Container Store Group, Inc.
Form 10-Q
January 07, 2016
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

# Form 10-Q

(Mark One)

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

**For the Quarterly Period Ended November 28, 2015**

**OR**

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

**For the transition period from __________ to __________**

**Commission File Number: 001-36161**

# THE CONTAINER STORE GROUP, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **26-0565401** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification No.) |

| | |
|---|---|
| **500 Freeport Parkway Coppell, TX** | **75019** |
| (Addresses of principal executive offices) | (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 x No o

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 x No o

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 | o | | Accelerated filer | x |
| Non-accelerated filer | o | (Do not check if a smaller reporting company) | Smaller reporting company | o |

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

The registrant had 47,986,975 shares of its common stock outstanding as of December 23, 2015.

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# The Container Store Group, Inc.

# Consolidated balance sheets

| (In thousands) | November 28, 2015 (unaudited) | February 28, 2015 | November 29, 2014 (unaudited) |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | $14,571 | $24,994 | $13,965 |
| Accounts receivable, net | 24,170 | 24,319 | 24,036 |
| Inventory | 109,296 | 83,724 | 103,850 |
| Prepaid expenses | 8,438 | 7,895 | 9,259 |
| Income taxes receivable | 1,637 | 1,698 | 3,205 |
| Deferred tax assets, net | 3,256 | 3,256 | 3,967 |
| Other current assets | 11,584 | 11,056 | 14,589 |
| Total current assets | 172,952 | 156,942 | 172,871 |
| Noncurrent assets: | | | |
| Property and equipment, net | 175,239 | 169,053 | 168,859 |
| Goodwill | 202,815 | 202,815 | 202,815 |
| Trade names | 227,659 | 229,433 | 234,557 |
| Deferred financing costs, net | 6,540 | 7,742 | 8,231 |
| Noncurrent deferred tax assets, net | 2,285 | 1,739 | 1,055 |
| Other assets | 1,703 | 1,333 | 1,178 |
| Total noncurrent assets | 616,241 | 612,115 | 616,695 |
| Total assets | $789,193 | $769,057 | $789,566 |

See accompanying notes.

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# The Container Store Group, Inc.

# Consolidated balance sheets (continued)

| (In thousands, except share and per share amounts) | November 28, 2015 (unaudited) | February 28, 2015 | November 29, 2014 (unaudited) |
|---|---|---|---|
| **Liabilities and shareholders equity** | | | |
| Current liabilities: | | | |
| Accounts payable | $50,435 | $48,904 | $50,163 |
| Accrued liabilities | 57,744 | 59,891 | 54,837 |
| Revolving lines of credit | 8,415 | 2,834 | 10,250 |
| Current portion of long-term debt | 5,239 | 5,319 | 5,332 |
| Income taxes payable | 300 | 2,188 | 1,377 |
| Deferred tax liabilities, net | - | - | 29 |
| Total current liabilities | 122,133 | 119,136 | 121,988 |
| Noncurrent liabilities: | | | |
| Long-term debt | 350,950 | 326,775 | 348,489 |
| Noncurrent deferred tax liabilities, net | 81,200 | 82,965 | 84,101 |
| Deferred rent and other long-term liabilities | 38,357 | 38,319 | 38,657 |
| Total noncurrent liabilities | 470,507 | 448,059 | 471,247 |
| Total liabilities | 592,640 | 567,195 | 593,235 |
| | | | |
| Commitments and contingencies *(Note 7)* | | | |
| | | | |
| Shareholders equity: | | | |
| Common stock, $0.01 par value, 250,000,000 shares authorized; 47,986,975 shares issued and outstanding at November 28, 2015; 47,983,660 shares issued and outstanding at February 28, 2015; 47,981,512 shares issued and outstanding at November 29, 2014 | 480 | 480 | 480 |
| Additional paid-in capital | 856,515 | 855,322 | 855,038 |
| Accumulated other comprehensive loss | (20,587) | (18,342) | (10,541) |
| Retained deficit | (639,855) | (635,598) | (648,646) |
| Total shareholders equity | 196,553 | 201,862 | 196,331 |
| Total liabilities and shareholders equity | $789,193 | $769,057 | $789,566 |

See accompanying notes.

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# The Container Store Group, Inc.

# Consolidated statements of operations

| (In thousands, except share and per share amounts) (unaudited) | Thirteen Weeks Ended November 28, 2015 | Thirteen Weeks Ended November 29, 2014 | Thirty-Nine Weeks Ended November 28, 2015 | Thirty-Nine Weeks Ended November 29, 2014 |
|---|---|---|---|---|
| Net sales | $197,241 | $190,922 | $562,556 | $557,607 |
| Cost of sales (excluding depreciation and amortization) | 81,137 | 77,063 | 233,299 | 229,230 |
| Gross profit | 116,104 | 113,859 | 329,257 | 328,377 |
| Selling, general, and administrative expenses (excluding depreciation and amortization) | 101,949 | 93,842 | 289,469 | 275,015 |
| Stock-based compensation | 487 | 404 | 1,164 | 950 |
| Pre-opening costs | 2,994 | 1,597 | 6,870 | 6,943 |
| Depreciation and amortization | 8,834 | 7,776 | 25,249 | 22,599 |
| Other expenses | - | 363 | - | 1,170 |
| Loss (gain) on disposal of assets | 52 | (3,879) | 64 | (3,665) |
| Income from operations | 1,788 | 13,756 | 6,441 | 25,365 |
| Interest expense | 4,213 | 4,265 | 12,611 | 12,950 |
| (Loss) income before taxes | (2,425) | 9,491 | (6,170) | 12,415 |
| (Benefit) provision for income taxes | (694) | 3,242 | (1,913) | 2,790 |
| Net (loss) income | $(1,731) | $6,249 | $(4,257) | $9,625 |
| | | | | |
| Net (loss) income per common share - basic and diluted | $(0.04) | $0.13 | $(0.09) | $0.20 |
| | | | | |
| Weighted-average common shares outstanding - basic | 47,986,975 | 47,979,581 | 47,985,298 | 47,967,566 |
| Weighted-average common shares outstanding - diluted | 47,986,975 | 48,432,143 | 47,985,298 | 48,555,828 |

See accompanying notes.

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# The Container Store Group, Inc.

# Consolidated statements of comprehensive income (loss)

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| **(In thousands) (unaudited)** | **November 28, 2015** | **November 29, 2014** | **November 28, 2015** | **November 29, 2014** |
| Net (loss) income | ($1,731) | $6,249 | ($4,257) | $9,625 |
| Unrealized gain (loss) on financial instruments, net of tax provision (benefit) of $159, $(361), $564, and $(584) | 248 | (560) | 874 | (946) |
| Pension liability adjustment | 41 | 87 | 62 | 207 |
| Foreign currency translation adjustment | (2,330) | (5,525) | (3,181) | (11,485) |
| Comprehensive (loss) income | $(3,772) | $251 | $(6,502) | $(2,599) |

See accompanying notes.

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# The Container Store Group, Inc.

# Consolidated statements of cash flows

| | Thirty-Nine Weeks Ended | |
|---|---|---|
| (In thousands) (unaudited) | November 28, 2015 | November 29, 2014 |
| **Operating activities** | | |
| Net (loss) income | $(4,257) | $9,625 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 25,249 | 22,599 |
| Stock-based compensation | 1,164 | 950 |
| Excess tax benefit from stock-based compensation | - | (90) |
| Loss (gain) on disposal of assets | 64 | (3,665) |
| Deferred tax (benefit) expense | (2,806) | 1,249 |
| Noncash interest | 1,460 | 1,467 |
| Other noncash items | 181 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,153) | 5,101 |
| Inventory | (24,931) | (21,048) |
| Prepaid expenses and other assets | (1,093) | (460) |
| Accounts payable and accrued liabilities | 3,871 | 3,149 |
| Income taxes | (1,948) | (4,660) |
| Other noncurrent liabilities | 422 | 1,447 |
| Net cash (used in) provided by operating activities | (3,777) | 15,664 |
| | | |
| **Investing activities** | | |
| Additions to property and equipment | (36,446) | (40,359) |
| Proceeds from investment grant | 479 | - |
| Proceeds from sale of subsidiary, net | - | 3,846 |
| Proceeds from sale of property and equipment | 199 | 935 |
| Net cash used in investing activities | (35,768) | (35,578) |
| | | |
| **Financing activities** | | |
| Borrowings on revolving lines of credit | 46,222 | 60,374 |
| Payments on revolving lines of credit | (40,354) | (64,223) |
| Borrowings on long-term debt | 33,000 | 34,748 |
| Payments on long-term debt | (8,981) | (15,319) |
| Payment of debt issuance costs | (258) | - |
| Proceeds from the exercise of stock options | 59 | 704 |
| Excess tax benefit from stock-based compensation | - | 90 |
| Net cash provided by financing activities | 29,688 | 16,374 |
| | | |
| Effect of exchange rate changes on cash | (566) | (541) |
| Net decrease in cash | (10,423) | (4,081) |
| Cash at beginning of period | 24,994 | 18,046 |
| Cash at end of period | $14,571 | $13,965 |
| Supplemental disclosures of non-cash activities: | | |
| Purchases of property and equipment (included in accounts payable) | $2,060 | $1,464 |
| Capital lease obligation incurred | $374 | $- |

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 28, 2015

**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 February 28, 2015, filed with the Securities and Exchange Commission on May 8, 2015. The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ). 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.

*Description of business*

The Container Store, Inc. was founded in 1978 in Dallas, Texas, as a retailer with a mission to provide customers with storage and organization solutions through an assortment of innovative products and unparalleled customer service. In 2007, The Container Store, Inc. was sold to The Container Store Group, Inc. (the Company ), a holding company, of which a majority stake was purchased by Leonard Green and Partners, L.P. ( LGP ), with the remainder held by certain employees of The Container Store, Inc. On November 6, 2013, the Company completed its initial public offering (the IPO ). As the majority shareholder, LGP retains controlling interest in the Company. The Container Store, Inc. consists of our retail stores, website and call center, as well as our installation and organizational services business. As of November 28, 2015, The Container Store, Inc. operated 77 stores with an average size of approximately 25,000 square feet (19,000 selling square feet) in 28 states and the District of Columbia. 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.

*Seasonality*

The Company s business is moderately seasonal in nature and, therefore, the results of operations for the thirty-nine weeks ended November 28, 2015 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*

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.

*Recent accounting pronouncements*

In November 2015, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2015-17, *Balance Sheet Classification of Deferred Taxes*. The update requires an entity to classify deferred tax liabilities and assets as noncurrent within a classified statement of financial position. ASU 2015-17 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2016, with early adoption permitted. This update may be applied either prospectively to all deferred tax liabilities and assets or retrospectively

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to all periods presented. The Company does not believe the implementation of this standard will result in a material impact to its financial statements and will early adopt the guidance at the end of its fourth quarter of fiscal year 2015.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to the lower of cost and net realizable value. ASU 2015-11 defines net realizable value as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The new guidance must be applied on a prospective basis and is effective for fiscal years beginning after December 15, 2015, and interim periods within those years, with early adoption permitted. The Company does not believe the implementation of this standard will result in a material impact to its financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement*. The amendments in ASU 2015-05 provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments in ASU 2015-05 are effective for fiscal years beginning after December 15, 2015, and interim periods within those years, with early adoption permitted. The guidance may be applied either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. The Company does not believe the implementation of this standard will result in a material impact to its financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. The update requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. The update requires retrospective application and represents a change in accounting principle. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. In addition, in August 2015, ASU 2015-15, Interest Imputation of Interest, was released which added SEC paragraphs pursuant to the SEC Staff Announcement at the June 18, 2015 Emerging Issues Task Force (EITF) meeting about the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, ASU 2015-15 states the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The impact of ASU 2015-03 and ASU 2015-15 on our consolidated financial statements will include a reclassification of net deferred financing costs related to our Senior Secured Term Loan Facility to be presented in the balance sheet as a direct deduction from the carrying amount of the Senior Secured Term Loan Facility, while net deferred financing costs related to our Revolving Credit Facility will remain an asset. As of November 28, 2015, the Company had $6,106 of net deferred financing costs related to our Senior Secured Term Loan Facility.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, an updated standard on revenue recognition. ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and 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. In July 2015, the FASB deferred the effective date of ASU 2014-09. Accordingly, this standard is effective for reporting periods beginning

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after December 15, 2017, including interim periods within that fiscal year, with early adoption permitted for interim and annual periods beginning after December 15, 2016. 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 October 8, 2015, The Container Store, Inc. executed an amendment ( Amendment No. 2 ) to its revolving credit facility (the Revolving Credit Facility ). Under the terms of Amendment No. 2, among other items, (i) the maturity date of the loan was extended from April 6, 2017 to the earlier of (x) October 8, 2020 and (y) January 6, 2019, if any of The Container Store, Inc. s obligations under its term loan credit facility remain outstanding on such date and have not been refinanced with debt that has a final maturity date that is no earlier than April 6, 2019 or subordinated debt, (ii) the aggregate principal amount of the facility was increased from $75,000 to $100,000, (iii) the interest rate decreased from a range of LIBOR + 1.25% to 1.75% to LIBOR + 1.25% and (iv) the uncommitted incremental revolving facility was increased from $25,000 to $50,000, which is subject to receipt of lender commitments and satisfaction of specified conditions.

As provided in Amendment No. 2, the Revolving Credit Facility will continue to be used for working capital and other general corporate purposes. Amendment No. 2 allows for swing line advances of up to $15,000 and the issuance of letters of credit of up to $40,000, increased from the previous swing line limits of $7,500 and letter of credit limits of $25,000.

The Company capitalizes certain costs associated with issuance of various debt instruments. These deferred financing costs are amortized to interest expense on a straight-line method, which is materially consistent with the effective interest method, over the terms of the related debt agreements. The Company capitalized $258 of fees associated with Amendment No. 2 that will be amortized through October 8, 2020.

**3. Detail of certain balance sheet accounts**

| | **November 28, 2015** | **February 28, 2015** | **November 29, 2014** |
|---|---|---|---|
| Inventory: | | | |
| Finished goods | $104,538 | $79,073 | $98,460 |
| Raw materials | 4,416 | 3,501 | 4,260 |
| Work in progress | 342 | 1,150 | 1,130 |
| | $109,296 | $83,724 | $103,850 |
| | | | |
| Accrued liabilities: | | | |
| Accrued payroll, benefits, and bonuses | $17,569 | $20,155 | $17,865 |
| Accrued transaction and property tax | 11,813 | 8,503 | 11,083 |
| Gift cards and store credits outstanding | 8,158 | 7,683 | 8,192 |
| Unearned revenue | 5,603 | 11,385 | 3,649 |
| Accrued lease liabilities | 4,185 | 3,920 | 3,658 |
| Accrued interest | 2,345 | 2,333 | 2,451 |
| Other accrued liabilities | 8,071 | 5,912 | 7,939 |
| | $57,744 | $59,891 | $54,837 |

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**4. Net income (loss) per common share**

Basic net income (loss) per common share is computed as net income (loss) divided by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per share is computed as net income (loss) 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. Potentially 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) and the number of shares used in the basic and diluted net income (loss) per common share calculations:

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | **November 28, 2015** | **November 29, 2014** | **November 28, 2015** | **November 29, 2014** |
| Numerator: | | | | |
| Net (loss) income | $(1,731) | $6,249 | $(4,257) | $9,625 |
| | | | | |
| Denominator: | | | | |
| Weighted-average common shares outstanding basic | 47,986,975 | 47,979,581 | 47,985,298 | 47,967,566 |
| Weighted-average common shares outstanding diluted | 47,986,975 | 48,432,143 | 47,985,298 | 48,555,828 |
| | | | | |
| Net (loss) income per common share - basic and diluted | $(0.04) | $0.13 | $(0.09) | $0.20 |
| | | | | |
| Antidilutive securities not included: | | | | |
| Stock options outstanding | 2,907,034 | 843,581 | 2,870,248 | 812,886 |

**5. Pension plans**

The Company provides pension benefits to the employees of Elfa under collectively bargained pension plans in Sweden, which are recorded in other long-term liabilities. The defined benefit plan provides benefits for participating employees based on years of service and final salary levels at retirement. The defined benefit plans are unfunded and approximately 3% 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 contributed $593 and $893 for defined contribution plans in the thirteen weeks ended November 28, 2015 and November 29, 2014, respectively. The Company contributed $1,744 and $2,207 for defined contribution plans in the thirty-nine weeks ended November 28, 2015 and November 29, 2014, respectively.

**6. Income taxes**

The Company s effective income tax rate for the thirteen weeks ended November 28, 2015 was 28.6% compared to 34.2% for the thirteen weeks ended November 29, 2014. In the third quarter of fiscal 2015, the effective tax rate fell below the U.S. statutory rate primarily due to the mix of permanently reinvested foreign earnings that are subject to lower foreign tax rates. In the third quarter of fiscal 2014, the effective tax rate fell below the U.S. statutory rate primarily due to a non-taxable gain on the sale of a Norwegian subsidiary and the mix of permanently reinvested foreign earnings that are subject to lower foreign tax rates.

The Company s effective income tax rate for the thirty-nine weeks ended November 28, 2015 was 31.0% compared

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to 22.5% for the thirty-nine weeks ended November 29, 2014. During the first thirty-nine weeks of fiscal 2015, the effective tax rate fell below the U.S. statutory rate primarily due to the mix of permanently reinvested foreign earnings that are subject to lower foreign tax rates. During the first thirty-nine weeks of fiscal 2014, the effective tax rate fell below the U.S. statutory rate primarily due to a $1.8 million reduction in tax expense recorded in the second quarter of fiscal 2014 related to a refund of tax paid in a prior period, a non-taxable gain on the sale of a Norwegian subsidiary recorded in the third quarter of fiscal 2014, and the mix of permanently reinvested foreign earnings that are subject to lower foreign tax rates.

**7. Commitments and contingencies**

In connection with insurance policies and other contracts, the Company has outstanding standby letters of credit totaling $3,598 as of November 28, 2015.

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

**8. Accumulated other comprehensive income**

Accumulated other comprehensive income ( AOCI ) consists of changes in our foreign currency forward contracts, pension liability adjustment, and foreign currency translation. The components of AOCI, net of tax, are shown below for the thirty-nine weeks ended November 28, 2015:

| | **Foreign currency forward contracts** | **Pension liability adjustment** | **Foreign currency translation** | **Total** |
|---|---|---|---|---|
| Balance at February 28, 2015 | $(882) | $(1,167) | $(16,293) | $(18,342) |
| Other comprehensive (loss) income before reclassifications, net of tax | (95) | 62 | (3,181) | (3,214) |
| Amounts reclassified to earnings, net of tax | 969 | - | - | 969 |
| Net current period other comprehensive income (loss) | 874 | 62 | (3,181) | (2,245) |

| | | | | |
|---|---|---|---|---|
| Balance at November 28, 2015 | $(8) | $(1,105) | $(19,474) | $(20,587) |

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

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During the thirty-nine weeks ended November 28, 2015 and November 29, 2014, the TCS segment used forward contracts for 86% and 49% of inventory purchases in Swedish krona each year, respectively. During the thirty-nine weeks ended November 28, 2015 and November 29, 2014, the Elfa segment used forward contracts to purchase U.S. dollars in the amount of $3,580 and $3,500, which represented 58% and 70% of the Elfa segment s U.S. dollar purchases each year, respectively. Generally, the Company s foreign currency forward contracts have terms from 1 to 12 months and require the Company to exchange currencies at agreed-upon rates at settlement.

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

The Company records all foreign currency forward contracts on its consolidated balance sheet at fair value. The Company accounts for its foreign currency hedging instruments in the TCS segment as cash flow hedges, as defined. Changes in the fair value of the foreign currency hedging instruments that are considered to be effective, as defined, are recorded in other comprehensive income (loss) until the hedged item (inventory) is sold to the customer, at which time the deferred gain or loss is recognized through cost of sales. Any portion of a change in the foreign currency hedge instrument s fair value that is considered to be ineffective, as defined, or that the Company has elected to exclude from its measurement of effectiveness, is immediately recorded in earnings as cost of sales. The Company assessed the effectiveness of the foreign currency hedge instruments and determined the foreign currency hedge instruments were highly effective during the thirty-nine weeks ended November 28, 2015 and November 29, 2014. Forward contracts not designated as hedges in the Elfa segment are adjusted to fair value as selling, general, and administrative expenses on the consolidated statements of operations. During the thirty-nine weeks ended November 28, 2015, the Company recognized a net unrealized loss of $181 associated with the change in fair value of forward contracts not designated as hedging instruments.

The Company had $8 in accumulated other comprehensive loss related to foreign currency hedge instruments at November 28, 2015, all of which represents a loss for settled foreign currency hedge instruments related to inventory on hand as of November 28, 2015. The Company expects the loss of $8, net of taxes, to be reclassified into earnings over the next 12 months as the underlying inventory is sold to the end customer.

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

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- 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 28, 2015, February 28, 2015 and November 29, 2014, the Company held certain items that are required to be measured at fair value on a recurring basis. These included the nonqualified retirement plan and foreign currency forward contracts. The nonqualified retirement plan consists of investments purchased by employee contributions to retirement savings accounts. The Company s foreign currency forward contracts 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 foreign currency forward contract activities.

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

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

| **Description** | | **Balance Sheet Location** | **November 28, 2015** | **February 28, 2015** | **November 29, 2014** |
|---|---|---|---|---|---|
| Assets | | | | | |
| Nonqualified retirement plan | Level 2 | Other current assets | $4,124 | $3,951 | $3,955 |
| Foreign currency forward contracts | Level 2 | Other current assets | 290 | 486 | - |
| Total assets | | | $4,414 | $4,437 | $3,955 |
| Liabilities | | | | | |
| Nonqualified retirement plan | Level 2 | Accrued liabilities | 4,132 | 3,966 | 3,962 |
| Foreign currency hedge instruments | Level 2 | Accrued liabilities | - | 315 | 641 |
| Total liabilities | | | $4,132 | $4,281 | $4,603 |

The fair value of long-term debt was estimated using quoted prices as well as recent transactions for similar types of borrowing arrangements (level 2 valuations). As of November 28, 2015, February 28, 2015 and November 29, 2014, the estimated fair value of the Company s long-term debt, including current maturities, was $339,474, $327,830, and $349,545, respectively.

**11. Segment reporting**

The Company s operating segments were determined on the same basis as how management evaluates 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 installation and organizing services.

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.

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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 GAAP.

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

| **Thirteen Weeks Ended November 28, 2015** | **TCS** | **Elfa** | **Corporate/ Other** | **Total** |
|---|---|---|---|---|
| Net sales to third parties | $177,638 | $19,603 | $- | $197,241 |
| Intersegment sales | - | 21,147 | (21,147) | - |
| Interest expense, net | - | 76 | 4,137 | 4,213 |
| Income (loss) before taxes | 1,951 | 4,268 | (8,644) | (2,425) |
| Assets(1) | 650,223 | 104,937 | 34,033 | 789,193 |

| **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(2) | 9,161 | 10,207 | (9,877) | 9,491 |
| Assets(1) | 638,235 | 125,925 | 25,406 | 789,566 |

| **Thirty-Nine Weeks Ended November 28, 2015** | **TCS** | **Elfa** | **Corporate/ Other** | **Total** |
|---|---|---|---|---|
| Net sales to third parties | $509,861 | $52,695 | $- | $562,556 |
| Intersegment sales | - | 40,155 | (40,155) | - |
| Interest expense, net | 6 | 269 | 12,336 | 12,611 |
| Income (loss) before taxes | 11,114 | 3,240 | (20,524) | (6,170) |
| Assets(1) | 650,223 | 104,937 | 34,033 | 789,193 |

| **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(2) | 24,500 | 10,245 | (22,330) | 12,415 |
| Assets(1) | 638,235 | 125,925 | 25,406 | 789,566 |

(1) 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 TCS forward contracts.

(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.

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**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 within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by terms such as may, will, should, expects, plans, anticipates, could, intends, target, projects, contemplates, b predicts, potential or continue or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report, including without limitation statements regarding factors expected to impact gross margin; anticipated effects of investment in our strategic initiatives; and liquidity, 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; the risk that our operating and financial performance in a given period will not meet the guidance we provided to the public; the risk that we will not achieve the anticipated results of our strategic initiatives; 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; risks related to a security breach or cyber-attack of our website or information technology systems, and other damage to such systems; our inability to effectively manage online sales; effects of competition on our business; risks related to our inability to obtain capital on satisfactory terms or at all; disruptions in the global financial markets leading to difficulty in borrowing sufficient amounts of capital to finance the carrying costs of inventory to pay for capital expenditures and operating costs; 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; material damage to or interruptions in our information technology systems; 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; risks related to changes in estimates or projections used to assess the fair value of our intangible assets; 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; risks related to 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 February 28, 2015, filed with the Securities and Exchange Commission (the SEC ) on May 8, 2015.

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 2015 ends on February 27, 2016, fiscal 2014 ended on February 28, 2015 and fiscal 2013 ended on March 1, 2014. The third quarter of fiscal 2015 ended on November 28, 2015 and the third quarter of fiscal 2014 ended on November 29, 2014, and both included thirteen weeks.

## Overview

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

Our operations consist of two operating segments:

- *The Container Store ( TCS ),* which consists of our retail stores, website and call center, as well as our installation and organizational services business. As of November 28, 2015, we operated 77 stores with an average size of approximately 25,000 square feet (19,000 selling square feet) in 28 states and the District of Columbia. Our stores present our products in a unique and engaging atmosphere. Our visual merchandising team works to ensure that all of our merchandise is appropriately showcased to highlight the value and functionality of our products and maximize the appeal of our image and brand. We maintain a consistent store layout which creates a familiar shopping experience across our store base. Our stores are clean and spacious with strict, orderly merchandising and strategic product placements to optimize our selling space and increase productivity. We allow our customers to shop with us in a variety of ways anywhere, anytime, any way she wants through an omnichannel shopping experience. Our stores receive substantially all of our products directly from our distribution center co-located with our corporate headquarters in Coppell, Texas.

- *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

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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.

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | November 28, 2015 | November 29, 2014 | November 28, 2015 | November 29, 2014 |
| Net sales | $197,241 | $190,922 | $562,556 | $557,607 |
| Cost of sales (excluding depreciation and amortization) | 81,137 | 77,063 | 233,299 | 229,230 |
| Gross profit | 116,104 | 113,859 | 329,257 | 328,377 |
| Selling, general, and administrative expenses (excluding depreciation and amortization) | 101,949 | 93,842 | 289,469 | 275,015 |
| Stock-based compensation* | 487 | 404 | 1,164 | 950 |
| Pre-opening costs* | 2,994 | 1,597 | 6,870 | 6,943 |
| Depreciation and amortization | 8,834 | 7,776 | 25,249 | 22,599 |
| Other expenses | - | 363 | - | 1,170 |
| Loss (gain) on disposal of assets | 52 | (3,879) | 64 | (3,665) |
| Income from operations | 1,788 | 13,756 | 6,441 | 25,365 |
| Interest expense | 4,213 | 4,265 | 12,611 | 12,950 |
| (Loss) income before taxes | (2,425) | 9,491 | (6,170) | 12,415 |
| (Benefit) provision for income taxes | (694) | 3,242 | (1,913) | 2,790 |
| Net (loss) income | $(1,731) | $6,249 | $(4,257) | $9,625 |

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| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | November 28, 2015 | November 29, 2014 | November 28, 2015 | November 29, 2014 |
| **Percentage of net sales:** | | | | |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales (excluding depreciation and amortization) | 41.1% | 40.4% | 41.5% | 41.1% |
| Gross profit | 58.9% | 59.6% | 58.5% | 58.9% |
| Selling, general and administrative expenses (excluding depreciation and amortization) | 51.7% | 49.2% | 51.5% | 49.3% |
| Stock-based compensation* | 0.2% | 0.2% | 0.2% | 0.2% |
| Pre-opening costs* | 1.5% | 0.8% | 1.2% | 1.2% |
| Depreciation and amortization | 4.5% | 4.1% | 4.5% | 4.1% |
| Other expenses | 0.0% | 0.2% | 0.0% | 0.2% |
| Loss (gain) on disposal of assets | 0.0% | (2.0%) | 0.0% | (0.7%) |
| Income from operations | 0.9% | 7.2% | 1.1% | 4.5% |
| Interest expense | 2.1% | 2.2% | 2.2% | 2.3% |
| (Loss) income before taxes | (1.2%) | 5.0% | (1.1%) | 2.2% |
| (Benefit) provision for income taxes | (0.4%) | 1.7% | (0.3%) | 0.5% |
| Net (loss) income | (0.9%) | 3.3% | (0.8%) | 1.7% |
| **Operating data:** | | | | |
| Comparable store sales*(1) | 0.5% | (3.5%) | 0.0% | (1.6%) |
| Number of stores open at end of period* | 77 | 69 | 77 | 69 |
| **Non-GAAP measures(2):** | | | | |
| Adjusted EBITDA(3) | $13,833 | $23,398 | $38,382 | $56,978 |
| Adjusted net (loss) income(4) | $(1,731) | $3,207 | $(4,257) | $4,744 |
| Adjusted net (loss) income per common share - diluted(4) | $(0.04) | $0.07 | $(0.09) | $0.10 |

(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 and service orders placed in that period, excluding shipping and delivery, which may not always reflect when the merchandise and services are received by the customer. Prior to fiscal 2015, the comparable store sales growth operating measure did not include net sales from services. 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 ( GAAP ).

(2) We have presented certain non-GAAP measures as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. These non-GAAP measures should not be considered as alternatives to net income (loss) as a measure of financial performance or cash flows from operations as a measure of liquidity, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. These non-GAAP measures are key metrics used by management and our board of directors to assess our financial performance. These non-GAAP measures are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In evaluating these non-GAAP measures, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of these non-GAAP measures should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP

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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.

Additionally, this Management s Discussion and Analysis also refers to Elfa third party net sales after the conversion of Elfa s net sales from Swedish krona to U.S. dollars using the prior year s conversion rate. The Company believes the disclosure of Elfa third party net sales without the effects of currency exchange rate fluctuations helps investors understand the Company s underlying performance.

(3) 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:

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | **November 28, 2015** | **November 29, 2014** | **November 28, 2015** | **November 29, 2014** |
| Net income (loss) | $(1,731) | $6,249 | $(4,257) | $9,625 |
| Depreciation and amortization | 8,834 | 7,776 | 25,249 | 22,599 |
| Interest expense, net | 4,213 | 4,265 | 12,611 | 12,950 |
| Income tax provision (benefit) | (694) | 3,242 | (1,913) | 2,790 |
| EBITDA | 10,622 | 21,532 | 31,690 | 47,964 |
| Pre-opening costs*(a) | 2,994 | 1,597 | 6,870 | 6,943 |
| Noncash rent*(b) | (462) | (397) | (1,588) | 53 |
| Stock-based compensation*(c) | 487 | 404 | 1,164 | 950 |
| Foreign exchange (gains) losses+(d) | 168 | (121) | 187 | (172) |
| Other adjustments(e) | 24 | 383 | 59 | 1,240 |
| Adjusted EBITDA | $13,833 | $23,398 | $38,382 | $56,978 |

(a) 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.

(b) 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.

(c) 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.

(d) Realized foreign exchange transactional gains/losses our management does not consider in our evaluation of our ongoing operations.

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(e) Other adjustments include amounts our management does not consider in our evaluation of our ongoing operations, including certain severance and other charges.

(4) Adjusted net income (loss) and adjusted net income (loss) 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 (loss) as net income (loss) available to common shareholders before distributions accumulated to preferred shareholders, stock-based compensation and other costs in connection with our IPO, restructuring charges, impairment charges related to intangible assets, losses on extinguishment of debt, certain gains on disposal of assets and the tax impact of these adjustments and other unusual or infrequent tax items. We define adjusted net income (loss) per common share diluted as adjusted net income (loss) divided by the diluted weighted average common shares outstanding. We use adjusted net income (loss) and adjusted net income (loss) 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.

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 (loss) and adjusted net income (loss) per common share - diluted is set forth below:

| | Thirteen Weeks Ended | | Thirty-Nine Weeks Ended | |
|---|---|---|---|---|
| | **November 28, 2015** | **November 29, 2014** | **November 28, 2015** | **November 29, 2014** |
| Numerator: | | | | |
| Net (loss) income available to common shareholders | $(1,731) | $6,249 | $(4,257) | $9,625 |
| Distributions accumulated to preferred shareholders | - | - | - | - |
| IPO-related stock-based compensation | - | - | - | - |
| IPO costs | - | - | - | - |
| Restructuring charges | - | - | - | - |
| Goodwill and trade name impairment | - | - | - | - |
| Gain on disposal of subsidiary and real estate+(a) | - | (3,830) | - | (3,830) |
| Loss on extinguishment of debt | - | - | - | - |
| Certain taxes(b) | - | 788 | - | (1,051) |
| Adjusted net (loss) income | $(1,731) | $3,207 | $(4,257) | $4,744 |
| | | | | |
| Denominator: | | | | |
| Weighted average common shares outstanding diluted | 47,986,975 | 48,432,143 | 47,985,298 | 48,555,828 |
| | | | | |
| Adjusted net (loss) income per common share - diluted | $(0.04) | $0.07 | $(0.09) | $0.10 |

(a) 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.

(b) Tax impact of adjustments to net income (loss), as well as other unusual or infrequent tax items, including the impact of a $1.8 million reduction in tax expense recorded in fiscal 2014 primarily related to a refund of tax paid in a prior period, which we do not consider in our evaluation of ongoing performance.

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**Thirteen Weeks Ended November 28, 2015 Compared to Thirteen Weeks Ended November 29, 2014**

***Net sales***

The following table summarizes our net sales for the thirteen weeks ended November 28, 2015 and November 29, 2014:

| | Thirteen Weeks Ended | | | |
|---|---|---|---|---|
| | November 28, 2015 | % total | November 29, 2014 | % total |
| TCS net sales | $177,638 | 90.1% | $168,468 | 88.2% |
| Elfa third party net sales | 19,603 | 9.9% | 22,454 | 11.8% |
| Net sales | $197,241 | 100.0% | $190,922 | 100.0% |

Net sales in the thirteen weeks ended November 28, 2015 increased by $6,319, or 3.3%, compared to the thirteen weeks ended November 29, 2014. This increase is comprised of the following components:

| | Net sales |
|---|---|
| Net sales for the thirteen weeks ended November 29, 2014 | $190,922 |
| Incremental net sales increase (decrease) due to: | |
| New stores | 9,766 |
| Other stores (including a $6,074, or 63.0%, increase in online sales) | (767) |
| Elfa third party net sales (excluding impact of foreign currency translation) | 486 |
| Impact of foreign currency translation on Elfa third party net sales | (3,337) |
| Services and other | 171 |
| Net sales for the thirteen weeks ended November 28, 2015 | $197,241 |

In the third quarter of fiscal 2015, eleven new stores generated $9,766 of incremental sales, four of which were opened in fiscal 2014 and seven of which were opened in fiscal 2015. The increase in sales generated by new stores was partially offset by a $767 decrease in sales from other stores. Elfa third party net sales were negatively impacted by foreign currency translation of $3,337 during the third quarter. After converting Elfa s third party net sales from Swedish krona to U.S. dollars using the prior year s conversion rate for both the third quarter of fiscal 2015 and the third quarter of fiscal 2014, Elfa third party net sales increased $486 primarily due to improved sales in Sweden and Norway partially offset by lower sales in Russia.

***Gross profit and gross margin***

Gross profit in the thirteen weeks ended November 28, 2015 increased by $2,245, or 2.0%, compared to the thirteen weeks ended November 29, 2014. The increase in gross profit was primarily the result of increased sales, partially offset by a decline in consolidated gross margin. The following table summarizes the gross margin for the third quarter of fiscal 2015 and fiscal 2014 by segment and total. The segment margins include the impact of inter-segment sales from the Elfa segment to the TCS segment:

| | Thirteen Weeks Ended | |
|---|---|---|
| | **November 28, 2015** | **November 29, 2014** |
| TCS gross margin | 57.7% | 58.9% |
| Elfa gross margin | 39.3% | 39.0% |
| Total gross margin | 58.9% | 59.6% |

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TCS gross margin decreased by 120 basis points, largely due to the April 2015 introduction of everyday free shipping on orders over $75, increased sales of elfa® product during the annual Shelving Sale promotion, increased sales related to other promotional activities, and a growing mix of lower-margin service sales (such as installation and organization services) during the third quarter of fiscal 2015 as compared to the third quarter of fiscal 2014. This was partially offset by the positive impact of the stronger U.S. dollar. While the introduction of everyday free shipping on orders over $75 has reduced the gross margin rate, the Company believes that increased sales volume associated with the strategy continued to more than offset the related costs. We expect the introduction of everyday free shipping on orders over $75, the growing mix of lower-margin service sales, and the impact of the stronger dollar will continue to impact gross margin for the remainder of fiscal 2015. Elfa segment gross margin improved primarily due to lower direct materials costs, as well as a shift in sales mix, partially offset by increased freight costs. On a consolidated basis, gross margin decreased 70 basis points, as the improvement in Elfa gross margin was more than offset by the decline in 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 thirteen weeks ended November 28, 2015 increased by $8,107, or 8.6%, compared to the thirteen weeks ended November 29, 2014. As a percentage of consolidated net sales, selling, general and administrative expenses increased by 250 basis points. The following table summarizes selling, general and administrative expenses as a percentage of consolidated net sales for the third quarter of fiscal 2015 and fiscal 2014:

| | **Thirteen Weeks Ended** | |
|---|---|---|
| | **November 28, 2015 % of net sales** | **November 29, 2014 % of net sales** |
| TCS selling, general and administrative | 46.5% | 43.8% |
| Elfa selling, general and administrative | 5.2% | 5.4% |
| Total selling, general and administrative | 51.7% | 49.2% |

TCS selling, general and administrative expenses increased by 270 basis points as a percentage of total net sales. The increase was primarily due to a larger percentage of total net sales coming from the TCS segment, combined with costs incurred related to strategic initiatives, increased investment in store payroll for enhanced sales floor coverage and distribution center payroll due to fulfillment of an increased number of orders shipped directly to customers, an increase in healthcare costs, and one-time storage costs incurred in connection with a distribution center automation project. Fiscal 2015 continues to serve as an investment year for the Company as it takes the necessary steps to support its strategic initiatives. We expect the increased distribution center payroll and increased healthcare costs will continue to impact selling, general and administrative expenses for the remainder of fiscal 2015. 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, partially offset by increased sales and marketing costs, and increased warehousing costs.

***Pre-opening costs***

Pre-opening costs increased by $1,397, or 87.5%, in the thirteen weeks ended November 28, 2015 to $2,994, as compared to $1,597 in the thirteen weeks ended November 29, 2014. We opened four new stores in the third quarter of fiscal 2015, and we opened two new stores in the third quarter of fiscal 2014.

***Depreciation and amortization***

Depreciation and amortization increased by $1,058, or 13.6%, in the thirteen weeks ended November 28, 2015 to $8,834, as compared to $7,776 in the thirteen weeks ended November 29, 2014. The increase in depreciation and amortization is primarily related to the increase in the number of stores.

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***Loss (gain) 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.

***Taxes***

The benefit for income taxes in the thirteen weeks ended November 28, 2015 was $694 as compared to a provision of $3,242 in the thirteen weeks ended November 29, 2014. The effective tax rate for the third quarter of fiscal 2015 was 28.6%, as compared to 34.2% in the third quarter of fiscal 2014. The decrease in the effective tax rate is primarily due to a pre-tax loss in the third quarter of 2015 as compared to pre-tax income in the third quarter of 2014, combined with a shift in the mix of projected domestic and foreign earnings. These amounts are partially offset by a reduction to the tax rate in the third quarter of 2014 resulting from a non-taxable gain on the sale of a Norwegian subsidiary.

**Thirty-Nine Weeks Ended November 28, 2015 Compared to Thirty-Nine Weeks Ended November 29, 2014**

***Net sales***

The following table summarizes our net sales for the thirty-nine weeks ended November 28, 2015 and November 29, 2014:

| | | | | Thirty-Nine Weeks Ended |
|---|---|---|---|---|
| | November 28, 2015 | % total | November 29, 2014 | % total |
| TCS net sales | $509,861 | 90.6% | $493,011 | 88.4% |
| Elfa third party net sales | 52,695 | 9.4% | 64,596 | 11.6% |
| Net sales | $562,556 | 100.0% | $557,607 | 100.0% |

Net sales in the thirty-nine weeks ended November 28, 2015 increased by $4,949, or 0.9%, compared to the thirty-nine weeks ended November 29, 2014. This increase is comprised of the following components:

| | Net sales |
|---|---|
| Net sales for the thirty-nine weeks ended November 29, 2014 | $557,607 |
| Incremental net sales increase (decrease) due to: | |
| New stores | 22,729 |
| Other stores (including a $14,298, or 56.0%, increase in online sales) | (6,300) |
| Elfa third party net sales (excluding impact of foreign currency translation) | 489 |
| Impact of foreign currency translation on Elfa third party net sales | (12,390) |
| Services and other | 421 |
| Net sales for the thirty-nine weeks ended November 28, 2015 | $562,556 |

In the thirty-nine weeks ended November 28, 2015, fourteen new stores generated $22,729 of incremental sales, seven of which were opened in fiscal 2014 and seven of which were opened in the first thirty-nine weeks of fiscal 2015. The increase in sales generated by new stores was partially offset by a $6,300 decrease in sales from other

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stores. Elfa third party net sales were negatively impacted by foreign currency translation of $12,390 during the thirty-nine weeks ended November 28, 2015. After converting Elfa s third party net sales from Swedish krona to U.S. dollars using the prior year s conversion rate for both the fiscal 2015 period and the fiscal 2014 period, Elfa third party net sales remained consistent as a result of improved sales in Sweden offset by lower sales in Russia and Norway.

***Gross profit and gross margin***

Gross profit in the thirty-nine weeks ended November 28, 2015 increased by $880, or 0.3%, compared to the thirty-nine weeks ended November 29, 2014. The increase in gross profit was primarily the result of increased sales. The following table summarizes the gross margin for the thirty-nine weeks ended November 28, 2015 and November 29, 2014 by segment and total. The segment margins include the impact of inter-segment sales from the Elfa segment to the TCS segment:

| | Thirty-Nine Weeks Ended | |
|---|---|---|
| | **November 28, 2015** | **November 29, 2014** |
| TCS gross margin | 57.9% | 58.8% |
| Elfa gross margin | 38.9% | 38.4% |
| Total gross margin | 58.5% | 58.9% |

TCS gross margin decreased by 90 basis points, largely due to the April 2015 introduction of everyday free shipping on orders over $75, increased promotional sales of elfa® product, including sales of elfa® product during the annual Shelving Sale promotion in the third quarter of fiscal 2015, a higher response to other promotional activities, and a growing mix of lower-margin service sales (such as installation and organization) during the thirty-nine weeks ended November 28, 2015 as compared to the thirty-nine weeks ended November 29, 2014. This was partially offset by the positive impact of the stronger U.S. dollar. While the introduction of everyday free shipping on orders over $75 has reduced the gross margin rate, the Company believes that increased sales volume associated with the strategy continued to more than offset the related costs. We expect the introduction of everyday free shipping on orders over $75, the growing mix of lower-margin service sales, and the impact of the stronger dollar will continue to impact gross margin for the remainder of fiscal 2015. Elfa segment gross margin improved primarily due to improved production efficiency as a result of investments in automation, as well as a shift in sales mix, partially offset by higher freight costs. On a consolidated basis, gross margin decreased 40 basis points, as the improvement in Elfa gross margin was more than offset by the decline in 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 28, 2015 increased by $14,454, or 5.3%, compared to the thirty-nine weeks ended November 29, 2014. As a percentage of consolidated net sales, selling, general and administrative expenses increased by 220 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 28, 2015 and the thirty-nine weeks ended November 29, 2014:

| | Thirty-Nine Weeks Ended | |
|---|---|---|
| | November 28, 2015 % of net sales | November 29, 2014 % of net sales |
| TCS selling, general and administrative | 46.4% | 43.8% |
| Elfa selling, general and administrative | 5.1% | 5.5% |
| Total selling, general and administrative | 51.5% | 49.3% |

TCS selling, general and administrative expenses increased by 260 basis points as a percentage of total net sales, primarily due to a larger percentage of total net sales coming from the TCS segment, combined with costs incurred related to major initiatives, increased investment in store payroll for enhanced sales floor coverage and distribution center payroll due to fulfillment of an increased number of orders shipped directly to customers, and an increase in healthcare costs. Fiscal 2015 continues to serve as an investment year for the Company as it takes the necessary steps to support its strategic initiatives. We expect the increased distribution center payroll and increased healthcare costs will continue to impact selling, general and administrative expenses for the remainder of fiscal 2015. Elfa selling, general and administrative expenses decreased by 40 basis points as a percentage of total net sales, primarily due to a smaller percentage of total net sales coming from the Elfa segment, partially offset by increased sales and marketing costs, and increased warehousing costs.

***Pre-opening costs***

Pre-opening costs decreased by $73, or 1.1% in the thirty-nine weeks ended November 28, 2015 to $6,870, as compared to $6,943 in the thirty-nine weeks ended November 29, 2014. We opened seven new stores and relocated one store in the thirty-nine weeks ended November 28, 2015, and we opened six new stores and relocated one store in the thirty-nine weeks ended November 29, 2014.

***Depreciation and amortization***

Depreciation and amortization increased by $2,650, or 11.7%, in the thirteen weeks ended November 28, 2015 to $25,249, as compared to $22,599 in the thirteen weeks ended November 29, 2014. The increase in depreciation and amortization is primarily related to the increase in the number of stores.

***Loss (gain) 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.

***Taxes***

The benefit for income taxes in the thirty-nine weeks ended November 28, 2015 was $1,913 as compared to a provision of $2,790 in the thirty-nine weeks ended November 29, 2014. The effective tax rate for the thirty-nine weeks ended November 28, 2015 was 31.0%, as compared to 22.5% in the thirty-nine weeks ended November 29, 2014. The increase in the effective tax rate is primarily due to a $1.8 million reduction in tax expense recorded in the second quarter of fiscal 2014 primarily related to a refund of tax paid in a prior period, the effects of a year-to-date fiscal 2015 pre-tax loss, a non-taxable gain on the sale of a Norwegian subsidiary recorded in the third quarter of fiscal 2014, as well as a change in mix between projected domestic and foreign earnings.

***Liquidity and Capital Resources***

We rely on cash flows from operations, a $100,000 asset-based revolving credit agreement (the Revolving Credit Facility as further discussed under Revolving Credit Facility below), and the SEK 140.0 million (approximately $16,054 as of November 28, 2015) 2014 Elfa revolving credit facility (the 2014 Elfa Revolving Credit Facility as further discussed under Elfa Senior Secured Credit Facilities and 2014 Elfa Senior Secured Credit Facilities below) as our primary sources of liquidity. Our primary cash needs are for merchandise inventories, direct materials, payroll, store rent, capital expenditures associated with opening new stores and updating existing stores, as well as

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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 occurs during 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 12 months.

At November 28, 2015, we had $14,571 of cash and $62,873 of additional availability under the Revolving Credit Facility and approximately $7,639 of additional availability under the 2014 Elfa Revolving Credit Facility.

***Cash flow analysis***

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

| | Thirty-Nine Weeks Ended | |
|---|---|---|
| | **November 28, 2015** | **November 29, 2014** |
| Net cash (used in) provided by operating activities | $(3,777) | $15,664 |
| Net cash used in investing activities | (35,768) | (35,578) |
| Net cash provided by financing activities | 29,688 | 16,374 |
| Effect of exchange rate changes on cash | (566) | (541) |
| Net decrease in cash | $(10,423) | $(4,081) |

***Net cash (used in) provided by operating activities***

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

Net cash used in operating activities was $3,777 for the thirty-nine weeks ended November 28, 2015. Non-cash items of $25,312 were offset by a net loss of $4,257 and a net change in operating assets and liabilities of $24,832, primarily due to an increase in merchandise inventory during the thirty-nine weeks ended November 28, 2015.

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 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 28, 2015 were $36,446 with new store openings, relocations and existing store remodels accounting for $15,539. We opened seven new stores and relocated one store during the thirty-nine weeks ended November 28, 2015. The remaining capital expenditures of $20,907 were primarily for investments in strategic initiatives, our distribution center and information technology.

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Additionally, during the thirty-nine weeks ended November 28, 2015, Elfa received a grant from the Swedish government of $479 related to Elfa s investment in a Swedish production line that was activated in September 2014.

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.

***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 2014 Elfa Revolving Credit Facility.

Net cash provided by financing activities was $29,688 for the thirty-nine weeks ended November 28, 2015. This included net proceeds of $28,000 from borrowings under the Revolving Credit Facility combined with net proceeds of $5,868 from borrowings under the 2014 Elfa Revolving Credit Facility to support higher working capital needs. The net proceeds from borrowings under the Revolving Credit Facility and 2014 Elfa Revolving Credit Facility were partially offset by payments of $3,981 for repayment of long-term indebtedness. In addition, the Company paid $258 of fees associated with the amendment to the Revolving Credit Facility ( Amendment No. 2 ) and received proceeds of $59 from the exercise of stock options.

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 wells 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.

As of November 28, 2015, we had a total of $62,873 of unused borrowing availability under the Revolving Credit Facility, and $28,000 of borrowings outstanding under the Revolving Credit Facility.

As of November 28, 2015, Elfa had a total of $7,639 of unused borrowing availability under the 2014 Elfa Revolving Credit Facility and $8,415 of borrowings 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 Amendment No.1 to the Senior Secured Term Loan Facility, pursuant to which the borrowings under the Senior Secured Term Loan Facility were increased to $362,250 and the interest rate on such borrowings was decreased to a rate of LIBOR + 4.25%, subject to a LIBOR floor of 1.25% (the Increase and Repricing Transaction ). The maturity date remained as April 6, 2019. Additionally, pursuant to the Increase and Repricing

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Transaction (i) the senior secured leverage ratio covenant referenced below was eliminated and (ii) we are required to make quarterly principal repayments of $906 through December 31, 2018, with a balloon payment for the remaining balance due on April 6, 2019. The additional $90,000 of borrowings was used to finance a distribution to holders of our senior preferred stock in the amount of $90,000, which was paid on April 9, 2013.

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

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

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

***Revolving Credit Facility***

On April 6, 2012, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into a $75,000 asset-based revolving credit agreement with the lenders party thereto, 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 accrued 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 was April 6, 2017.

On October 8, 2015, The Container Store, Inc. executed an amendment to the Revolving Credit Facility ( Amendment No. 2 ). Under the terms of Amendment No. 2, among other items, (i) the maturity date of the loan was extended from April 6, 2017 to the earlier of (x) October 8, 2020 and (y) January 6, 2019, if any of The Container Store, Inc. s obligations under its term loan credit facility remain outstanding on such date and have not been refinanced with debt that has a final maturity date that is no earlier than April 6, 2019 or subordinated debt, (ii) the aggregate principal amount of the facility was increased from $75,000 to $100,000, (iii) the interest rate decreased from a range of LIBOR + 1.25% to 1.75% to

LIBOR + 1.25% and (iv) the uncommitted incremental revolving facility was increased from $25,000 to $50,000, which is subject to receipt of lender commitments and satisfaction of specified conditions.

As provided in Amendment No. 2, the Revolving Credit Facility will continue to be used for working capital and other general corporate purposes. Amendment No. 2 allows for swing line advances of up to $15,000 and the issuance

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of letters of credit of up to $40,000, increased from the previous swing line limits of $7,500 and letter of credit limits of $25,000.

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 agreement contains 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 28, 2015, we were in compliance with all covenants and no Event of Default (as such term is defined in the Revolving Credit Facility) has occurred.

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

On April 27, 2009, Elfa entered into 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 (the Elfa Term Loan Facility ) and a revolving credit facility (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 $6,880 as of November 28, 2015) term loan facility (the 2014 Elfa Term Loan Facility ) and a SEK 140.0 million (approximately $16,054 as of November 28, 2015) revolving credit facility (the 2014 Elfa Revolving Credit Facility, and together with the 2014 Elfa Term Loan Facility, the 2014 Elfa Senior Secured Credit Facilities ). The 2014 Elfa Senior Secured Credit Facilities term began on August 29, 2014 and matures on August 29, 2019, or such shorter period as provided by the agreement. Elfa is required to make quarterly principal payments under the 2014 Elfa Term Loan Facility in the amount of SEK 3.0 million (approximately $344 as of November 28, 2015) through maturity. The 2014 Elfa Term Loan Facility bears interest at STIBOR + 1.7% and the 2014 Elfa Revolving Credit Facility bears interest at Nordea s base rate + 1.4%, and these rates are applicable until August 29, 2017, at which time the interest rates may be renegotiated at the request of either party to the agreement. Should the parties fail to agree on new interest rates, Elfa has the ability to terminate the agreement on August 29, 2017, at which time all borrowings under the agreement shall be paid in full to Nordea.

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The 2014 Elfa Senior Secured Credit Facilities contain 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 28, 2015, Elfa was in compliance with all covenants and no Event of Default (as defined in the 2014 Elfa Senior Secured Credit Facilities) had occurred.

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

***Critical accounting policies and estimates***

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events that affect amounts reported in our consolidated financial statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. 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 February 28, 2015, filed with the SEC on May 8, 2015.

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 February 28, 2015, filed with the SEC on May 8, 2015. As of November 28, 2015, 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 disclosed in our Annual Report on Form 10-K for the fiscal year ended February 28, 2015, filed with the SEC on May 8, 2015, 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**

Our market risk profile as of November 28, 2015 has not significantly changed since February 28, 2015. Our market risk profile as of February 28, 2015 is disclosed in our Annual Report on Form 10-K filed with the SEC on May 8, 2015. See Note 9 of Notes to our unaudited consolidated financial statements included in Part I, Item 1, of this Form 10-Q, for disclosures on our foreign currency forward contracts.

**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 that our disclosure controls and procedures were effective at the reasonable assurance level as of November 28, 2015.

***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 28, 2015 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 February 28, 2015, filed with the SEC on May 8, 2015.

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

None.

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**ITEM 3. DEFAULT UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

| | | Incorporated by Reference | | | | |
|---|---|---|---|---|---|---|
| **Exhibit Number** | **Exhibit Description** | **Form** | **File No.** | **Exhibit** | **Filing Date** | **Filed/ Furnished Herewith** |
| 3.1 | Amended and Restated Certificate of Incorporation of The Container Store Group, Inc. | 10-Q | 001-36161 | 3.1 | 1/10/14 | |
| 3.2 | Amended and Restated By-laws of The Container Store Group, Inc. | 10-Q | 001-36161 | 3.2 | 1/10/14 | |
| 10.1 | Amendment No. 2 to Credit Agreement, dated as of October 8, 2015, by and among The Container Store, Inc., as borrower, JPMorgan Chase Bank, N.A., as lender, administrative agent and collateral agent, Wells Fargo Bank, National Association, as lender, and the guarantors party thereto. | 8-K | 001-36161 | 10.1 | 10/9/15 | |
| 31.1 | Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) | | | | | * |
| 31.2 | | | | | | * |

| | | |
|---|---|---|
| | Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) | |
| 32.1 | Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350 | ** |
| 32.2 | Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 | ** |
| 101.INS | XBRL Instance Document | * |
| 101.SCH | XBRL Taxonomy Extension Schema Document | * |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document | * |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document | * |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document | * |
| 101.PRE | XBRL Taxonomy Extension Presentation | * |

* Filed herewith.

** Furnished herewith.

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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 7, 2016

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

Date: January 7, 2016

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