third parties will not infringe our intellectual property rights, or that we will have adequate resources to enforce our intellectual property rights.

In addition, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our intellectual property rights as fully as in the United States, and it may be more difficult for us to successfully challenge the use of our intellectual property rights by other parties in such countries and our competitive position may suffer.

***If third parties claim that we infringe upon their intellectual property rights, our operating results could be adversely affected.***

We face the risk of claims that we have infringed third parties' intellectual property rights. Any claims of intellectual property infringement, even those without merit, could (i) be expensive and time consuming to defend; (ii) cause us to cease making, licensing or using products or methods that allegedly infringe; (iii) require us to redesign, reengineer, or rebrand our products or packaging, if feasible; (iv) divert management's attention and resources; or (v) require us to enter into royalty or licensing agreements in order to obtain the right to use a third party's intellectual property. Any royalty or licensing agreements, if required, may not be available to us on acceptable terms or at all. A successful claim of infringement against us could result in our being required to pay significant damages, enter into costly license or royalty agreements, or stop the sale of certain products, any of which could have a negative impact on our operating results and harm our future prospects.

**Risks related to our organization and ownership of our common stock**

***Our common stock price may be volatile or may decline.***

The market price for our common stock has been and may be volatile. As a retailer, our results are significantly affected by various factors which can significantly affect our stock price, many of which are outside of our control, including the following:

quarterly variations in our operating results compared to market expectations;

changes in preferences of our customers and buying trends, and our ability to respond to such preferences and trends;

announcements of new products or significant price reductions by us or our competitors;

size of the public float;

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stock price performance of our competitors;

default on our indebtedness;

actions by competitors or other shopping center tenants;

changes in senior management or key personnel;

changes in financial estimates by securities analysts;

negative earnings or other announcements by us or other retail home goods companies;

downgrades in our credit ratings or the credit ratings of our competitors;

weather conditions, particularly during the holiday season and our Annual elfa® Sale;

natural disasters or other similar events;

issuances or expected issuances of capital stock; and

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

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

***We are controlled by investment funds managed by Leonard Green and Partners, L.P. ("LGP"), whose interests in our business may be different from yours.***

LGP owns approximately 27.5 million shares, or 57.3%, of our outstanding common stock. LGP will, for the foreseeable future, have significant influence over our reporting and corporate management and affairs, and will be able to control virtually all matters requiring shareholder approval. LGP is able to, subject to applicable law, and the voting arrangements with management, designate a majority of the members of our board of directors and control actions to be taken by us and our board of directors, including amendments to our certificate of incorporation and bylaws and approval of significant corporate transactions, including mergers and sales of substantially all of our assets. The directors so elected will have the authority, subject to the terms of our indebtedness and our rules and regulations, to issue additional stock, implement stock repurchase programs, declare dividends and make other decisions. It is possible that the interests of LGP may in some circumstances conflict with our interests and the interests of our other shareholders, including you.

***We are a "controlled company" within the meaning of the New York Stock Exchange listing requirements and as a result, will qualify for and intend to rely on exemptions from certain corporate governance requirements. You will not have the same protection afforded to shareholders of companies that are subject to such corporate governance requirements.***

Because of the aggregate voting power over our Company held by certain affiliates of LGP and certain members of management, we are considered a "controlled company" for the purposes of the New York Stock Exchange listing requirements. As such, we are exempt from the corporate governance requirements that our board of directors, our culture and compensation committee and our nominating and corporate

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

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We intend to continue to utilize these exemptions afforded to a "controlled company" in the future. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

***Substantial future sales of our common stock, or the perception in the public markets that these sales may occur, may depress our stock price.***

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional shares. All outstanding shares of our common stock are freely tradable without restriction under the Securities Act of 1933 (the "Securities Act"), except for any shares of our common stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which are subject to restrictions under the Securities Act. Certain existing holders of a majority of our common stock have rights, subject to certain conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other shareholders. If the offer and sale of these shares are registered, they will be freely tradable without restriction under the Securities Act. In the event such registration rights are exercised and a large number of shares of common stock are sold in the public market, such sales could reduce the trading price of our common stock.

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

***We do not currently expect to pay any cash dividends.***

The continued operation and expansion of our business will require substantial funding. Accordingly, we do not currently expect to pay any cash dividends on shares of our common stock. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Additionally, the obligors under the Senior Secured Term Loan Facility, the Revolving Credit Facility and the Elfa Senior Secured Credit Facilities are currently restricted from paying cash dividends, and we expect these restrictions to continue in the future.

***We incur costs as a public company and our management is required to devote substantial time to compliance matters.***

As a public company, we incur significant legal, accounting, insurance and other expenses, including costs resulting from public company reporting obligations under the Exchange Act and rules and regulations regarding corporate governance practices, including those under the Sarbanes-Oxley Act, the Dodd-Frank Act, and the listing requirements of the New York Stock Exchange. Our management and other personnel devote a substantial amount of time to ensure that we comply with all of these reporting requirements, rules, and regulations, and such requirements, rules and regulations increase our legal and financial compliance costs and make certain activities more time-consuming and costly. In addition, these laws, rules and regulations also make it more difficult and more expensive for us to obtain certain types of insurance, including director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These factors could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to

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delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

***Our anti-takeover provisions could prevent or delay a change in control of our Company, even if such change in control would be beneficial to our shareholders.***

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition or other change in control of our Company, even if such change in control would be beneficial to our shareholders. These include:

authorizing the issuance of "blank check" preferred stock that could be issued by our board of directors to increase the number of outstanding shares and thwart a takeover attempt;

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

the removal of directors only for cause;

no provision for the use of cumulative voting for the election of directors;

limiting the ability of shareholders to call special meetings;

requiring all shareholder actions to be taken at a meeting of our shareholders (i.e. no provision for shareholder action by written consent); and

establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon by shareholders at shareholder meetings.

In addition, the Delaware General Corporation Law, to which we are subject, prohibits us, except under specified circumstances, from engaging in any mergers, significant sales of stock or assets or business combinations with any shareholder or group of shareholder who owns at least 15% of our common stock.

Finally, on November 6, 2013, the affiliates of LGP which own our common stock, and Kip Tindell, Sharon Tindell and Melissa Reiff (the "management directors") entered into a voting agreement. Pursuant to the terms of this agreement, for so long as such LGP affiliates and the management directors collectively hold at least 40% of our outstanding common stock, or the agreement is otherwise terminated in accordance with its terms, such affiliates of LGP agree to vote their shares of our common stock in favor of the election of the management directors to our board of directors upon their nomination by the nominating and corporate governance committee of our board of directors and the management directors agree to vote their shares of our common stock in favor of the election of the directors affiliated with LGP upon their nomination by the nominating and corporate governance committee of our board of directors. The parties to this agreement collectively hold approximately 31.0 million shares, or 64.5%, of our outstanding common stock.

***The provision of our certificate of incorporation requiring exclusive venue in the Court of Chancery in the State of Delaware for certain types of lawsuits may have the effect of discouraging lawsuits against our directors and officers.***

Our certificate of incorporation requires, to the fullest extent permitted by law, that (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our shareholders, (iii) any action asserting a claim against us arising pursuant to any provision of the General Corporation Law of the State of Delaware or our certificate of incorporation or the bylaws or (iv) any action asserting a claim against us governed by the internal affairs doctrine will have to be brought only





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in the Court of Chancery in the State of Delaware. This provision may have the effect of discouraging lawsuits against our directors and officers.

***Taking advantage of the reduced disclosure requirements applicable to "emerging growth companies" may make our common stock less attractive to investors.***

The JOBS Act provides that, so long as a company qualifies as an "emerging growth company," it will, among other things:

be exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act requiring that its independent registered public accounting firm provide an attestation report on the effectiveness of its internal control over financial reporting;

be exempt from the "say on pay" and "say on golden parachute" advisory vote requirements of the Dodd-Frank Wall Street Reform and Customer Protection Act (the "Dodd-Frank Act");

be exempt from certain disclosure requirements of the Dodd-Frank Act relating to compensation of its executive officers and be permitted to omit the detailed compensation discussion and analysis from proxy statements and reports filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

instead provide a reduced level of disclosure concerning executive compensation and be exempt from any rules that may be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotations or a supplement to the auditor's report on the financial statements.

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

***Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.***

We are required to comply with the rules of the SEC implementing Section 404 of the Sarbanes-Oxley Act and our management is therefore required to provide an annual report on the effectiveness of our internal control over financial reporting for that purpose. As an emerging growth company, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the date we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating.

To comply with the requirements of Section 404, we have taken and may need to take various actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff. Testing and maintaining internal control can divert our management's attention from other matters that are important to the operation of our business. In addition, when evaluating

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our internal control over financial reporting, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404. For example, a material weakness was identified during fiscal 2012 relating to the accounting for the elfa® trade name. This material weakness was remediated in the fourth quarter of fiscal 2013. If we identify additional material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the New York Stock Exchange, the SEC or other regulatory authorities, which could require additional financial and management resources.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease all of our 70 retail stores. Our leases generally have a term of 10 to 15 years, with renewal options that generally range from 5 to 15 years. Most leases for our retail stores provide for a minimum rent, typically including escalating rent increases. Further, certain leases also include a percentage rent based upon sales after certain minimum thresholds are achieved. The leases generally require us to pay insurance, utilities, real estate taxes and repair and maintenance expenses. A summary of our store locations by state as of February 28, 2015 is below:

Location	Store(s)	Location	Store(s)	Location	Store(s)
Arizona	2	Massachusetts	3	Pennsylvania	1
Arkansas	1	Minnesota	1	Rhode Island	1
California	11	Missouri	1	Tennessee	1
Colorado	3	Nevada	1	Texas	12
Florida	5	New Jersey	2	Utah	1
Georgia	2	New York	4	Virginia	3
Illinois	5	North Carolina	2	Washington	2
Indiana	1	Ohio	2	District of Columbia	1
Maryland	1	Oregon	1		
				Total	70

We also lease approximately 1.1 million square feet of space in Coppell, Texas for our corporate offices and distribution center for our TCS segment. The initial term for this lease expires in April 2019, and we retain three five-year renewal options.

Elfa leases its approximately 14,000 square foot group headquarters in Malmö, Sweden. In addition, Elfa owns four manufacturing facilities, located in Västervik, Sweden (approximately 200,000 square feet), Mullsjö, Sweden (approximately 100,000 square feet), Koszalin, Poland (approximately 90,000 square feet), and Lahti, Finland (approximately 60,000 square feet).

**ITEM 3. LEGAL PROCEEDINGS**

We are subject to various legal proceedings and claims, including employment claims, wage and hour claims, intellectual property claims, contractual and commercial disputes and other matters that arise in the ordinary course of business. While the outcome of these and other claims cannot be

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predicted with certainty, management does not believe that the outcome of these matters will have a material adverse effect on our business, results of operations or financial condition on an individual basis or in the aggregate.

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

**Executive Officers of the Registrant**

Name	Age	Position(s)
<i>Executive Officers:</i>		
William A. ("Kip") Tindell, III	62	Chief Executive Officer and Chairman of the Board of Directors
Sharon Tindell	59	Chief Merchandising Officer and Director
Melissa Reiff	60	President, Chief Operating Officer and Director
Jodi Taylor	52	Chief Financial Officer
Peter A. Lodwick	59	Vice President and General Counsel
Per von Mentzer	55	Chief Executive Officer of Elfa

*William A. ("Kip") Tindell, III* has served as our Chief Executive Officer since early 2006 and on our board of directors since August 2007 (and on the board of directors of The Container Store, Inc. since July 1978). He was elected Chairman of our board of directors in August 2007. Mr. Tindell served as President and Chief Operating Officer of The Container Store through 2005. Mr. Tindell was presented the Ernst & Young's prestigious Entrepreneur of the Year award in 1991 and is a recipient of the National Retail Federation's 1998 Innovator of the Year Award. In 2006 he was inducted into the Retailing Hall of Fame and is a 2009 Junior Achievement of Dallas Business Hall of Fame inductee. In 2011 Mr. Tindell received the National Retail Federation's Gold Medal Award, which is generally regarded as the industry's top accolade, given to individuals who have served the industry with distinction and achieved a national reputation for excellence to the retail craft. He is a member of the Dallas Arboretum CEO Advisory Council and serves on the Board of Directors of Whole Foods Market, Inc. (WFM) and Baylor Healthcare Systems Foundation. Mr. Tindell also serves on the executive board of the National Retail Federation as its chairman, and served on the Board of Directors of the National Retail Federation Foundation from 2010 to 2013. He serves on the board of Conscious Capitalism Institute and Conscious Capitalism, Inc., a community of like-minded business, thought and academic leaders working to elevate humanity through a conscious approach to business. Mr. Tindell is an active member of the Dallas Salesmanship Club, a non-profit organization dedicated to transforming children's futures by serving at-risk families in the Greater Dallas area. Mr. Tindell was selected to our board of directors because of the perspective, experience and operational expertise in our business that he has developed as our Chief Executive Officer. Mr. Tindell is married to Sharon Tindell, our Chief Merchandising Officer.

*Sharon Tindell* has served as our Chief Merchandising Officer since early 2006 and has served on our board of directors since August 2007 (and on the board of directors of The Container Store, Inc. since April 1988). In 1980 she joined us full-time working on the sales floor, managing inventory and participating in other tasks that put her in direct touch with the store's innovative product mix and customers' storage and organization challenges. In 1981 Ms. Tindell became our first buyer. Ms. Tindell drives our philosophy of developing multi-functional uses for the store's products and is credited with maintaining The Container Store's devotion to its original concept of providing only storage and organization products. Ms. Tindell served as Executive Vice President of Merchandising, beginning in 1992 and attained the title of Chief Merchandising Officer in August 2006. She is instrumental in creating the brand presence reflected in our store and leads all product decisions, product presentation, signage, store interior and exterior, and merchandising development. In addition, she is the force

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behind our merchandise supply chain, ultimately responsible for managing inventory levels, inventory turn and margin. In 2006, Ms. Tindell was inducted into the Retailing Hall of Fame, the first woman selected for this honor. Ms. Tindell also serves on the board of directors of the Perot Museum of Nature and Science. Ms. Tindell was selected to our board of directors because she possesses particular knowledge and experience in retail and merchandising as well as our business and our customer. Sharon Tindell is married to William A. "Kip" Tindell, III, our Chief Executive Officer and Chairman of the Board of Directors.

*Melissa Reiff* has served as our President since early 2006 and has served on our board of directors since August 2007 and more recently became President and Chief Operating Officer in March 2013 (and on the board of directors of The Container Store, Inc. since February 2006). Ms. Reiff joined The Container Store in 1995 as Vice President of Sales and Marketing. She created and formalized our Sales and Marketing department and was responsible for sales management, training, advertising, e-business marketing, public relations and new store grand opening launches. In 2003 Ms. Reiff assumed the role of Executive Vice President of Stores and Marketing, as she was responsible for further integrating the stores and marketing functions. As President and Chief Operating Officer, Ms. Reiff is responsible for the business areas of Store Leadership, Marketing (including Advertising, Online, Customer Relationship Management, Public Relations, Cultural Programs, Community Relations and Social Media), Training and Development, Recruiting, Information Systems, Legal, Loss Prevention and Logistics and Distribution. Ms. Reiff is also credited with enhancing The Container Store's approach to launching new stores. Ms. Reiff has played a critical role in enhancing and strengthening The Container Store's employee-first culture centered around our values-based Foundation Principles. She is a member of the Dallas chapter of the American Marketing Association, International Women's Foundation and C200, an organization of leading women in business dedicated to fostering growth and increasing opportunities for women entrepreneurs and corporate leaders worldwide. She also serves on Southern Methodist University's Cox School of Business Executive Board and is a sustaining member of the Junior League of Dallas. Recently Ms. Reiff was honored with the 2012-2013 SMU Cox School of Business Distinguished Alumna award. Ms. Reiff was selected to our board of directors because she possesses particular knowledge and experience in retail and merchandising, communication and interpersonal skills, as well as our business.

*Jodi Taylor* has served as our Chief Financial Officer since December 2007. Ms. Taylor is responsible for the business areas of Finance, Accounting, Real Estate, Payroll, Benefits, Travel, New Store and Remodel Process, Store Facilities and Purchasing. Prior to joining us, Ms. Taylor served as Chief Financial Officer and Secretary from 1998 to 2007 at Harold's, a then publicly-traded apparel retailer which filed for bankruptcy in 2008. From 1986-1998, Ms. Taylor was an executive with Baby Superstore, Inc. or successor companies, which after an IPO in 1994, was ultimately acquired by Toys "R" Us, Inc. in 1996. Ms. Taylor was formerly an auditor with Deloitte, Haskins, & Sells (now Deloitte & Touche).

*Peter A. Lodwick* has served as Vice President and General Counsel since September 1, 2014. He is responsible for leading internal and external teams responsible for legal strategy, regulatory affairs and corporate compliance. Prior to joining us, Mr. Lodwick was a partner for 29 years with the law firm of Thompson & Knight LLP, counseling clients in the areas of mergers and acquisitions, corporate finance, securities transactions and corporate governance.

*Per von Mentzer* joined Elfa as Chief Executive Officer in September 2008 and has been instrumental in managing and overseeing all of Elfa's operations. Prior to joining Elfa, Mr. von Mentzer served as Vice President of Marketing and Sales for Nybron Flooring International, Europe's largest wood flooring group, with sales in more than 30 countries, including the United States and China.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information and Dividend Policy**

Our common stock began trading on The New York Stock Exchange ("NYSE"), under the symbol "TCS" on November 1, 2013. The price range per share of common stock presented below represents the highest and lowest sales prices for our common stock on the NYSE for each quarterly period since our IPO.

	Highest	Lowest
<b>Fiscal 2013</b>		
Third quarter (from November 1, 2013)	\$ 41.70	\$ 32.10
Fourth quarter	\$ 47.07	\$ 32.80
<b>Fiscal 2014</b>		
First quarter	\$ 37.25	\$ 25.16
Second quarter	\$ 30.68	\$ 20.32
Third quarter	\$ 24.00	\$ 15.49
Fourth quarter	\$ 21.73	\$ 16.59

The number of stockholders of record of our common stock as of April 24, 2015 was 76. This number excludes stockholders whose stock is held in nominee or street name by brokers. No dividends have been declared or paid on our common stock. We do not currently anticipate that we will pay any cash dividends on our common stock in the foreseeable future.

**Stock Performance Graph**

*This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities under that section, and shall not be deemed to be incorporated by reference into any filing of The Container Store Group, Inc. under the Securities Act or the Exchange Act.*

The following graph and table compare the cumulative total stockholder return for our common stock during the period from November 1, 2013 (the date our common stock commenced trading on the NYSE) through February 28, 2015 in comparison to the NYSE Composite Index and the S&P Retailing Select Index. The graph and the table below assume that \$100 was invested at the market close on November 1, 2013 in the common stock of The Container Store Group, Inc., the NYSE Composite Index and the S&P Retailing Select Index. Data for the NYSE Composite Index and the S&P Retailing Select Index assumes reinvestments of dividends. The comparisons in the graph and

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table are required by the SEC and are not intended to be indicative of possible future performance of our common stock.

	11/1/2013	3/1/2014	2/28/2015
The Container Store Group, Inc.	100.00	98.92	50.88
NYSE Composite Index	100.00	104.07	110.43
S&P Retailing Select Index	100.00	101.21	116.35

#### **ITEM 6. SELECTED FINANCIAL AND OPERATING DATA**

You should read the following selected consolidated financial data in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes appearing elsewhere in this Annual Report on Form 10-K.

The following selected consolidated financial data for each of the years ended February 28, 2015 (fiscal 2014), March 1, 2014 (fiscal 2013), and March 2, 2013 (fiscal 2012) and the selected consolidated balance sheet data as of February 28, 2015 and March 1, 2014 have been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data for each of the years ended February 25, 2012 (fiscal 2011) and February 26, 2011 (fiscal 2010) and the selected consolidated balance sheet data as of March 2, 2013, February 25, 2012 and February 26, 2011 have been derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. Historical results are not indicative of the results to be expected in the future. Fiscal 2012 included 53 weeks, whereas fiscal 2014, fiscal 2013, fiscal 2011, and fiscal 2010 included 52 weeks. Categories that are only applicable to our TCS segment are noted with (\*) and to our Elfa segment with (+). For segment data, see Note 14 to our consolidated financial statements.

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All dollar amounts in this Selected Financial and Operating Data are in thousands, except per share amounts and average ticket, unless otherwise stated.

	Fiscal year ended				
	February 28, 2015	March 1, 2014	March 2, 2013	February 25, 2012	February 26, 2011
<b>Consolidated statement of operations</b>					
Net sales	\$ 781,866	\$ 748,538	\$ 706,757	\$ 633,619	\$ 568,820
Cost of sales (excluding depreciation and amortization)	323,800	308,755	291,146	266,355	235,295
Gross profit	458,066	439,783	415,611	367,264	333,525
Selling, general and administrative expenses (excluding depreciation and amortization)	372,867	354,271	331,097	293,665	269,474
Stock-based compensation*	1,289	15,137	283		
Pre-opening costs*	8,283	6,672	7,562	5,203	1,747
Goodwill and trade name impairment+			15,533	47,037	52,388
Depreciation and amortization	31,011	30,353	29,550	27,451	24,354
Restructuring charges+		532	6,369	133	341
Other expenses	1,132	1,585	987	193	
(Gain) loss on disposal of assets	(3,487)	206	88	210	139
Income (loss) from operations	46,971	31,027	24,142	(6,628)	(14,918)
Interest expense, net	17,105	21,185	21,388	25,417	26,006
Loss on extinguishment of debt*		1,229	7,333		
Income (loss) before taxes	29,866	8,613	(4,579)	(32,045)	(40,924)
Provision (benefit) for income taxes(1)	7,193	447	(4,449)	(1,374)	4,129
Net income (loss)	\$ 22,673	\$ 8,166	\$ (130)	\$ (30,671)	\$ (45,053)
Less: Distributions accumulated to preferred shareholders(2)		(59,747)	(90,349)	(78,575)	(69,723)
Net income (loss) available to common shareholders(2)	\$ 22,673	\$ (51,581)	\$ (90,479)	\$ (109,246)	\$ (114,776)
Net income (loss) per common share basic and diluted(2)	\$ 0.47	\$ (2.87)	\$ (30.88)	\$ (37.26)	\$ (39.12)
Weighted-average common shares outstanding basic	47,971,243	17,955,757	2,929,789	2,931,996	2,933,794
Weighted-average common shares outstanding diluted	48,520,865	17,955,757	2,929,789	2,931,996	2,933,794

	Fiscal year ended				
	February 28, 2015	March 1, 2014	March 2, 2013	February 25, 2012	February 26, 2011
<b>Operating data:</b>					
Comparable store sales growth for the period*(3)	(1.4)%	2.9%	4.4%	7.6%	8.1%
Number of stores open at end of period*	70	63	58	53	49
Average ticket*(4)	\$ 60.58	\$ 60.55	\$ 57.34	\$ 55.60	\$ 53.68
<b>Non-GAAP measures(5):</b>					
Adjusted EBITDA(6)	\$ 88,230	\$ 86,101	\$ 87,585	\$ 75,644	\$ 67,707
Adjusted EBITDA margin(7)	11.3%	11.5%	12.4%	11.9%	11.9%
Adjusted net income (loss)(8)	\$ 16,501	\$ 16,354	\$ 16,159	\$ 8,921	\$ 7,221
Adjusted net income per common share diluted(8)	\$ 0.34	\$ 0.33	\$ 0.34	\$ 0.19	\$ 0.15

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	February 28, 2015	March 1, 2014	As of March 2, 2013	February 25, 2012	February 26, 2011
<b>Consolidated balance sheet data:</b>					
Cash	\$ 24,994	\$ 18,046	\$ 25,351	\$ 51,163	\$ 49,756
Net working capital(9)	20,965	34,832	29,651	24,128	24,054
Total assets	769,057	783,149	752,820	746,678	773,303
Long-term debt(10)	332,094	335,251	285,371	300,166	300,893
Total stockholders' equity	201,862	197,186	233,375	232,989	268,227

- (1) The difference between the Company's effective tax rate and the statutory Federal tax rate can be attributed to fluctuations in the valuation allowance recorded against net deferred assets not expected to be realized, goodwill impairment charges not deductible for tax purposes, the effects of prior period adjustments, the effects of foreign income taxed at a different rate including statutory changes in those rates and intraperiod tax allocations between continuing operations and other comprehensive income.
- (2) For fiscal 2010 through fiscal 2013, common stockholders did not share in net income due to earnings not exceeding the accrued distributions on the Company's preferred stock. For fiscal 2010 through 2013, basic and diluted net loss per common share are the same, as any additional common stock equivalents would be anti-dilutive.
- (3) In fiscal 2012, the Company's fiscal year included 53 weeks. As a result, sales recorded in weeks one through fifty-two of fiscal 2013 and 2011 are comparable to weeks two through fifty-three of fiscal 2012. A store is included in the comparable store sales calculation on the first day of the sixteenth full fiscal month following the store's opening. When a store is relocated, we continue to consider sales from that store to be comparable store sales. Net sales from our website and call center are also included in calculations of comparable store sales. The comparable store sales growth operating measure in a given period is based on merchandise orders placed in that period, which may not always reflect when the merchandise is delivered to the customer. The comparable store sales growth metric is an operating measure intended only as supplemental information and is not a substitute for net sales presented in accordance with generally accepted accounting principles.
- (4) Average ticket for all periods is calculated by dividing (a) sales of merchandise by our TCS segment for that period (regardless of whether such sales are included in comparable store sales for such period) by (b) the number of transactions for that period comprising such sales. Average ticket is an operating measure intended only as supplemental information and is not a substitute for net sales presented in accordance with generally accepted accounting principles.
- (5) We have presented certain non-GAAP measures as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. These non-GAAP measures should not be considered as alternatives to net income (loss) as a measure of financial performance or cash flows from operations 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. These non-GAAP measures are key metrics used by management and our board of directors to assess our financial performance. These non-GAAP measures are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In evaluating these non-GAAP measures, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation. 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 on our GAAP results in addition to using non-GAAP measures supplementally. Our non-GAAP measures are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.
- (6) EBITDA and Adjusted EBITDA have been presented in this Annual Report on Form 10-K as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We define EBITDA as net income before interest, taxes, depreciation, and amortization. Adjusted EBITDA is calculated in accordance with the Secured Term Loan Facility and the Revolving Credit Facility and is one of the components for performance evaluation under our executive compensation programs. Adjusted EBITDA reflects further adjustments to EBITDA to eliminate the impact of certain items, including certain non-cash and



other items, that we do not consider in our evaluation of ongoing operating performance from period to period as discussed further below.

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EBITDA and Adjusted EBITDA are included in this Annual Report on Form 10-K because they are key metrics used by management, our board of directors and LGP to assess our financial performance. EBITDA and Adjusted EBITDA are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income (loss) as a measure of financial performance or cash flows from operations 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 reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures, store openings 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 evaluating Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as pre-opening costs and stock compensation expense. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using EBITDA and Adjusted EBITDA supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

	Fiscal year ended				
	February 28, 2015	March 1, 2014	March 2, 2013	February 25, 2012	February 26, 2011
Net income (loss)	\$ 22,673	\$ 8,166	\$ (130)	\$ (30,671)	\$ (45,053)
Depreciation and amortization	31,011	30,353	29,550	27,451	24,354
Interest expense, net	17,105	21,185	21,388	25,417	26,006
Income tax expense (benefit)	7,193	447	(4,449)	(1,374)	4,129
<b>EBITDA</b>	<b>77,982</b>	<b>60,151</b>	<b>46,359</b>	<b>20,823</b>	<b>9,436</b>
Management fees(a)		667	1,000	500	
Pre-opening costs*(b)	8,283	6,672	7,562	5,000	1,747
Goodwill and trade name impairment+(c)			15,533	47,037	52,388
IPO costs*(d)		1,259			
Noncash rent*(e)	(374)	260	2,014	1,935	2,442
Restructuring charges+(f)		532	6,369	133	341
Stock-based compensation*(g)	1,289	15,137	283		
Loss on extinguishment of debt*(h)		1,229	7,333		
Foreign exchange (gains) losses+(i)	(171)	(224)	55	(66)	1,269
Other adjustments(j)	1,221	418	1,077	282	84
<b>Adjusted EBITDA</b>	<b>\$ 88,230</b>	<b>\$ 86,101</b>	<b>\$ 87,585</b>	<b>\$ 75,644</b>	<b>\$ 67,707</b>

(a) Fees paid to LGP in accordance with our management services agreement, which was terminated on November 6, 2013 in association with our IPO.

(b) Non-capital expenditures associated with opening new stores and relocating stores, including rent, marketing expenses, travel and relocation costs, and training costs. We adjust for these costs to facilitate comparisons of our performance from period to period.

(c)

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Non-cash charges related to impairment of intangible assets, primarily related to the Elfa segment, which we do not consider in our evaluation of our ongoing performance.

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- (d) Charges incurred in connection with our IPO, which we do not expect to recur and do not consider in our evaluation of ongoing performance.
  - (e) Reflects the extent to which our annual GAAP rent expense has been above or below our cash rent payment due to lease accounting adjustments. The adjustment varies depending on the average age of our lease portfolio (weighted for size), as our GAAP rent expense on younger leases typically exceeds our cash cost, while our GAAP rent expense on older leases is typically less than our cash cost.
  - (f) Includes charges incurred to restructure business operations at Elfa, including the sale of a subsidiary in Germany and a manufacturing facility in Norway in fiscal 2012, as well as the relocation of certain head office functions in sales and marketing from the Västervik, Sweden, manufacturing location to the group headquarters in Malmö, Sweden in fiscal 2012, which we do not consider in our evaluation of our ongoing performance.
  - (g) Non-cash charges related to stock-based compensation programs, which vary from period to period depending on volume and vesting timing of awards. We adjust for these charges to facilitate comparisons from period to period.
  - (h) Loss recorded as a result of the repayment of the then outstanding term loan facility and senior subordinated notes in April 2012, and the amendments made to the Senior Secured Term Loan Facility in April 2013 and November 2013, which we do not consider in our evaluation of our ongoing operations.
  - (i) Realized foreign exchange transactional gains/losses.
  - (j) Other adjustments include amounts our management does not consider in our evaluation of our ongoing operations, including costs incurred in preparation for being a public company and other charges.
- (7) Adjusted EBITDA margin means, for any period, the Adjusted EBITDA for that period divided by the net sales for that period.
- (8) Adjusted net income and adjusted net income per common share diluted have been presented as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We define adjusted net income as net income (loss) available to common shareholders before distributions accumulated to preferred shareholders, stock-based compensation and other costs in connection with our IPO, restructuring charges, impairment charges related to intangible assets, losses on extinguishment of debt, certain gains on disposal of assets and the tax impact of these adjustments and other unusual or infrequent tax items. We define adjusted net income per common share diluted as adjusted net income divided by the diluted weighted average common shares outstanding; however for prior periods, adjusted diluted weighted average common shares outstanding are calculated based on the assumption that the number of shares outstanding as of March 1, 2014 was outstanding at the beginning of all prior periods presented. We use adjusted net income and adjusted net income per common share diluted to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

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A reconciliation of the GAAP financial measures of net income (loss) available to common shareholders and diluted net income (loss) per common share to the non-GAAP financial measures of adjusted net income and adjusted net income per common share diluted is set forth below:

	February 28, 2015	March 1, 2014	Fiscal year ended March 2, 2013	February 25, 2012	February 26, 2011
<b>Numerator:</b>					
Net income (loss) available to common shareholders	\$ 22,673	\$ (51,581)	\$ (90,479)	\$ (109,246)	\$ (114,776)
Distributions accumulated to preferred shareholders(a)		59,747	90,349	78,575	69,723
Stock-based compensation*(b)		14,602			
IPO costs*(c)		1,259			
Restructuring charges+(d)		532	6,369	133	341
Goodwill and trade name impairment+(e)			15,533	47,037	52,388
Gain on disposal of subsidiary and real estate+(f)	(3,681)				
Loss on extinguishment of debt*(g)		1,229	7,333		
Taxes(h)	(2,491)	(9,434)	(12,946)	(7,578)	(455)
<b>Adjusted net income</b>	<b>\$ 16,501</b>	<b>\$ 16,354</b>	<b>\$ 16,159</b>	<b>\$ 8,921</b>	<b>\$ 7,221</b>
<b>Denominator:</b>					
Weighted average common shares outstanding diluted	48,520,865	17,955,757	2,929,789	2,931,996	2,933,794
Adjust weighting factor of outstanding shares(i)		30,939,876	45,011,391	45,009,184	45,007,386
<b>Adjusted weighted average common shares outstanding diluted</b>	<b>48,520,865</b>	<b>48,895,633</b>	<b>47,941,180</b>	<b>47,941,180</b>	<b>47,941,180</b>
<b>Adjusted net income per common share diluted</b>	<b>\$ 0.34</b>	<b>\$ 0.33</b>	<b>\$ 0.34</b>	<b>\$ 0.19</b>	<b>\$ 0.15</b>

- (a) Distributions accumulated to preferred shareholders in arrears were eliminated as of November 6, 2013 through the Distribution and Exchange (as defined in Note 8 to our audited consolidated financial statements), and are not considered in our evaluation of ongoing performance.
- (b) Non-cash charges related to stock-based compensation programs incurred in connection with our IPO, which we do not consider in our evaluation of our ongoing performance.
- (c) Charges incurred in connection with our IPO, which we do not expect to recur and do not consider in our evaluation of ongoing performance.
- (d) Includes charges incurred to restructure business operations at Elfa, including the sale of a subsidiary in Germany and the closedown of a manufacturing facility in Norway in fiscal 2012, as well as the relocation of certain head office functions in sales and marketing from the Västervik, Sweden, manufacturing location to the group headquarters in Malmö, Sweden in fiscal 2012, which we do not consider in our evaluation of our ongoing performance.
- (e) Non-cash charges related to impairment of intangible assets at the Elfa segment, which we do not consider in our evaluation of our ongoing performance.
- (f) Gain recorded as a result of the sale of a Norwegian subsidiary, whose primary asset was a manufacturing facility that was shut down and consolidated into a like facility in Sweden as part of Elfa's restructuring efforts in fiscal 2012, as well as the sale of a building at Elfa in the third quarter of fiscal 2014, which we do not consider in our evaluation of ongoing performance.



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- (g) Loss recorded as a result of the repayment of the then outstanding term loan facility and senior subordinated notes in April 2012, and the amendments made to the Senior Secured Term Loan Facility in April 2013 and November 2013, which we do not consider in our evaluation of our ongoing performance.
- (h) Tax impact of adjustments to net income (loss), as well as other unusual or infrequent tax items, including the impact of a \$1,839 reduction in tax expense recorded in the second quarter of fiscal 2014 related to a prior period error which resulted in filing an amended tax return, the exclusion of a tax benefit recorded in the third quarter of fiscal 2012 as a result of a reduction in the Swedish tax rate from 26.3% to 22.0%, as well as the exclusion of the impact of certain valuation allowances on deferred tax assets, which we do not consider in our evaluation of ongoing performance.
- (i) Prior periods are calculated based on the assumption that the number of shares outstanding as of March 1, 2014 was outstanding at the beginning of all prior periods presented.
- (9) Net working capital is defined as current assets (excluding cash) less current liabilities (excluding the current portion of long-term debt and revolving lines of credit).
- (10) Long-term debt consists of the current and long-term portions of the Senior Secured Term Loan Facility, the 2014 Elfa Term Loan Facility, Elfa Term Loan Facility, the Revolving Credit Facility, capital lease liabilities, and other mortgages and loans.

### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and the related notes and other financial information included elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategy for our business, includes forward-looking statements that involve risks and uncertainties. You should review the "Cautionary Note Regarding Forward-Looking Statements" and "Risk Factors" sections of this report for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

#### **Overview**

We are the leading specialty retailer of storage and organization products in the United States. We are the original storage and organization specialty retailer and the only national retailer solely devoted to the category. Our goal is to help provide order to an increasingly busy and chaotic world. We provide creative, multifunctional, customizable storage and organization solutions that help our customers save time, save space and improve the quality of their lives. The breadth, depth and quality of our product offerings are designed to appeal to a broad demographic, including our core customers, who are predominantly female, highly educated and busy from college students to empty nesters.

Our operations consist of two operating segments:

*The Container Store* ("TCS"), which consists of our retail stores, website and call center, as well as our installation services business. As of February 28, 2015, we operated 70 stores with an average size of approximately 25,000 square feet (19,000 selling square feet) in 25 states and the District of Columbia. We also offer all of our products directly to customers through our website, optimized mobile site and call center. Our stores receive all products directly from our distribution center co-located with our corporate headquarters in Coppell, Texas.

*Elfa*, The Container Store, Inc.'s wholly owned Swedish subsidiary, Elfa International AB ("Elfa"), which designs and manufactures component-based shelving and drawer systems and made-to-measure sliding doors. Elfa was founded in 1948 and is headquartered in Malmö, Sweden. Elfa's shelving and drawer systems are customizable for any area of the home, including





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closets, kitchens, offices and garages. Elfa operates four manufacturing facilities with two located in Sweden, one in Finland and one in Poland. The Container Store began selling elfa® products in 1978 and acquired Elfa in 1999. Today our TCS segment is the exclusive distributor of elfa® products in the U.S. Elfa also sells its products on a wholesale basis to various retailers in approximately 30 countries around the world, with a concentration in the Nordic region of Europe.

**How we assess the performance of our business**

We consider a variety of financial and operating measures in assessing the performance of our business. The key measures we use to determine how our business is performing are net sales, gross profit, gross margin, and selling, general and administrative expenses. In addition, we also review other important operating metrics such as comparable store sales and average ticket, as well as non-GAAP measures such as adjusted EBITDA and adjusted net income.

***Net sales***

Net sales reflect our sales of merchandise plus other services provided, such as shipping, delivery, and installation, less returns and discounts. Net sales also include wholesale sales by Elfa. Revenue from our TCS segment is recognized upon receipt of the product by our customers or upon completion of the service to our customers. Elfa segment revenue is recorded upon shipment to customers.

The retail and wholesale businesses in which we operate are cyclical, and consequently our sales are affected by general economic conditions. Purchases of our products are sensitive to trends in the levels of consumer spending, which are affected by a number of factors such as consumer disposable income, housing market conditions, stock market performance, consumer debt, interest rates, tax rates and overall consumer confidence.

Our net sales are moderately seasonal. As a result, our revenues fluctuate from quarter to quarter, which often affects the comparability of our interim results. Net sales are historically higher in the fourth quarter due primarily to the impact of Our Annual elfa® Sale, which begins on December 24<sup>th</sup> and traditionally runs into February.

***Gross profit and gross margin***

Gross profit is equal to our net sales less cost of sales. Gross profit as a percentage of net sales is referred to as gross margin. Cost of sales in our TCS segment includes the purchase cost of inventory less vendor rebates, in-bound freight, as well as inventory shrinkage. Costs incurred to ship or deliver merchandise to customers, as well as direct installation costs, are also included in cost of sales in our TCS segment. Elfa segment cost of sales from manufacturing operations includes costs associated with production, primarily material, wages, freight and other variable costs, and applicable manufacturing overhead. The components of our cost of sales may not be comparable to the components of cost of sales or similar measures by other retailers. As a result, data in this report regarding our gross profit and gross margin may not be comparable to similar data made available by other retailers.

Our gross profit is variable in nature and generally follows changes in net sales. Our gross margin can be impacted by changes in the mix of products sold. For example, sales from our TCS segment typically provide a higher gross margin than sales to third parties from our Elfa segment. Gross margin for our TCS segment is also susceptible to foreign currency risk as purchases of elfa® products from our Elfa segment are in Swedish krona, while sales of these products are in U.S. dollars. We mitigate this risk through the use of forward contracts, whereby we hedge purchases of inventory by locking in foreign currency exchange rates in advance. Similarly, gross margin for our Elfa segment is susceptible to foreign currency risk as certain purchases of raw materials are transacted in currencies other than Swedish krona, which is the functional currency of Elfa.

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

Selling, general and administrative expenses include all operating costs not included in cost of sales, stock-based compensation, and pre-opening costs. For our TCS segment, these include all payroll and payroll-related expenses, marketing expenses, all occupancy expenses (which include rent, real estate taxes, common area maintenance, utilities, telephone, property insurance, and repairs and maintenance), costs to ship product from the distribution center to our stores, and supplies expenses. We also incur costs for our distribution and corporate office operations. For our Elfa segment, these include sales and marketing expenses, product development costs, and all expenses related to operations at headquarters. Depreciation and amortization are excluded from both gross profit and selling, general and administrative expenses.

Selling, general and administrative expenses include both fixed and variable components and, therefore, is not directly correlated with net sales. The components of our selling, general and administrative expenses may not be comparable to the components of similar measures of other retailers. We expect that our selling, general and administrative expenses will increase in future periods with expected future store growth.

***Pre-opening costs***

Non-capital expenditures associated with opening new stores and relocating stores, including rent, marketing expenses, travel and relocation costs, and training costs, are expensed as incurred and are included in pre-opening costs in the consolidated statement of operations.

***Comparable store sales***

A store is included in the comparable store sales calculation on the first day of the sixteenth full fiscal month following the store's opening. When a store is relocated, we continue to consider sales from that store to be comparable store sales. Net sales from our website and call center are also included in calculations of comparable store sales. The comparable store sales growth operating measure in a given period is based on merchandise orders placed in that period, which may not always reflect when the merchandise is delivered to the customer.

Comparable store sales allow us to evaluate how our retail store base is performing by measuring the change in period-over-period net sales in stores that have been open for fifteen months or more. The comparable store sales growth metric is an operating measure intended only as supplemental information and is not a substitute for net sales presented in accordance with generally accepted accounting principles. Various factors affect comparable store sales, including:

national and regional economic trends in the United States;

changes in our merchandise mix;

changes in pricing;

changes in timing of promotional events or holidays; and

weather.

Opening new stores is an important part of our growth strategy. As we continue to pursue our growth strategy, we anticipate that a significant percentage of our net sales will come from stores not included in our comparable store sales calculation. Accordingly, comparable store sales is only one measure we use to assess the success of our growth strategy.

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***Average ticket***

Average ticket for all periods is calculated by dividing (a) sales of merchandise by our TCS segment for that period (regardless of whether such sales are included in comparable store sales for such period) by (b) the number of transactions for that period comprising such sales. Historically, the average ticket for our elfa® department has been significantly higher than our overall average ticket. Average ticket is an operating measure intended only as supplemental information and is not a substitute for net sales presented in accordance with generally accepted accounting principles.

***Adjusted EBITDA***

EBITDA and Adjusted EBITDA are key metrics used by management, our board of directors and LGP to assess our financial performance. EBITDA and Adjusted EBITDA are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In addition to covenant compliance and executive performance evaluations, we use Adjusted EBITDA to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures.

We define EBITDA as net income (loss) before interest, taxes, depreciation, and amortization. Adjusted EBITDA is calculated in accordance with the Senior Secured Term Loan Facility and the Revolving Credit Facility and is one of the components for performance evaluation under our executive compensation programs. Adjusted EBITDA reflects further adjustments to EBITDA to eliminate the impact of certain items, including certain non-cash and other items, that we do not consider representative of our ongoing operating performance. For reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, refer to "*Item 6: Selected Financial and Operating Data.*"

***Adjusted net income***

We use adjusted net income to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures. Adjusted net income is a supplemental measure of financial performance that is not required by, or presented in accordance with, GAAP.

We define adjusted net income as net income (loss) available to common shareholders before distributions accumulated to preferred shareholders, stock-based compensation and other costs in connection with our IPO, restructuring charges, impairment charges related to intangible assets, losses on extinguishment of debt, certain gains on disposal of assets and the tax impact of these adjustments and unusual or infrequent tax items. For a reconciliation of adjusted net income to the most directly comparable GAAP measure, refer to "*Item 6: Selected Financial and Operating Data.*"

**Note on Dollar Amounts**

All dollar amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations are in thousands, except per share amounts and average ticket, unless otherwise stated.

**Results of Operations**

The following data represents the amounts shown in our audited consolidated statements of operations expressed in dollars and as a percentage of net sales and operating data for the periods presented (categories that are only applicable to our TCS segment are noted with (\*) and to our Elfa

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segment with (+)). For segment data, see Note 14 to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

	Fiscal year ended		
	February 28, 2015	March 1, 2014	March 2, 2013
Net sales	\$ 781,866	\$ 748,538	\$ 706,757
Cost of sales (excluding depreciation and amortization)	323,800	308,755	291,146
Gross profit	458,066	439,783	415,611
Selling, general, and administrative expenses (excluding depreciation and amortization)	372,867	354,271	331,097
Stock-based compensation*	1,289	15,137	283
Pre-opening costs*	8,283	6,672	7,562
Trade name impairment+			15,533
Depreciation and amortization	31,011	30,353	29,550
Restructuring charges+		532	6,369
Other expenses	1,132	1,585	987
(Gain) loss on disposal of assets	(3,487)	206	88
Income from operations	46,971	31,027	24,142
Interest expense	17,105	21,185	21,388
Loss on extinguishment of debt*		1,229	7,333
Income (loss) before taxes	29,866	8,613	(4,579)
Provision (benefit) for income taxes	7,193	447	(4,449)
Net income (loss)	\$ 22,673	\$ 8,166	\$ (130)
Less: Distributions accumulated to preferred shareholders		(59,747)	(90,349)
Net income (loss) available to common shareholders	\$ 22,673	\$ (51,581)	\$ (90,479)

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	Fiscal year ended		
	February 28, 2015	March 1, 2014	March 2, 2013
<b>Percentage of net sales:</b>			
Net sales	100.0%	100.0%	100.0%
Cost of sales (excluding depreciation and amortization)	41.4%	41.2%	41.2%
Gross profit	58.6%	58.8%	58.8%
Selling, general, and administrative expenses (excluding depreciation and amortization)	47.7%	47.3%	46.8%
Stock-based compensation*	0.2%	2.0%	0.0%
Pre-opening costs*	1.1%	0.9%	1.1%
Trade name impairment+	0.0%	0.0%	2.2%
Depreciation and amortization	4.0%	4.1%	4.2%
Restructuring charges+	0.0%	0.1%	0.9%
Other expenses	0.1%	0.2%	0.1%
(Gain) loss on disposal of assets	(0.4)%	0.0%	0.0%
Income from operations	6.0%	4.1%	3.4%
Interest expense	2.2%	2.8%	3.0%
Loss on extinguishment of debt*	0.0%	0.2%	1.0%
Income (loss) before taxes	3.8%	1.2%	(0.6)%
Provision (benefit) for income taxes	0.9%	0.1%	(0.6)%
Net income (loss)	2.9%	1.1%	(0.0)%
<b>Operating data:</b>			
Comparable store sales growth for the period(1)*	(1.4)%	2.9%	4.4%
Number of stores open at end of period*	70	63	58
Average ticket(2)*	\$ 60.58	\$ 60.55	\$ 57.34
<b>Non-GAAP measures(3):</b>			
Adjusted EBITDA(4)	\$ 88,230	\$ 86,101	\$ 87,585
Adjusted net income(5)	\$ 16,501	\$ 16,354	\$ 16,159
Adjusted net income per common share diluted(5)	\$ 0.34	\$ 0.33	\$ 0.34

(1) In fiscal 2012, the Company's fiscal year included 53 weeks. As a result, sales recorded in weeks one through fifty-two of fiscal 2013 and 2011 are comparable to weeks two through fifty-three of fiscal 2012. A store is included in the comparable store sales calculation on the first day of the sixteenth full fiscal month following the store's opening. When a store is relocated, we continue to consider sales from that store to be comparable store sales. Net sales from our website and call center are also included in calculations of comparable store sales. The comparable store sales growth operating measure in a given period is based on merchandise orders placed in that period, which may not always reflect when the merchandise is delivered to the customer. The comparable store sales growth metric is an operating measure intended only as supplemental information and is not a substitute for net sales presented in accordance with generally accepted accounting principles.

(2) Average ticket for all periods is calculated by dividing (a) sales of merchandise by our TCS segment for that period (regardless of whether such sales are included in comparable store sales for such period) by (b) the number of transactions for that period comprising such sales. Average ticket is an operating measure intended only as supplemental information and is not a substitute for net sales presented in accordance with generally accepted accounting principles.

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- (3) We have presented certain non-GAAP measures as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. These non-GAAP measures should not be considered as alternatives to net income (loss) as a measure of financial performance or cash flows from operations 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. These non-GAAP measures are key metrics used by management and our board of directors to assess our financial performance. These non-GAAP measures are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In evaluating these non-GAAP measures, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation. 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 on our GAAP results in addition to using non-GAAP measures supplementally. Our non-GAAP measures are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.
- (4) EBITDA and Adjusted EBITDA have been presented in this Annual Report on Form 10-K as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures, store openings 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. For more information regarding our use of EBITDA and Adjusted EBITDA and a reconciliation of the GAAP financial measures of net income (loss) to EBITDA and Adjusted EBITDA refer to "*Item 6: Selected Financial and Operating Data.*"
- (5) Adjusted net income and adjusted net income per common share diluted have been presented as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We define adjusted net income as net income (loss) available to common shareholders before distributions accumulated to preferred shareholders, stock-based compensation and other costs in connection with our IPO, restructuring charges, impairment charges related to intangible assets, losses on extinguishment of debt, certain gains on disposal of assets, and the tax impact of these adjustments and other unusual or infrequent tax items. We define adjusted net income per common share diluted as adjusted net income divided by the diluted weighted average common shares outstanding; however for prior periods, adjusted diluted weighted average common shares outstanding are calculated based on the assumption that the number of shares outstanding as of March 1, 2014 was outstanding at the beginning of all prior periods presented. We use adjusted net income and adjusted net income per common share diluted to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures. For more information and a reconciliation of the GAAP financial measures of net income (loss) available to common shareholders and diluted net income (loss) per common share to the non-GAAP financial measures of adjusted net income and adjusted net income per common share diluted refer to "*Item 6: Selected Financial and Operating Data.*"

Table of Contents**Fiscal 2014 compared to fiscal 2013***Net sales*

The following table summarizes our net sales for fiscal 2014 and fiscal 2013:

	<b>Fiscal 2014</b>	<b>% total</b>	<b>Fiscal 2013</b>	<b>% total</b>
TCS net sales	\$ 697,699	89.2%	\$ 660,365	88.2%
Elfa third party net sales	84,167	10.8%	88,173	11.8%
<b>Net sales</b>	<b>\$ 781,866</b>	<b>100.0%</b>	<b>\$ 748,538</b>	<b>100.0%</b>

Net sales in fiscal 2014 increased by \$33,328, or 4.5%, compared to fiscal 2013. This increase is comprised of the following components:

	<b>Net sales</b>
Net sales for fiscal 2013	\$ 748,538
Incremental net sales increase (decrease) due to:	
New stores	37,336
Comparable stores (including a \$3,923, or 12.2%, increase in online sales)	(3,889)
Elfa third party net sales	(4,006)
Installation services	2,991
Other	896
<b>Net sales for fiscal 2014</b>	<b>\$ 781,866</b>

The increase in net sales was driven by new stores, with twelve stores generating \$37,336 of incremental sales, five of which were opened in fiscal 2013 and seven of which were opened in fiscal 2014. The comparable store sales operating measure based on merchandise orders placed declined 1.4% during fiscal 2014, primarily due to a decrease in transactions, and was partially offset by an increase in average ticket. This led to a decline in net sales from comparable stores based on merchandise deliveries of \$3,889. Elfa's third party net sales increased 4.7% in Swedish krona, primarily due to stronger sales in the Nordic market. However, due to the depreciation of the Swedish krona against the U.S. dollar, Elfa's third party net sales in U.S. dollars declined by \$4,006. Installation services increased by \$2,991, due to an ongoing, focused effort to increase the number of installed spaces sold.

*Gross profit and gross margin*

Gross profit in fiscal 2014 increased by \$18,283, or 4.2%, compared to fiscal 2013. The increase in gross profit was primarily the result of increased sales, partially offset by lower gross margins. The following table summarizes the gross margin for fiscal 2014 and fiscal 2013 by segment and total. The segment margins include the impact of inter-segment sales from the Elfa segment to the TCS segment:

	<b>Fiscal 2014</b>	<b>Fiscal 2013</b>
TCS gross margin	58.3%	58.2%
Elfa gross margin	37.9%	39.6%
<b>Total gross margin</b>	<b>58.6%</b>	<b>58.8%</b>

TCS gross margin increased 10 basis points during fiscal 2014 primarily due to the appreciation of the U.S. dollar against the Swedish krona. Elfa segment gross margin declined 170 basis points primarily due to increased costs caused by a weaker Swedish krona in fiscal 2014, as well as higher freight costs and a shift in sales mix. On a consolidated basis, gross margin declined 20 basis points, as the decline in Elfa gross margin was partially offset by the impact of TCS gross margin, due to a larger percentage of net sales coming from the TCS segment.

Table of Contents***Selling, general and administrative expenses***

Selling, general and administrative expenses in fiscal 2014 increased by \$18,596, or 5.2%, compared to the fiscal 2013. The increase in selling, general and administrative expenses was primarily due to the increase in sales. As a percentage of consolidated net sales, selling, general and administrative expenses increased by 40 basis points. The following table summarizes selling, general and administrative expenses as a percentage of consolidated net sales for fiscal 2014 and fiscal 2013:

	Fiscal 2014 % of net sales	Fiscal 2013 % of net sales
TCS selling, general and administrative	42.7%	41.6%
Elfa selling, general and administrative	5.0%	5.7%
<b>Total selling, general and administrative</b>	<b>47.7%</b>	<b>47.3%</b>

TCS selling, general and administrative expenses increased by 110 basis points as a percentage of total net sales. The increase was primarily due to decreased leverage of fixed costs as a result of lower comparable store sales, increased costs as a result of being a public company, and implementation of strategic initiatives. Elfa selling, general and administrative expenses decreased by 70 basis points as a percentage of total net sales, primarily due to a smaller percentage of total net sales coming from the Elfa segment.

***Stock-based compensation***

We recorded \$15,137 of stock-based compensation expense in fiscal 2013 primarily related to stock options granted under the 2013 Equity Plan which immediately vested upon closing of our IPO, as well as the modification of outstanding stock options granted under the 2012 Equity Plan to provide for immediate vesting as of October 31, 2013. The \$1,289 of stock-based compensation expense recorded in fiscal 2014 is related to stock options granted under the 2013 Equity Plan, which vest ratably over various service periods.

***Pre-opening costs***

Pre-opening costs increased by \$1,611, or 24.1% in fiscal 2014 to \$8,283, as compared to \$6,672 in fiscal 2013. The increase was the result of the opening of seven new stores and relocation of one store in fiscal 2014, as compared to the opening of five new stores and relocation of one store in fiscal 2013.

***(Gain) loss on disposal of assets***

In fiscal 2014, we recorded a net gain on the disposal of assets of \$3,487, as compared to a net loss of \$206 in fiscal 2013. On October 3, 2014, the Company completed the sale of a Norwegian subsidiary, whose primary asset was a manufacturing facility that was shut down and consolidated into a like facility in Sweden as part of Elfa's restructuring efforts in fiscal 2012. The Company received net proceeds of \$3,846 and recorded a gain in connection with the sale of this subsidiary of \$3,138 in fiscal 2014. Additionally, on October 31, 2014, the Company completed the sale of a building at Elfa. The Company received net proceeds of \$912 and recorded a gain in connection with the sale of the building of \$543 in fiscal 2014.

***Interest expense***

Interest expense decreased \$4,080, or 19.3% in fiscal 2014 to \$17,105 as compared to \$21,185 in fiscal 2013, primarily due to lower interest rates and repayments on debt obligations. In April 2013, The Container Store, Inc. executed an amendment to the Senior Secured Term Loan Facility (the "Increase and Repricing Transaction"), whereby borrowings under the Senior Secured Term Loan



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Facility were increased by \$90,000 and accrued interest at a lower rate of LIBOR plus 4.25%, subject to a LIBOR floor of 1.25%. Further, in November 2013, a second amendment was executed to the Senior Secured Term Loan Facility (the "Repricing Transaction"). The Senior Secured Term Loan Facility now accrues interest at a rate of LIBOR + 3.25%, subject to a LIBOR floor of 1.00%. Additionally, a \$31,000 repayment on the Senior Secured Term Loan Facility was made in November 2013.

### ***Loss on extinguishment of debt***

Loss on extinguishment of debt was zero in fiscal 2014 as compared to \$1,229 in fiscal 2013. In fiscal 2013, we recorded expenses of \$1,229 associated with the Increase and Repricing Transaction in April 2013 and the Repricing Transaction in November 2013, including the acceleration of deferred financing costs, legal fees, and other associated costs.

### ***Taxes***

The provision for income taxes in fiscal 2014 was \$7,193 as compared to \$447 in fiscal 2013. The effective tax rate for fiscal 2014 was 24.1%, as compared to 5.2% in fiscal 2013. In fiscal 2013, the lower effective tax rate was primarily due to the release of a valuation allowance of certain domestic deferred tax assets which was offset by non-deductible costs related to the IPO. In fiscal 2014, the effective tax rate fell below the statutory rate due to a \$1,839 reduction in tax expense primarily related to a prior period error in the income tax provision which resulted in filing an amended tax return, a \$3,138 non-taxable gain on the sale of a Norwegian subsidiary, a \$863 reduction in tax expense related to the utilization and release of a valuation allowance of tax credits in Poland, and the impact of foreign earnings taxed at a rate lower than statutory.

### **Fiscal 2013 compared to fiscal 2012**

#### ***Net sales***

The following table summarizes our net sales for fiscal 2013 and fiscal 2012:

	<b>Fiscal 2013</b>	<b>% total</b>	<b>Fiscal 2012</b>	<b>% total</b>
TCS net sales	\$ 660,365	88.2%	\$ 613,252	86.8%
Elfa third party net sales	88,173	11.8%	93,505	13.2%
<b>Net Sales</b>	<b>\$ 748,538</b>	<b>100.0%</b>	<b>\$ 706,757</b>	<b>100.0%</b>

Net sales in fiscal 2013 increased by \$41,781, or 5.9%, compared to fiscal 2012. This increase is comprised of the following components:

	<b>Net sales</b>
Net sales for fiscal 2012	\$ 706,757
Incremental net sales increase (decrease) due to:	
Comparable stores (including a \$3,352, or 11.7%, increase in online sales)	14,982
New stores	40,816
53 <sup>rd</sup> week sales in fiscal 2012	(11,702)
Elfa third party net sales	(5,332)
Installation services	2,319
Other	698
<b>Net sales for fiscal 2013</b>	<b>\$ 748,538</b>

The increase in net sales was driven by comparable store sales growth of 2.9%, which was primarily attributable to an increase in the average ticket of 5.6%. New store net sales increases are



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due to ten incremental stores, five of which were opened in fiscal 2013. These increases were partially offset by incremental sales recorded during the 53rd week of fiscal 2012 of \$11,702; fiscal 2013 consisted of 52 weeks. Additionally, there was a \$5,332 decline in Elfa third party net sales, which was primarily related to the sale of a German subsidiary in fiscal 2012 and continuing weakness in the European economy and the Nordic market. The decline in Elfa third-party net sales was partially offset by the appreciation of the Swedish krona against the U.S. dollar. Installation services increased \$2,319, due to an ongoing, focused effort to increase the number of installed spaces sold.

### ***Gross profit and gross margin***

Gross profit in fiscal 2013 increased by \$24,172, or 5.8%, compared to fiscal 2012. The increase in gross profit was primarily the result of increased sales. The following table summarizes the gross margin for fiscal 2013 and fiscal 2012 by segment and total. The segment margins include the impact of inter-segment sales from the Elfa segment to the TCS segment:

	<b>Fiscal 2013</b>	<b>Fiscal 2012</b>
TCS gross margin	58.2%	59.0%
Elfa gross margin	39.6%	38.7%
Total gross margin	58.8%	58.8%

TCS gross margin declined by 80 basis points, primarily due to the appreciation of the Swedish krona against the U.S. dollar. Elfa gross margin improved primarily due to lower direct material costs compared to the same time period in fiscal 2012. On a consolidated basis, gross margin remained consistent due to a larger percentage of net sales coming from the more profitable TCS segment.

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

Selling, general and administrative expenses in fiscal 2013 increased by \$23,174, or 7.0%, compared to the fiscal 2012. The increase in selling, general and administrative expenses was primarily due to the increase in sales. The following table summarizes selling, general and administrative expenses as a percentage of consolidated net sales for fiscal 2013 and fiscal 2012:

	<b>Fiscal 2013</b> <b>% of net sales</b>	<b>Fiscal 2012</b> <b>% of net sales</b>
TCS selling, general and administrative	41.6%	41.0%
Elfa selling, general and administrative	5.7%	5.8%
Total selling, general and administrative	47.3%	46.8%

Selling, general and administrative expenses increased by 50 basis points as a percentage of total net sales. The increase was primarily due to a larger percentage of net sales coming from the TCS segment, whose selling, general, and administrative expenses are higher as a percentage of net sales than the Elfa segment. On a stand-alone basis, selling, general, and administrative expenses for the TCS segment and Elfa segment remained consistent as a percentage of each segment's net sales year over year.

### ***Stock-based compensation***

We recorded \$15,137 of stock-based compensation expense in fiscal 2013, primarily related to stock options granted under the 2013 Equity Plan which immediately vested upon closing of our IPO, as well as the modification of outstanding stock options granted under the 2012 Equity Plan to provide for immediate vesting as of October 31, 2013.

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#### ***Pre-opening costs***

Pre-opening costs decreased \$890, or 11.8% in fiscal 2013 to \$6,672, as compared to \$7,562 in fiscal 2012. We incurred pre-opening costs for eight stores in fiscal 2013, six of which opened in fiscal 2013 (five new stores and one relocation), and two of which will open in the first quarter of fiscal 2014. These costs were less than those incurred in fiscal 2012 for eight stores, as savings were realized in costs associated with the store openings in the current fiscal year.

#### ***Trade name impairment***

Trade name impairment expense was zero in fiscal 2013 as compared to \$15,533 in fiscal 2012. All impairment expense incurred in fiscal 2012 was related to the Elfa segment. During fiscal 2012, Elfa was experiencing a challenging economic climate in Europe, which resulted in Elfa not achieving its third party sales and profit forecasts in fiscal 2012. The impairment expense in fiscal 2012 was related to the Elfa trade name and was calculated using a relief from royalty discounted cash flow analysis.

#### ***Restructuring charges***

Restructuring charges decreased \$5,837, or 91.6% in fiscal 2013 to \$532 as compared to \$6,369 in fiscal 2012. During fiscal 2012, Elfa implemented a plan to restructure its business operations to improve efficiency. In conjunction with these efforts, a subsidiary in Germany was sold and a manufacturing facility in Norway was shut down and consolidated into a like facility in Sweden. Additionally, certain head office functions in sales and marketing were relocated from the Västervik, Sweden, manufacturing location to the group headquarters in Malmö, Sweden. Most of the costs associated with these restructuring efforts were incurred in fiscal 2012 and the first half of fiscal 2013.

#### ***Other expenses***

Other expenses increased \$598, or 60.6% in fiscal 2013 to \$1,585 as compared to \$987 in fiscal 2012. The increase is primarily due to costs incurred in conjunction with our IPO.

#### ***Interest expense***

Interest expense remained consistent in fiscal 2013 at \$21,185 as compared to \$21,388 in fiscal 2012, primarily due to additional borrowings on the Senior Secured Term Loan Facility, offset by lower interest rates. In April 2013, The Container Store, Inc. executed an amendment to the Senior Secured Term Loan Facility (the "Increase and Repricing Transactions"), whereby borrowings under the Senior Secured Term Loan Facility were increased by \$90,000 and accrued interest at a lower rate of LIBOR plus 4.25%, subject to a LIBOR floor of 1.25%. Prior to the Increase and Repricing Transactions, the Senior Secured Term Loan Facility accrued interest at a rate of LIBOR plus 5.0%, subject to a LIBOR floor of 1.25%. Further, in November 2013, a second amendment was executed to the Senior Secured Term Loan Facility (the "Repricing Transaction"). The Senior Secured Term Loan Facility now accrues interest at a rate of LIBOR + 3.25%, subject to a LIBOR floor of 1.00%. Additionally, a \$31,000 repayment on the Senior Secured Term Loan Facility was made in November 2013.

#### ***Loss on extinguishment of debt***

Loss on extinguishment of debt decreased \$6,104, or 83.2%, to \$1,229 in fiscal 2013 as compared to \$7,333 in fiscal 2012. In fiscal 2013, we recorded expenses of \$1,229 associated with the Increase and Repricing Transactions in April 2013 and the Repricing Transaction in November 2013, including the acceleration of deferred financing costs, legal fees, and other associated costs.

In April 2012, The Container Store, Inc.'s debt was refinanced. In connection with the refinancing, a new \$275,000 Secured Term Loan Facility (the "Senior Secured Term Loan Facility") was entered

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into. The Senior Secured Term Loan Facility replaced the previously existing \$125,000 secured term loan and \$150,000 of senior subordinated notes. In addition, a new \$75,000 Revolving Credit Facility (the "Revolving Credit Facility") was entered into replacing the previously existing \$75,000 asset-based revolving credit facility (these transactions are referred to collectively as the "Refinancing Transaction"). We recorded expenses of \$7,333 in fiscal 2012 associated with the Refinancing Transaction described above. This amount consisted of an early extinguishment fee, acceleration of deferred financing costs, legal fees and other associated costs.

**Taxes**

The provision for income taxes in fiscal 2013 was \$447 as compared to a benefit for income taxes in fiscal 2012 of \$4,449. The increase in tax expense was largely attributable to an increase in pre-tax income over the prior year, partially offset by a decrease in the effective tax rate. The decrease in the effective tax rate is primarily due to the release of a valuation allowance on certain domestic deferred tax assets during fiscal 2013.

**Seasonality**

Our storage and organization product offering makes us less susceptible to holiday shopping patterns than many retailers. Historically, our business has realized a higher portion of net sales, operating income and cash flows from operations in the fourth fiscal quarter, attributable primarily to the impact of Our Annual elfa® Sale (which starts on December 24th and traditionally runs into February). In excess of 60% of our adjusted net income was derived in the fiscal fourth quarter in the past three years. In addition, our Annual Shelving Sale occurs in the third fiscal quarter and results in historically higher sales, operating income and cash flows from operations for the period.

**Liquidity and Capital Resources**

We rely on cash flows from operations, a \$75,000 asset-based revolving credit agreement (the "Revolving Credit Facility" as further discussed under "Revolving Credit Facility" below), and the SEK 140.0 million (approximately \$16,755 as of February 28, 2015) 2014 Elfa revolving credit facility (the "2014 Elfa Revolving Credit Facility" as further discussed under "Elfa Senior Secured Credit Facilities and 2014 Elfa Senior Secured Credit Facilities" below) as our primary sources of liquidity. Our primary cash needs are for merchandise inventories, direct materials, payroll, store rent, capital expenditures associated with opening new stores and updating existing stores, as well as information technology and infrastructure, including distribution center and Elfa manufacturing facility enhancements. The most significant components of our operating assets and liabilities are merchandise inventories, accounts receivable, prepaid expenses and other assets, accounts payable, other current and non-current liabilities, taxes receivable and taxes payable. Our liquidity fluctuates as a result of our building inventory for key selling periods, and as a result, our borrowings are generally higher during these periods when compared to the rest of our fiscal year. Our borrowings generally increase in our second and third fiscal quarters as we prepare for our Annual Shelving Sale, the holiday season, and Our Annual elfa® Sale. We believe that cash expected to be generated from operations and the availability of borrowings under the Revolving Credit Facility and the 2014 Elfa Revolving Credit Facility will be sufficient to meet liquidity requirements, anticipated capital expenditures and payments due under our existing credit facilities for at least the next 24 months.

At February 28, 2015, we had \$24,994 of cash and \$58,851 of additional availability under the Revolving Credit Facility and approximately \$13,921 of additional availability under the 2014 Elfa Revolving Credit Facility. There were \$3,338 in letters of credit outstanding under the Revolving Credit Facility and other contracts at that date.

Table of Contents**Cash flow analysis**

A summary of our operating, investing and financing activities are shown in the following table:

	Fiscal Year		
	February 28, 2015	March 1, 2014	March 2, 2013
Net cash provided by operating activities	\$ 64,625	\$ 50,605	\$ 45,846
Net cash used in investing activities	(43,944)	(47,669)	(48,905)
Net cash used in financing activities	(12,527)	(9,974)	(22,642)
Effect of exchange rate changes on cash	(1,206)	(267)	(111)
<b>Net increase (decrease) in cash</b>	<b>\$ 6,948</b>	<b>\$ (7,305)</b>	<b>\$ (25,812)</b>

**Net cash provided by operating activities**

Cash from operating activities consists primarily of net income adjusted for non-cash items, including depreciation and amortization, deferred taxes and the effect of changes in operating assets and liabilities.

Net cash provided by operating activities was \$64,625 for the fiscal year ended February 28, 2015, as non-cash items (primarily depreciation and amortization as well as stock-based compensation charges) of \$31,692 were combined with \$22,673 of net income and a decrease in working capital of \$10,260. The decrease in working capital during fiscal 2014 was primarily due to increased collections on credit card receivables in fiscal 2014 due to the extension of the fiscal 2013 Annual elfa® Sale as well as increased collections from landlords for tenant improvement allowances during fiscal 2014.

Net cash provided by operating activities was \$50,605 for the fiscal year ended March 1, 2014, as non-cash items (primarily depreciation and amortization as well as stock-based compensation charges) of \$42,548 were combined with \$8,166 of net income and offset by an increase in working capital of \$109.

Net cash provided by operating activities was \$45,846 for the fiscal year ended March 2, 2013, as a net loss of \$130 was offset by non-cash items of \$44,056 (primarily depreciation and amortization as well as trade name impairment charges) and a decrease in working capital of \$1,920.

**Net cash used in investing activities**

Investing activities consist primarily of capital expenditures for new store openings, existing store remodels, infrastructure, information systems, and our distribution center.

Our total capital expenditures for the fiscal year ended February 28, 2015 were \$48,740 with new store openings and existing store remodels accounting for the majority of spending at \$30,299. The remaining capital expenditures of \$18,441 were primarily for investments in infrastructure to support growth and strategic initiatives, as well as Elfa manufacturing facility enhancements. Additionally, the Company received net proceeds of \$4,796 during fiscal 2014, of which \$3,846 related to the sale of a Norwegian subsidiary, whose primary asset was a manufacturing facility that was shut down and consolidated into a like facility in Sweden as part of Elfa's restructuring efforts in fiscal 2012, and \$912 related to the sale of a building at Elfa.

Our total capital expenditures for the fiscal year ended March 1, 2014 were \$48,408 with new store openings and existing store remodels accounting for the majority of spending at \$30,872. The remaining capital expenditures of \$17,536 were primarily for investments in infrastructure to support growth and strategic initiatives, as well as Elfa manufacturing facility enhancements.

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Our total capital expenditures for the fiscal year ended March 2, 2013 were \$49,219 with new store openings and existing store remodels accounting for the majority of spending at \$29,481. The remaining capital expenditures of \$19,738 were primarily for investments in infrastructure to support growth and strategic initiatives, as well as Elfa manufacturing facility enhancements.

#### *Net cash used in financing activities*

Financing activities consist primarily of borrowings and payments under the Senior Secured Term Loan Facility, the Revolving Credit Facility, the Elfa Senior Secured Credit Facilities, and the 2014 Elfa Senior Secured Credit Facilities.

Net cash used in financing activities was \$12,527 for the fiscal year ended February 28, 2015, which was mainly attributable to net payments of \$11,063 on the Elfa Revolving Credit Facility, 2014 Elfa Revolving Credit Facility, and the Short Term Credit Facility (as further discussed and defined under "Elfa Senior Secured Credit Facilities and 2014 Elfa Senior Secured Credit Facilities" below). The Company made payments of \$36,591 on indebtedness outstanding under the Elfa Term Loan Facility, the 2014 Elfa Term Loan Facility, the Senior Secured Term Loan Facility, and the Revolving Credit Facility, which were partially offset by borrowings of \$26,000 on the Revolving Credit Facility and borrowings of \$8,389 related to the new 2014 Elfa Term Loan Facility. In addition, the Company received proceeds of \$742 from the exercise of stock options.

Net cash used in financing activities was \$9,974 for the fiscal year ended March 1, 2014. In April 2013, The Container Store, Inc. increased its borrowings under the Senior Secured Term Loan Facility by \$90,000 pursuant to the Increase and Repricing Transaction, which were used to finance a distribution to holders of our 12% Senior Cumulative Preferred Stock (the "Senior Preferred Stock"). Additionally, we completed our IPO during fiscal 2013 which resulted in \$237,013 in proceeds from the sale of common stock. The majority of the proceeds, \$205,813, were used to pay a distribution to holders of our Senior Preferred Stock and our 12% Junior Cumulative Preferred Stock, while \$31,000 was used to pay down a portion of our Senior Secured Term Loan Facility. Finally, the Company made \$9,760 of scheduled principal payments on long-term debt during fiscal 2013.

Net cash used in financing activities was \$22,642 for the fiscal year ended March 2, 2013. This included net proceeds of \$2,108 from borrowings under the Elfa Revolving Credit Facility to support higher working capital needs. The net proceeds of the revolver borrowings at Elfa were offset by payments of \$24,569 cash for repayment of indebtedness outstanding under the Elfa Term Loan Facility, the Senior Secured Term Loan Facility and the Revolving Credit Facility, as well as additional debt repayment and transaction costs associated with the Refinancing Transactions.

As of February 28, 2015, we had a total of \$58,851 of unused borrowing availability under the Revolving Credit Facility, and \$3,136 in letters of credit issued under the Revolving Credit Facility. There were no borrowings outstanding under the Revolving Credit Facility as of February 28, 2015.

As of February 28, 2015, Elfa had a total of \$13,921 of unused borrowing availability under the 2014 Elfa Revolving Credit Facility and \$2,834 outstanding under the 2014 Elfa Revolving Credit Facility.

#### *Senior Secured Term Loan Facility*

On April 6, 2012, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into a credit agreement with JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and the lenders party thereto (the "Senior Secured Term Loan Facility"). Prior to the Increase and Repricing Transaction, as discussed below, borrowings under the Senior Secured Term Loan Facility accrued interest at LIBOR+5.00%, subject to a LIBOR floor of 1.25%.

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On April 8, 2013, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into Amendment No.1 to the Senior Secured Term Loan Facility, pursuant to which the borrowings under the Senior Secured Term Loan Facility were increased to \$362,250 and the interest rate on such borrowings was decreased to a rate of LIBOR + 4.25%, subject to a LIBOR floor of 1.25% (the "Increase and Repricing Transaction"). The maturity date remained as April 6, 2019. Additionally, pursuant to the Increase and Repricing Transaction (i) the senior secured leverage ratio covenant referenced below was eliminated and (ii) we are required to make quarterly principal repayments of \$906 through December 31, 2018, with a balloon payment for the remaining balance due on April 6, 2019. The additional \$90,000 of borrowings was used to finance a distribution to holders of our senior preferred stock in the amount of \$90,000, which was paid on April 9, 2013.

On November 8, 2013, net proceeds of \$31,000 from the IPO were used to repay a portion of the outstanding borrowings under the Senior Secured Term Loan Facility.

On November 27, 2013, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into Amendment No. 2 to the Senior Secured Term Loan Facility (the "Repricing Transaction"). Pursuant to the Repricing Transaction, borrowings accrue interest at a lower rate of LIBOR + 3.25%, subject to a LIBOR floor of 1.00% . The maturity date remained as April 6, 2019 and we continue to be required to make quarterly principal repayments of \$906 through December 31, 2018, with a balloon payment for the remaining balance due on April 6, 2019.

The Senior Secured Term Loan Facility is secured by (a) a first priority security interest in substantially all of our assets (excluding stock in foreign subsidiaries in excess of 65%, assets of non-guarantors and subject to certain other exceptions) (other than the collateral that secures the Revolving Credit Facility described below on a first-priority basis) and (b) a second priority security interest in the assets securing the Revolving Credit Facility described below on a first-priority basis. Obligations under the Senior Secured Term Loan Facility are guaranteed by The Container Store Group, Inc. and each of The Container Store, Inc.'s U.S. subsidiaries. The Senior Secured Term Loan Facility contains a number of covenants that, among other things, restrict our ability, subject to specified exceptions, to incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves, engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the financing agreements contain certain cross-default provisions. As of February 28, 2015, we were in compliance with all covenants and no Event of Default (as such term is defined in the Senior Secured Term Loan Facility) had occurred.

***Revolving Credit Facility***

On April 6, 2012, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into a \$75,000 asset-based revolving credit agreement with JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and Wells Fargo Bank, National Association, as Syndication Agent (the "Revolving Credit Facility"). Borrowings under the Revolving Credit Facility accrue interest at LIBOR+1.25% to 1.75%, subject to adjustment based on average daily excess availability over the preceding quarter, and the maturity date is April 6, 2017.

The Revolving Credit Facility is to be used for working capital and other general corporate purposes. The Revolving Credit Facility allows for swing line advances to The Container Store, Inc. of up to \$7,500 and the issuance of letters of credit of up to \$20,000. The availability of credit at any given time under the Revolving Credit Facility is limited by reference to a borrowing base formula based upon numerous factors, including the value of eligible inventory, eligible accounts receivable, and reserves established by the administrative agent. As a result of the borrowing base formula, the actual borrowing availability under the Revolving Credit Facility could be less than the stated amount of the



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Revolving Credit Facility (as reduced by the actual borrowings and outstanding letters of credit under the Revolving Credit Facility).

The Revolving Credit Facility is secured by (a) a first-priority security interest in substantially all of our personal property, consisting of inventory, accounts receivable, cash, deposit accounts, and other general intangibles, and (b) a second-priority security interest in the collateral that secures the Senior Secured Term Loan Facility on a first-priority basis, as described above (excluding stock in foreign subsidiaries in excess of 65%, and assets of non-guarantor subsidiaries and subject to certain other exceptions). Obligations under the Revolving Credit Facility are guaranteed by The Container Store Group, Inc. and each of The Container Store, Inc.'s U.S. subsidiaries.

The Revolving Credit Facility contains a number of covenants that, among other things, restrict our ability, subject to specified exceptions, to incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves, engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the financing agreements contain certain cross-default provisions. We are required to maintain a consolidated fixed-charge coverage ratio of 1.0 to 1.0 if excess availability is less than \$10,000 at any time. As of February 28, 2015, we were in compliance with all covenants and no Event of Default (as such term is defined in the Revolving Credit Facility) has occurred.

***Elfa Senior Secured Credit Facilities and 2014 Elfa Senior Secured Credit Facilities***

On April 27, 2009, Elfa entered into the Elfa Senior Secured Credit Facilities with Tjustbygdens Sparbank AB, which we refer to as Sparbank, which consisted of a SEK 137.5 million term loan facility, which we refer to as the Elfa Term Loan Facility, and the Elfa Revolving Credit Facility and, together with the Elfa Term Loan Facility, the Elfa Senior Secured Credit Facilities. On January 27, 2012, Sparbank transferred all of its commitments, rights and obligations under the Elfa Senior Secured Credit Facilities to Swedbank AB. Borrowings under the Elfa Senior Secured Credit Facilities accrued interest at a rate of STIBOR+1.775%. Elfa was required to make quarterly principal repayments under the Elfa Term Loan Facility of SEK 6.25 million through maturity. The Elfa Senior Secured Credit Facilities were secured by first priority security interests in substantially all of Elfa's assets. The Elfa Term Loan Facility and the Elfa Revolving Credit Facility matured on August 30, 2014 and were replaced with the 2014 Elfa Senior Secured Credit Facilities as discussed below.

On April 1, 2014, Elfa entered into a master credit agreement with Nordea Bank AB ("Nordea"), which consists of a SEK 60.0 million (approximately \$7,181 as of February 28, 2015) term loan facility (the "2014 Elfa Term Loan Facility") and a SEK 140.0 million (approximately \$16,755 as of February 28, 2015) revolving credit facility (the "2014 Elfa Revolving Credit Facility," and together with the 2014 Elfa Term Loan Facility, the "2014 Elfa Senior Secured Credit Facilities"). The 2014 Elfa Senior Secured Credit Facilities term began on August 29, 2014 and matures on August 29, 2019, or such shorter period as provided by the agreement. Elfa is required to make quarterly principal payments under the 2014 Elfa Term Loan Facility in the amount of SEK 3.0 million (approximately \$359 as of February 28, 2015) through maturity. The 2014 Elfa Term Loan Facility bears interest at STIBOR + 1.7% and the 2014 Elfa Revolving Credit Facility bears interest at Nordea's base rate + 1.4%, and these rates are applicable until August 29, 2017, at which time the interest rates may be renegotiated at the request of either party to the agreement. Should the parties fail to agree on new interest rates, Elfa has the ability to terminate the agreement on August 29, 2017, at which time all borrowings under the agreement shall be paid in full to Nordea.

The 2014 Elfa Senior Secured Credit Facilities contains a number of covenants that, among other things, restrict Elfa's ability, subject to specified exceptions, to incur additional liens, sell or dispose of assets, merge with other companies, engage in businesses that are not in a related line of business and

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make guarantees. In addition, Elfa is required to maintain (i) a consolidated equity ratio (as defined in the 2014 Elfa Senior Secured Credit Facilities) of not less than 30% in year one and not less than 32.5% thereafter and (ii) a consolidated ratio of net debt to EBITDA (as defined in the 2014 Elfa Senior Secured Credit Facilities) of less than 3.2, the consolidated equity ratio tested at the end of each calendar quarter and the ratio of net debt to EBITDA tested as of the end of each fiscal quarter. As of February 28, 2015, Elfa was in compliance with all covenants and no Event of Default (as defined in the 2014 Elfa Senior Secured Credit Facilities) had occurred.

On May 13, 2014, Elfa entered into a credit facility with Nordea for SEK 15.0 million (the "Short Term Credit Facility"). The Short Term Credit Facility accrued interest at 2.53% and matured on August 28, 2014, at which time all borrowings under the agreement were paid in full to Nordea (approximately \$2,152 as of August 28, 2014). The total amount of borrowings available under the Short Term Credit Facility was used to pay a mortgage owed on the Poland manufacturing facility in full in the first quarter of fiscal 2014.

**Critical accounting policies and estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect amounts reported in our consolidated financial statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. Management evaluates its accounting policies, estimates, and judgments on an on-going basis. Management bases its estimates and judgments on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions and conditions.

Management evaluated the development and selection of its critical accounting policies and estimates and believes that the following involve a higher degree of judgment or complexity and are most significant to reporting our results of operations and financial position, and are therefore discussed as critical. The following critical accounting policies reflect the significant estimates and judgments used in the preparation of our consolidated financial statements. With respect to critical accounting policies, even a relatively minor variance between actual and expected experience can potentially have a materially favorable or unfavorable impact on subsequent results of operations. More information on all of our significant accounting policies can be found in Note 1 *Nature of Business and Summary of Significant Accounting Policies* to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

***Revenue recognition***

We recognize revenues and the related cost of goods sold for our TCS segment when merchandise is received by our customers, which reflects an estimate of shipments that have not yet been received by the customer. This estimate is based on shipping terms and historical delivery times. We recognize revenues and the related cost of goods sold for our Elfa segment upon shipment.

We recognize shipping and handling fees as revenue when the merchandise is shipped to the customer. Costs of shipping and handling are included in cost of goods sold. We recognize fees for installation and other services as revenue upon completion of the service to the customer. Costs of installation and other services are included in cost of goods sold.

Sales tax collected is not recognized as revenue as it is ultimately remitted to governmental authorities.

We reserve for projected merchandise returns based on historical experience and various other assumptions that we believe to be reasonable. The reserve reduces sales and cost of sales, accordingly.

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Merchandise exchanges of similar product and price are not considered merchandise returns and, therefore, are excluded when calculating the sales returns reserve.

***Gift cards and merchandise credits***

We sell gift cards to our customers in our stores, online and through our call center. We issue merchandise credits in our stores and through our call center. Revenue associated with sales of gift cards and issuances of merchandise credits is recognized when the gift card or merchandise credit is redeemed by the customer, or when the likelihood of redemption by the customer is remote (i.e. breakage). An estimate of the rate of gift card breakage is applied over the period of estimated performance (48 months as of the end of fiscal 2014) and the breakage amounts are included in net sales in the consolidated statement of operations.

***Inventories***

Inventories at retail stores are comprised of finished goods and are valued at the lower of cost or market, with cost determined on a weighted-average cost method including associated freight costs, and market determined based on the estimated net realizable value. Manufacturing inventories are comprised of raw materials, work in process, and finished goods and are valued on a first-in, first out basis using full absorption accounting which includes material, labor, other variable costs, and other applicable manufacturing overhead. To determine if the value of inventory is recoverable at cost, we consider current and anticipated demand, customer preference and the merchandise age. The significant estimates used in inventory valuation are obsolescence (including excess and slow-moving inventory) and estimates of inventory shrinkage. We adjust our inventory for obsolescence based on historical trends, aging reports, specific identification and our estimates of future retail sales prices.

Reserves for shrinkage are estimated and recorded throughout the period as a percentage of cost of sales based on historical shrinkage results and current inventory levels. Actual shrinkage is recorded throughout the year based upon periodic cycle counts. Actual inventory shrinkage can vary from estimates due to factors including the mix of our inventory and execution against loss prevention initiatives in our stores and distribution center.

Due to these factors, our obsolescence and shrinkage reserves contain uncertainties. Both estimates have calculations that require management to make assumptions and to apply judgments regarding a number of factors, including market conditions, the selling environment, historical results and current inventory trends. If actual obsolescence or shrinkage estimates change from our original estimates, we will adjust our inventory reserves accordingly throughout the period. Management does not believe that changes in the assumptions used in these estimates would have a significant effect on our inventory balances. We have not made any material changes to our assumptions included in the calculations of the obsolescence and shrinkage reserves during the periods presented.

***Income taxes***

We account for deferred income taxes utilizing FASB ASC 740, *Income Taxes* ("ASC 740"). ASC 740 requires an asset and liability approach, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are established against deferred tax assets when it is more-likely-than-not that the realization of those deferred tax assets will not occur. Valuation allowances are released as positive evidence of future taxable income sufficient to realize the underlying deferred tax assets becomes available (e.g., three-year cumulative financial income).

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change

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in the tax rate is recognized through continuing operations in the period that includes the enactment of the change. Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future.

We operate in certain jurisdictions outside the United States. ASC 740-30 provides that the undistributed earnings of a foreign subsidiary be accounted for as a temporary difference under the presumption that all undistributed earnings will be distributed to the parent company as a dividend. Sufficient evidence of the intent to permanently reinvest the earnings in the jurisdiction where earned precludes a company from recording the temporary difference. For purposes of ASC 740-30, we are partially reinvested in Elfa and thus do not record a temporary difference. We are partially reinvested since we have permanently reinvested our past earnings at Elfa; however, we do not assert that all future earnings will be reinvested into Elfa.

### **Leases**

Rent expense on operating leases, including rent holidays and scheduled rent increases, is recorded on a straight-line basis over the term of the lease, commencing on the date we take possession of the leased property. Rent expense is recorded in selling, general and administrative expenses. Pre-opening rent expense is recorded in pre-opening costs in the consolidated statement of operations. The net excess of rent expense over the actual cash paid has been recorded as deferred rent in the accompanying consolidated balance sheets. Tenant improvement allowances are also included in the accompanying consolidated balance sheets as deferred rent liabilities and are amortized as a reduction of rent expense over the term of the lease from the possession date. Contingent rental payments, typically based on a percentage of sales, are recognized in rent expense when payment of the contingent rent is probable.

### **Stock-based compensation**

The Company accounts for stock-based compensation in accordance with FASB ASC 718, *Compensation - Stock Compensation* ("ASC 718"), which requires the fair value of stock-based payments to be recognized in the consolidated financial statements as compensation expense over the requisite service period. Compensation expense based upon the fair value of awards is recognized on a straight line basis, net of forfeitures, over the requisite service period for awards that actually vest. Stock-based compensation expense is recorded in the stock-based compensation line in the consolidated statements of operations.

The Company estimates the fair value of each stock option grant on the date of grant based upon the Black-Scholes option-pricing model. This model requires various significant judgmental assumptions in order to derive a final fair value determination for each type of award including:

**Expected Term** The expected term of the options represents the period of time between the grant date of the options and the date the options are either exercised or canceled, including an estimate of options still outstanding.

**Expected Volatility** The expected volatility incorporates historical and implied volatility of comparable public companies for a period approximating the expected term.

**Expected Dividend Yield** The expected dividend yield is based on the Company's expectation of not paying dividends on its common stock for the foreseeable future.

**Risk-Free Interest Rate** The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant and with a maturity that approximates the expected term.

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*Intangibles and long-lived assets*

**Goodwill**

We evaluate goodwill annually to determine whether it is impaired. Goodwill is also tested between annual impairment tests if an event occurs or circumstances change that would indicate that the fair value of a reporting unit is less than its carrying amount. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset. If an impairment indicator exists, we test the intangible asset for recoverability. We have identified two reporting units and we have selected the fourth fiscal quarter to perform our annual goodwill impairment testing.

Prior to testing goodwill for impairment, we perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired for each reporting unit. If the results of the qualitative assessment indicate that the likelihood of impairment is greater than 50%, then we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

The fair value of each reporting unit is determined by using a discounted cash flow analysis using the income approach. We also use a market approach to compare the estimated fair value to comparable companies. The determination of fair value requires assumptions and estimates of many critical factors, including among others, our nature and our history, financial and economic conditions affecting us, our industry and the general economy, past results, our current operations and future prospects, sales of similar businesses or capital stock of publicly held similar businesses, as well as prices, terms and conditions affecting past sales of similar businesses. Forecasts of future operations are based, in part, on operating results and management's expectations as to future market conditions. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgments to estimate industry economic factors and the profitability of future business strategies. If actual results are not consistent with our estimates and assumptions, we may be exposed to future impairment losses that could be material.

**Trade names**

We annually evaluate whether the trade names continue to have an indefinite life. Trade names are reviewed for impairment annually in the fourth quarter and may be reviewed more frequently if indicators of impairment are present. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset, a product recall or an adverse action or assessment by a regulator.

The impairment review is performed by comparing the carrying value to the estimated fair value, determined using a discounted cash flow methodology. If the recorded carrying value of the trade name exceeds its estimated fair value, an impairment charge is recorded to write the trade name down to its estimated fair value. Factors used in the valuation of intangible assets with indefinite lives include, but are not limited to, future revenue growth assumptions, estimated market royalty rates that could be derived from the licensing of our trade names to third parties, and a rate used to discount the estimated royalty cash flow projections to their present value (or estimated fair value).

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The valuation of trade names requires assumptions and estimates of many critical factors, which are consistent with the factors discussed under "Goodwill" above. Forecasts of future operations are based, in part, on operating results and management's expectations as to future market conditions. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgments to estimate industry economic factors and the profitability of future business strategies. If actual results are not consistent with our estimates and assumptions, we may be exposed to future impairment losses that could be material.

**Long-lived assets**

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset, a product recall or an adverse action or assessment by a regulator. If the sum of the estimated undiscounted future cash flows related to the asset are less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, usually determined by the estimated discounted cash flow analysis of the asset.

For our TCS segment, we evaluate long-lived tangible assets at an individual store level, which is the lowest level at which independent cash flows can be identified. We evaluate corporate assets or other long-lived assets that are not store-specific at the consolidated level. For our Elfa segment, we evaluate long-lived tangible assets at an individual subsidiary level.

Since there is typically no active market for our long-lived tangible assets, we estimate fair values based on the expected future cash flows. We estimate future cash flows based on store-level historical results, current trends, and operating and cash flow projections. Our estimates are subject to uncertainty and may be affected by a number of factors outside our control, including general economic conditions and the competitive environment. While we believe our estimates and judgments about future cash flows are reasonable, future impairment charges may be required if the expected cash flow estimates, as projected, do not occur or if events change requiring us to revise our estimates.

***Foreign currency forward contracts***

We account for foreign currency forward contracts in accordance with ASC No. 815, *Derivatives and Hedging*. In the TCS segment, we utilize foreign currency forward contracts in Swedish krona to stabilize our retail gross margins and to protect our domestic operations from downward currency exposure by hedging purchases of inventory from our wholly owned subsidiary, Elfa. In the Elfa segment, we utilize foreign currency forward contracts to hedge purchases of raw materials that are transacted in currencies other than Swedish krona, which is the functional currency of Elfa.

Generally, the Company's foreign currency forward contracts have terms from 1 to 12 months and require the Company to exchange currencies at agreed-upon rates at settlement. The Company does not hold or enter into financial instruments for trading or speculative purposes. The Company records all foreign currency forward contracts on its consolidated balance sheet at fair value. The Company records its foreign currency forward contracts on a gross basis. Forward contracts not designated as hedges are adjusted to fair value through income as selling, general and administrative expenses. The Company accounts for its foreign currency hedge instruments as cash flow hedges, as defined. Changes in the fair value of the foreign currency hedge instruments that are considered to be effective, as defined, are recorded in other comprehensive income (loss) until the hedged item (inventory) is sold to the customer, at which time the deferred gain or loss is recognized through cost of sales. Any portion of a change in the foreign currency hedge instrument's fair value that is considered to be ineffective, as

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defined, or that the Company has elected to exclude from its measurement of effectiveness, is immediately recorded in earnings as cost of sales.

### **Contractual obligations**

We enter into long-term obligations and commitments in the normal course of business, primarily debt obligations and non-cancelable operating leases. As of February 28, 2015, our contractual cash obligations over the next several periods were as follows:

	Total	Payments due by period			
		Fiscal 2015	Fiscal 2016 - 2017	Fiscal 2018 - 2019	Fiscal Thereafter
<b>Recorded contractual obligations</b>					
Term loans	\$ 331,374	\$ 5,059	\$ 10,118	\$ 316,197	\$
Revolving loans	2,834	2,834			
Capital lease obligations	397	172	215	10	
Other long-term obligations(1)	323	100	223		
<b>Unrecorded contractual obligations</b>					
Estimated interest(2)	59,098	14,601	28,358	16,139	
Operating leases(3)	506,615	74,336	141,695	107,597	182,987
Letters of credit	3,338	3,338			
Purchase obligations(4)	42,573	40,604	1,969		
<b>Total</b>	<b>\$ 946,552</b>	<b>\$ 141,044</b>	<b>\$ 182,578</b>	<b>\$ 439,943</b>	<b>\$ 182,987</b>

(1) Other long-term obligations include a note payable related to the acquisition of The Container Store Services, LLC in 2012.

(2) For purposes of this table, interest has been estimated based on interest rates in effect for our indebtedness as of February 28, 2015, and estimated borrowing levels in the future. Actual borrowing levels and interest costs may differ.

(3) We enter into operating leases during the normal course of business. Most lease arrangements provide us with the option to renew the leases at defined terms. The future operating lease obligations would change if we were to exercise these options, or if we were to enter into additional operating leases.

(4) Purchase obligations include legally binding contracts such as firm commitments for inventory, equipment purchases, marketing-related contracts, software acquisition/license commitments, as well as commitments to make capital expenditures, and legally binding service contracts. Purchase orders for other services are not included in the table above. Purchase orders represent authorizations to purchase rather than binding agreements. For the purposes of this table, contractual obligations for the purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

### **Off Balance Sheet Arrangements**

We are not party to any off balance sheet arrangements.

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***Recent Accounting Pronouncements***

In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, *Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. ASU 2015-03 will be effective for the Company in the first quarter of fiscal 2016. Early adoption permitted for financial statements that have not been previously issued. We are evaluating the impact of ASU 2015-03 on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and US GAAP. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. ASU 2014-09 will be effective for the Company in the first quarter of fiscal 2017 and may be applied on a full retrospective or modified retrospective approach. The Company is still evaluating the impact of implementation of this standard on its financial statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

***Foreign currency risk***

We are subject to foreign currency risk in connection with the operations of our Swedish subsidiary, Elfa. All assets and liabilities of foreign subsidiaries are translated at year end rates of exchange, with the exception of certain assets and liabilities that are translated at historical rates of exchange. Revenues, expenses, and cash flows of foreign subsidiaries are translated at average rates of exchange for the year. The functional currency of Elfa is the Swedish krona. Based on the average exchange rate from Swedish krona to U.S. dollar during fiscal 2014, and results of operations in functional currency, we believe that a 10% increase or decrease in the exchange rate of the Swedish krona would increase or decrease net income (loss) by approximately \$0.7 million.

We are also subject to foreign currency risk in connection with the purchase of inventory from Elfa. We utilize foreign currency hedge instruments to mitigate this risk. In fiscal 2014 and fiscal 2013, we used forward currency hedge instruments for 54% and 64% of inventory purchases in Swedish krona at an average SEK rate of 6.9 and 6.7 each year, respectively. Currently, we have hedged approximately 55% of our planned inventory purchases for fiscal 2015 at an average SEK rate of 8.3.

***Interest rate risk***

We are subject to interest rate risk in connection with borrowings under the Senior Secured Term Loan Facility, the Revolving Credit Facility and the 2014 Elfa Senior Secured Credit Facilities, which accrue interest at variable rates. At February 28, 2015, borrowings subject to interest rate risk were \$334.2 million, we had \$58.9 million of additional availability under the Revolving Credit Facility and approximately \$13.9 million of additional availability under the 2014 Elfa Revolving Credit Facility. We currently do not engage in any interest rate hedging activity; however we will continue to monitor the interest rate environment. Based on the average interest rate on each of the Revolving Credit Facility and the 2014 Elfa Revolving Credit Facility during fiscal 2014, and to the extent that borrowings were



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outstanding, we do not believe that a 10% change in the interest rate would have a material effect on our consolidated results of operations or financial condition.

***Impact of Inflation***

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
The Container Store Group, Inc.

We have audited the accompanying consolidated balance sheets of The Container Store Group, Inc. (the Company) as of February 28, 2015 and March 1, 2014 and the related consolidated statements of operations, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended February 28, 2015. Our audits also included the financial statement schedule included in the consolidated financial statements. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Container Store Group, Inc. at February 28, 2015 and March 1, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 28, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst and Young LLP  
Dallas, Texas  
May 8, 2015

Table of Contents**The Container Store Group, Inc.****Consolidated balance sheets**

(In thousands)	February 28, 2015	March 1, 2014
<b>Assets</b>		
Current assets:		
Cash	\$ 24,994	\$ 18,046
Accounts receivable, net	24,319	32,273
Inventory	83,724	85,595
Prepaid expenses	7,895	14,121
Income taxes receivable	1,698	83
Deferred tax assets, net	3,256	3,967
Other current assets	11,056	10,322
Total current assets	156,942	164,407
Noncurrent assets:		
Property and equipment, net	169,053	161,431
Goodwill	202,815	202,815
Trade names	229,433	242,290
Deferred financing costs, net	7,742	9,699
Noncurrent deferred tax assets, net	1,739	1,323
Other assets	1,333	1,184
Total noncurrent assets	612,115	618,742
Total assets	\$ 769,057	\$ 783,149

See accompanying notes.

Table of Contents**The Container Store Group, Inc.****Consolidated balance sheets (Continued)**

<b>(In thousands, except share and per share amounts)</b>	<b>February 28, 2015</b>	<b>March 1, 2014</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 48,904	\$ 49,282
Accrued liabilities	59,891	58,744
Revolving lines of credit	2,834	16,033
Current portion of long-term debt	5,319	7,527
Income taxes payable	2,188	3,474
Deferred tax liabilities, net		29
<b>Total current liabilities</b>	<b>119,136</b>	<b>135,089</b>
Noncurrent liabilities:		
Long-term debt	326,775	327,724
Noncurrent deferred tax liabilities, net	82,965	85,442
Deferred rent and other long-term liabilities	38,319	37,708
<b>Total noncurrent liabilities</b>	<b>448,059</b>	<b>450,874</b>
<b>Total liabilities</b>	<b>567,195</b>	<b>585,963</b>
Commitments and contingencies ( <i>Note 12</i> )		
Shareholders' equity:		
Common stock, \$0.01 par value, 250,000,000 shares authorized; 47,983,660 shares issued and outstanding at February 28, 2015, 47,941,180 shares issued and outstanding at March 1, 2014	480	479
Additional paid-in capital	855,322	853,295
Accumulated other comprehensive (loss) income	(18,342)	1,683
Retained deficit	(635,598)	(658,271)
<b>Total shareholders' equity</b>	<b>201,862</b>	<b>197,186</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 769,057</b>	<b>\$ 783,149</b>

See accompanying notes.

Table of Contents**The Container Store Group, Inc.****Consolidated statements of operations**

<b>(In thousands, except share and per share amounts)</b>	<b>February 28, 2015</b>	<b>Fiscal year ended March 1, 2014</b>	<b>March 2, 2013</b>
Net sales	\$ 781,866	\$ 748,538	\$ 706,757
Cost of sales (excluding depreciation and amortization)	323,800	308,755	291,146
Gross profit	458,066	439,783	415,611
Selling, general, and administrative expenses (excluding depreciation and amortization)	372,867	354,271	331,097
Stock-based compensation	1,289	15,137	283
Pre-opening costs	8,283	6,672	7,562
Trade name impairment			15,533
Depreciation and amortization	31,011	30,353	29,550
Restructuring charges		532	6,369
Other expenses	1,132	1,585	987
(Gain) loss on disposal of assets	(3,487)	206	88
Income from operations	46,971	31,027	24,142
Interest expense	17,105	21,185	21,388
Loss on extinguishment of debt		1,229	7,333
Income (loss) before taxes	29,866	8,613	(4,579)
Provision (benefit) for income taxes	7,193	447	(4,449)
Net income (loss)	\$ 22,673	\$ 8,166	\$ (130)
Less: Distributions accumulated to preferred shareholders		(59,747)	(90,349)
Net income (loss) available to common shareholders	\$ 22,673	\$ (51,581)	\$ (90,479)
Net income (loss) per common share basic and diluted	\$ 0.47	\$ (2.87)	\$ (30.88)
Weighted-average common shares outstanding basic	47,971,243	17,955,757	2,929,789
Weighted-average common shares outstanding diluted	48,520,865	17,955,757	2,929,789

See accompanying notes.

Table of Contents**The Container Store Group, Inc.****Consolidated statements of comprehensive income**

<b>(In thousands)</b>	<b>Fiscal year ended</b>		
	<b>February 28, 2015</b>	<b>March 1, 2014</b>	<b>March 2, 2013</b>
Net income (loss)	\$ 22,673	\$ 8,166	\$ (130)
Unrealized loss on financial instruments, net of tax (benefit) provision of \$(604), \$(239) and \$265	(935)	(1,492)	(104)
Pension liability adjustment, net of tax benefit of \$4, \$51 and \$95	(14)	(181)	(298)
Foreign currency translation adjustment	(19,076)	643	816
Comprehensive income	\$ 2,648	\$ 7,136	\$ 284

See accompanying notes.

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**The Container Store Group, Inc.**  
**Consolidated statements of shareholders' equity**

(In thousands, except share amounts)	Par value	Common stock		Senior Preferred Stock		Junior Preferred Stock		Accumulated other comprehensive income			Treasury stock		Total shareholders' equity
		Shares	Amount	Shares	Amount	Shares	Amount	Additional paid-in capital	Retained deficit	Shares	Amount		
Balance at February 25, 2012	\$ 0.01	2,942,326	\$ 29	202,480	\$ 2	202,480	\$ 2	\$ 454,963	\$ 2,299	\$ (223,700)	(10,952)	\$ (606)	\$ 232,989
Net loss										(130)			(130)
Stock-based compensation								283					283
Foreign currency translation adjustment									816				816
Unrealized loss on financial instruments, net of \$265 tax provision										(104)			(104)
Pension liability adjustment, net of \$95 tax benefit										(298)			(298)
Purchases of treasury stock											(2,474)	(181)	(181)
Balance at March 2, 2013		2,942,326	29	202,480	2	202,480	2	455,246	2,713	(223,830)	(13,426)	(787)	233,375
Net income										8,166			8,166
Payment of distribution to preferred shareholders										(295,813)			(295,813)
Exchange preferred shares for common shares		30,619,083	306	(202,182)	(2)	(202,182)	(2)	146,479		(146,781)			
Issuance of stock in initial public offering, net of costs		14,375,000	144					236,869					237,013
Excess tax benefit from stock-based compensation								70					70
Additions of treasury stock											(737)	(53)	(53)
Retirement of treasury stock		(13,567)		(298)		(298)		(827)		(13)	14,163	840	
Fractional shares payout								(1)					(1)
Stock option exercises		18,338						322					322
Stock-based compensation								15,137					15,137
Foreign currency translation adjustment									643				643
Unrealized loss on financial instruments, net of \$239 tax benefit										(1,492)			(1,492)
Pension liability adjustment, net of \$51 tax benefit										(181)			(181)
Balance at March 1, 2014		47,941,180	479					853,295	1,683	(658,271)			197,186
Net income										22,673			22,673
Stock-based compensation								1,289					1,289
Excess tax provision from stock-based compensation								(4)					(4)
Stock option exercises		42,480	1					742					743
Foreign currency translation adjustment										(19,076)			(19,076)
Unrealized loss on financial instruments, net of \$604 tax benefit										(935)			(935)
Pension liability adjustment, net of \$4 tax benefit										(14)			(14)
Balance at February 28, 2015	\$ 0.01	47,983,660	\$ 480					855,322	(18,342)	(635,598)			201,862

See accompanying notes.

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**The Container Store Group, Inc.**  
**Consolidated statements of cash flows**

(In thousands)	Fiscal year ended		
	February 28, 2015	March 1, 2014	March 2, 2013
<b>Operating activities</b>			
Net income (loss)	\$ 22,673	\$ 8,166	\$ (130)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	31,011	30,353	29,550
Stock-based compensation	1,289	15,137	283
Excess tax provision (benefit) from stock-based compensation	4	(70)	
(Gain) loss on disposal of assets	(3,487)	206	88
Deferred tax expense (benefit)	1,423	(5,791)	(7,906)
Noncash refinancing expense		851	4,843
Noncash interest	1,956	1,857	1,462
Trade name impairment			15,533
Other	(504)	5	203
Changes in operating assets and liabilities:			
Accounts receivable	4,137	(6,565)	(4,501)
Inventory	(2,668)	(3,553)	(10,802)
Prepaid expenses and other assets	4,705	(3,974)	(6,353)
Accounts payable and accrued liabilities	5,562	5,613	16,488
Income taxes	(2,582)	1,648	296
Other noncurrent liabilities	1,106	6,722	6,792
Net cash provided by operating activities	64,625	50,605	45,846
<b>Investing activities</b>			
Additions to property and equipment	(48,740)	(48,408)	(49,219)
Proceeds from sale of subsidiary, net	3,846		
Proceeds from sale of property and equipment	950	739	314
Net cash used in investing activities	(43,944)	(47,669)	(48,905)
<b>Financing activities</b>			
Borrowings on revolving lines of credit	74,411	66,787	75,830
Payments on revolving lines of credit	(85,474)	(64,365)	(73,722)
Borrowings on long-term debt	34,389	126,000	290,000
Payments on long-term debt and capital leases	(36,591)	(76,260)	(304,727)
Payment of debt issuance costs		(3,662)	(9,842)
Proceeds from issuance of common stock, net		237,013	
Payment of distributions to preferred shareholders		(295,826)	
Purchase of treasury shares		(53)	(201)
Proceeds from the exercise of stock options	742	322	
Excess tax (provision) benefit from stock-based compensation	(4)	70	
Reissuance of treasury shares			20
Net cash used in financing activities	(12,527)	(9,974)	(22,642)
Effect of exchange rate changes on cash	(1,206)	(267)	(111)
Net increase (decrease) in cash	6,948	(7,305)	(25,812)
Cash at beginning of fiscal year	18,046	25,351	51,163
Cash at end of fiscal year	\$ 24,994	\$ 18,046	\$ 25,351
<b>Supplemental information:</b>			
Cash paid during the year for:			
Interest	\$ 15,255	\$ 20,339	\$ 17,853
Taxes	\$ 7,192	\$ 5,498	\$ 2,028
<b>Supplemental information for non-cash investing and financing activities:</b>			
Purchases of property and equipment (included in accounts payable)	\$ 4,918	\$ 4,616	\$ 2,370



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Capital lease obligation incurred	\$	513	\$	\$
Exchange of outstanding preferred shares for common shares	\$		\$	551,145 \$

See accompanying notes.

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**1. Nature of business and summary of significant accounting policies**

**Description of business**

The Container Store, Inc. was founded in 1978 in Dallas, Texas, as a retailer with a mission to provide customers with storage and organization solutions through an assortment of innovative products and unparalleled customer service. In 2007, The Container Store, Inc. was sold to The Container Store Group, Inc. (the "Company"), a holding company, of which a majority stake was purchased by Leonard Green and Partners, L.P. ("LGP"), with the remainder held by certain employees of The Container Store, Inc. On November 6, 2013, the Company completed the initial public offering of its common stock (the "IPO"). As the majority shareholder, LGP retains controlling interest in the Company.

As of February 28, 2015, The Container Store, Inc. operated 70 stores with an average size of approximately 19,000 selling square feet in 25 states and the District of Columbia. The Container Store, Inc. also offers all of its products directly to its customers through its website and call center. The Container Store, Inc.'s wholly owned Swedish subsidiary, Elfa International AB ("Elfa"), designs and manufactures component-based shelving and drawer systems that are customizable for any area of the home. elfa® branded products are sold exclusively in the United States in The Container Store® retail stores, website, and call center and Elfa sells to various retailers and distributors primarily in the Nordic region and throughout Europe on a wholesale basis.

**Basis of presentation**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Basis of consolidation**

The consolidated financial statements include our accounts and those of the Company's wholly owned subsidiaries. The Company eliminates all significant intercompany balances and transactions, including intercompany profits, in consolidation.

**Fiscal year**

The Company follows a 5-4-4 fiscal calendar, whereby each fiscal quarter consists of thirteen weeks grouped into one five-week "month" and two four-week "months," and its fiscal year ends on the Saturday closest to February 28<sup>th</sup>. Elfa's fiscal year ends on the last day of the calendar month of February. The fiscal years ended February 28, 2015 (fiscal 2014) and March 1, 2014 (fiscal 2013) included 52 weeks, whereas the fiscal year ended March 2, 2013 (fiscal 2012) included 53 weeks.

**Reclassifications and adjustments**

Certain prior period amounts have been reclassified in order to provide consistent comparative information, primarily the reclassification of the noncurrent portion of deferred compensation liabilities from accrued liabilities to the deferred rent and other long-term liabilities line item in the accompanying consolidated balance sheets.

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**1. Nature of business and summary of significant accounting policies (Continued)**

During the quarter ended August 30, 2014, the Company identified a prior period error in its income tax provision and filed an amended tax return, which resulted in a \$1,839 reduction in the provision for income taxes, as well as an increase to income taxes receivable. We evaluated the impact of the error and determined that it was immaterial to the prior consolidated financial statements and correcting the error in the current fiscal year also was immaterial to the current year's financial statements. As such, the entire amount was recorded during the quarter ended August 30, 2014.

**Management estimates**

The preparation of the Company's consolidated financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates. Significant accounting judgments and estimates include fair value estimates for indefinite-lived intangible assets, inventory loss reserve, gift card breakage, and assessment of valuation allowances on deferred tax assets.

**Foreign currency translation**

The Company operates foreign subsidiaries in the following countries: Sweden, Norway, Finland, Denmark, Germany, Poland, and France. The functional currency of the Company's foreign operations is the applicable country's currency. All assets and liabilities of foreign subsidiaries and affiliates are translated at year-end rates of exchange. Revenues and expenses of foreign subsidiaries and affiliates are translated at average rates of exchange for the year. Unrealized gains and losses on translation are reported as cumulative translation adjustments through other comprehensive income (loss).

The functional currency for the Company's wholly owned subsidiary, Elfa, is the Swedish krona. During fiscal 2014, the rate of exchange from U.S. dollar to Swedish krona increased from 6.4 to 8.4. The carrying amount of assets related to Elfa and subject to currency fluctuation was \$113,050 and \$146,714 as of February 28, 2015 and March 1, 2014, respectively. Foreign currency realized gains of \$171, realized gains of \$224, and realized losses of \$55 are included in selling, general, and administrative expenses in the consolidated statements of operations in fiscal 2014, fiscal 2013, and fiscal 2012, respectively.

**Revenue recognition**

Revenue from sales related to retail operations is recognized when the merchandise is delivered to the customer at the point of sale. Revenue from sales that are shipped or delivered directly to customers is recognized upon estimated delivery to the customer and includes applicable shipping or delivery revenue. Revenue from sales that are installed is recognized upon completion of the installation service to the customer and includes applicable installation revenue. Revenue from sales of other services is recognized upon the completion of the service. Revenue from sales related to manufacturing operations is recorded upon shipment. Sales are recorded net of sales taxes collected from customers. A sales return allowance is recorded for estimated returns of merchandise subsequent

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**1. Nature of business and summary of significant accounting policies (Continued)**

to the balance sheet date that relate to sales prior to the balance sheet date. The returns allowance is based on historical return patterns and reduces sales and cost of sales, accordingly. Merchandise exchanges of similar product and price are not considered merchandise returns and, therefore, are excluded when calculating the sales returns allowance.

**Gift cards and merchandise credits**

Gift cards are sold to customers in retail stores, through the call center and website, and through certain third parties. We issue merchandise credits in our stores and through our call center. Revenue from sales of gift cards and issuances of merchandise credits is recognized when the gift card is redeemed by the customer, or the likelihood of the gift card being redeemed by the customer is remote (gift card breakage). The gift card breakage rate is determined based upon historical redemption patterns. An estimate of the rate of gift card breakage is applied over the period of estimated performance (48 months as of the end of fiscal 2014) and the breakage amounts are included in net sales in the consolidated statement of operations. The Company recorded \$978, \$896, and \$695 of gift card breakage in fiscal years 2014, 2013, and 2012, respectively.

**Cost of sales**

Cost of sales related to retail operations includes the purchase cost of inventory sold (net of vendor rebates), in-bound freight, as well as inventory loss reserves. Costs incurred to ship or deliver merchandise to customers, as well as direct installation costs, are also included in cost of sales. Cost of sales from manufacturing operations includes costs associated with production, including materials, wages, other variable production costs, and other applicable manufacturing overhead.

**Leases**

Rent expense on operating leases, including rent holidays and scheduled rent increases, is recorded on a straight-line basis over the term of the lease, commencing on the date the Company takes possession of the leased property. Rent expense is recorded in selling, general, and administrative expenses. Pre-opening rent expense is recorded in pre-opening costs in the consolidated income statement. The net excess of rent expense over the actual cash paid has been recorded as deferred rent in the accompanying consolidated balance sheets. Tenant improvement allowances are also included in the accompanying consolidated balance sheets as deferred rent liabilities and are amortized as a reduction of rent expense over the term of the lease from the possession date. Contingent rental payments, typically based on a percentage of sales, are recognized in rent expense when payment of the contingent rent is probable.

**Advertising**

All advertising costs of the Company are expensed when incurred, or upon the release of the initial advertisement, except for production costs related to catalogs and direct mailings to customers, which are initially capitalized. Production costs related to catalogs and direct mailings consist primarily of printing and postage and are expensed when mailed to the customer, except for direct mailings

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**1. Nature of business and summary of significant accounting policies (Continued)**

related to promotional campaigns, which are expensed over the period during which the promotional sales are expected to occur. Advertising costs are recorded in selling, general, and administrative expenses. Pre-opening advertising costs are recorded in pre-opening costs.

Catalog and direct mailings costs capitalized at February 28, 2015 and March 1, 2014, amounted to \$699 and \$1,518 respectively, and are recorded in prepaid expenses on the accompanying consolidated balance sheets. Total advertising expense incurred for fiscal years 2014, 2013, and 2012, was \$35,388, \$33,786, and \$32,655, respectively.

**Pre-opening costs**

Non-capital expenditures associated with opening new stores, including rent, marketing expenses, travel and relocation costs, and training costs, are expensed as incurred and are included in pre-opening costs in the consolidated statement of operations.

**Management fee**

In connection with the completion of the Company's IPO, the management fee was eliminated as of November 6, 2013. The Company paid \$667 and \$1,000 as a management fee to its majority shareholder, LGP, in fiscal years 2013 and 2012, respectively.

**Income taxes**

We account for deferred income taxes utilizing Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*. ASC 740 requires an asset and liability approach, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. There were no uncertain tax positions requiring accrual as of February 28, 2015 and March 1, 2014. Valuation allowances are established against deferred tax assets when it is more-likely-than-not that the realization of those deferred tax assets will not occur. Valuation allowances are released as positive evidence of future taxable income sufficient to realize the underlying deferred tax assets becomes available.

Deferred tax assets and liabilities are measured using the enacted tax rates in effect in the years when those temporary differences are expected to reverse. The effect on deferred taxes from a change in the tax rate is recognized through continuing operations in the period that includes the enactment of the change. Changes in tax laws and rates could affect recorded deferred tax assets and liabilities in the future.

We operate in certain jurisdictions outside the United States. ASC 740-30 provides that the undistributed earnings of a foreign subsidiary be accounted for as a temporary difference under the presumption that all undistributed earnings will be distributed to the parent company as a dividend. Sufficient evidence of the intent to permanently reinvest the earnings in the jurisdiction where earned precludes a company from recording the temporary difference. For purposes of ASC 740-30, we are

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**1. Nature of business and summary of significant accounting policies (Continued)**

partially reinvested in Elfa and thus do not record a temporary difference. We are partially reinvested since we have permanently reinvested our past earnings at Elfa; however, we do not assert that all future earnings will be reinvested into Elfa.

**Stock-based compensation**

The Company accounts for stock-based compensation in accordance ASC 718, *Compensation - Stock Compensation*, which requires the fair value of stock-based payments to be recognized in the consolidated financial statements as compensation expense over the requisite service period. Compensation expense based upon the fair value of awards is recognized on a straight line basis, net of forfeitures, over the requisite service period for awards that actually vest. Stock-based compensation expense is recorded in the stock-based compensation line in the consolidated statements of operations. Prior to the IPO, because the Company was privately held and there was no public market for the common stock, the fair market value of the Company's common stock was determined by the Board at the time the option grants were awarded. In determining the fair value of the Company's common stock, the Board considered such factors as the Company's actual and projected financial results, valuations of the Company performed by third parties and other factors it believed were material to the valuation process. Following the IPO, the Board determines the exercise price of stock options based on the closing price of the Company's common stock as reported on The New York Stock Exchange on the grant date.

The Company estimates the fair value of each stock option grant on the date of grant based upon the Black-Scholes option-pricing model. This model requires various significant judgmental assumptions in order to derive a final fair value determination for each type of award including:

**Expected Term** The expected term of the options represents the period of time between the grant date of the options and the date the options are either exercised or canceled, including an estimate of options still outstanding.

**Expected Volatility** The expected volatility incorporates historical and implied volatility of comparable public companies for a period approximating the expected term.

**Expected Dividend Yield** The expected dividend yield is based on the Company's expectation of not paying dividends on its common stock for the foreseeable future.

**Risk-Free Interest Rate** The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant and with a maturity that approximates the expected term.

**Accounts receivable**

Accounts receivable consist primarily of trade receivables, receivables from The Container Store, Inc.'s credit card processors for sales transactions, and tenant improvement allowances from The Container Store, Inc.'s landlords in connection with new leases. An allowance for doubtful accounts is established on trade receivables, if necessary, for estimated losses resulting from the inability of customers to make required payments. Factors such as payment terms, historical loss experience, and economic conditions are generally considered in determining the allowance for doubtful accounts.



Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****1. Nature of business and summary of significant accounting policies (Continued)**

Accounts receivable are presented net of allowances for doubtful accounts of \$230 and \$321 at February 28, 2015 and March 1, 2014, respectively.

**Inventories**

Inventories at retail stores are comprised of finished goods and are valued at the lower of cost or market, with cost determined on a weighted-average cost method including associated freight costs, and market determined based on the estimated net realizable value. Manufacturing inventories are comprised of raw materials, work in process, and finished goods and are valued on a first-in, first out basis using full absorption accounting which includes material, labor, other variable costs, and other applicable manufacturing overhead. To determine if the value of inventory is recoverable at cost, we consider current and anticipated demand, customer preference and the merchandise age. The significant estimates used in inventory valuation are obsolescence (including excess and slow-moving inventory) and estimates of inventory shrinkage. We adjust our inventory for obsolescence based on historical trends, aging reports, specific identification and our estimates of future retail sales prices.

Reserves for shrinkage are estimated and recorded throughout the period as a percentage of cost of sales based on historical shrinkage results and current inventory levels. Actual shrinkage is recorded throughout the year based upon periodic cycle counts. Actual inventory shrinkage can vary from estimates due to factors including the mix of our inventory and execution against loss prevention initiatives in our stores and distribution center.

**Property and equipment**

Property and equipment are recorded at cost less accumulated depreciation. Significant additions and improvements are capitalized, and expenditures for maintenance and repairs are expensed. Gains and losses on the disposition of property and equipment are recognized in the period incurred.

Depreciation, including amortization of assets recorded under capital lease obligations, is provided using the straight-line method over the estimated useful lives of depreciable assets as follows:

Buildings	30 years
Furniture, fixtures, and equipment	3 to 10 years
Computer software	2 to 5 years
Leasehold improvements	Shorter of useful life or lease term
Capital leases	Shorter of useful life or lease term

Costs of developing or obtaining software for internal use or developing the Company's website, such as external direct costs of materials or services and internal payroll costs related to the software development projects are capitalized. For the fiscal years ended February 28, 2015, March 1, 2014, and March 2, 2013, the Company capitalized \$5,017, \$3,104, and \$3,252, respectively, and amortized \$2,992, \$2,761, and \$2,210, respectively, of costs in connection with the development of internally used software.



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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**1. Nature of business and summary of significant accounting policies (Continued)**

**Long-lived assets**

Long-lived assets, such as property and equipment and intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset, a product recall or an adverse action or assessment by a regulator. If the sum of the estimated undiscounted future cash flows related to the asset is less than the carrying value, we recognize a loss equal to the difference between the carrying value and the fair value, usually determined by the estimated discounted cash flow analysis of the asset.

For our TCS segment, we evaluate long-lived tangible assets at an individual store level, or at the lowest level at which independent cash flows can be identified. We evaluate corporate assets or other long-lived assets that are not store-specific at the consolidated level. For our Elfa segment, we evaluate long-lived tangible assets at an individual subsidiary level.

Since there is typically no active market for our long-lived tangible assets, we estimate fair values based on the expected future cash flows. We estimate future cash flows based on store-level historical results, current trends, and operating and cash flow projections. Our estimates are subject to uncertainty and may be affected by a number of factors outside our control, including general economic conditions and the competitive environment. While we believe our estimates and judgments about future cash flows are reasonable, future impairment charges may be required if the expected cash flow estimates, as projected, do not occur or if events change requiring us to revise our estimates.

**Foreign currency forward contracts**

We account for foreign currency forward contracts in accordance with ASC 815, *Derivatives and Hedging*. In the TCS segment, we utilize foreign currency forward contracts in Swedish krona to stabilize our retail gross margins and to protect our domestic operations from downward currency exposure by hedging purchases of inventory from our wholly owned subsidiary, Elfa. In the Elfa segment, we utilize foreign currency forward contracts to hedge purchases of raw materials that are transacted in currencies other than Swedish krona, which is the functional currency of Elfa.

Generally, the Company's foreign currency forward contracts have terms from 1 to 12 months and require the Company to exchange currencies at agreed-upon rates at settlement. The Company does not hold or enter into financial instruments for trading or speculative purposes. The Company records all foreign currency forward contracts on its consolidated balance sheet at fair value. The Company records its foreign currency forward contracts on a gross basis. Forward contracts not designated as hedges are adjusted to fair value through income as selling, general and administrative expenses. The Company accounts for its foreign currency hedge instruments as cash flow hedges, as defined. Changes in the fair value of the foreign currency hedge instruments that are considered to be effective, as defined, are recorded in other comprehensive income (loss) until the hedged item (inventory) is sold to the customer, at which time the deferred gain or loss is recognized through cost of sales. Any portion of a change in the foreign currency hedge instrument's fair value that is considered to be ineffective, as

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**1. Nature of business and summary of significant accounting policies (Continued)**

defined, or that the Company has elected to exclude from its measurement of effectiveness, is immediately recorded in earnings as cost of sales.

**Self-insured liabilities**

We are primarily self-insured for workers' compensation, employee health benefits and general liability claims. We record self-insurance liabilities based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported. Factors affecting these estimates include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different amount of claims occur compared to what was estimated, or costs of the claims increase or decrease beyond what was anticipated, reserves may need to be adjusted accordingly. We determine our workers' compensation liability and general liability claims reserves based on an analysis of historical claims data. Self-insurance reserves for employee health benefits, workers' compensation and general liability claims are recorded in the accrued liabilities line item of the consolidated balance sheet and were \$2,522 and \$2,648 as of February 28, 2015 and March 1, 2014, respectively.

**Goodwill**

We evaluate goodwill annually to determine whether it is impaired. Goodwill is also tested between annual impairment tests if an event occurs or circumstances change that would indicate that the fair value of a reporting unit is less than its carrying amount. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset. If an impairment indicator exists, we test the intangible asset for recoverability. We have identified two reporting units and we have selected the fourth fiscal quarter to perform our annual goodwill impairment testing.

Prior to testing goodwill for impairment, we perform a qualitative assessment to determine whether it is more likely than not that goodwill is impaired for each reporting unit. If the results of the qualitative assessment indicate that the likelihood of impairment is greater than 50%, then we perform a two-step impairment test on goodwill. In the first step, we compare the fair value of the reporting unit to its carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, goodwill is considered not impaired and we are not required to perform further testing. If the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we would record an impairment loss equal to the difference.

The fair value of each reporting unit is determined by using a discounted cash flow analysis using the income approach. We also use a market approach to compare the estimated fair value to comparable companies. The determination of fair value requires assumptions and estimates of many critical factors, including among others, our nature and our history, financial and economic conditions affecting us, our industry and the general economy, past results, our current operations and future

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**1. Nature of business and summary of significant accounting policies (Continued)**

prospects, sales of similar businesses or capital stock of publicly held similar businesses, as well as prices, terms and conditions affecting past sales of similar businesses. Forecasts of future operations are based, in part, on operating results and management's expectations as to future market conditions. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgments to estimate industry economic factors and the profitability of future business strategies. If actual results are not consistent with our estimates and assumptions, we may be exposed to future impairment losses that could be material.

**Trade names**

We annually evaluate whether the trade names continue to have an indefinite life. Trade names are reviewed for impairment annually in the fourth quarter and may be reviewed more frequently if indicators of impairment are present. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset, a product recall or an adverse action or assessment by a regulator.

The impairment review is performed by comparing the carrying value to the estimated fair value, determined using a discounted cash flow methodology. If the recorded carrying value of the trade name exceeds its estimated fair value, an impairment charge is recorded to write the trade name down to its estimated fair value. Factors used in the valuation of intangible assets with indefinite lives include, but are not limited to, future revenue growth assumptions, estimated market royalty rates that could be derived from the licensing of our trade names to third parties, and a rate used to discount the estimated royalty cash flow projections.

The valuation of trade names requires assumptions and estimates of many critical factors, which are consistent with the factors discussed under "Goodwill" above. Forecasts of future operations are based, in part, on operating results and management's expectations as to future market conditions. These types of analyses contain uncertainties because they require management to make assumptions and to apply judgments to estimate industry economic factors and the profitability of future business strategies. If actual results are not consistent with our estimates and assumptions, we may be exposed to future impairment losses that could be material.

**Recent accounting pronouncements**

In April 2015, the FASB issued Accounting Standards Update ("ASU") 2015-03, *Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. ASU 2015-03 will be effective for the Company in the first quarter of fiscal 2016. Early adoption permitted for financial statements that have not been previously issued. We are evaluating the impact of ASU 2015-03 on our consolidated financial statements.

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**1. Nature of business and summary of significant accounting policies (Continued)**

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and US GAAP. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. ASU 2014-09 will be effective for the Company in the first quarter of fiscal 2017 and may be applied on a full retrospective or modified retrospective approach. The Company is still evaluating the impact of implementation of this standard on its financial statements.

**2. Goodwill and trade names**

The Company recorded no impairments during fiscal 2014 and fiscal 2013 as a result of the goodwill and trade names impairment tests performed.

The Company recorded trade name impairment charges of \$15,533 related to the Elfa reporting unit in fiscal 2012. The fair value of the trade name was calculated using a relief from the royalty discounted cash flow approach. The decline in sales of the Elfa reporting unit, coupled with near-term sales forecasts and an increased weighted-average cost of capital, resulted in an estimated fair value that was lower than the carrying value of the trade name during fiscal 2012. The projected cash flows were compared to the trade name carrying value, which resulted in the impairment.

The estimated fair values discussed above are computed using estimates as of the measurement date, which is defined as the fiscal month-end of December. The Company makes estimates and assumptions about sales, gross margins, profit margins, and discount rates based on budgets and forecasts, business plans, economic projections, anticipated future cash flows, and marketplace data. Assumptions are also made for varying perpetual growth rates for periods beyond the long-term business plan period. There are inherent uncertainties related to these factors and management's judgment in applying these factors. Another estimate using different, but still reasonable, assumptions could produce different results. As there are numerous assumptions and estimations utilized to derive the estimated enterprise fair value of each reporting unit, it is possible that actual results may differ from estimated results requiring future impairment charges.

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****2. Goodwill and trade names (Continued)**

The changes in the carrying amount of goodwill and trade names were as follows in fiscal 2014 and fiscal 2013:

	<b>Goodwill</b>	<b>Trade names</b>
<b>Balance at March 2, 2013</b>		
Gross balance	410,467	273,474
Accumulated impairment charges	(207,652)	(31,534)
<b>Total, net</b>	<b>\$ 202,815</b>	<b>\$ 241,940</b>
<b>Impairment charge</b>		
Foreign currency translation adjustments		350
<b>Balance at March 1, 2014</b>		
Gross balance	410,467	273,824
Accumulated impairment charges	(207,652)	(31,534)
<b>Total, net</b>	<b>\$ 202,815</b>	<b>\$ 242,290</b>
<b>Impairment charge</b>		
Foreign currency translation adjustments		(12,857)
<b>Balance at February 28, 2015</b>		
Gross balance	410,467	260,967
Accumulated impairment charges	(207,652)	\$ (31,534)
<b>Total, net</b>	<b>\$ 202,815</b>	<b>\$ 229,433</b>

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****3. Detail of certain balance sheet accounts**

	February 28, 2015	March 1, 2014
Accounts receivable, net:		
Trade receivables, net	\$ 13,629	\$ 16,746
Credit card receivables	7,892	8,003
Tenant allowances	1,241	5,404
Other receivables	1,557	2,120
	\$ 24,319	\$ 32,273

**Inventory:**

Finished goods	\$ 79,073	\$ 79,235
Raw materials	3,501	4,677
Work in progress	1,150	1,683
	\$ 83,724	\$ 85,595

**Property and equipment, net:**

Land and buildings	\$ 21,170	\$ 30,139
Furniture and fixtures	49,219	41,807
Machinery and equipment	70,208	80,124
Computer software and equipment	60,934	50,206
Leasehold improvements	140,805	118,946
Construction in progress	17,560	23,007
Leased vehicles and other	527	
	360,423	344,229
Less accumulated depreciation and amortization	(191,370)	(182,798)
	\$ 169,053	\$ 161,431

**Accrued Liabilities:**

Accrued payroll, benefits and bonuses	\$ 20,155	\$ 21,927
Unearned revenue	11,385	11,338
Accrued transaction and property tax	8,503	7,949
Gift cards and store credits outstanding	7,683	6,900
Accrued lease liabilities	3,920	2,806
Accrued interest	2,333	2,481
Other accrued liabilities	5,912	5,343

\$ 59,891 \$ 58,744

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****4. Long-term debt and revolving lines of credit**

Long-term debt and revolving lines of credit consist of the following:

	February 28, 2015	March 1, 2014
Senior secured term loan facility	\$ 324,911	\$ 328,533
2014 Elfa term loan facility	6,463	
Elfa term loan facility		1,950
2014 Elfa revolving credit facility	2,834	
Elfa revolving credit facility		16,033
Obligations under capital leases	397	
Other loans	323	4,768
Revolving credit facility		
<b>Total debt</b>	<b>334,928</b>	<b>351,284</b>
Less current portion	(8,153)	(23,560)
<b>Total long-term debt</b>	<b>\$ 326,775</b>	<b>\$ 327,724</b>

Scheduled total revolving lines of credit and debt maturities for the fiscal years subsequent to February 28, 2015, are as follows:

Fiscal 2015	\$ 8,165
Fiscal 2016	5,247
Fiscal 2017	5,310
Fiscal 2018	5,064
Fiscal 2019	311,142
Thereafter	
	<b>\$ 334,928</b>

**Senior Secured Term Loan Facility**

On April 6, 2012, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into a \$275,000 Senior Secured Term Loan Facility (the "Senior Secured Term Loan Facility") with JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and the lenders party thereto. In addition, a new \$75,000 asset-based revolving credit facility (the "Revolving Credit Facility") was entered into replacing the previously existing \$75,000 asset-based revolving credit facility (these transactions are referred to collectively as the "Refinancing Transaction"). The Senior Secured Term Loan Facility replaced the previously existing \$125,000 secured term loan and \$150,000 of senior subordinated notes. The Company recorded expenses of \$7,333 in fiscal 2012 associated with the Refinancing Transaction. This amount consisted of \$1,655 related to an early extinguishment fee on the senior subordinated notes and \$4,843 of deferred financing costs where accelerated amortization was required. The Company also recorded legal fees and other associated costs of \$835.





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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**4. Long-term debt and revolving lines of credit (Continued)**

Borrowings under the Senior Secured Loan Facility accrued interest at LIBOR + 5.00%, subject to a LIBOR floor of 1.25% and the maturity date was April 6, 2019.

On April 8, 2013, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into Amendment No. 1 to the Senior Secured Term Loan Facility, pursuant to which the borrowings under the Senior Secured Term Loan Facility were increased to \$362,250 and the interest rate on such borrowings was decreased to a rate of LIBOR + 4.25%, subject to a LIBOR floor of 1.25% (the "Increase and Repricing Transaction"). The maturity date remained as April 6, 2019. Additionally, pursuant to the Increase and Repricing Transaction (i) the senior secured leverage ratio covenant was eliminated and (ii) we were required to make quarterly principal repayments of \$906 through December 31, 2018, with a balloon payment for the remaining balance due on April 6, 2019. The additional \$90,000 of borrowings was used to finance a distribution to holders of our Senior Preferred Stock in the amount of \$90,000, which was paid on April 9, 2013. You may refer to Note 8 of these financial statements for a discussion of the \$90,000 distribution payment to senior preferred shareholders that was funded by the increased borrowings.

The Company recorded expenses of \$1,101 during the first quarter of fiscal 2013 associated with the Increase and Repricing Transaction. The amount consisted of \$723 of deferred financing costs where accelerated amortization was required. Legal fees and other associated costs of \$378 were also recorded.

On November 8, 2013, net proceeds of \$31,000 from the IPO were used to repay a portion of the outstanding borrowings under the Senior Secured Term Loan Facility.

On November 27, 2013, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into Amendment No. 2 to the Senior Secured Term Loan Facility (the "Repricing Transaction"). Pursuant to the Repricing Transaction, borrowings accrue interest at a lower rate of LIBOR + 3.25%, subject to a LIBOR floor of 1.00%. The Company recorded expenses of \$128, where accelerated amortization was required, during the third quarter of fiscal 2013 associated with the Repricing Transaction.

The Senior Secured Term Loan Facility is secured by (a) a first priority security interest in substantially all of our assets (excluding stock in foreign subsidiaries in excess of 65%, assets of non-guarantors and subject to certain other exceptions) (other than the collateral that secures the Revolving Credit Facility described below on a first-priority basis) and (b) a second priority security interest in the assets securing the Revolving Credit Facility described below on a first-priority basis. Obligations under the Senior Secured Term Loan Facility are guaranteed by The Container Store Group, Inc. and each of The Container Store, Inc.'s U.S. subsidiaries. Under the Senior Secured Term Loan Facility, the Company is required to make quarterly principal repayments of \$906 through December 31, 2018, with a balloon payment for the remaining balance of \$310,421 due on April 6, 2019.

The Senior Secured Term Loan Facility includes restrictions on the ability of the Company's subsidiaries to incur additional liens and indebtedness, make investments and dispositions, pay dividends or make other distributions, make loans, prepay certain indebtedness and enter into sale and

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**4. Long-term debt and revolving lines of credit (Continued)**

lease back transactions, among other restrictions. Under the Senior Secured Term Loan Facility, provided no event of default has occurred and is continuing, The Container Store, Inc. is permitted to pay dividends to The Container Store Group, Inc. in an amount not to exceed the sum of \$10,000 plus if after giving effect to such dividend on a pro forma basis, the Consolidated Leverage Ratio (as defined in the Senior Secured Term Loan Facility) does not exceed 2.0 to 1.0, the Available Amount (as defined in the Senior Secured Term Loan Facility) during the term of the Senior Secured Term Loan Facility, and pursuant to certain other limited exceptions. The restricted net assets of the Company's consolidated subsidiaries was \$189,362 as of February 28, 2015. As of February 28, 2015, we were in compliance with all Senior Secured Term Loan Facility covenants and no Event of Default (as such term is defined in the Senior Secured Term Loan Facility) has occurred.

**Revolving Credit Facility**

In connection with the Refinancing Transaction on April 6, 2012, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into the Revolving Credit Facility with JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and Wells Fargo Bank, National Association, as Syndication Agent. The availability of credit at any given time under the Revolving Credit Facility is limited by reference to a borrowing base formula, which is the sum of (i) 90% of eligible credit card receivables and (ii) 90% of the appraised value of eligible inventory; minus (iii) certain availability reserves and (iv) outstanding credit extensions including letters of credit and existing revolving loans. The lenders may, at their sole discretion, increase their commitments by up to \$25,000 upon such request from the Company.

Borrowings under the Revolving Credit Facility accrue interest at LIBOR+1.25% to 1.75%, subject to adjustment based on average daily excess availability over the preceding quarter. The Revolving Credit Facility matures on April 6, 2017, and includes a letter of credit facility sub-limit of \$20,000.

The Revolving Credit Facility is secured by (a) a first-priority security interest in substantially all of our personal property, consisting of inventory, accounts receivable, cash, deposit accounts, and other general intangibles, and (b) a second-priority security interest in the collateral that secures the Senior Secured Term Loan Facility on a first-priority basis, as described above (excluding stock in foreign subsidiaries in excess of 65%, and assets of non-guarantor subsidiaries and subject to certain other exceptions). Obligations under the Revolving Credit Facility are guaranteed by The Container Store Group, Inc. and each of The Container Store, Inc.'s U.S. subsidiaries.

The Revolving Credit Facility contains a number of covenants that, among other things, restrict our ability, subject to specified exceptions, to incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves, engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the financing agreements contain certain cross-default provisions. We are required to maintain a consolidated fixed-charge coverage ratio of 1.0 to 1.0 if excess availability is less than \$10,000 at any time. As of February 28, 2015, we were in compliance with all Revolving Credit Facility covenants and no Event of Default (as such term is defined in the Revolving Credit Facility) has occurred.

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**4. Long-term debt and revolving lines of credit (Continued)**

Under the Revolving Credit Facility, provided no event of default has occurred and is continuing, The Container Store, Inc. is permitted to pay dividends to The Container Store Group, Inc., in an amount not to exceed the sum of \$10,000 plus if after giving effect to such dividend on a pro forma basis, the Consolidated Fixed Charge Coverage Ratio (as defined in the Revolving Credit Facility) is not less than 1.25 to 1.0, the Available Amount (as defined in the Revolving Credit Facility) during the term of the Revolving Credit Facility, and pursuant to certain other limited exceptions.

There was \$58,851 available under the Revolving Credit Facility as of February 28, 2015, based on the factors described above. Maximum borrowings, including letters of credit issued under the Revolving Credit Facility during the period ended February 28, 2015, were \$29,136.

**Elfa Senior Secured Credit Facilities and 2014 Elfa Senior Secured Credit Facilities**

On April 27, 2009, Elfa entered into the Elfa Senior Secured Credit Facilities with Tjustbygdens Sparbank AB, which we refer to as Sparbank, which consisted of a SEK 137.5 million term loan facility, which we refer to as the Elfa Term Loan Facility, and the SEK 175.0 million Elfa Revolving Credit Facility and, together with the Elfa Term Loan Facility, the Elfa Senior Secured Credit Facilities. On January 27, 2012, Sparbank transferred all of its commitments, rights and obligations under the Elfa Senior Secured Credit Facilities to Swedbank AB. Borrowings under the Elfa Senior Secured Credit Facilities accrued interest at a rate of STIBOR+1.775%. Elfa was required to make quarterly principal repayments under the Elfa Term Loan Facility of SEK 6.25 million through maturity. The Elfa Senior Secured Credit Facilities were secured by first priority security interests in substantially all of Elfa's assets. The Elfa Term Loan Facility and the Elfa Revolving Credit Facility matured on August 30, 2014 and were replaced with the 2014 Elfa Senior Secured Credit Facilities as discussed below

On April 1, 2014, Elfa entered into a master credit agreement with Nordea Bank AB ("Nordea"), which consists of a SEK 60.0 million (approximately \$7,181 as of February 28, 2015) term loan facility (the "2014 Elfa Term Loan Facility") and a SEK 140.0 million (approximately \$16,755 as of February 28, 2015) revolving credit facility (the "2014 Elfa Revolving Credit Facility," and together with the 2014 Elfa Term Loan Facility, the "2014 Elfa Senior Secured Credit Facilities"). The 2014 Elfa Senior Secured Credit Facilities term began on August 29, 2014 and matures on August 29, 2019, or such shorter period as provided by the agreement. Elfa is required to make quarterly principal payments under the 2014 Elfa Term Loan Facility in the amount of SEK 3.0 million (approximately \$359 as of February 28, 2015) through maturity. The 2014 Elfa Term Loan Facility bears interest at STIBOR + 1.7% and the 2014 Elfa Revolving Credit Facility bears interest at Nordea's base rate + 1.4%, and these rates are applicable until August 29, 2017, at which time the interest rates may be renegotiated at the request of either party to the agreement. Should the parties fail to agree on new interest rates, Elfa has the ability to terminate the agreement on August 29, 2017, at which time all borrowings under the agreement shall be paid in full to Nordea. As of February 28, 2015, the Company had \$13,921 of additional availability under the 2014 Elfa Revolving Credit Facility.

Under the 2014 Elfa Senior Secured Credit Facilities, Elfa's ability to pay dividends to its parent entity, The Container Store, Inc., is based on its future net income and on historical intercompany practices as between Elfa and The Container Store, Inc. The 2014 Elfa Senior Secured Credit Facilities

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****4. Long-term debt and revolving lines of credit (Continued)**

are secured by the majority of assets of Elfa. The 2014 Elfa Senior Secured Credit Facilities contains a number of covenants that, among other things, restrict Elfa's ability, subject to specified exceptions, to incur additional liens, sell or dispose of assets, merge with other companies, engage in businesses that are not in a related line of business and make guarantees. In addition, Elfa is required to maintain (i) a consolidated equity ratio (as defined in the 2014 Elfa Senior Secured Credit Facilities) of not less than 30% in year one and not less than 32.5% thereafter and (ii) a consolidated ratio of net debt to EBITDA (as defined in the 2014 Elfa Senior Secured Credit Facilities) of less than 3.2, the consolidated equity ratio tested at the end of each calendar quarter and the ratio of net debt to EBITDA tested as of the end of each fiscal quarter. As of February 28, 2015, Elfa was in compliance with all covenants and no Event of Default (as defined in the 2014 Elfa Senior Secured Credit Facilities) had occurred.

On May 13, 2014, Elfa entered into a credit facility with Nordea for SEK 15.0 million (the "Short Term Credit Facility"). The Short Term Credit Facility accrued interest at 2.53% and matured on August 28, 2014, at which time all borrowings under the agreement were paid in full to Nordea (approximately \$2,152 as of August 28, 2014). The total amount of borrowings available under the Short Term Credit Facility was used to pay a mortgage owed on the Poland manufacturing facility in full in the first quarter of fiscal 2014.

**Deferred financing costs**

The Company capitalizes certain costs associated with issuance of various debt instruments. These deferred financing costs are amortized to interest expense on a straight-line method, which is materially consistent with the effective interest method, over the terms of the related debt agreements. In conjunction with the Refinancing Transaction, the Company capitalized \$9,467 of fees associated with the Senior Secured Term Loan Facility that will be amortized through April 6, 2019, as well as \$375 of fees associated with the Revolving Credit Facility that will be amortized through April 6, 2017. Amortization expense of deferred financing costs was \$1,956, \$1,857, and \$1,462 in fiscal 2014, fiscal 2013, and fiscal 2012, respectively. The following is a schedule of amortization expense of deferred financing costs:

Fiscal 2015	\$ 1,958
Fiscal 2016	1,958
Fiscal 2017	1,842
Fiscal 2018	1,831
Fiscal 2019	153
Thereafter	
	\$ 7,742

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****5. Income taxes**

Components of the provision (benefit) for income taxes are as follows:

	Fiscal year ended		
	February 28, 2015	March 1, 2014	March 2, 2013
Income (loss) before income taxes:			
U.S.	\$ 20,597	\$ 4,100	\$ 12,374
Foreign	9,269	4,513	(16,953)
	\$ 29,866	\$ 8,613	\$ (4,579)
<b>Current</b>			
Federal	\$ 3,438	\$ 3,394	\$ 1,283
State	1,483	1,006	991
Foreign	849	1,838	1,183
Total current provision	5,770	6,238	3,457
<b>Deferred</b>			
Federal	1,263	(2,398)	343
State	646	(3,651)	331
Foreign	(486)	258	(8,580)
Total deferred benefit	1,423	(5,791)	(7,906)
Total provision (benefit) for income taxes	\$ 7,193	\$ 447	\$ (4,449)

The differences between the actual provision (benefit) for income taxes and the amounts computed by applying the statutory federal tax rate to income before taxes are as follows:

	Fiscal year ended		
	February 28, 2015	March 1, 2014	March 2, 2013
Provision (benefit) computed at federal statutory rate	\$ 10,453	\$ 3,014	\$ (1,603)
Permanent differences	163	292	1,387
Change in valuation allowance	(815)	(1,992)	(1,689)
State income taxes, net of federal benefit	1,296	68	973
Effect of foreign income taxes	(1,131)	(547)	1,181
Change in Swedish tax rate			(2,936)
Prior period error	(1,839)		
Non-taxable gain on sale of Norwegian subsidiary	(690)		
Economic zone credits	(255)	(200)	(1,686)
Other, net	11	(188)	(76)
	\$ 7,193	\$ 447	\$ (4,449)



Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****5. Income taxes (Continued)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of deferred tax assets and liabilities as of February 28, 2015 and March 1, 2014, are as follows:

	February 28, 2015	March 1, 2014
Deferred tax assets:		
Inventory	\$ 1,420	\$ 2,484
Loss and credit carryforwards	3,499	5,692
Stock compensation	6,341	5,886
Accrued liabilities	4,887	4,068
Subtotal	16,147	18,130
Valuation allowance	(1,688)	(4,297)
Total deferred tax assets	14,459	13,833
Deferred tax liabilities:		
Intangibles	(83,454)	(85,935)
Capital assets	(4,291)	(2,885)
Other	(4,684)	(5,194)
Total deferred tax liabilities	(92,429)	(94,014)
Net deferred tax liabilities	\$ (77,970)	\$ (80,181)

The Company has recorded deferred tax assets and liabilities based upon estimates of their realizable value with such estimates based upon likely future tax consequences. In assessing the need for a valuation allowance, the Company considers both positive and negative evidence related to the likelihood of realization of the deferred tax assets. If, based on the weight of available evidence, it is more-likely-than-not that a deferred tax asset will not be realized, the Company records a valuation allowance.

By the end of fiscal year 2013, the Company's U.S. operations maintained a position of cumulative profits for the most recent three-year period. The cumulative domestic profits coupled with the fiscal year 2013 consolidated pre-tax income and the business plan for profitability in future periods provided assurance that certain domestic future tax benefits more-likely-than-not will be realized. Accordingly, in fiscal year 2013 the Company released a U.S. valuation allowance of \$2,753 against certain domestic net deferred tax assets as compared to prior year.

Prior to the fourth quarter of 2014, the Company maintained a partial valuation allowance against certain Polish deferred tax assets related to Special Economic Zone credits earned by the Company's Polish manufacturing business. During fiscal 2014, significant positive evidence provided assurance that these credits will more-likely-than-not be fully realized. Accordingly, in the fourth quarter of fiscal 2014, the Company released the remaining valuation allowance it had maintained against deferred tax assets



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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**5. Income taxes (Continued)**

related to these credits. The release resulted in a \$680 benefit to the Company's provision for income taxes.

During the quarter ended August 30, 2014, the Company identified a prior period error in its income tax provision and filed an amended tax return, which resulted in a \$1,839 benefit to the provision for income taxes, as well as an increase to income taxes receivable. As a result of the amended return filing, the Company utilized a deferred tax asset and released a valuation allowance of \$1,331 related to certain domestic tax credits.

Foreign and domestic tax credits, net of valuation allowances, totaled approximately \$1,602 at February 28, 2015 and approximately \$917 at March 1, 2014. The various credits available at February 28, 2015 expire in the 2026 tax year.

The Company had deferred tax assets for foreign and state net operating loss carryovers of \$1,897 at February 28, 2015, and approximately \$2,512 at March 1, 2014. Valuation allowances of \$1,647 and \$2,021 were recorded against the net operating loss deferred tax assets at February 28, 2015 and March 1, 2014, respectively.

While the Company is not currently under IRS audit, tax years ending March 1, 2008 and forward remain open to examination by virtue of net operating loss carryovers created or utilized in those years.

The Company accounts for the repatriation of foreign earnings in accordance with ASC 740-30. As such, the Company is partially reinvested based on the guidance provided in ASC 740-30. Undistributed earnings of approximately \$33,227 at February 28, 2015 and approximately \$43,450 at March 1, 2014 have been indefinitely reinvested; therefore, no provision has been made for taxes due upon remittance of those earnings. The decrease in undistributed earnings from fiscal 2013 to fiscal 2014 was primarily related to the translation of foreign earnings from Swedish krona to U.S. dollar. Determination of the unrecognized deferred tax liability related to these undistributed earnings is not practicable because of the complexities associated with its hypothetical calculation.

The Company adopted the provisions of ASC 740 during 2009. ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The cumulative effect of adopting ASC 740-10 resulted in no adjustment to the consolidated financial statements. Furthermore, there have been no adjustments to the consolidated financial statements under ASC 740-10 since adoption.

**6. Employee benefit plans**

**401(k) Plan**

All domestic employees of the Company who complete 11 months of service are eligible to participate in the Company's 401(k) Plan. Participants may contribute up to 80% of annual compensation, limited to \$18.0 thousand annually (\$24.0 thousand for participants aged 50 years and over) as of January 1, 2014. During fiscal 2014 and fiscal 2013, the Company matched 100% of employee contributions up to 4% of compensation. During fiscal year 2012, the Company matched 50%

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****6. Employee benefit plans (Continued)**

of employee contributions up to 4% of compensation. The amount charged to expense for the Company's matching contribution was \$2,737, \$2,570, and \$997 for the fiscal years 2014, 2013, and 2012, respectively.

**Nonqualified retirement plan**

The Company has a nonqualified retirement plan whereby certain employees can elect to defer a portion of their compensation into retirement savings accounts. Under the plan, there is no requirement that the Company match contributions, although the Company may contribute matching payments at its sole discretion. No matching contributions were made to the plan during any of the periods presented. The total fair market value of the plan asset recorded in other current assets was \$3,951 and \$3,401 as of February 28, 2015 and March 1, 2014, respectively. The total fair value of the plan liability recorded in accrued liabilities was \$3,966 and \$3,417 as of February 28, 2015 and March 1, 2014, respectively.

**Pension plan**

The Company provides pension benefits to the employees of Elfa under collectively bargained pension plans in Sweden, which are recorded in other long-term liabilities. The defined benefit plan provides benefits for participating employees based on years of service and final salary levels at retirement. Certain employees also participate in defined contribution plans for which Company contributions are determined as a percentage of participant compensation. The defined benefit plans are unfunded and approximately 3% of Elfa employees are participants in the defined benefit pension plan.

The following is a reconciliation of the changes in the defined benefit obligations, a statement of funded status, and the related weighted-average assumptions:

	<b>February 28, 2015</b>	<b>March 1, 2014</b>
<b>Change in benefit obligation:</b>		
Projected benefit obligation, beginning of year	\$ 4,083	\$ 3,721
Service cost	62	54
Interest cost	131	132
Benefits paid	(97)	(107)
Actuarial loss	462	255
Exchange rate (gain) loss	(1,031)	28
Projected benefit obligation, end of year	3,610	4,083
Fair value of plan assets, end of year		
Underfunded status, end of year	\$ (3,610)	\$ (4,083)
Discount rate	3.6%	3.6%
Rate of pay increases	3.0%	3.0%
	92	

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****6. Employee benefit plans (Continued)**

The following table provides the components of net periodic benefit cost for fiscal years 2014, 2013, and 2012:

	Fiscal year ended		
	February 28, 2015	March 1, 2014	March 2, 2013
Components of net periodic benefit cost:			
Defined benefit plans:			
Service cost	\$ 62	\$ 54	\$ 58
Interest cost	131	132	121
Amortization of unrecognized net loss	38	35	21
Net periodic benefit cost for defined benefit plan	231	221	200
Defined contribution plans	2,292	2,243	2,834
Total net periodic benefit cost	\$ 2,523	\$ 2,464	\$ 3,034

**7. Stock-based compensation**

In fiscal 2012, the Company implemented the 2012 Stock Option Plan of The Container Store Group, Inc. ("2012 Equity Plan"). The 2012 Equity Plan provided for grants of nonqualified stock options and incentive stock options. On October 31, 2013, the Company's board of directors (the "Board") approved the modification of 240,435 outstanding stock options granted under the 2012 Equity Plan to provide for immediate vesting. The Company recognized approximately \$1,846 of compensation expense during fiscal 2013 related to the 2012 Equity Plan, of which \$1,594 was due to the modification of these stock options.

On October 16, 2013, the Board approved the 2013 Incentive Award Plan ("2013 Equity Plan"). The 2013 Equity Plan provides for grants of nonqualified stock options, incentive stock options, restricted stock, restricted stock units, deferred stock awards, deferred stock units, stock appreciation rights, dividends equivalents, performance awards, and stock payments. There were 3,616,570 shares reserved for issuance under the 2013 Equity Plan.

On October 31, 2013, the Company granted 2,622,721 nonqualified stock options under the 2013 Equity Plan to its directors and certain of its employees. The stock options granted were approved by the Board and consisted of nonqualified stock options as defined by the IRS for corporate and individual tax reporting purposes. There were 1,666,066 options granted that immediately vested upon closing of the IPO on November 6, 2013. The remaining stock options granted will vest in equal annual installments over 7 years. The Company recognized \$13,291 of compensation expense in fiscal 2013 related to the 2013 Equity Plan options granted.

On September 1, 2014, the Company granted 24,649 nonqualified stock options under the 2013 Equity Plan to certain employees. The stock options granted vest in equal annual installments over 7 years. The stock options granted were approved by the Board and consisted of nonqualified stock options as defined by the IRS for corporate and individual tax reporting purposes.

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****7. Stock-based compensation (Continued)**

On October 27, 2014, the Company granted 80,200 nonqualified stock options under the 2013 Equity Plan to non-employee directors of the Company. The stock options granted vest in equal annual installments over 3 years. The stock options granted were approved by the Board and consisted of nonqualified stock options as defined by the IRS for corporate and individual tax reporting purposes.

In connection with our stock-based compensation plans, the Board considers the estimated fair value of the Company's stock when setting the stock option exercise price as of the date of each grant. Prior to the IPO, because the Company was privately held and there was no public market for the common stock, the fair market value of the Company's common stock was determined by the Board at the time the option grants were awarded. In determining the fair value of the Company's common stock, the Board considered such factors as the Company's actual and projected financial results, valuations of the Company performed by third parties and other factors it believed were material to the valuation process.

Following the IPO, the Board determines the exercise price of stock options based on the closing price of the Company's common stock as reported on The New York Stock Exchange on the grant date.

Stock-based compensation cost is measured at the grant date fair value and is recognized as an expense in the consolidated statements of operations, on a straight-line basis, over the employee's requisite service period (generally the vesting period of the equity grant). The Company estimates forfeitures for option grants that are not expected to vest. The Company issues new shares of common stock upon stock option exercise. Stock-based compensation cost was \$1,289, \$15,137, and \$283 during the fiscal year 2014, 2013, and 2012, respectively. As of February 28, 2015, there was a remaining unrecognized compensation cost of \$6,858 (net of estimated forfeitures) that the Company expects to be recognized on a straight-line basis over a weighted-average remaining service period of approximately 3.0 years. The intrinsic value of shares exercised was \$369 and \$342 during fiscal 2014 and 2013, respectively. The fair value of shares vested was \$1,205 and \$14,976 during fiscal 2014 and 2013, respectively.

The following table summarizes the Company's stock option activity during fiscal 2014 and 2013:

	Fiscal Year											
	February 28, 2015				March 1, 2014				March 2, 2013			
	Shares	Weighted-average exercise price (per share)	Weighted-average contractual term (years)	Aggregate intrinsic value (thousands)	Shares	Weighted-average exercise price (per share)	Weighted-average contractual term (years)	Aggregate intrinsic value (thousands)	Shares	Weighted-average exercise price (per share)	Weighted-average contractual term (years)	Aggregate intrinsic value (thousands)
Beginning balance	2,827,492	\$ 17.92			244,064	\$ 17.01						
Granted	104,849	\$ 21.02			2,622,721	\$ 18.00			245,357	\$ 17.01		
Exercised	(42,480)	\$ 17.47			(18,338)	\$ 17.54						
Forfeited	(32,202)	\$ 18.00			(20,745)	\$ 17.81			(1,323)	\$ 17.01		
Expired	(1,654)	\$ 17.67			(210)	\$ 18.00						
Ending balance	2,856,005	\$ 18.04	8.60	\$ 1,376	2,827,492	\$ 17.92	9.56	\$ 50,587	244,034	\$ 17.01	9.31	
Vested and exercisable at end of year	1,975,068	\$ 17.90	8.53	\$ 1,036	1,887,679	\$ 17.88	9.50	\$ 33,849				

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****7. Stock-based compensation (Continued)**

The fair value of stock options is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

**Expected Term** The expected term of the options represents the period of time between the grant date of the options and the date the options are either exercised or canceled, including an estimate of options still outstanding. The Company utilized the simplified method for calculating the expected term for stock options as we do not have sufficient historical data to calculate based on actual exercise and forfeiture activity.

**Expected Volatility** The expected volatility incorporates historical and implied volatility of comparable public companies for a period approximating the expected term.

**Expected Dividend Yield** The expected dividend yield is based on the Company's expectation of not paying dividends on its common stock for the foreseeable future.

**Risk-Free Interest Rate** The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant and with a maturity that approximates the expected term.

Stock options granted during fiscal year 2014, 2013, and 2012 were granted at a weighted-average grant date fair value of \$8.14, \$8.26, and \$8.60, respectively. Such amounts were estimated using the Black Scholes option pricing model with the following weighted-average assumptions:

	<b>Fiscal Year</b>		
	<b>February 28, 2015</b>	<b>March 1, 2014</b>	<b>March 2, 2013</b>
Expected term	6.1 years	5.7 years	6.5 years
Expected volatility	50.42%	48.28%	51.54%
Risk-free interest rate	1.80%	1.49%	1.01%
Dividend yield	0%	0%	0%

**8. Shareholders' equity****Common stock**

On August 16, 2007, the Company issued 2,942,326 shares of common stock with a par value of \$0.01 per share at a price of \$17.01 per share, giving effect to the stock split discussed below. The holders of common stock are entitled to one vote per common share. The holders have no preemptive or other subscription rights and there are no redemptions or sinking fund provisions with respect to such shares. Common stock is subordinate to any preferred stock outstanding with respect to rights upon liquidation and dissolution of the Company.

On October 31, 2013, the Company's board of directors retired 13,567 shares of common stock held in treasury, giving effect to the stock split discussed below.

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On October 31, 2013, the Company's board of directors approved an approximate 5.9-for-one stock split of its existing common shares. All share and per share information has been retroactively adjusted to reflect the stock split.

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**8. Shareholders' equity (Continued)**

On November 6, 2013, the Company completed its IPO. In connection with its IPO, the Company issued and sold 14,375,000 shares of its common stock at a price of \$18.00 per share. Upon completion of the offering, the Company received net proceeds of approximately \$237,013, after deducting the underwriting discount of \$17,466 and offering expenses of \$4,271.

As of February 28, 2015, the Company had 250,000,000 shares of common stock authorized, with a par value of \$0.01, of which 47,983,660 were issued and outstanding.

**Preferred stock**

On April 9, 2013, the Company paid a distribution to holders of its Senior Preferred Stock in the amount of \$90,000. Refer to Note 4 for a discussion of the Increase and Repricing Transaction whereby \$90,000 of additional secured term loans were executed to fund this distribution.

On October 31, 2013, the Company's board of directors retired 298 shares of Senior Preferred Stock and 298 shares of Junior Preferred Stock held in treasury.

On November 6, 2013, in connection with the completion of the Company's IPO, a distribution in the aggregate amount of \$205,813 (the "Distribution") was paid from the net proceeds of the offering, (i) first, to all 140 holders of the Company's Senior Preferred Stock (including LGP and 130 current and former employees of the Company), which reduced the liquidation preference of such shares until such liquidation preference was reduced to \$1,000.00 per share and (ii) second, the remainder was distributed to all 140 holders of the Company's Junior Preferred Stock (including LGP and 130 current and former employees of the Company), which reduced the liquidation preference of such shares.

On November 6, 2013, the Company exchanged the liquidation preference per outstanding share of its Senior Preferred Stock and Junior Preferred Stock, after giving effect to the payment of the Distribution, for 30,619,083 shares of its common stock (the "Exchange"). The amount of common stock issued in the Exchange was determined by dividing (a) the liquidation preference amount of such preferred stock by (b) the IPO price of \$18.00 per share. On an as adjusted basis to give effect to the Distribution and prior to the Exchange, the liquidation preference per share of its outstanding Senior Preferred Stock was \$1,000.00 and the liquidation preference per share of its outstanding Junior Preferred Stock was \$1,725.98.

As of February 28, 2015, the Company had 5,000,000 shares of preferred stock authorized, with a par value of \$0.01, of which no shares were issued or outstanding.

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****9. Accumulated other comprehensive income**

Accumulated other comprehensive income ("AOCI") consists of changes in our foreign currency hedge contracts, minimum pension liability, and foreign currency translation. The components of AOCI, net of tax, were as follows:

	Foreign currency hedge instruments	Minimum pension liability	Foreign currency translation	Total
Balance at March 2, 2013	\$ 1,545	\$ (972)	\$ 2,140	\$ 2,713
Other comprehensive income (loss) before reclassifications, net of tax	(549)	(181)	643	(87)
Amounts reclassified to earnings, net of tax	(943)			(943)
Net current period other comprehensive (loss) income	(1,492)	(181)	643	(1,030)
Balance at March 1, 2014	\$ 53	\$ (1,153)	\$ 2,783	\$ 1,683
Other comprehensive (loss) income before reclassifications, net of tax	(1,357)	(14)	(19,076)	(20,447)
Amounts reclassified to earnings, net of tax	422			422
Net current period other comprehensive (loss) income	(935)	(14)	(19,076)	(20,025)
Balance at February 28, 2015	\$ (882)	\$ (1,167)	\$ (16,293)	\$ (18,342)

Amounts reclassified from AOCI to earnings for the foreign currency hedge instruments category are generally included in cost of sales in the Company's consolidated statements of operations. For a description of the Company's use of foreign currency forward contracts, refer to Note 10.

**10. Foreign currency forward contracts**

The Company's international operations and purchases of its significant product lines from foreign suppliers are subject to certain opportunities and risks, including foreign currency fluctuations. In the TCS segment, we utilize foreign currency forward contracts in Swedish krona to stabilize our retail gross margins and to protect our domestic operations from downward currency exposure by hedging purchases of inventory from our wholly owned subsidiary, Elfa. Forward contracts in the TCS segment are designated as cash flow hedges, as defined by ASC 815. In the Elfa segment, we utilize foreign currency forward contracts to hedge purchases, primarily of raw materials, that are transacted in currencies other than Swedish krona, which is the functional currency of Elfa. Forward contracts in the Elfa segment are economic hedges, and are not designated as cash flow hedges as defined by ASC 815.

In fiscal 2014, fiscal 2013, and fiscal 2012, the TCS segment used forward contracts for 54%, 64%, and 85% of inventory purchases in Swedish krona each year, respectively. In fiscal 2014, fiscal 2013, and fiscal 2012, the Elfa segment used forward contracts to purchase U.S. dollars in the amount of \$4,300, \$3,500, and zero, which represented 64%, 67%, and zero percent of the Elfa segment's U.S. dollar purchases each year, respectively.



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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**10. Foreign currency forward contracts (Continued)**

Generally, the Company's foreign currency forward contracts have terms from 1 to 12 months and require the Company to exchange currencies at agreed-upon rates at settlement.

The counterparties to the contracts consist of a limited number of major domestic and international financial institutions. The Company does not hold or enter into financial instruments for trading or speculative purposes. The Company records its foreign currency forward contracts on a gross basis and generally does not require collateral from these counterparties because it does not expect any losses from credit exposure.

The Company records all foreign currency forward contracts on its consolidated balance sheet at fair value. The Company accounts for its foreign currency hedge instruments in the TCS segment as cash flow hedges, as defined. Changes in the fair value of the foreign currency hedge instruments that are considered to be effective, as defined, are recorded in other comprehensive income (loss) until the hedged item (inventory) is sold to the customer, at which time the deferred gain or loss is recognized through cost of sales. Any portion of a change in the foreign currency hedge instrument's fair value that is considered to be ineffective, as defined, or that the Company has elected to exclude from its measurement of effectiveness, is immediately recorded in earnings as cost of sales. The Company assessed the effectiveness of the foreign currency hedge instruments and determined the foreign currency hedge instruments were highly effective during the fiscal years ended February 28, 2015, March 1, 2014, and March 2, 2013. Forward contracts not designated as hedges in the Elfa segment are adjusted to fair value as selling, general, and administrative expenses on the consolidated statements of operations. During fiscal 2014, the Company recognized a net gain of \$568 associated with forward contracts not designated as hedge instruments.

The Company had \$882 in accumulated other comprehensive loss related to foreign currency hedge instruments at February 28, 2015. Of the \$882, \$690 represents an unrealized loss for settled foreign currency hedge instruments related to inventory on hand as of February 28, 2015. The Company expects the unrealized loss of \$690, net of taxes, to be reclassified into earnings over the next 12 months as the underlying inventory is sold to the end customer.

The change in fair value of the Company's foreign currency hedge instruments that qualify as cash flow hedges and are included in accumulated other comprehensive income (loss), net of taxes, are presented in Note 9 of these financial statements.

**11. Leases**

The Company conducts all of its U.S. operations from leased facilities that include a corporate headquarters/warehouse facility and 70 store locations. The corporate headquarters/warehouse and stores are under operating leases that will expire over the next 1 to 20 years. The Company also leases computer hardware under operating leases that expire over the next few years. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

Most of the operating leases for the stores contain a renewal option at predetermined rental payments for periods of 5 to 20 years. This option enables the Company to retain use of facilities in

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****11. Leases (Continued)**

desirable operating areas. The rental payments under certain store leases are based on a minimum rental plus a percentage of the sales in excess of a stipulated amount. These payments are accounted for as contingent rent and expensed when incurred.

The following is a schedule of future minimum lease payments due under noncancelable operating and capital leases:

	<b>Operating leases</b>	<b>Capital leases</b>
Fiscal 2015	\$ 74,336	\$ 178
Fiscal 2016	72,811	92
Fiscal 2017	68,884	129
Fiscal 2018	61,503	6
Fiscal 2019	46,094	4
Thereafter	182,987	
<b>Total minimum lease payments</b>	<b>\$ 506,615</b>	<b>\$ 409</b>
Less amount representing interest		(12)
<b>Present value of minimum lease payments</b>		<b>\$ 397</b>

Rent expense for fiscal years 2014, 2013, and 2012 was \$72,643, \$68,184, and \$63,899, respectively. Included in rent expense is percentage-of-sales rent expense of \$633, \$819, and \$344 for fiscal years 2014, 2013, and 2012, respectively.

**12. Commitments and contingencies**

In connection with insurance policies and other contracts, the Company has outstanding standby letters of credit totaling \$3,338 as of February 28, 2015.

The Company is subject to ordinary litigation and routine reviews by regulatory bodies that are incidental to its business, none of which is expected to have a material adverse effect on the Company's financial condition, results of operations, or cash flows on an individual basis or in the aggregate.

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements (Continued)**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**13. Fair value measurements**

Under generally accepted accounting principles, the Company is required to a) measure certain assets and liabilities at fair value or b) disclose the fair values of certain assets and liabilities recorded at cost. Accounting standards define fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date. Fair value is calculated assuming the transaction occurs in the principal or most advantageous market for the asset or liability and includes consideration of non-performance risk and credit risk of both parties. Accounting standards pertaining to fair value establish a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. These tiers include:

Level 1 Valuation inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 Valuation inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Valuation inputs are unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

As of February 28, 2015 and March 1, 2014, the Company held certain items that are required to be measured at fair value on a recurring basis. These included the nonqualified retirement plan and foreign currency forward contracts. The nonqualified retirement plan consists of investments purchased by employee contributions to retirement savings accounts. The Company's international operations and purchases of its significant product lines from foreign suppliers are subject to certain opportunities and risks, including foreign currency fluctuations. The Company utilizes foreign currency forward exchange contracts to stabilize its retail gross margins and to protect its operations from downward currency exposure. Foreign currency hedge instruments are related to the Company's attempts to hedge foreign currency fluctuation on purchases of inventory in Swedish krona. The Company's foreign currency hedge instruments consist of over-the-counter (OTC) contracts, which are not traded on a public exchange. See Note 10 for further information on the Company's hedging activities.

The fair values of the nonqualified retirement plan and foreign currency forward contracts are determined based on the market approach which utilizes inputs that are readily available in public markets or can be derived from information available in publicly quoted markets for comparable assets. Therefore, the Company has categorized these items as Level 2. The Company also considers counterparty credit risk and its own credit risk in its determination of all estimated fair values. The Company has consistently applied these valuation techniques in all periods presented and believes it has obtained the most accurate information available for the types of contracts it holds.

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****13. Fair value measurements (Continued)**

The following items are measured at fair value on a recurring basis, subject to the disclosure requirements of ASC 820, *Fair Value Measurements*, at February 28, 2015 and March 1, 2014:

Description		Balance Sheet Location	February 28, 2015	March 1, 2014
<b>Assets</b>				
Nonqualified retirement plan	Level 2	Other current assets	\$ 3,951	\$ 3,401
Foreign currency forward contracts	Level 2	Other current assets	486	
Total assets			\$ 4,437	\$ 3,401
<b>Liabilities</b>				
Nonqualified retirement plan	Level 2	Accrued liabilities	3,966	3,417
Foreign currency hedge instruments	Level 2	Accrued liabilities	315	
Total liabilities			\$ 4,281	\$ 3,417

Also, as of February 28, 2015, the Company held certain items that are required to be measured at fair value on a nonrecurring basis. These included goodwill and trade names. See Notes 1 and 2 for more information regarding the fair value valuation methodologies of these items. As a result of performing these calculations on an income approach, these values are classified as Level 3 on the fair value hierarchy.

The fair values of long-term debt were estimated using quoted prices, discounted cash flow analyses, as well as recent transactions for similar types of borrowing arrangements. As of February 28, 2015 and March 1, 2014, the carrying values and estimated fair values of the Company's long-term debt, including current maturities, were:

		February 28, 2015	
		Carrying value	Fair value
Senior secured term loan facility	Level 2	\$ 324,911	\$ 320,647
2014 Elfa term loan facility	Level 2	6,463	6,463
Other loans and capital leases	Level 3	720	720
		\$ 332,094	\$ 327,830

		March 1, 2014	
		Carrying value	Fair value
Senior secured term loan facility	Level 2	\$ 328,533	\$ 330,176

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Elfa term loan facility	Level 2	1,950	1,948
Other loans	Level 3	4,768	4,686
		\$ 335,251	\$ 336,810

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****14. Segment reporting**

The Company's operating segments were determined on the same basis as how it evaluates the performance internally. The Company's two operating segments consist of TCS and Elfa. The TCS segment includes the Company's retail stores, website and call center, as well as the installation services business.

The Elfa segment includes the manufacturing business that produces the elfa® brand products that are sold domestically, exclusively through the TCS segment, as well as throughout Europe. The intersegment sales in the Elfa column represent elfa® product sales to the TCS segment. These sales and the related gross margin on merchandise recorded in TCS inventory balances at the end of the period are eliminated for consolidation purposes in the Corporate/Other column. The net sales to third parties in the Elfa column represent sales to customers outside of the United States.

Amounts in the Corporate/Other column include unallocated corporate expenses and assets, intersegment eliminations and other adjustments to segment results necessary for the presentation of consolidated financial results in accordance with generally accepted accounting principles.

In general, the Company uses the same measurements to calculate earnings or loss before income taxes for operating segments as it does for the consolidated company. However, interest expense related to the Senior Secured Term Loan Facility, the Revolving Credit Facility and senior subordinated notes is recorded in the Corporate/Other column.

<b>Fiscal year 2014</b>	<b>TCS</b>	<b>Elfa</b>	<b>Corporate/ Other</b>	<b>Total</b>
Net sales to third parties	\$ 697,699	\$ 84,167	\$	\$ 781,866
Intersegment sales		51,291	(51,291)	
Interest expense, net	14	562	16,529	17,105
Income (loss) before taxes(1)	45,035	9,221	(24,390)	29,866
Capital expenditures(2)	29,889	7,955	10,896	48,740
Depreciation and amortization	17,035	6,066	7,910	31,011
Goodwill	202,815			202,815
Trade names	187,048	42,385		229,433
Assets(2)	627,120	111,015	30,922	769,057

<b>Fiscal year 2013</b>	<b>TCS</b>	<b>Elfa</b>	<b>Corporate/ Other</b>	<b>Total</b>
Net sales to third parties	\$ 660,365	\$ 88,173	\$	\$ 748,538
Intersegment sales		55,856	(55,856)	
Interest expense, net	55	932	20,198	21,185
Income (loss) before taxes(1)(3)	33,482	6,235	(31,104)	8,613
Capital expenditures(2)	31,324	7,477	9,607	48,408
Depreciation and amortization	15,479	6,374	8,500	30,353
Goodwill	202,815			202,815
Trade names	187,048	55,242		242,290
Assets(2)	611,565	144,432	27,152	783,149

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****14. Segment reporting (Continued)**

<b>Fiscal year 2012</b>	<b>TCS</b>	<b>Elfa</b>	<b>Corporate/ Other</b>	<b>Total</b>
Net sales to third parties	\$ 613,252	\$ 93,505	\$	\$ 706,757
Intersegment sales		47,606	(47,606)	
Interest expense, net	116	932	20,340	21,388
Income (loss) before taxes(1)(3)(4)	47,403	(16,953)	(35,029)	(4,579)
Capital expenditures(2)	27,536	9,094	12,589	49,219
Depreciation and amortization	15,971	6,768	6,811	29,550
Goodwill	202,815			202,815
Trade names	187,048	54,892		241,940
Assets(2)	587,212	142,731	22,877	752,820

- (1) The TCS segment includes stock-based compensation expense of \$1,289, \$15,137, and \$283 for fiscal 2014, fiscal 2013, and fiscal 2012, respectively.
- (2) Tangible assets and trade names in the Elfa column are located outside of the United States. Assets and capital expenditures in Corporate/Other include assets located in the corporate headquarters and distribution center. Assets in Corporate/Other also include deferred tax assets and the fair value of foreign currency hedge instruments.
- (3) The Corporate/Other column includes \$1,229 and \$7,333 of loss on extinguishment of debt in fiscal 2013 and fiscal 2012, respectively.
- (4) The Elfa segment includes trade name impairment charges of \$15,533 in fiscal 2012.

The following table shows sales by merchandise category as a percentage of total net sales for fiscal years 2014, 2013, and 2012:

	<b>Fiscal year ended</b>		
	<b>February 28, 2015</b>	<b>March 1, 2014</b>	<b>March 2, 2013</b>
elfa@(1)	32%	33%	33%
Closet, Bath, Travel, Laundry	21%	21%	20%
Storage, Box, Shelving	14%	13%	13%
Kitchen, Food Storage, Trash	13%	13%	13%
Office, Collections, Hooks	9%	9%	10%
Containers, Gift Packaging, Seasonal, Impulse	8%	8%	9%
Services & Other	3%	2%	2%
Total	100%	100%	100%

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(1)

Includes Elfa segment sales to third parties

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Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****15. Net income (loss) per common share**

Basic net income (loss) per common share is computed as net income (loss) available to common shareholders divided by the weighted-average number of common shares outstanding for the period. Net income (loss) available to common shareholders is computed as net income (loss) less accumulated distributions to preferred shareholders for the period. Diluted net income (loss) per share is computed as net income (loss) available to common shareholders divided by the weighted-average number of common shares outstanding for the period plus common stock equivalents consisting of shares subject to stock-based awards with exercise prices less than or equal to the average market price of the Company's common stock for the period, to the extent their inclusion would be dilutive. Potential dilutive securities are excluded from the computation of diluted net income (loss) per share if their effect is anti-dilutive.

The following is a reconciliation of net income (loss) available to common shareholders and the number of shares used in the basic and diluted net income (loss) per share calculations:

	<b>February 28, 2015</b>	<b>Fiscal year ended March 1, 2014</b>	<b>March 2, 2013</b>
<b>Numerator:</b>			
Net income (loss)	\$ 22,673	\$ 8,166	\$ (130)
Less: Distributions accumulated to preferred shareholders		(59,747)	(90,349)
Net income (loss) available to common shareholders	\$ 22,673	\$ (51,581)	\$ (90,479)
<b>Denominator:</b>			
Weighted-average common shares outstanding basic	47,971,243	17,955,757	2,929,789
Options and other dilutive securities	549,622		
Weighted-average common shares outstanding diluted	48,520,865	17,955,757	2,929,789
Net income (loss) per common share basic and diluted	\$ 0.47	\$ (2.87)	\$ (30.88)
<b>Antidilutive securities not included:</b>			
Stock options outstanding	830,740	373,414	

**16. Gain on disposal of subsidiary and real estate**

On October 3, 2014, the Company completed the sale of a Norwegian subsidiary, whose primary asset was a manufacturing facility that was shut down and consolidated into a like facility in Sweden as part of Elfa's restructuring efforts in fiscal 2012. The Company received net proceeds of \$3,846 and recorded a gain on the sale of this subsidiary of \$3,138 during fiscal year 2014. Additionally, on October 31, 2014, the Company completed the sale of a building at Elfa. The Company received net proceeds of \$912 and recorded a gain on the sale of the building of \$543 during fiscal year 2014.

**17. Quarterly results of operations (unaudited)**

Due to the seasonal nature of our business, fourth quarter operating results typically represent a substantially larger share of annual net sales and operating income primarily due to Our Annual elfa®

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****February 28, 2015****17. Quarterly results of operations (unaudited) (Continued)**

Sale. We follow the same accounting policies for preparing quarterly and annual financial data. The table below summarizes quarterly results for fiscal 2014 and 2013:

	Fiscal 2014			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net sales(1)	\$ 224,259	\$ 190,922	\$ 193,247	\$ 173,438
Gross profit(1)	129,689	113,859	113,666	100,852
Income (loss) from operations(1)	21,606	13,756	12,814	(1,205)
Net income (loss)(1)	13,048	6,249	6,955	(3,579)
Net income (loss) available to common shareholders(1)	\$ 13,048	\$ 6,249	\$ 6,955	\$ (3,579)
Weighted-average shares used in computing basic net income (loss) per share	47,982,276	47,979,581	47,976,500	47,946,616
Weighted-average shares used in computing diluted net income (loss) per share	48,372,125	48,432,143	48,539,762	47,946,616
Basic and diluted net income (loss) per common share	\$ 0.27	\$ 0.13	\$ 0.14	\$ (0.07)

	Fiscal 2013			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net sales(1)	\$ 216,822	\$ 188,298	\$ 183,773	\$ 159,645
Gross profit(1)	126,243	112,939	107,396	93,204
Income (loss) from operations(1)	20,630	(871)	11,429	(159)
Net income (loss)(1)	18,340	(9,486)	4,107	(4,795)
Net income (loss) available to common shareholders(1)	\$ 18,340	\$ (25,083)	\$ (17,744)	\$ (27,094)
Weighted-average shares used in computing basic net income (loss) per share	47,927,770	18,036,633	2,929,165	2,929,468
Weighted-average shares used in computing diluted net income (loss) per share	48,889,364	18,036,633	2,929,165	2,929,468
Basic and diluted net income (loss) per common share	\$ 0.38	\$ (1.39)	\$ (6.06)	\$ (9.25)

(1) The sum of the quarters may not equal the total fiscal year due to rounding.

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**Schedule I Condensed Financial Information of registrant  
The Container Store Group, Inc. (parent company only)**

**Condensed balance sheets**

(in thousands)	February 28, 2015	March 1, 2014
<b>Assets</b>		
Current assets:		
Accounts receivable from subsidiaries	\$ 791	\$ 322
Total current assets	791	322
Noncurrent assets:		
Investment in subsidiaries	201,071	197,136
Total noncurrent assets	201,071	197,136
Total assets	\$ 201,862	\$ 197,458
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable to subsidiaries	\$	\$ 272
Total current liabilities		272
Noncurrent liabilities		
Total liabilities		272
Shareholders' equity:		
Common stock	480	479
Additional paid-in capital	855,322	853,295
Retained deficit	(653,940)	(656,588)
Total shareholders' equity	201,862	197,186
Total liabilities and shareholders' equity	\$ 201,862	\$ 197,458

See accompanying notes.

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**Schedule I The Container Store Group, Inc.**  
**(parent company only)**

**Condensed statements of operations**

(in thousands)	February 28, 2015	March 1, 2014	March 2, 2013
Net sales			
Cost of sales (excluding depreciation and amortization)			
Gross profit			
Selling, general, and administrative expenses (excluding depreciation and amortization)			
Stock-based compensation			
Pre-opening costs			
Trade name impairment			
Depreciation and amortization			
Restructuring charges			
Other expenses			
(Gain) loss on disposal of assets			
Income from operations			
Interest expense			
Income before taxes and equity in net income of subsidiaries			
Provision for income taxes			
Income before equity in net income of subsidiaries			
Net income (loss) of subsidiaries	22,673	8,166	(130)
Net income (loss)	\$ 22,673	\$ 8,166	\$ (130)

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**Schedule I The Container Store Group, Inc.**  
**(parent company only)**

**Condensed statements of comprehensive income**

(In thousands)	Fiscal year ended		
	February 28, 2015	March 1, 2014	March 2, 2013
Net income (loss)	\$ 22,673	\$ 8,166	\$ (130)
Unrealized loss on financial instruments, net of tax (benefit) provision of \$(604), \$(239) and \$265	(935)	(1,492)	(104)
Pension liability adjustment, net of tax benefit of \$4, \$51 and \$95	(14)	(181)	(298)
Foreign currency translation adjustment	(19,076)	643	816
<b>Comprehensive income</b>	<b>\$ 2,648</b>	<b>\$ 7,136</b>	<b>\$ 284</b>

See accompanying notes.

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**Schedule I The Container Store Group, Inc.  
(parent company only)**

**Notes to Condensed Financial Statements**

**(In thousands, except share amounts and unless otherwise stated)**

**February 28, 2015**

**Note 1: Basis of presentation**

In the parent-company-only financial statements, The Container Store Group, Inc.'s investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. The parent-company-only financial statements should be read in conjunction with the Company's consolidated financial statements. A condensed statement of cash flows was not presented because The Container Store Group, Inc. had no cash flow activities during fiscal 2014, fiscal 2013, or fiscal 2012.

**Note 2: Guarantees and restrictions**

The Container Store Inc., a subsidiary of the Company, has \$324,911 of long-term debt outstanding under the Senior Secured Term Loan Facility, as of February 28, 2015. Under the terms of the Senior Secured Term Loan Facility, The Container Store Group, Inc. and the domestic subsidiaries of The Container Store, Inc. have guaranteed the payment of all principal and interest. In the event of a default under the Senior Secured Term Loan Facility, The Container Store Group, Inc. and the domestic subsidiaries of The Container Store, Inc. will be directly liable to the debt holders. The Senior Secured Term Loan Facility matures on April 6, 2019. The Senior Secured Term Loan Facility also includes restrictions on the ability of The Container Store Group, Inc. and its subsidiaries to incur additional liens and indebtedness, make investments and dispositions, pay dividends or make other distributions, make loans, prepay certain indebtedness and enter into sale and lease back transactions, among other restrictions. Under the Senior Secured Term Loan Facility, provided no event of default has occurred and is continuing, The Container Store, Inc. is permitted to pay dividends to The Container Store Group, Inc. in an amount not to exceed the sum of \$10,000 plus if after giving effect to such dividend on a pro forma basis, the Consolidated Leverage Ratio (as defined in the Senior Secured Term Loan Facility) does not exceed 2.0 to 1.0, the Available Amount (as defined in the Senior Secured Term Loan Facility) during the term of the Senior Secured Term Loan Facility, and pursuant to certain other limited exceptions. The restricted net assets of the Company's consolidated subsidiaries was \$189,362 as of February 28, 2015.

As of February 28, 2015, The Container Store, Inc. also has \$58,851 of available credit on the Revolving Credit Facility that provides commitments of up to \$75,000 for revolving loans and letters of credit. The Container Store Group, Inc. and the domestic subsidiaries of The Container Store, Inc. have guaranteed all obligations under the Revolving Credit Facility. In the event of default under the Revolving Credit Facility, The Container Store Group, Inc. and the domestic subsidiaries of The Container Store, Inc. will be directly liable to the debt holders. The Revolving Credit Facility, which matures on April 6, 2017, includes restrictions on the ability of The Container Store Group, Inc. and its subsidiaries to incur additional liens and indebtedness, make investments and dispositions, pay dividends or make other transactions, among other restrictions. Under the Revolving Credit Facility, provided no event of default has occurred and is continuing, The Container Store, Inc. is permitted to pay dividends to The Container Store Group, Inc., in an amount not to exceed the sum of \$10,000 plus if after giving effect to such dividend on a pro forma basis, the Consolidated Fixed Charge Coverage Ratio (as defined in the Revolving Credit Facility) is not less than 1.25 to 1.0, the Available Amount (as defined in the Revolving Credit Facility) during the term of the Revolving Credit Facility, and pursuant to certain other limited exceptions.

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Limitations on Effectiveness of Controls and Procedures*

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

*Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Annual Report on Form 10-K, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of February 28, 2015.

*Changes in Internal Control*

There were no changes in our internal control over financial reporting during the quarter ended February 28, 2015 identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Management's Report on Internal Control over Financial Reporting*

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in "Internal Control Integrated Framework (1992)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of February 28, 2015, our internal control over financial reporting was effective.

This annual report does not include an attestation report of our registered public accounting firm on internal control over financial reporting due to an exemption established by the JOBS Act for "emerging growth companies".

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

We have adopted a written code of conduct and ethics, which applies to all of our directors, officers and employees, including our principal executive officer and our principal financial and accounting officer. Our Code of Conduct and Ethics is available on our website *www.containerstore.com* under the heading "Corporate Governance." In addition, we intend to post on our website all disclosures that are required by law or New York Stock Exchange listing rules concerning any amendments to, or waivers from, any provision of our Code of Conduct and Ethics. The information contained on our website is not incorporated by reference into this Annual Report on Form 10-K.

The information regarding the Company's executive officers is located at the end of Part I of this Annual Report on Form 10-K. All other information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2015 Annual Meeting of Stockholders.



Table of Contents**PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES****1. Financial Statements**

The following consolidated financial statements of the Company are included in Part II, Item 8:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of February 28, 2015 and March 1, 2014

Consolidated Statements of Operations for the Fiscal Years Ended February 28, 2015 , March 1, 2014, and March 2, 2013

Consolidated Statements of Comprehensive Income for the Fiscal Years Ended February 28, 2015 , March 1, 2014, and March 2, 2013

Consolidated Statements of Shareholders' Equity for the Fiscal years Ended February 28, 2015 , March 1, 2014, and March 2, 2013

Consolidated Statements of Cash Flows for the Fiscal Years Ended February 28, 2015 , March 1, 2014, and March 2, 2013

Notes to Consolidated Financial Statements

**2. Financial Statements Schedules**

The following financial statements schedule is included in Part II, Item 8:

Schedule I Condensed Financial Statement Information of Registrant

All other schedules have not been included either because they are not applicable or because the information is included elsewhere in this Report.

**3. Exhibits****Incorporated by Reference**

<b>Exhibit Number</b>	<b>Exhibit Description</b>	<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	<b>Filed/ Furnished Herewith</b>
3.1	Amended and Restated Certificate of Incorporation of The Container Store Group, Inc.	10-Q	001-36161	3.1	1/10/14	
3.2	Amended and Restated By-laws of The Container Store Group, Inc.	10-Q	001-36161	3.2	1/10/14	
4.1	Specimen Stock Certificate evidencing the shares of common stock	S-1/A	333-191465	4.1	10/21/13	
4.2	Amended and Restated Stockholders Agreement, dated as of November 6, 2013	10-Q	001-36161	4.1	1/10/14	
4.3	Voting Agreement, dated as of November 6, 2013	10-Q	001-36161	4.2	1/10/14	
10.1	Second Amended and Restated Employment Agreement dated September 13, 2013 between Kip Tindell and The Container Store Group, Inc.	S-1	333-191465	10.4	9/30/13	

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#### Incorporated by Reference

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed/ Furnished Herewith
10.2	Second Amended and Restated Employment Agreement dated September 13, 2013 between Sharon Tindell and The Container Store Group, Inc.	S-1	333-191465	10.5	9/30/13	
10.3	Second Amended and Restated Employment Agreement dated September 13, 2013 between Melissa Reiff and The Container Store Group, Inc.	S-1	333-191465	10.6	9/30/13	
10.4	The Container Store Group, Inc. 2012 Stock Option Plan	S-8	333-193255	4.3	1/10/14	
10.5	Form of Non-Qualified Stock Option Agreement under 2012 Stock Option Plan	S-1	333-193255	10.2	9/30/13	
10.6	The Container Store Group, Inc. 2013 Incentive Award Plan	10-Q	001-36161	10.4	1/10/14	
10.7	Form of Stock Option Agreement under 2013 Incentive Award Plan	S-1/A	333-191465	10.21	10/21/13	
10.8	The Container Store Group, Inc. Senior Executive Bonus Plan	10-Q	001-36161	10.6	1/10/14	
10.9	The Container Store Group, Inc. Non-Qualified Retirement Plan, dated as of March 28, 2011	S-1	333-191465	10.3	9/30/13	
10.10	Term Facility Pledge Agreement, dated as of April 6, 2012, by and between The Container Store, Inc. as Borrower, the Pledgors party thereto, and JPMorgan Chase Bank, N.A., as Collateral Agent	S-1	333-191465	10.9	9/30/13	
10.11	Term Facility Security Agreement, dated as of April 6, 2012, by and among The Container Store, Inc., the Guarantors party thereto, the Grantors party thereto, and JPMorgan Chase Bank, N.A., as Collateral Agent	S-1	333-191465	10.10	9/30/13	
10.12	Intercreditor Agreement, dated as of April 6, 2012, by and between JPMorgan Chase Bank, N.A. as ABL Agent, and JPMorgan Chase Bank, N.A. as Term Agent	S-1	333-191465	10.11	9/30/13	

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Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
10.13	Amendment No. 1 to Intercreditor Agreement, dated as of April 8, 2013, by and between JPMorgan Chase Bank, N.A., as ABL Agent and JPMorgan Chase Bank, N.A., as Term Agent	10-K	001-36161	10.13	5/28/2014	
10.14	Credit Agreement, dated as of April 6, 2012, among The Container Store, Inc., as Borrower, the Guarantors party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent and Wells Fargo Bank, N.A. as Syndication Agent	S-1	333-191465	10.12	9/30/13	
10.15	Amendment No.1, dated as of April 8, 2013, to the ABL Credit Agreement, dated as of April 6, 2012, among The Container Store, Inc., as Borrower, the Guarantors party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, Wells Fargo Bank, National Association, as Syndication Agent and the other lenders party thereto	S-1	333-191465	10.13	9/30/13	
10.16	Amendment No. 2, dated as of November 27, 2013 to the Credit Agreement dated as of April 6, 2012, among The Container Store, Inc., as Borrower, the Guarantors party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent and Wells Fargo Bank, N.A. as Syndication Agent	8-K	001-36161	10.1	11/27/13	
10.17	ABL Facility Pledge Agreement, dated as of April 6, 2012, by and between The Container Store, Inc., the Pledgors party thereto and JPMorgan Chase Bank, N.A., as Collateral Agent	S-1	333-191465	10.14	9/30/13	
10.18	ABL Facility Security Agreement, dated as of April 6, 2012, by and among The Container Store, Inc., the Guarantors party thereto, the Grantors party thereto and JPMorgan Chase Bank, N.A., as Collateral Agent	S-1	333-191465	10.15	9/30/13	

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Exhibit Number	Exhibit Description	Incorporated by Reference				Filed/ Furnished Herewith
		Form	File No.	Exhibit	Filing Date	
10.19	Credit Agreement, dated April 27, 2009, among Elfa International AB, as Borrower, and Tjustbygdens Sparbank AB, as Bank, as transferred to Swedbank AB on January 27, 2012	S-1	333-191465	10.16	9/30/13	
10.20	Form of Indemnification Agreement by and between The Container Store Group, Inc. and certain directors and officers	S-1	333-191465	10.17	9/30/13	
10.21	Office, Warehouse and Distribution Center Lease Agreement, as of October 8, 2012, by and between Texas Dugan Limited Partnership, as landlord, and The Container Store, Inc., as tenant, as amended through August 24, 2011	S-1	333-191465	10.18	9/30/13	
10.22	Indemnification and Hold Harmless Agreement, dated as of June 13, 2012, by and between The Container Store Group, Inc. (formerly known as TCS Holdings, Inc.) and William A. Tindell, III	S-1	333-191465	10.20	9/30/13	
10.23	Assumption Agreement, dated as of April 2, 2014, by and between The Container Store Group, Inc. and William A. Tindell, III and Rufus Tindell LLC	10-K	001-36161	10.23	5/28/2014	
10.24	Master Credit Agreement, dated April 1, 2014, between Elfa International AB, as Borrower, and Nordea Bank AB (publ), as Bank	10-Q	001-36161	10.1	7/11/2014	
10.25	Employment Agreement, dated 9/1/2014, between The Container Store Group, Inc. and Peter Lodwick	10-Q	001-36161	10.1	10/10/2014	
10.26	Non-Employee Director Compensation Policy of The Container Store Group, Inc.	10-Q	001-36161	10.1	1/09/2015	
21.1	Subsidiary List					*
23.1	Consent of Ernst & Young LLP					*
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)					*

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Exhibit Number	Exhibit Description	Incorporated by Reference			Filed/ Furnished Herewith
		Form	File No.	Exhibit	
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)				*
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350				**
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350				**
101.INS	XBRL Instance Document				*
101.SCH	XBRL Taxonomy Extension Schema Document				*
101.CAL	XBRL Taxonomy Calculation Linkbase Document				*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document				*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document				*
101.PRE	XBRL Taxonomy Extension Presentation				*

\*  
Filed herewith.

\*\*  
Furnished herewith.

Management contract or compensatory plan or arrangement.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

The Container Store Group, Inc.  
(Registrant)

Date: May 8, 2015

/s/ JODI L. TAYLOR

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Jodi L. Taylor  
*Chief Financial Officer (duly authorized officer and Principal  
Financial Officer)*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ WILLIAM A. "KIP" TINDELL, III  William A. "Kip" Tindell, III	Chief Executive Officer and Chairman of the Board of Directors (principal executive officer)	May 8, 2015
/s/ JODI L. TAYLOR  Jodi L. Taylor	Chief Financial Officer (principal financial officer)	May 8, 2015
/s/ JEFFREY A. MILLER  Jeffrey A. Miller	Vice President and Chief Accounting Officer (principal accounting officer)	May 8, 2015
/s/ SHARON TINDELL  Sharon Tindell	Chief Merchandising Officer and Director	May 8, 2015
/s/ MELISSA REIFF  Melissa Reiff	President, Chief Operating Officer and Director	May 8, 2015
/s/ JONATHAN SOKOLOFF  Jonathan Sokoloff	Director	May 8, 2015
/s/ TIMOTHY FLYNN  Timothy Flynn	Director	May 8, 2015

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<b>Signature</b>	<b>Title</b>	<b>Date</b>
<hr/> <i>/s/ J. KRISTOFER GALASHAN</i> J. Kristofer Galashan	Director	May 8, 2015
<hr/> <i>/s/ ROBERT E. JORDAN</i> Robert E. Jordan	Director	May 8, 2015
<hr/> <i>/s/ DANIEL MEYER</i> Daniel Meyer	Director	May 8, 2015
<hr/> <i>/s/ WALTER ROBB</i> Walter Robb	Director	May 8, 2015
<hr/> <i>/s/ RAJENDRA SISODIA</i> Rajendra Sisodia	Director	May 8, 2015
<hr/> <i>/s/ CARYL STERN</i> Caryl Stern	Director	May 8, 2015