

Container Store Group, Inc.
Form 10-Q
January 09, 2015
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly Period Ended November 29, 2014

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)

26-0565401

(IRS Employer Identification No.)

500 Freepoint Parkway Coppell, TX

(Addresses of principal executive offices)

75019

(Zip Codes)

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

None

(Former name, former address and former fiscal year, if changed since last report)

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

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 (§232.405 of this chapter) 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 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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had 47,981,512 shares of its common stock outstanding as of December 26, 2014.

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(In thousands)	November 29, 2014 (unaudited)	March 1, 2014	November 30, 2013 (unaudited)
Assets			
Current assets:			
Cash	\$13,965	\$18,046	\$10,822
Accounts receivable, net	24,036	32,273	28,088
Inventory	103,850	85,595	105,124
Prepaid expenses	9,259	14,121	9,049
Income taxes receivable	3,205	83	1,949
Deferred tax assets, net	3,967	3,967	855
Other current assets	14,589	10,322	13,394
Total current assets	172,871	164,407	169,281
Noncurrent assets:			
Property and equipment, net	168,859	161,431	150,142
Goodwill	202,815	202,815	202,815
Trade names	234,557	242,290	241,138
Deferred financing costs, net	8,231	9,699	10,188
Noncurrent deferred tax assets, net	1,055	1,323	1,667
Other assets	1,178	1,184	841
Total noncurrent assets	616,695	618,742	606,791
Total assets	\$789,566	\$783,149	\$776,072

See accompanying notes.

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

(In thousands, except share and per share amounts)	November 29, 2014 (unaudited)	March 1, 2014	November 30, 2013 (unaudited)
Liabilities and shareholders equity			
Current liabilities:			
Accounts payable	\$50,163	\$49,282	\$54,489
Accrued liabilities	54,196	58,744	49,646
Revolving lines of credit	10,250	16,033	16,679
Current portion of long-term debt	5,332	7,527	8,975
Forward contracts	641		
Income taxes payable	1,377	3,474	496
Deferred tax liabilities, net	29	29	43
Total current liabilities	121,988	135,089	130,328
Noncurrent liabilities:			
Long-term debt	348,489	327,724	342,863
Noncurrent deferred tax liabilities, net	84,101	85,442	90,906
Deferred rent and other long-term liabilities	38,657	37,708	34,693
Total noncurrent liabilities	471,247	450,874	468,462
Total liabilities	593,235	585,963	598,790
Commitments and contingencies (Note 7)			
Shareholders equity:			
Common stock, \$0.01 par value, 250,000,000 shares authorized; 47,981,512 shares issued and outstanding at November 29, 2014; 47,941,180 shares issued and outstanding at March 1, 2014; 47,922,842 shares issued and outstanding at November 30, 2013	480	479	479
Additional paid-in capital	855,038	853,295	852,698
Accumulated other comprehensive (loss) income	(10,541)	1,683	716
Retained deficit	(648,646)	(658,271)	(676,611)
Total shareholders equity	196,331	197,186	177,282
Total liabilities and shareholders equity	\$789,566	\$783,149	\$776,072

See accompanying notes.

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

(In thousands, except share and per share amounts) (unaudited)	November 29, 2014	Thirteen Weeks Ended November 30, 2013	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
Net sales	\$190,922	\$188,298	\$557,607	\$531,716
Cost of sales (excluding depreciation and amortization)	77,063	75,359	229,230	218,176
Gross profit	113,859	112,939	328,377	313,540
Selling, general, and administrative expenses (excluding depreciation and amortization)	93,842	88,797	275,015	257,870
Stock-based compensation	404	14,641	950	14,854
Pre-opening costs	1,597	1,827	6,943	5,761
Depreciation and amortization	7,776	7,569	22,599	22,620
Restructuring charges		111		472
Other expenses	363	869	1,170	1,495
(Gain) loss on disposal of assets	(3,879)	(4)	(3,665)	70
Income (loss) from operations	13,756	(871)	25,365	10,398
Interest expense	4,265	5,782	12,950	16,856
Loss on extinguishment of debt		128		1,229
Income (loss) before taxes	9,491	(6,781)	12,415	(7,687)
Provision for income taxes	3,242	2,705	2,790	2,487
Net income (loss)	\$6,249	\$(9,486)	\$9,625	\$(10,174)
Less: Distributions accumulated to preferred shareholders		(15,597)		(59,747)
Net income (loss) available to common shareholders	\$6,249	\$(25,083)	\$9,625	\$(69,921)
Net income (loss) per common share - basic	\$0.13	\$(1.39)	\$0.20	\$(8.78)
Net income (loss) per common share - diluted	\$0.13	\$(1.39)	\$0.20	\$(8.78)
Weighted-average common shares outstanding - basic	47,979,581	18,036,633	47,967,566	7,965,089
Weighted-average common shares outstanding - diluted	48,432,143	18,036,633	48,555,828	7,965,089

See accompanying notes.

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

(In thousands) (unaudited)	November 29, 2014	Thirteen Weeks Ended November 30, 2013	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
Net income (loss)	\$6,249	\$(9,486)	\$9,625	\$(10,174)
Unrealized (loss) gain on financial instruments, net of tax (benefit) provision of \$(361), \$171, \$(584), and \$0	(560)	17	(946)	(1,104)
Pension liability adjustment	87	(16)	207	18
Foreign currency translation adjustment	(5,525)	1,283	(11,485)	(911)
Comprehensive income (loss)	\$251	\$(8,202)	\$(2,599)	\$(12,171)

See accompanying notes.

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

(In thousands) (unaudited)	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
Operating activities		
Net income (loss)	\$9,625	\$(10,174)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	22,599	22,620
Stock-based compensation	950	14,854
Excess tax benefit from stock-based compensation	(90)	
(Gain) loss on disposal of assets	(3,665)	70
Deferred tax expense	1,249	1,540
Noncash refinancing expense		851
Noncash interest	1,467	1,367
Other noncash items		86
Changes in operating assets and liabilities:		
Accounts receivable	5,101	(2,667)
Inventory	(21,048)	(22,748)
Prepaid expenses and other assets	(460)	(903)
Accounts payable and accrued liabilities	3,149	4,903
Income taxes	(4,660)	(3,134)
Other noncurrent liabilities	1,447	3,981
Net cash provided by operating activities	15,664	10,646
Investing activities		
Additions to property and equipment	(40,359)	(32,563)
Proceeds from sale of subsidiary, net	3,846	
Proceeds from sale of property and equipment	935	408
Net cash used in investing activities	(35,578)	(32,155)
Financing activities		
Borrowings on revolving lines of credit	60,374	50,098
Payments on revolving lines of credit	(64,223)	(46,694)
Borrowings on long-term debt	34,748	120,000
Payments on long-term debt	(15,319)	(53,580)
Payment of debt issuance costs		(3,662)
Proceeds from the exercise of stock options	704	
Excess tax benefit from stock-based compensation	90	
Proceeds from issuance of common stock, net		237,021
Purchase of treasury shares		(53)
Payment of distributions to preferred shareholders		(295,826)
Net cash provided by financing activities	16,374	7,304
Effect of exchange rate changes on cash	(541)	(324)
Net decrease in cash	(4,081)	(14,529)
Cash at beginning of period	18,046	25,351
Cash at end of period	\$13,965	\$10,822
Supplemental disclosures of non-cash activities:		
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 (unaudited)

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

November 29, 2014

1. Description of business and basis of presentation

These financial statements should be read in conjunction with the financial statement disclosures in our Annual Report on Form 10-K for the fiscal year ended March 1, 2014, filed with the Securities and Exchange Commission on May 28, 2014. We use the same accounting policies in preparing quarterly and annual financial statements. All adjustments necessary for a fair presentation of quarterly operating results are reflected herein and are of a normal, recurring nature and include reclassifications and other adjustments, as discussed below.

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. As of November 29, 2014, The Container Store, Inc. operates 69 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 and made-to-measure sliding doors. 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 on a wholesale basis in approximately 30 countries around the world, with a concentration in the Nordic region of Europe. 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 its initial public offering (the IPO). Following the Company's IPO, LGP continues to maintain a controlling interest in the ownership of the Company.

Seasonality

The Company's business is moderately seasonal in nature and, therefore, the results of operations for the thirty-nine weeks ended November 29, 2014 are not necessarily indicative of the operating results for the full year. Demand is generally highest in the fourth fiscal quarter due to Our Annual elfa® Sale, and lowest in the first fiscal quarter.

Reclassifications and other adjustments

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Certain prior period amounts have been reclassified in order to provide consistent comparative information. These reclassifications do not materially impact the consolidated financial statements for the prior periods presented.

During the second quarter of fiscal 2014, the Company determined that it was necessary to file an amended tax return for a prior period, 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 adjustment and determined that the amount was immaterial to the consolidated financial statements for the current fiscal year and prior fiscal years. As such, the entire amount was recorded during the second quarter of fiscal 2014.

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Recent accounting pronouncements

In June 2014, the FASB issued ASU 2014-12, *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period* (a consensus of the FASB Emerging Issues Task Force). The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based payment award as performance conditions that affect vesting. Therefore, an entity would not record compensation expense (measured as of the grant date without taking into account the effect of the performance target) related to an award for which transfer to the employee is contingent on the entity's satisfaction of a performance target until it becomes probable that the performance target will be met. The ASU does not contain any new disclosure requirements. For all entities, the ASU is effective for reporting periods beginning after December 15, 2015. Early adoption is permitted. We currently do not have share-based payment awards with performance targets, however, our 2013 Incentive Award Plan allows for these types of awards. We expect to adopt this standard in fiscal 2016 and do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 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. Long-term debt and revolving lines of credit

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 \$8,049 as of November 29, 2014) term loan facility (the 2014 Elfa Term Loan Facility) and a SEK 140.0 million (approximately \$18,781 as of November 29, 2014) 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 \$402 as of November 29, 2014) 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.

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 quarter ended May 31, 2014.

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	November 29, 2014	March 1, 2014	November 30, 2013
Inventory:			
Finished goods	\$98,460	\$79,235	\$98,495
Raw materials	4,260	4,677	5,011
Work in progress	1,130	1,683	1,618
	\$103,850	\$85,595	\$105,124
Accrued liabilities:			
Accrued payroll, benefits, and bonuses	\$17,865	\$21,927	\$17,486
Accrued transaction and property tax	11,083	7,949	10,690
Gift cards and store credits outstanding	8,192	6,900	7,206
Unearned revenue	3,649	11,338	2,885
Accrued interest	2,451	2,481	514
Other accrued liabilities	10,956	8,149	10,865
	\$54,196	\$58,744	\$49,646

4. 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:

	November 29, 2014	Thirteen Weeks Ended November 30, 2013	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
Numerator:				
Net income (loss)	\$6,249	\$(9,486)	\$9,625	\$(10,174)
Less: Distributions accumulated to preferred shareholders		(15,597)		(59,747)
Net income (loss) available to common shareholders	\$6,249	\$(25,083)	\$9,625	\$(69,921)
Denominator:				
Weighted-average common shares outstanding basic	47,979,581	18,036,633	47,967,566	7,965,089
Weighted-average common shares outstanding diluted	48,432,143	18,036,633	48,555,828	7,965,089
Net income (loss) per common share - basic	\$0.13	\$(1.39)	\$0.20	\$(8.78)
Net income (loss) per common share - diluted	\$0.13	\$(1.39)	\$0.20	\$(8.78)

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Antidilutive securities not included:

Stock options outstanding	843,581	319,190	812,886	140,527
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5. Pension plans

The Company provides pension benefits to the Elfa employees in Sweden under collectively bargained pension plans, 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. The defined benefit plans are unfunded and approximately 2% of Elfa employees are participants in the defined benefit pension plan. Certain employees also participate in defined contribution plans for which Company contributions are determined as a percentage of participant compensation. The Company recognized total net periodic benefit cost of \$893 and \$657 for pension plans in the thirteen weeks ended November 29, 2014 and November 30, 2013, respectively. The Company recognized total net periodic benefit cost of \$2,207 and \$2,117 for pension plans in the thirty-nine weeks ended November 29, 2014 and November 30, 2013, respectively.

6. Income taxes

The Company's effective income tax rate for the thirteen weeks ended November 29, 2014 was 34.2% compared to (39.9%) for the thirteen weeks ended November 30, 2013. In the third quarter of fiscal 2013, a pre-tax loss was offset by non-deductible costs related to the IPO, creating taxable income and generating a negative effective tax rate. In the third quarter of fiscal 2014, pre-tax income generated a positive effective tax rate. A \$3,270 non-taxable gain on the sale of a Norwegian subsidiary was the primary driver in reducing the quarterly effective income tax rate below the statutory rate in fiscal 2014.

The Company's effective income tax rate for the thirty-nine weeks ended November 29, 2014 was 22.5% compared to (32.4%) for the thirty-nine weeks ended November 30, 2013. In the thirty-nine weeks ended November 30, 2013, a pre-tax loss was offset by non-deductible costs related to the IPO, creating taxable income and generating a negative effective tax rate. In the thirty-nine weeks ended November 29, 2014, the effective tax rate fell below the statutory rate due to a \$1,839 reduction in tax expense primarily related to an expected refund of tax paid in a prior period, a \$3,270 non-taxable gain on the sale of a Norwegian subsidiary, and a change in mix between projected domestic and foreign earnings.

7. Commitments and contingencies

In connection with insurance policies, The Container Store, Inc. has outstanding standby letters of credit totaling \$3,136 as of November 29, 2014.

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 effect on the Company's consolidated financial statements on an individual basis or in the aggregate.

8. Accumulated other comprehensive income

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Accumulated other comprehensive income (AOCI) consists of changes in our foreign currency forward contracts, minimum pension liability, and foreign currency translation. The components of AOCI, net of tax, are shown below for the thirty-nine weeks ended November 29, 2014:

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	Foreign currency forward contracts	Minimum pension liability	Foreign currency translation	Total
Balance at March 1, 2014	\$53	\$(1,153)	\$2,783	\$1,683
Other comprehensive (loss) income before reclassifications, net of tax	(905)	207	(11,485)	(12,183)
Amounts reclassified to earnings, net of tax	(41)			(41)
Net current period other comprehensive (loss) income	(946)	207	(11,485)	(12,224)
Balance at November 29, 2014	\$(893)	\$(946)	\$(8,702)	\$(10,541)

Amounts reclassified from AOCI to earnings for the foreign currency forward contracts 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 9.

9. 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. The Company utilizes foreign currency forward exchange contracts in Swedish krona to stabilize its retail gross margins and to protect its domestic operations from downward currency exposure by hedging purchases of inventory from its wholly owned subsidiary, Elfa. During the thirty-nine weeks ended November 29, 2014 and November 30, 2013, the Company used forward contracts for 49% and 87% of inventory purchases in Swedish krona, respectively. All of the Company's currency-related hedge instruments 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 financial hedge instruments 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 did not have any material financial hedge instruments that did not qualify for hedge accounting treatment as of November 29, 2014, March 1, 2014 and November 30, 2013.

The Company records all foreign currency forward contracts on its consolidated balance sheet at fair value. Forward contracts not designated as hedges are adjusted to fair value through income. 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 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 forward contracts and determined the foreign currency forward contracts were highly effective during the thirty-nine weeks ended November 29, 2014 and November 30, 2013. The Company records the fair value of its unsettled foreign currency forward contracts as cash flow hedges. The Company had \$641 as of November 29, 2014 in fair value of its unsettled foreign currency forward contracts recorded as total current liabilities in the accompanying consolidated balance sheets. As of March 1, 2014 and November 30, 2013, the Company had no unsettled foreign currency forward contracts.

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The Company recorded \$893 in accumulated other comprehensive loss at November 29, 2014. Of the \$893, \$503 represents an unrealized loss that has been recorded for settled forward contracts related to inventory on hand as of November 29, 2014. The Company expects the unrealized loss of \$503, net of taxes, to be reclassified into earnings over the next 12 months as the underlying inventory is sold to the end consumer.

The change in fair value of the Company's foreign currency forward contracts that qualify as cash flow hedges and are included in accumulated other comprehensive income (loss), net of taxes, are presented in Note 8 of these financial statements.

10. 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 November 29, 2014, March 1, 2014 and November 30, 2013, 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. Foreign currency forward contracts 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 9 for further information on the Company's hedging activities.

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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.

The following items are measured at fair value on a recurring basis, subject to the disclosure requirements of ASC 820, *Fair Value Measurements*:

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Description	Balance Sheet Location		November 29, 2014	March 1, 2014	November 30, 2013
Assets					
Nonqualified retirement plan	Level 2	Other current assets	\$3,955	\$3,401	\$3,200
Liabilities					
Nonqualified retirement plan	Level 2	Accrued liabilities	3,962	3,417	3,207
Foreign currency hedge instruments	Level 2	Forward contracts	641		
Total liabilities			\$4,603	\$3,417	\$3,207

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 November 29, 2014, March 1, 2014 and November 30, 2013, the carrying values and estimated fair values of the Company's long-term debt, including current maturities, were:

		Carrying value	November 29, 2014 Fair value
Senior secured term loan facility	Level 2	\$325,816	\$321,540
2014 Elfa term loan facility	Level 2	7,646	7,646
Revolving credit facility	Level 3	20,000	20,000
Other loans	Level 3	359	359
		\$353,821	\$349,545

		Carrying value	March 1, 2014 Fair value
Senior secured term loan facility	Level 2	\$328,533	\$330,176
Elfa term loan facility	Level 2	1,950	1,948
Other loans	Level 3	4,768	4,686
		\$335,251	\$336,810

		Carrying value	November 30, 2013 Fair value
Senior secured term loan facility	Level 2	\$329,439	\$329,439
Elfa term loan facility	Level 3	2,864	2,959
Revolving credit facility	Level 3	14,000	14,000
Other loans	Level 3	5,535	5,521
		\$351,838	\$351,919

11. 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.

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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 on a wholesale basis in approximately 30 countries around the world with a concentration in the Nordic region of 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 income 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 and the Revolving Credit Facility is recorded in the Corporate/Other column.

Thirteen Weeks Ended November 29, 2014	TCS	Elfa	Corporate/ Other	Total
Net sales to third parties	\$168,468	\$22,454	\$	\$190,922
Intersegment sales		24,776	(24,776)	
Interest expense, net	2	130	4,133	4,265
Income (loss) before taxes (including \$404 stock-based compensation)(1)(2)	9,161	10,207	(9,877)	9,491
Assets(3)	638,235	125,925	25,406	789,566

Thirteen Weeks Ended November 30, 2013	TCS	Elfa	Corporate/ Other	Total
Net sales to third parties	\$163,744	\$24,554	\$	\$188,298
Intersegment sales		27,454	(27,454)	
Interest expense, net	13	288	5,481	5,782
Income (loss) before taxes (including \$14,641 stock-based compensation)(1)(4)	(3,187)	8,856	(12,450)	(6,781)
Assets(3)	612,351	141,074	22,647	776,072

Thirty-Nine Weeks Ended November 29, 2014	TCS	Elfa	Corporate/ Other	Total
Net sales to third parties	\$493,011	\$64,596	\$	\$557,607
Intersegment sales		45,924	(45,924)	
Interest expense, net	14	537	12,399	12,950
Income (loss) before taxes (including \$950 stock-based compensation)(1)(2)	24,500	10,245	(22,330)	12,415
Assets(3)	638,235	125,925	25,406	789,566

Thirty-Nine Weeks Ended November 30, 2013	TCS	Elfa	Corporate/ Other	Total
Net sales to third parties	\$466,543	\$65,173	\$	\$531,716
Intersegment sales		47,414	(47,414)	

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Interest expense, net	45	723	16,088	16,856
Income (loss) before taxes (including \$14,854 stock-based compensation)(1)(4)	13,771	7,480	(28,938)	(7,687)
Assets(3)	612,351	141,074	22,647	776,072

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- (1) The TCS column includes stock-based compensation expense amounts disclosed above.
- (2) The Elfa column includes a gain on disposal of subsidiary and real estate of \$3,830 for the thirteen and thirty-nine weeks ended November 29, 2014.
- (3) Tangible assets in the Elfa column are located outside of the United States. Assets 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 forward contracts.
- (4) The Corporate/Other column includes \$128 and \$1,229 loss on extinguishment of debt during the thirteen and thirty-nine weeks ended November 30, 2013, respectively.

12. 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 \$3,270 in the third quarter of 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 on the sale of the building of \$560 in the third quarter of fiscal 2014.

13. Subsequent event

On December 19, 2014, the President of the United States signed into law H.R. 5771, The Tax Increase Prevention Act. This act provides for an extension of bonus depreciation through the end of calendar 2014. The effects of changes in tax laws, including retroactive changes, are recognized in the period in which the changes are enacted. However, if the legislation would have been enacted as of November 29, 2014, an estimated increase in income taxes receivable of approximately \$1,100 would have been recorded with a corresponding increase in noncurrent deferred tax liabilities, net. While bonus depreciation does not affect our total provision for income taxes or effective rate, the absence of bonus depreciation after calendar 2014 is expected to increase current income tax expense and the related cash outflows for the payment of income taxes beginning on January 1, 2015.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary note regarding forward-looking statements

This report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements. In some cases, you can identify forward-looking statements by terms such as may, will, should, expects, plans, anticipates, intends, target, projects, contemplates, believes, estimates, predicts, potential or continue or the negative of these terms or other

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expressions. These forward-looking statements are only predictions and 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. These include, but are not limited to: a decline in the health of the economy and the purchase of discretionary items; risks related to new store openings; our inability to source and market our products to meet customer preferences or inability to offer customers an aesthetically pleasing shopping environment; our dependence on a single distribution center for all of our stores; the vulnerability of our facilities and systems to natural disasters and other unexpected events; risks related to our reliance on independent third-party transportation providers for substantially all of our product shipments; our dependence on our brand image and any inability to protect our brand; our failure to successfully anticipate consumer demand and manage inventory commensurate with demand; our failure to effectively manage our growth; our inability to lease space on favorable terms; fluctuations in currency exchange rates; our incurrence of net losses in the past and the risk that we will experience net losses in the

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future; risks related to our inability to obtain capital on satisfactory terms or at all; our inability to effectively manage online sales; risks related to a security breach or cyber-attack of our website or information technology systems, and other damage to such systems; effects of competition on our business; our inability to obtain merchandise from our vendors on a timely basis and at competitive prices; the risk that our vendors may sell their products to our competitors; our dependence on key executive management; our inability to find, train and retain key personnel; labor activities and unrest; rising health care and labor costs; risks associated with our dependence on foreign imports; risks related to violations of anti-bribery and anti-kickback laws; risks related to our indebtedness; risks related to our fixed lease obligations; risks related to litigation; product recalls and/or product liability and changes in product safety and consumer protection laws; changes in statutory, regulatory, accounting and other legal requirements; the risk that our operating and financial performance in a given period will not meet the guidance we provided to the public; risks related to changes in estimates or projections used to assess the fair value of our intangible assets; significant increases in raw material prices or energy costs; fluctuations in our tax obligations, effective tax rate and realization of deferred tax assets; seasonal fluctuations in our operating results; material disruptions in one of our Elfa manufacturing facilities; our inability to protect our intellectual property rights and claims that we have infringed third parties' intellectual property rights; risks related to our status as a controlled company; significant fluctuations in the price of our common stock; substantial future sales of our common stock, or the perception that such sales may occur, which could depress the price of our common stock; increased costs of being a public company; anti-takeover provisions in our governing documents, which could delay or prevent a change in control; reduced disclosure requirements applicable to emerging growth companies, which could make our stock less attractive to investors; and our failure to establish and maintain effective internal controls. Other important risk factors that could affect the outcome of the events set forth in these statements and that could affect our operating results and financial condition are described in the Risk Factors section of our Annual Report on Form 10-K for the fiscal year ended March 1, 2014, filed with the Securities and Exchange Commission (the SEC) on May 28, 2014.

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. Because forward-looking statements are inherently subject to risks and uncertainties, you should not rely on these forward-looking statements as predictions of future events. 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 Quarterly Report on Form 10-Q to the Company, we, us, and our refer to The Container Store Group, Inc. and, where appropriate, its subsidiaries.

We follow 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 our fiscal year is the 52- or 53-week period ending on the Saturday closest to February 28. Fiscal 2014 ends on February 28, 2015, fiscal 2013 ended on March 1, 2014 and fiscal 2012 ended on March 2, 2013. The third quarter of fiscal 2014 ended on November 29, 2014 and the third quarter of fiscal 2013 ended on November 30, 2013, and both included thirteen weeks.

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, affluent, highly educated and busy.

Our operations consist of two operating segments:

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The Container Store (*TCS*), which consists of our retail stores, website and call center, as well as our installation services business. As of November 29, 2014, we operated 69 stores with an average size of approximately 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 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 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.

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 unless otherwise stated.

Results of Operations

The following data represents the amounts shown in our unaudited 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 segment with (+)). For segment data, see Note 11 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

	November 29, 2014	Thirteen Weeks Ended November 30, 2013	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
Net sales	\$190,922	\$188,298	\$557,607	\$531,716
Cost of sales (excluding depreciation and amortization)	77,063	75,359	229,230	218,176
Gross profit	113,859	112,939	328,377	313,540
Selling, general, and administrative expenses (excluding depreciation and amortization)	93,842	88,797	275,015	257,870
Stock-based compensation*	404	14,641	950	14,854
Pre-opening costs*	1,597	1,827	6,943	5,761
Depreciation and amortization	7,776	7,569	22,599	22,620

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Restructuring charges+		111		472
Other expenses	363	869	1,170	1,495
(Gain) loss on disposal of assets	(3,879)	(4)	(3,665)	70
Income (loss) from operations	13,756	(871)	25,365	10,398
Interest expense	4,265	5,782	12,950	16,856
Loss on extinguishment of debt*		128		1,229
Income (loss) before taxes	9,491	(6,781)	12,415	(7,687)
Provision for income taxes	3,242	2,705	2,790	2,487
Net income (loss)	\$6,249	\$(9,486)	\$9,625	\$(10,174)

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	November 29, 2014	Thirteen Weeks Ended November 30, 2013	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
Percentage of net sales:				
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales (excluding depreciation and amortization)	40.4%	40.0%	41.1%	41.0%
Gross profit	59.6%	60.0%	58.9%	59.0%
Selling, general and administrative expenses (excluding depreciation and amortization)	49.2%	47.2%	49.3%	48.5%
Stock-based compensation*	0.2%	7.8%	0.2%	2.8%
Pre-opening costs*	0.8%	1.0%	1.2%	1.1%
Depreciation and amortization	4.1%	4.0%	4.1%	4.3%
Restructuring charges+	0.0%	0.1%	0.0%	0.1%
Other expenses	0.2%	0.5%	0.2%	0.3%
(Gain) loss on disposal of assets	(2.0%)	0.0%	(0.7%)	0.0%
Income (loss) from operations	7.2%	(0.5%)	4.5%	2.0%
Interest expense	2.2%	3.1%	2.3%	3.2%
Loss on extinguishment of debt*	0.0%	0.1%	0.0%	0.2%
Income (loss) before taxes	5.0%	(3.6%)	2.2%	(1.4%)
Provision for income taxes	1.7%	1.4%	0.5%	0.5%
Net income (loss)	3.3%	(5.0%)	1.7%	(1.9%)
Operating data:				
Comparable store sales growth for the period(1)*	(3.5%)	4.7%	(1.6%)	3.6%
Number of stores open at end of period*	69	63	69	63
Average ticket(2)*	\$62.14	\$61.49	\$59.61	\$58.86
Non-GAAP measures(3):				
Adjusted EBITDA(4)	\$23,398	\$24,103	\$56,978	\$56,822
Adjusted net income(5)	\$3,207	\$5,195	\$4,744	\$5,669
Adjusted net income per common share - diluted(5)	\$0.07	\$0.11	\$0.10	\$0.12

(1) 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.

(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

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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 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.

A reconciliation of the GAAP financial measure of net income (loss) to the non-GAAP financial measures of EBITDA and Adjusted EBITDA is set forth below:

	November 29, 2014	Thirteen Weeks Ended November 30, 2013	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
Net income (loss)	\$6,249	\$(9,486)	\$9,625	\$(10,174)
Depreciation and amortization	7,776	7,569	22,599	22,620
Interest expense	4,265	5,782	12,950	16,856
Income tax provision (benefit)	3,242	2,705	2,790	2,487
EBITDA	21,532	6,570	47,964	31,789
Management fees(a)		167		667
Pre-opening costs*(b)	1,597	1,827	6,943	5,761
IPO costs*(c)		764		1,170
Noncash rent*(d)	(397)	(44)	53	658
Restructuring charges+(e)		111		472
Stock-based compensation*(f)	404	14,641	950	14,854
Loss on extinguishment of debt*(g)		128		1,229
Foreign exchange (gains) losses(h)	(121)	(191)	(172)	(176)
Other adjustments(i)	383	130	1,240	398
Adjusted EBITDA	\$23,398	\$24,103	\$56,978	\$56,822

(a) Fees paid to Leonard Green and Partners, L.P. in accordance with our management services agreement, which was terminated on November 6, 2013 in association with our initial public offering (IPO).

(b) Non-capital expenditures associated with relocating stores and opening new 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.

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- (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) 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.
- (e) Includes charges incurred to restructure business operations at Elfa, including the sale of a subsidiary in Germany during fiscal 2012, which we do not consider in our evaluation of our ongoing performance.
- (f) 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.
- (g) Loss recorded as a result of the amendments made to the Senior Secured Term Loan Facility (as further discussed under Senior Secured Term Loan Facility below) in April 2013 and November 2013, which we do not consider in our evaluation of our ongoing operations.
- (h) Realized foreign exchange transactional gains/losses.
- (i) 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.

(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, 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 number of fully diluted shares outstanding as of the end of the current fiscal period (i.e. November 29, 2014), assuming those shares were outstanding at the beginning of all 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:

	November 29, 2014	Thirteen Weeks Ended November 30, 2013	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
Numerator:				
Net income (loss) available to common shareholders	\$6,249	\$(25,083)	\$9,625	\$(69,921)
Distributions accumulated to preferred shareholders(a)		15,597		59,747
Stock-based compensation*(b)		14,602		14,602
IPO costs*(c)		764		1,170
Restructuring charges+(d)		111		472
Loss on extinguishment of debt*(e)		128		1,229
Gain on disposal of subsidiary and real estate+(f)	(3,830)		(3,830)	
Taxes(g)	788	(924)	(1,051)	(1,630)
Adjusted net income	\$3,207	\$5,195	\$4,744	\$5,669
Denominator:				
Weighted average common shares outstanding diluted	48,432,143	18,036,633	48,555,828	7,965,089
Adjust weighting factor of outstanding shares(h)	1,931	30,778,609	13,947	40,850,153
Adjusted weighted average common shares outstanding - diluted	48,434,074	48,815,242	48,569,775	48,815,242
Adjusted net income per common share - diluted	\$0.07	\$0.11	\$0.10	\$0.12

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- (a) Distributions accumulated to preferred shareholders in arrears were eliminated in association with our IPO 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 during fiscal 2012, which we do not consider in our evaluation of our ongoing performance.
- (e) Loss recorded as a result of 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.
- (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.
- (g) 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 an expected refund of tax paid in a prior period, as well as the exclusion of the impact of certain valuation allowances on deferred tax assets in fiscal 2013, which we do not consider in our evaluation of ongoing performance.
- (h) Calculated based on assumption that the number of diluted shares outstanding as of the end of the current fiscal period (i.e. November 29, 2014) were outstanding at the beginning of all periods presented.

Thirteen Weeks Ended November 29, 2014 Compared to Thirteen Weeks Ended November 30, 2013

Net sales

The following table summarizes our net sales for the thirteen weeks ended November 29, 2014 and November 30, 2013:

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	November 29,		Thirteen Weeks Ended	
	2014	% total	November 30, 2013	% total
TCS net sales	\$168,468	88.2%	\$163,744	87.0%
Elfa third party net sales	22,454	11.8%	24,554	13.0%
Net sales	\$190,922	100.0%	\$188,298	100.0%

Net sales in the thirteen weeks ended November 29, 2014 increased by \$2,624, or 1.4%, compared to the thirteen weeks ended November 30, 2013. This increase is comprised of the following components:

	Net sales
Net sales for the thirteen weeks ended November 30, 2013	\$188,298
Incremental net sales increase (decrease) due to:	
New stores	8,579
Comparable stores (including a \$1,124, or 13.2%, increase in online sales)	(4,528)
Elfa third party net sales (excluding impact of depreciation of Swedish krona)	473
Impact of depreciation of Swedish krona on Elfa third party net sales	(2,573)
Installation services	379
Other	294
Net sales for the thirteen weeks ended November 29, 2014	\$190,922

The increase in net sales was driven by new stores, with nine stores generating \$8,579 of incremental sales, three of which were opened in fiscal 2013 and six of which were opened in fiscal 2014. The comparable store sales operating measure based on merchandise orders placed during the third quarter of fiscal 2014 declined 3.5%, 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 \$4,528. Elfa's third party net sales increased by 1.9% in Swedish krona, primarily due to improved market conditions 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 8.6%. Installation services increased by \$379, due to an ongoing, focused effort to increase the number of installed spaces sold.

Gross profit and gross margin

Gross profit in the thirteen weeks ended November 29, 2014 increased by \$920, or 0.8%, compared to the thirteen weeks ended November 30, 2013. The increase in gross profit was primarily the result of increased sales, offset by declines in gross margins. The following table summarizes the gross margin for the third quarter of 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:

	November 29, 2014	Thirteen Weeks Ended November 30, 2013
TCS gross margin	58.9%	58.9%
Elfa gross margin	39.0%	40.5%
Total gross margin	59.6%	60.0%

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TCS gross margin remained consistent at 58.9%. Elfa segment gross margin declined 150 basis points primarily due to a shift in sales mix. On a consolidated basis, gross margin declined 40 basis points, as the decline in Elfa gross margin was partially offset by a larger percentage of consolidated net sales coming from the more profitable TCS segment.

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

Selling, general and administrative expenses in the thirteen weeks ended November 29, 2014 increased by \$5,045, or 5.7%, compared to the thirteen weeks ended November 30, 2013. As a percentage of consolidated net sales, selling, general and administrative expenses increased by 200 basis points. The following table summarizes selling, general and administrative expenses as a percentage of consolidated net sales for the third quarter of fiscal 2014 and fiscal 2013:

	November 29, 2014 % of net sales	Thirteen Weeks Ended November 30, 2013 % of net sales
TCS selling, general and administrative	43.8%	41.7%
Elfa selling, general and administrative	5.4%	5.5%
Total selling, general and administrative	49.2%	47.2%

TCS selling, general and administrative expenses increased by 210 basis points as a percentage of total net sales. The increase was primarily due to decreased leverage of fixed costs during the quarter as a result of lower comparable store sales, as well as increased costs as a result of being a public company and implementation of strategic initiatives. Elfa selling, general and administrative expenses decreased by 10 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

In the thirteen weeks ended November 30, 2013, we recorded \$14,641 of stock-based compensation, 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.

Pre-opening costs

Pre-opening costs decreased by \$230, or 12.6% in the thirteen weeks ended November 29, 2014 to \$1,597, as compared to \$1,827 in the thirteen weeks ended November 30, 2013. We opened two new stores in each of the third quarters of fiscal 2014 and fiscal 2013; however, in fiscal 2014 we incurred decreased costs primarily due to the geographic locations of the store openings.

(Gain) loss on disposal of assets

In the thirteen weeks ended November 29, 2014, we recorded a gain on the disposal of assets of \$3,879. 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 \$3,270 in the third quarter of 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 on the sale of the building of \$560 in the third quarter of fiscal 2014.

Interest expense

Interest expense decreased \$1,517, or 26.2% in the thirteen weeks ended November 29, 2014 to \$4,265 as compared to \$5,782 in the thirteen weeks ended November 30, 2013, primarily due to lower interest rates and repayments on debt obligations. In November 2013, a second amendment to the Senior Secured Term Loan Facility (the Repricing

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Transaction) was executed, which lowered the interest rate to 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.

Taxes

The provision for income taxes in the thirteen weeks ended November 29, 2014 was \$3,242 as compared to \$2,705 in the thirteen weeks ended November 30, 2013. The effective tax rate for the third quarter of fiscal 2014 was 34.2%, as compared to (39.9%) in the third quarter of fiscal 2013. In the third quarter of fiscal 2013, a pre-tax loss was offset by non-deductible costs related to the IPO, creating taxable income and generating a negative effective tax rate. In the third quarter of fiscal 2014, pre-tax income generated a positive effective tax rate. A \$3,270 non-taxable gain on the sale of a Norwegian subsidiary was the primary driver in reducing the quarterly effective income tax rate below the statutory rate in fiscal 2014.

Thirty-Nine Weeks Ended November 29, 2014 Compared to Thirty-Nine Weeks Ended November 30, 2013

Net sales

The following table summarizes our net sales for the thirty-nine weeks ended November 29, 2014 and November 30, 2013:

	November 29,		Thirty-Nine Weeks Ended	
	2014	% total	November 30, 2013	% total
TCS net sales	\$493,011	88.4%	\$466,543	87.7%
Elfa third party net sales	64,596	11.6%	65,173	12.3%
Net sales	\$557,607	100.0%	\$531,716	100.0%

Net sales in the thirty-nine weeks ended November 29, 2014 increased by \$25,891, or 4.9%, compared to the thirty-nine weeks ended November 30, 2013. This increase is comprised of the following components:

	Net sales
Net sales for the thirty-nine weeks ended November 30, 2013	\$531,716
Incremental net sales increase due to:	
New stores	26,214
Comparable stores (including a \$3,031, or 13.5%, increase in online sales)	(2,594)
Elfa third party net sales (excluding impact of depreciation of Swedish krona)	2,692
Impact of depreciation of Swedish krona on Elfa third party net sales	(3,269)
Installation services	2,148
Other	700
Net sales for the thirty-nine weeks ended November 29, 2014	\$557,607

The increase in net sales was driven by new stores, with eleven stores generating \$26,214 of incremental sales, five of which were opened in fiscal 2013 and six of which were opened in fiscal 2014. The comparable store sales operating measure based on merchandise orders placed declined 1.6% during the thirty-nine weeks ended November 29, 2014, primarily due to a decrease in transactions, and was partially offset by an increase in average ticket. The decline in the comparable store sales operating measure was partially offset by increased merchandise deliveries in the thirty-nine weeks ended November 29, 2014 due to the extension of Our Annual elfa® Sale in the fourth quarter of fiscal 2013, and led to a decline in net sales from comparable stores based on merchandise deliveries of \$2,594. Elfa's third party net sales increased 4.1% in Swedish krona, primarily due to improved market conditions 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.

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dollars declined slightly. Installation services increased by \$2,148, due to an ongoing, focused effort to increase the number of installed spaces sold.

Gross profit and gross margin

Gross profit in the thirty-nine weeks ended November 29, 2014 increased by \$14,837, or 4.7%, compared to the thirty-nine weeks ended November 30, 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 the thirty-nine weeks ended November 29, 2014 and November 30, 2013, respectively, by segment and total. The segment margins include the impact of inter-segment sales from the Elfa segment to the TCS segment:

	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
TCS gross margin	58.8%	58.9%
Elfa gross margin	38.4%	39.3%
Total gross margin	58.9%	59.0%

TCS gross margin declined 10 basis points in the thirty-nine weeks ended November 29, 2014 due to a shift in the mix of products and services sold. Elfa segment gross margin declined 90 basis points primarily due to a shift in sales mix, as well as increased costs caused by a weaker Swedish krona in fiscal 2014. On a consolidated basis, gross margin declined 10 basis points, as the decline in Elfa gross margin was offset by the impact of TCS gross margin, due to a larger percentage of net sales coming from the TCS segment.

Selling, general and administrative expenses

Selling, general and administrative expenses in the thirty-nine weeks ended November 29, 2014 increased by \$17,145, or 6.6%, compared to the thirty-nine weeks ended November 30, 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 80 basis points. The following table summarizes selling, general and administrative expenses as a percentage of consolidated net sales for the thirty-nine weeks ended November 29, 2014 and the thirty-nine weeks ended November 30, 2013:

	November 29, 2014 % of net sales	Thirty-Nine Weeks Ended November 30, 2013 % of net sales
TCS selling, general and administrative	43.8%	42.8%
Elfa selling, general and administrative	5.5%	5.7%
Total selling, general and administrative	49.3%	48.5%

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TCS selling, general and administrative expenses increased by 100 basis points as a percentage of total net sales. The increase was primarily due to increased costs as a result of being a public company, implementation of strategic initiatives, and decreased leverage of fixed costs as a result of lower comparable store sales. Elfa selling, general and administrative expenses decreased by 20 basis points as a percentage of total net sales, primarily due to a smaller percentage of total net sales coming from the Elfa segment.

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Stock-based compensation

In the thirty-nine weeks ended November 30, 2013, we recorded \$14,854 of stock-based compensation, 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.

Pre-opening costs

Pre-opening costs increased by \$1,182, or 20.5% in the thirty-nine weeks ended November 29, 2014 to \$6,943, as compared to \$5,761 in the thirty-nine weeks ended November 30, 2013. We opened six new stores and relocated one store in fiscal 2014, and we opened five new stores and relocated one store in fiscal 2013.

(Gain) loss on disposal of assets

In the thirty-nine weeks ended November 29, 2014, we recorded a gain on the disposal of assets of \$3,665. 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 \$3,270 in the third quarter of 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 on the sale of the building of \$560 in the third quarter of fiscal 2014.

Interest expense

Interest expense decreased \$3,906, or 23.2% in the thirty-nine weeks ended November 29, 2014 to \$12,950 as compared to \$16,856 in the thirty-nine weeks ended November 30, 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 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, the Repricing Transaction was executed. 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

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In the thirty-nine weeks ended November 30, 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 the thirty-nine weeks ended November 29, 2014 was \$2,790 as compared to \$2,487 in the thirty-nine weeks ended November 30, 2013. The effective tax rate for the thirty-nine weeks ended November 29, 2014 was 22.5%, as compared to (32.4%) in the thirty-nine weeks ended November 30, 2013. In the thirty-nine weeks ended November 30, 2013, a pre-tax loss was offset by non-deductible costs related to the IPO, creating taxable income and generating a negative effective tax rate. In the thirty-nine weeks ended November 29, 2014, the effective tax rate fell below the statutory rate due to a \$1,839 reduction in tax expense primarily related to an expected refund of tax paid in a prior period, a \$3,270 non-taxable gain on the sale of a Norwegian subsidiary, and a change in mix between projected domestic and foreign earnings.

Table of Contents*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 \$18,781 as of November 29, 2014) 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 is seasonal 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 elfa® Sale which is in our fourth fiscal quarter. 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 November 29, 2014, we had \$13,965 of cash and \$51,864 of additional availability under the Revolving Credit Facility and approximately \$8,531 of additional availability under the 2014 Elfa Revolving Credit Facility. There were \$3,136 in letters of credit outstanding under the Revolving Credit Facility at that date.

Cash flow analysis

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

	November 29, 2014	Thirty-Nine Weeks Ended November 30, 2013
Net cash provided by operating activities	\$15,664	\$10,646
Net cash used in investing activities	(35,578)	(32,155)
Net cash provided by financing activities	16,374	7,304
Effect of exchange rate changes on cash	(541)	(324)
Net decrease in cash	\$(4,081)	\$(14,529)

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.

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Net cash provided by operating activities was \$15,664 for the thirty-nine weeks ended November 29, 2014. Non-cash items of \$22,510 and net income of \$9,625 were offset by a net change in operating assets and liabilities of \$16,471, primarily due to an increase in merchandise inventory during the thirty-nine weeks ended November 29, 2014.

Net cash provided by operating activities was \$10,646 for the thirty-nine weeks ended November 30, 2013. Non-cash items of \$41,388 were offset by a net loss of \$10,174 and a net change in operating assets and liabilities of \$20,568, primarily due to an increase in merchandise inventory during the thirty-nine weeks ended November 30, 2013.

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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 thirty-nine weeks ended November 29, 2014 were \$40,359 with new store openings and existing store remodels accounting for the majority of spending at \$24,865. We opened six new stores and relocated one store during the thirty-nine weeks ended November 29, 2014. The remaining capital expenditures of \$15,494 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 \$4,781 during the thirty-nine weeks ended November 29, 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 thirty-nine weeks ended November 30, 2013 were \$32,563 with new store openings and existing store remodels accounting for the majority of spending at \$20,098. We opened five new stores and relocated one store during the thirty-nine weeks ended November 30, 2013. The remaining capital expenditures of \$12,465 were primarily for investments in infrastructure to support growth and strategic initiatives, as well as Elfa manufacturing facility enhancements.

Net cash provided by financing activities

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

Net cash provided by financing activities was \$16,374 for the thirty-nine weeks ended November 29, 2014. This included net proceeds of \$20,000 from borrowings under the Revolving Credit Facility to support higher working capital needs as we increased inventory purchases in preparation for Our Annual elfa® Sale as well as net proceeds of \$3,837 from borrowings under the Elfa Term Loan Facility and 2014 Elfa Term Loan Facility. The net proceeds were offset by payments of \$4,408 under the Senior Secured Term Loan Facility as well as net payments made of \$3,849 under the Elfa Revolving Credit Facility and 2014 Elfa Revolving Credit Facility. In addition, the Company received proceeds of \$704 from the exercise of stock options.

Net cash provided by financing activities was \$7,304 for the thirty-nine weeks ended November 30, 2013. This included net proceeds of \$17,404 from borrowings under the Elfa Revolving Credit Facility and the Revolving Credit Facility to support higher working capital needs as we increased inventory purchases in preparation for Our Annual elfa® Sale. In addition, 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 senior preferred stock. Finally, we completed our IPO during the period which resulted in \$237,021 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 while \$31,000 was used to pay down a portion of our Senior Secured Term Loan Facility. The remaining net cash payments of \$10,308 were primarily

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for repayment of long-term indebtedness, debt issuance costs and repurchase of treasury stock.

As of November 29, 2014, we had a total of \$51,864 of unused borrowing availability under the Revolving Credit Facility, and \$3,136 in letters of credit issued under the Revolving Credit Facility. There were \$20,000 of borrowings outstanding under the Revolving Credit Facility as of November 29, 2014.

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As of November 29, 2014, Elfa had a total of \$8,531 of unused borrowing availability under the 2014 Elfa Revolving Credit Facility and \$10,250 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%.

On April 8, 2013, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into the Increase and Repricing Transaction, pursuant to which the borrowings under the Senior Secured Term Loan Facility were increased by \$90,000 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 maturity date remained as April 6, 2019. Additionally, pursuant to the Increase and Repricing Transaction (i) the senior secured leverage ratio covenant previously in effect 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 of \$341,421 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 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 of \$310,421 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 November 29, 2014, 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.

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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 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 November 29, 2014, 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 \$8,049 as of November 29, 2014) term loan facility (the 2014 Elfa Term Loan Facility) and a SEK 140.0 million (approximately \$18,781 as of November 29, 2014) 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 \$402 as of November 29, 2014) 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.

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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 November 29, 2014, 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. A summary of the Company's significant accounting policies is included in Note 1 to the Company's annual consolidated financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended March 1, 2014, filed with the SEC on May 28, 2014.

Certain of the Company's accounting policies and estimates are considered critical, as these policies and estimates are the most important to the depiction of the company's consolidated financial statements and require significant, difficult, or complex judgments, often about the effect of matters that are inherently uncertain. Such policies are summarized in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the fiscal year ended March 1, 2014, filed with the SEC on May 28, 2014. As of November 29, 2014, there were no significant changes to any of our critical accounting policies and estimates.

Contractual obligations

There have been no significant changes to our contractual obligations as disclosed in our Annual Report on Form 10-K for the fiscal year ended March 1, 2014, filed with the SEC on May 28, 2014, other than those which occur in the normal course of business.

Off Balance Sheet Arrangements

We are not party to any off balance sheet arrangements.

Recent Accounting Pronouncements

Please refer to Note 1 of our unaudited consolidated financial statements for a summary of recent accounting pronouncements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency risk

We are subject to foreign currency risk in connection with the operations of 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 weighted-average rates of exchange for the year. Based on the average exchange rate from Swedish krona to U.S. dollar during the thirty-nine weeks ended November 29, 2014, and results of operations and financial condition in functional currency, we do not believe that a 10% change in the exchange rate would have a material effect on our consolidated results of operations or financial condition.

We are also subject to foreign currency risk in connection with the purchase of inventory from Elfa. We utilize foreign currency forward contracts to mitigate this risk. During the thirty-nine weeks ended November 29, 2014 and November 30, 2013, the Company used forward contracts for 49% and 87% of inventory purchases in Swedish krona at an average SEK rate of 6.8 and 6.7, respectively. Currently, we have hedged 53% of our planned inventory purchases for fiscal 2014 at an average SEK rate of 6.9 compared to 64% of planned purchases hedged in fiscal 2013 at an average SEK rate of 6.7.

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 November 29, 2014, borrowings subject to interest rate risk were \$363,712, we had \$51,864 of additional availability under the Revolving Credit Facility and approximately \$8,531 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 the thirty-nine weeks ended November 29, 2014, and to the extent that borrowings were 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.

ITEM 4. 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 Quarterly Report on Form 10-Q, 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 (the Exchange Act)). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded

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that our disclosure controls and procedures were effective at the reasonable assurance level as of November 29, 2014.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended November 29, 2014 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. 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 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 1A. RISK FACTORS

There have been no material changes to our risk factors as previously disclosed in Item 1A of Part I of our Annual Report on Form 10-K for the fiscal year ended March 1, 2014, filed with the SEC on May 28, 2014.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

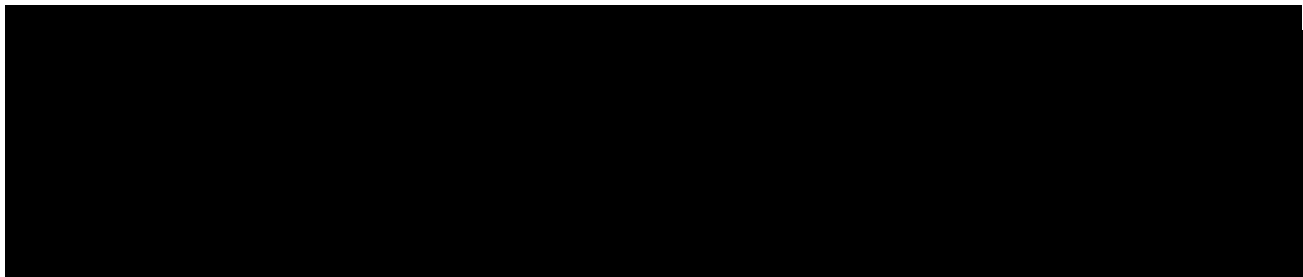
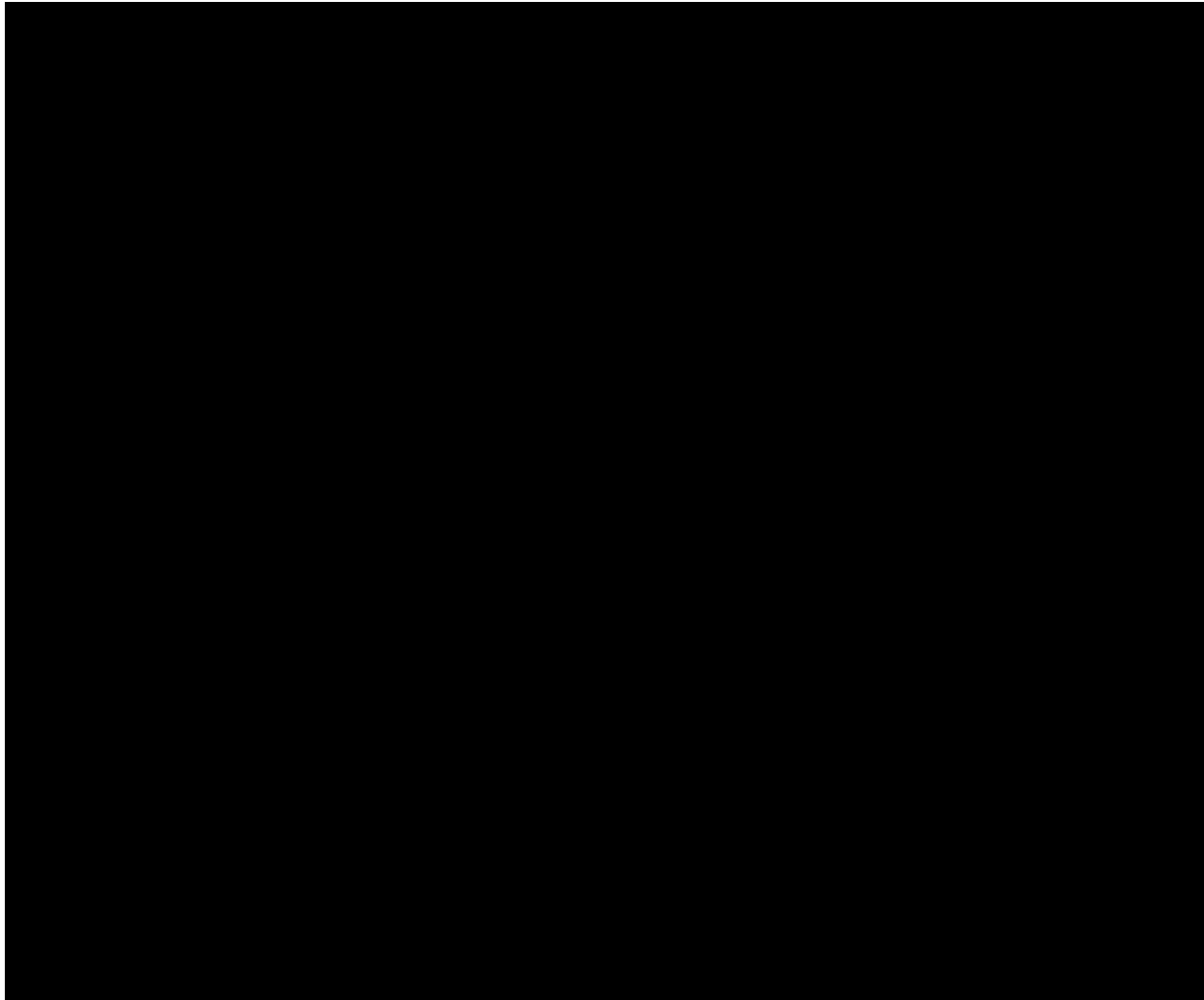


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* Filed herewith.

** Furnished herewith.

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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: January 9, 2015

/s/ Jodi L. Taylor

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

/s/ Jeffrey A. Miller

Jeffrey A. Miller
Chief Accounting Officer (Principal Accounting Officer)