

Container Store Group, Inc.  
Form 10-K  
May 28, 2014

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

(Mark One)

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

**For the fiscal year ended March 1, 2014**

**OR**

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

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

**THE CONTAINER STORE GROUP, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction  
of incorporation or organization)

**26-0565401**  
(IRS Employer  
Identification No.)

**500 Freeport Parkway Coppell, TX**  
(Addresses of principal executive offices)

**75019**  
(Zip Codes)

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

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

**Title of each class**  
Common Stock, par value \$.01 per share

**Name of each exchange on which registered**  
New York Stock Exchange

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The registrant was not a public company as of the last business day of its most recently completed second fiscal quarter and, therefore, cannot calculate the aggregate market value of its voting and non-voting common equity held by non-affiliates as of such date.

As of May 14, 2014, the number of shares of common stock outstanding was 47,946,090.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**Cautionary note regarding forward-looking statements**

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

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

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

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

Our fiscal year is the 52- or 53-week period ending on the Saturday closest to February 28. The following discussion contains references to fiscal 2013, fiscal 2012, and fiscal 2011, which represent our fiscal years ended March 1, 2014, March 2, 2013, and February 25, 2012, respectively.

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**PART I**

**ITEM 1. BUSINESS**

**Company 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. In fiscal 2013, we generated net sales of \$748.5 million. We provide creative, multifunctional, customizable storage and organization solutions that help our customers save time, save space and improve the quality of their lives. The breadth, depth and quality of our product offerings are designed to appeal to a broad demographic, including our core customers, who are predominantly female, affluent, highly educated and busy.

We foster an employee-first culture built around Conscious Capitalism® and our Foundation Principles™. The Foundation Principles™ define how we approach our relationships with our employees, vendors, customers and communities and influence every aspect of our business. You can learn about our Foundation Principles™ on our blog, [www.whatwestandfor.com](http://www.whatwestandfor.com).

**Our 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., a holding company, of which a majority stake was purchased by Leonard Green and Partners, L.P. ("LGP"), with the remainder held by employees of The Container Store, Inc. On November 6, 2013, the Company completed the initial public offering of its common stock (the "IPO"). In connection with its IPO, the Company issued and sold 14,375,000 shares of its common stock at a price of \$18.00 per share.

Today our operations consist of two operating segments:

*The Container Store ("TCS")*, which consists of our retail stores, website and call center. We operate 63 stores with an average size of approximately 19,000 selling square feet in 22 states and the District of Columbia. We also offer all of our products directly to customers through our website and call center, which accounted for approximately 5.6% of TCS net sales in fiscal 2013. Additionally, we offer our products through our GoShop! Click & Pickup service, where customers order online and pick-up at a store, with curbside delivery to the customer's car in most markets. The GoShop! Click & Pickup service accounted for approximately 4.3% of TCS net sales in fiscal 2013, for an aggregate of approximately 9.9% of TCS net sales in fiscal 2013 originating from our website and call center. Our stores receive all products directly from our distribution center co-located with our corporate headquarters in Coppell, Texas. In fiscal 2013, our TCS net sales were derived from approximately 10,500 unique stock keeping units ("SKUs") organized into 16 distinct lifestyle departments sourced from approximately 700 vendors around the world. In fiscal 2013, TCS had net sales of \$660.4 million, which represented approximately 88% of our total net sales.

*Elfa*, The Container Store, Inc.'s wholly owned Swedish subsidiary, Elfa International AB ("Elfa"), which designs and manufactures component-based shelving and drawer systems and made-to-measure sliding doors. Elfa was founded in 1948 and is headquartered in Malmö, Sweden. Elfa's shelving and drawer systems are customizable for any area of the home, including closets, kitchens, offices and garages. Elfa operates four manufacturing facilities with two located in Sweden, one in Finland and one in Poland. The Container Store began selling elfa® products in 1978 and acquired Elfa in 1999. Today our TCS segment is the exclusive distributor of elfa® products in the U.S. and represented approximately 39% of Elfa's total sales in fiscal 2013. Elfa also sells its products on a wholesale basis to various retailers in approximately 30 countries

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around the world, with a concentration in the Nordic region of Europe. In fiscal 2013, the Elfa segment had \$88.2 million of third party net sales, which represented approximately 12% of our total net sales.

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

### **Our competitive strengths**

*Deep-rooted, employee-first culture.* We believe our highly-trained, experienced and motivated employees are critical to delivering our solutions-based retail experience to our customers. Taking care of our employees is The Container Store's top priority, so we continually invest in their recruitment, training and overall job satisfaction. We believe that these investments result in high employee retention rates, inspired service and an enhanced customer experience that differentiates us from other retailers.

We are highly selective in our hiring process, typically hiring less than 4% of annual applicants, and often our new employees are existing customers. We train our employees extensively and continuously throughout their employment. Each new full-time store employee receives more than 260 hours of formal training in their first year alone, which we believe to be far beyond the industry average. Training focuses on our culture, leadership skills, product knowledge, space design skills and operational skills. In addition, we offer flexible work schedules, comprehensive benefits and above industry average compensation to both full and part-time employees. As a result, we have an average full-time employee turn-over rate of approximately 11% annually, significantly below the retail industry average, and we have been recognized in FORTUNE Magazine's list of "100 Best Companies To Work For®" in each of the last 15 years.

*An unmatched collection of storage and organization products.* We offer our customers storage and organization solutions through an extensive and carefully curated assortment of over 10,000 creative and original products at competitive prices. We accomplish this in three principal ways:

**Highly experienced buying team** Our buying team is responsible for sourcing all of our products and averages 13 years tenure at The Container Store. To ensure that our merchandise remains fresh and on-trend, our buying team frequently works directly with vendors to create high quality and differentiated new products exclusively for The Container Store, often based on direct feedback from our customers. The buying team also introduces approximately 2,000 new SKUs on average into our assortment each year.

**Strong vendor relationships** We strive to form meaningful, long-lasting relationships with all of our vendors. We have been developing and refining our distinctive relationship-focused approach to our vendors for over 35 years. We do not view vendor negotiations as a zero-sum game, but rather as an opportunity to creatively craft mutually beneficial relationships, which we believe has fostered a unique sense of loyalty among our vendors. We estimate that over half of our net sales in fiscal 2013 were generated from merchandise exclusive to the Company, and we believe that only a small portion of our merchandise is carried by other national retailers. Our strong vendor relationships benefit us in a number of ways, including an increased number of exclusive products, competitive pricing and favorable payment terms.

**The elfa® advantage** We are the exclusive distributor of elfa® products in the United States. elfa® is both our highest sales volume and, by virtue of our vertical integration, our highest gross margin department. Each of our stores includes an elfa® Custom Design Center where our

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highly trained experts can assist customers in designing and installing a customized storage solution. In fiscal 2013, the elfa® department represented approximately \$158.8 million, or approximately 24%, of TCS net sales, which included approximately \$117.4 million of elfa® Custom Design Center net sales with an average ticket of \$598.94. This compares to an average ticket of \$60.55 for the entire TCS segment.

*Highly-differentiated shopping experience.* We place great emphasis on creating an inviting and engaging store experience. Our customers often come to The Container Store knowing that they have a storage and organization challenge, but without a clear plan of how to address and solve their underlying issue. Our highly-trained salespeople seek to interact with our customers, asking questions, listening and learning from them so that they can understand the complete scope of their needs. This allows us to provide our customers with creative, tailored, comprehensive and multifunctional solutions, often utilizing multiple products from many of the 16 distinct lifestyle departments in our stores. This selling approach allows us to sell a broader range of products and to deliver a differentiated experience to our customers, which we believe results in a higher average ticket, repeat visits and frequent referrals to other potential customers.

Our interactive customer service experience is further enhanced by a variety of additional service offerings, including our elfa® Installation Service, GoShop! Click & Pickup, and GoShop! Scan & Deliver in the Manhattan market (in which a customer simply scans her products with a hand-held device, checks out, after which the merchandise is delivered to her home). These services and, in the case of GoShop! Click & Pickup and GoShop! Scan & Deliver, advanced technologies, provide additional convenience and flexibility to our customers and reinforce our commitment to providing a differentiated shopping experience.

*Proven real estate site selection process.* We seek to locate our stores in highly desirable retail developments surrounded by dense concentrations of our core customers. We maintain a disciplined approach to new store development and perform comprehensive market research before selecting a new site based on customer demographics from eSite, an independent customer analytics research firm, and data from our customer database to identify existing customers. Additionally, we maintain a flexible cost structure that allows us to achieve consistent profitability margins across a range of sales levels and successfully operate stores in a variety of markets. Our average first year, four wall adjusted EBITDA margin on new stores has averaged approximately 23% and the Company earns its invested capital back in about 2.5 years. Our data-driven approach, premium locations and flexible new store model have resulted in strong performance across our store base. We have never closed or relocated a store due to underperformance.

We have strong relationships with best-in-class commercial real estate firms and believe that we are a highly sought-after tenant given our brand and the high volume of affluent customers that visit our stores. As a result, we continue to have access to desirable retail sites on attractive terms.

*Powerful brand with strong customer loyalty.* We believe that The Container Store brand has become synonymous with the storage and organization category and an organized, stress-reduced lifestyle. The strength of our brand is built on our history as the originator and leader of the storage and organization category, our best-in-class product offerings and our commitment to our employees, vendors, customers and communities. We believe that this makes us the preferred retail destination for storage and organization solutions.

We have achieved nationwide recognition attributable in part to numerous news and media impressions. We are consistently presented with opportunities to showcase our brand on a national stage. Notable publicity includes appearances and mentions with CNBC, the Today Show, Good Morning America, CBS Sunday Morning, the Rachel Ray Show, the Talk, the Wall Street Journal, The New York Times, InStyle, HGTV, Elle Décor, and People StyleWatch. We were also featured on

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"Ellen's 12 Days of Christmas" in 2012 and 2013. In addition, we received the National Retail Federation's Gold Medal Award for excellence in 2011. The prominence of our brand has also led to a significant number of unpaid media impressions, including print mentions in newspapers and magazines with more than 360 million readers and television broadcast mentions on shows with more than 170 million viewers in 2013. We also enjoy a strong following on various social media outlets including Facebook (over 283,000 "likes"), Twitter (over 29,500 followers) and Pinterest (over 47,000 followers), in each case as of March 1, 2014.

*Highly experienced and passionate management team with proven track record.* Led by our Chairman and Chief Executive Officer, William A. "Kip" Tindell, III, our senior management team averages approximately 18 years with The Container Store, and is responsible for our proven track record of growth and consistent performance. Both Kip and Sharon Tindell, our Chief Merchandising Officer, have been inducted into the Retailing Hall of Fame. Melissa Reiff, our President and Chief Operating Officer, joined the team in 1995 and has been instrumental in elevating and leading the organization through its sizable expansion over the past two decades. Kip, Sharon, Melissa and the rest of the management team are dedicated to maintaining our employee-first culture and crafting mutually beneficial relationships with all of our stakeholders, which we believe will lead to continued growth and value creation in the future.

**Our growth strategy**

The key elements of our growth strategy include:

*Expanding our store base.* We believe that our expansion opportunities in the United States are significant. Our current footprint of 63 stores extends to 22 states and the District of Columbia. We opened six new stores during fiscal 2013 (including one store relocation). We expect to open seven new stores in fiscal 2014 (including one store relocation), and are actively pursuing an eighth new store in fiscal 2014. Based on research conducted for us by eSite, we believe that we can grow our current U.S. store footprint to at least 300 stores in our current format. We endeavor to grow our square footage by at least 12% a year in new and existing markets. We have adopted a disciplined expansion strategy designed to leverage the strength of our business model and nationally recognized brand name to successfully develop new stores in an array of markets that are primed for growth, including new, existing, small and large markets. While our current expansion focus is on domestic markets, we believe international expansion may provide additional growth opportunities for us in the future.

Historically, our new store openings have been highly successful due in part to our new store opening execution strategy, which involves months of hiring, training, marketing, and public relations and culminates in a multi-day grand opening celebration in partnership with a local charity. This distinctive approach enables our new stores to deliver strong sales volumes quickly.

*Driving comparable store sales growth.* We have achieved comparable store sales growth in each of the past 15 fiscal quarters (through February 2014) and have increased our average ticket by 18.9% during the same period. We believe that we can continue to grow our comparable store sales by driving store traffic, improving customer conversion and growing our average ticket by continuing to provide a differentiated shopping experience through our solutions-based selling approach, new product and service introductions and well-maintained stores. Our employees receive continuous training on our products to ensure that our customers are sold complete solutions rather than individual products. We also believe that our high levels of service will continue to drive increased sales of the products in our higher margin elfa® department and complete space design solutions. We believe that these factors, combined with our continuous focus on further increasing brand awareness, will attract new customers and increase loyalty with existing customers. Additionally, we are piloting two programs with planned rollouts in fiscal 2014. Our ATHOME personalized design and organization service, where organizers go directly into customers' homes and organize for them using The Container Store products, is



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currently testing in select Texas stores. Our POP! (Perfectly Organized Perks) customer engagement program, which will reward customers with special communication, surprise and delight gifts, and exclusive offers, is currently testing in California stores.

*Enhancing and growing multi-channel presence.* In addition to our retail stores, we also offer our products directly to our customers through our fully-integrated website and call center, which collectively accounted for 5.6% of TCS net sales in fiscal 2013. Additionally, we offer our products through our GoShop! Click & Pickup service, where customers order online and pick-up at a store which curbside delivery to the customer's car in most markets. The GoShop! Click & Pickup service accounted for approximately 4.3% of TCS net sales in fiscal 2013. Through continual technology enhancements and innovative services, such as GoShop! Click & Pickup, we believe we are well positioned for continued growth in our direct sales channels. Our website and call center sales have increased 140% from fiscal 2009 to fiscal 2013, including 11% growth in fiscal 2013.

*Increasing brand awareness.* We will continue to promote our brand by constantly communicating our message of organized and stress-reduced living to our current and potential customers. We do this through our comprehensive marketing strategy, which includes direct mail, advertising, online, public relations and social media. Our Customer Relationship Management ("CRM") strategy allows us to target our marketing efforts through direct mail and email. This strategy is supported by our customer database of over 15 million customer households, which includes customer transaction data and demographic overlays that help us better understand customer behaviors and identify opportunities. Additionally, our marketing and brand building efforts are enhanced by an ongoing dialogue with our customers through growing social and mobile channels including Facebook, Twitter, Pinterest, Instagram, and YouTube.

As a part of our commitment to Conscious Capitalism®, we focus on serving the local communities in which we operate. We provide donations, gift cards and storage and organization makeovers to a variety of local nonprofit organizations to show our support for the organizations that are important to our customers. Additionally, when opening each new store, we partner with a prominent local nonprofit organization, working together to welcome the new store to the community. We host a grand opening party on the Thursday night before the Saturday on which the store opens, and donate 10% of our initial Saturday and Sunday sales from that new store to our nonprofit partner. As we continue to grow our store base, we plan to continue our active partnerships with local nonprofit organizations in order to build a sense of community with our customers and promote The Container Store brand.

*Improving profitability.* We believe that the expected expansion of our store base and the expected growth in comparable store sales will result in improved profitability as we take advantage of economies of scale in products sourcing and leverage our existing infrastructure, supply chain, corporate overhead and other fixed costs. We also expect to maintain our disciplined pricing approach, which involves strategic promotional campaigns with limited use of traditional markdowns or discounting.

**What we stand for Organization with heart**

Since our inception, we have developed a distinctive corporate culture with a mission to help provide order to an increasingly busy and chaotic world. We operate under a set of core values that places our employees first and promotes our seven Foundation Principles™, which influence and guide every aspect of our business. We believe motivated and well-trained employees lead to satisfied customers who, in turn, drive the growth and success of our business. By promoting these core values, we encourage our employees to work in unison toward a common goal of providing the best retail experience for our customers.

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We proudly practice Conscious Capitalism® and strive to create an environment that can simultaneously create value for all of our stakeholders, including our employees, customers, vendors, communities and shareholders. Our commitment to this operating philosophy is built around cultivating caring, long-term relationships with our employees, vendors and customers. We believe that fostering an environment where everyone associated with the business can thrive is the right way to do business and the best way to generate long-term profitable growth.

We believe our relationship with our employees, at all levels of the organization, is excellent and a key contributor to our success. We believe the knowledge and passion of our employees allows us to deliver our solutions-based retail experience to our customers and strengthens our brand loyalty. We believe motivated and well-trained employees lead to satisfied customers who, in turn, lead to increased revenues and profitability.

To support our company's commitment to an employee-first culture, on February 14, 2014, we announced the creation of The Container Store's Employee First Fund. The Employee First Fund provides grants to The Container Store, Inc.'s employees experiencing unforeseen emergencies like a major medical situation, a catastrophic event, or other grave challenges that they are not financially prepared to deal with. Initially funded through a Company contribution, the Employee First Fund will be supported in the future through contributions made by employees and other Company stakeholders. As a newly formed nonprofit company, the Employee First Fund has filed for 501(c)(3) tax exempt status with the IRS and is pending approval.

## **Our stores**

### *Retail stores*

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 utilize display samples and demonstrations, including inspirational elfa® solutions, which foster customer interaction with products and add to the air of excitement in our stores. We maintain a hands-on, solutions-based service approach and further enhance the store experience with convenient, time-saving and value-added services, including free closet design with elfa®, free in-store demonstrations, our GoShop! Click & Pickup service (in which a customer orders online and picks up at a store) with curbside delivery to the customer's car in most markets, and our GoShop! Scan & Deliver service in the Manhattan market (in which a customer simply scans her products with a hand-held device and checks out, after which the merchandise is delivered to her home).

### *E-commerce*

We are a fully-integrated multi-channel retailer. Our website, [www.containerstore.com](http://www.containerstore.com), is intended to replicate the store experience as much as possible and offers the same product assortment found in the stores, as well as certain products found exclusively online. Additionally, our website allows our customers to provide product ratings and reviews which our merchandising team reads, responds to and incorporates into product design discussions with vendors. Our average product rating for the time period between January 2010 when the tracking of product ratings was first initiated and March 1, 2014 was approximately 4.6 stars out of 5. The website also provides convenient service offerings, including online design services, practical tips and advice, video demonstration, Live Chat, GoShop! Click & Pickup, GoShop! Click & Deliver and Gift Registry. We also maintain a website optimized for mobile devices and a call center to support our e-commerce business.

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**Our products**

*Strategy*

Our goal is to be the destination for all of our customers' storage and organizational needs. We focus on offering the most extensive, dynamic and unique product selection in the storage and organization industry. We achieve this through our broad merchandise assortment, frequent new product introductions and meaningful proportion of proprietary and exclusive merchandise. We seek to showcase the merchandise in our stores and online to highlight the value and functionality of our products and maximize the appeal of our image and brand. Our merchandising team continually monitors historical sales trends and new product launches to keep our stores' offerings fresh and relevant to our customers, working closely with our vendors to create new products exclusively for us to supplement our best selling products and continue to evolve our product offering. We maintain a disciplined approach to pricing and merchandising, which involves strategic promotional campaigns with limited use of traditional markdowns and discounting.

We believe the exclusivity of our products and our solutions-based selling approach strengthens our position as a leader and a trendsetter in the industry. We estimate that over half of our net sales in fiscal 2013 were from merchandise exclusive to The Container Store. Many of these products are our own brands, including our elfa® products. We seek to introduce every customer to elfa® and provide them with custom design and installation services. We believe the high level of customer service we deliver allows us to effectively market and sell our elfa® products in a way that differentiates us and supports our market leadership in the sector.

The goal of our solutions-based selling approach is to provide each customer with a comprehensive solution that fits her needs. We believe our solutions-based approach offers a unique shopping experience for our customer. By offering complete organizational solutions, our customer can find everything she needs within our stores.

*Products*

Our stores are typically organized into 16 distinct lifestyle departments as follows:

<b>Lifestyle departments</b>	<b>Select products</b>
Bath	Countertop Organizers, Cosmetic and Jewelry Organizers, Shower and Bathtub Organizers, Drawer Organization, Cabinet Storage
Box	Corrugated Boxes, Packing Material, Tape, Storage Bags, Specialty Boxes
Closets	Shoe Racks, Hangers, Drawer Organizers, Boxes and Bins, Hanging Storage Bags, Garment Racks
Collections	Media Storage, Photo Storage, Display, Small Craft and Parts Organizers
Containers	Small Boxes, Small Baskets, Tins, Divided Boxes, Decorative Containers
elfa®	Wall and Door Rack Systems, Drawer Systems and Accessories, Ventilated and Solid Shelving Systems, Utility and Garage Systems
Food Storage	Canisters, Jars, Lunchtime Essentials, Bulk Food Storage, Plastic and Glass Food Storage
Gift Packaging	Gift Wrap and Tags, Ribbons and Bows, Gift Wrap Organizers, Gift Bags and Sacks, Gift Boxes
Hooks	Wall Mounted, Self Adhesive, Magnetic, Overdoor, Removable

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<b>Lifestyle departments</b>	<b>Select products</b>
Kitchen	Drawer Liners and Organizers, Countertop Organizers, Dish Drying Racks, Cabinet Storage, Pantry Organizers
Laundry	Step Stools, Hampers, Laundry Bags and Baskets, Clothes Drying Racks, Cleaning Tools
Office	Desktop Collections, Paper Storage, File Carts and Cabinets, Literature Organizers, Message Boards
Shelving	Free Standing Shelving, Wall Mounted Shelving, Cube Systems, Component Shelving, Desks, Chairs
Storage	Drawers, Boxes and Bins, Totes, Crates, Carts
Trash	Recycle Bins, Wastebaskets, Open Cans, Step on Cans, Bags
Travel	Luggage, Totes, Clothing Organizers, Cosmetic and Jewelry Organizers, Travel Bottles

### **Sourcing**

We purchased merchandise from approximately 700 different vendors and for the TCS segment, our top 10 vendors, excluding Elfa, accounted for less than 25% of our total purchases in fiscal 2013. Approximately 22% of our fiscal 2013 TCS segment purchases were attributed to intercompany purchases from our Elfa segment. In order to maximize our purchasing flexibility, we do not enter into long-term contracts with any of our vendors. Accordingly, we generally operate without any contractual assurances of continued supply, pricing or access to new products. We strive to form meaningful, long-lasting and mutually beneficial relationships with our vendors. We are collaborative in our vendor negotiations so as to develop a partnership with our vendors and, in time, a sense of loyalty to The Container Store. Seventeen of our top 20 vendors have been with us for at least 10 years and several of those vendors have been with us since our inception in 1978.

### **Distribution**

In the TCS segment, all of our merchandise flows through a centralized distribution center prior to transport to our retail stores. Our distribution center is co-located with our corporate offices in Coppell, Texas. The approximately 1.1 million square foot facility was designed and constructed specifically for The Container Store and is comprised of approximately 78,000 square feet of corporate office space and over 1 million square feet of warehouse space (of which approximately 900,000 square feet are currently in use). With the exception of the Dallas / Fort Worth market, we utilize third party carriers to transport all of our products to our stores.

Our Coppell, TX distribution center uses a state-of-the-art warehouse management system that is designed to optimize every aspect of distribution operations, from picking and packing to slotting and labor management. We recently invested in this new system in order to provide us with the control and flexibility that we believe is required for first-class inventory management. Further, so as to minimize the amount of time our retail stores have to spend managing inventory, all of the merchandise in our distribution center is prepared to be sales floor ready (ticketed with price tags and store replenishment packaging) prior to transport to our stores. We believe that this system allows our employees to concentrate on what matters most, which is understanding our customers' needs and providing them with tailored solutions and a differentiated shopping experience. We emphasize safety and efficiency and have received numerous operational awards in recognition of our distribution center's high standards. We believe that the size and scalability of the distribution center, in addition to the currently unused space, is more than sufficient to support our future expansion over the next 3 to 4 years.

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

**Marketing and advertising**

Our marketing and advertising strategy seeks to promote our brand, culture and values to new and existing customers. Our goal is to develop a continuous dialogue with our core customers in order to remain relevant in their lives and be top-of-mind when it comes to storage and organization solutions.

Our strategy centers on our Working Marketing Plan, an integrated 18-month forward-looking plan for all upcoming initiatives viewable by all employees at any time through our intranet and maintained by our marketing team. The Working Marketing Plan allows functional areas from across the entire company to collaborate in order to support our marketing programs. Sales goals, staffing, inventory logistics, product development, visual merchandising and expense planning all revolve around this dynamic plan, which is updated on a weekly basis.

We employ a wide array of traditional and online media on a national and local level, including direct mail, online marketing, print, outdoor, broadcast and mobile. Our traditional media advertising resulted in 1.4 billion paid media impressions in fiscal 2013. The prominence of our brand has also led to a significant number of unpaid media impressions, including print mentions in newspapers and magazines with more than 360 million readers and television broadcast mentions on shows with more than 170 million viewers in 2013. In addition, we take a proactive approach to public relations through national, local and trade media outlets. Notable publicity includes appearances and mentions with CNBC, the Today Show, Good Morning America, CBS Sunday Morning, the Rachel Ray Show, the Talk, the Wall Street Journal, The New York Times, InStyle, HGTV, Elle Décor, and People StyleWatch. We were also featured on "Ellen's 12 Days of Christmas" in 2012 and 2013. Direct mail is the largest component of our marketing strategy as it is the most targeted way to reach our customers. We have developed a robust database of over 15 million households, of which 2.2 million have been active over the past 12 months as of March 1, 2014. The database includes customer transaction information and demographic and segment overlays, which help us to better understand key customer behaviors and assist in identifying current and future opportunities.

We maintain an active social media program and have developed a strong presence on various social media platforms including Facebook (over 283,000 "likes"), Twitter (over 29,500 followers) and Pinterest (over 47,000 followers), in each case as of March 1, 2014. Additionally, we promote our unique culture and approach to Conscious Capitalism® through our blog, [www.whatwestandfor.com](http://www.whatwestandfor.com). Our blog communicates what we stand for to our customers, vendors, employees and communities, our Foundation Principles™ and our commitment to practicing Conscious Capitalism®. We believe in working hard to create an environment where the lives of everyone connected to our business are enriched and can thrive.

**Hiring, training and motivating our employees**

As of March 1, 2014, we had approximately 5,300 total employees. TCS employees accounted for approximately 4,700 of this total, of which 3,110 were part-time employees. TCS employees are not subject to a collective bargaining agreement. As of March 1, 2014, Elfa and its subsidiaries had approximately 600 employees. As of March 1, 2014, approximately 53% of Elfa's employees (approximately 6% of our total employees) were covered by collective bargaining agreements. We have never experienced a strike or work stoppage, and we believe that our relations with employees are excellent.

We believe that the recruitment, training and knowledge of our employees and the consistency and quality of the service they deliver are central to our success. We are highly selective in our hiring process, typically hiring less than 4% of annual applicants. Most of our employees are college-educated

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and often our new employees are existing customers. We endeavor to hire employees with similar sophistication, skills and life experiences as our customers, with the goal of having our employees relate to our customers in the selling environment. We believe our employee-customer interaction is important to build the trust and rapport necessary to execute our solutions-based selling approach. The recruiting department relies on external marketing, employee recommendations and our website to facilitate recruitment of future employees.

We dedicate substantial resources to training. Each new full-time store employee receives more than 260 hours of formal training in their first year alone, including product, leadership, cultural and operational training. Each store has a dedicated Store Manager Training and a dedicated Sales Trainer. Our sales associates are trained to interact, inquire and listen to customers so that they can understand the complete scope of each customer's situation. We believe this approach allows us to provide creative, tailored, comprehensive and multifunctional solutions, often utilizing multiple products from several of the 16 distinct lifestyle departments in our stores. This selling approach allows us to sell a broader range of products and deliver a differentiated experience to our customers, which we believe results in a higher average ticket, repeat visits and frequent referrals.

Given the level of investment that each employee receives in terms of training, we are committed to retaining each of our employees. We believe that communication is vital to the culture of the business and engages and empowers our workforce. Our financial performance, strategic initiatives and organizational successes are communicated to employees at all levels. We also pride ourselves on our compensation policy as a retention tool. We offer flexible work schedules, comprehensive benefits and above industry average compensation to both full and part-time employees. As a result, we have an average full-time employee turn-over rate of approximately 11% annually, significantly below the retail industry average, and we have been recognized in FORTUNE Magazine's list of "100 Best Companies To Work For®" in each of the last 15 years.

**Information technology**

Our information technology systems are critical to our day-to-day operations as well as to the execution of our long-term strategy. We are committed to using technology in order to help drive growth and enhance business results. We use a combination of industry standard systems along with proprietary systems developed internally to support all areas of our business, including supply chain, merchandising, store operations, point-of-sale, e-commerce, finance, accounting and human resources.

Our systems provide us the real-time data and automation needed to continually improve our operations and customer service levels. Our inventory replenishment system optimizes the flow of inventory throughout our supply chain using advanced forecasting algorithms in order to enhance customer service levels while increasing inventory turns. Furthermore, we use technology to provide an enhanced customer experience such as our proprietary elfa® Custom Design Center software, which allows our customers to virtually design their ideal customized elfa® space. We believe our current systems provide us with the operational efficiencies, customer solutions, scalability, management control and timely reporting that allows us to identify and respond to operating trends in our business. We believe that our systems have the flexibility and capacity to accommodate our future growth plans.

**Intellectual property**

Our "The Container Store," "Contain Yourself" and "elfa" trademarks and certain variations thereon, such as our "The Container Store" logo and many trademarks used for our product lines and sales campaigns are registered or are the subject of pending trademark applications with the U.S. Patent and Trademark Office and with the trademark registries of many foreign countries. In addition, we own many domain names, including "[www.containerstore.com](http://www.containerstore.com)," "[www.whatwestandfor.com](http://www.whatwestandfor.com)" and others that include our trademarks. We also own a patent for our proprietary retail shopping computer

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systems and copyrights in our catalogs, websites, and other marketing material. We believe that our trademarks, product designs and copyrighted works have significant value and we vigorously protect them against infringement.

**Our market and competition**

We operate within the storage and organization category, which extends across many retail segments including housewares, office supplies and travel, among others. This category is highly fragmented and The Container Store is the only national retailer solely devoted to it. We believe the category is growing and will continue to grow due, in part, to several favorable demographic trends, including (1) the desire for efficiency and organization of Baby Boomers as they become "empty nesters," (2) the generation of Baby Boomers' children driving demand for organizational products as they move into their first homes and (3) the increase of dual-income families with a need for solutions to organize and simplify their busy lives. Given The Container Store's industry leadership, unmatched product assortment and customer service, and national footprint, we believe we are well positioned to increase our share of this growing category.

We have little direct competition from other national or regional retailers in the storage and organization market. However, storage and organization products are sold by a variety of retailers, including mass merchants (*e.g.*, Walmart and Target) and specialty retail chains (*e.g.*, Bed Bath & Beyond and Crate & Barrel) that devote a smaller portion of their merchandise assortment to storage and organization than our stores, and internet-based retailers (*e.g.*, Amazon). Some of our competitors are larger and have greater financial, marketing and other resources than The Container Store. We compete with such retailers on the basis of vendor relationships, product selection, product quality, brand recognition, price, customer service, effective consumer marketing and promotional activities, and the ability to identify and satisfy emerging consumer preferences, among other things. We believe that the strength of our solutions-based selling with highly trained employees, exclusive offerings and vendor relationships, our passionate and loyal customer base and the quality, differentiation and breadth of product assortment compare favorably to those of our competitors.

**Seasonality**

Our storage and organization product offering makes us less susceptible to holiday shopping seasonal patterns than many retailers. In addition, our marketing plan is designed to minimize volatility and seasonal fluctuations of sales across periods. Historically, our business has realized a higher portion of net sales, operating income and cash flows from operations in the fourth fiscal quarter, attributable primarily to the impact of Our Annual elfa® Sale, which starts on December 24th and traditionally runs through early February. In fact, in excess of 60% of our adjusted net income was derived in the fiscal fourth quarter in the past three years. After a weather-impacted fourth quarter, Our Annual elfa® Sale was extended during fiscal 2013 to March 1, 2014 to allow our customers more time to take advantage of the sale.

**Regulation and legislation**

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

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

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**Where you can find more information**

We are required to file annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended, with the SEC. You may read and copy the reports and other information we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. You may also obtain copies of this information by mail from the public reference section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. You may obtain information regarding the operation of the public reference room by calling 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of that website is <http://www.sec.gov>.

We maintain public internet sites at <http://investor.containerstore.com> and make available, free of charge, through these sites our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, Proxy Statements and Forms 3, 4 and 5 filed on behalf of directors and executive officers, as well as any amendments to those reports filed or furnished pursuant to the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. We also put on our websites the charters for our Board of Directors' Audit Committee, Culture and Compensation Committee, Nominating and Corporate Governance Committee, as well as our Code of Business Conduct and Ethics, our Corporate Governance Guidelines and Code of Ethics governing our chief executive and senior financial officers and other related materials. The information on our websites is not part of this annual report.

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

**ITEM 1A. RISK FACTORS**

Our business faces significant risks and uncertainties. Certain important factors may have a material adverse effect on our business prospects, financial condition and results of operations, and you should carefully consider them. Accordingly, in evaluating our business, we encourage you to consider the following discussion of risk factors, in its entirety, in addition to other information contained in or incorporated by reference into this Annual Report on Form 10-K and our other public filings with the SEC. Other events that we do not currently anticipate or that we currently deem immaterial may also affect our business, prospects, financial condition and results of operations.

**Risks related to our business**

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

Our business depends on consumer demand for our products and, consequently, is sensitive to a number of factors that influence consumer spending generally and for discretionary items in particular. Factors influencing consumer spending include general economic conditions, consumer disposable income, fuel prices, recession and fears of recession, unemployment, war and fears of war, inclement weather, availability of consumer credit, consumer debt levels, conditions in the housing market, interest rates, sales tax rates and rate increases, inflation, consumer confidence in future economic conditions and political conditions, and consumer perceptions of personal well-being and security. For example, a decrease in home purchases has led and may continue to lead to decreased consumer spending on home-related products. Prolonged or pervasive economic downturns could slow the pace of new store openings or cause current stores to close. Adverse changes in factors affecting discretionary consumer spending have reduced and may continue to further reduce consumer demand for our



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products, thus reducing our sales and harming our business and operating results. In particular, consumer purchases of discretionary items, such as our elfa® closet systems, tend to decline during recessionary periods when disposable income is lower.

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

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

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

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

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

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

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

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

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

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

***Our business depends in part on a strong brand image. If we are not able to protect our brand, we may be unable to attract a sufficient number of customers or sell sufficient quantities of our products.***

We believe that the brand image we have developed has contributed significantly to the success of our business to date. We also believe that protecting The Container Store brand is integral to our business and to the implementation of our strategies for expanding our business. Our brand image may be diminished if we do not continue to make investments in areas such as marketing and advertising, as well as the day-to-day investments required for store operations, catalog mailings, online sales and employee training. Our brand image may be further diminished if new products fail to maintain or enhance our distinctive brand image. Furthermore, our reputation could be jeopardized if we fail to maintain high standards for merchandise quality, if we fail to maintain high ethical, social and environmental standards for all of our operations and activities, if we fail to comply with local laws and regulations or if we experience negative publicity or other negative events that affect our image or reputation, some of which may be beyond our ability to control, such as the effects of negative publicity regarding our vendors. Any failure to maintain a strong brand image could have an adverse effect on our sales and results of operations.

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

Our success depends in large part on our ability to identify, originate and define storage and organization product trends, as well as to anticipate, gauge and react to changing consumer demands in a timely manner. Our products must appeal to a range of consumers whose preferences cannot always be predicted with certainty. We cannot assure you that we will be able to continue to develop products that customers respond to positively or that we will successfully meet consumer demands in the future. Any failure on our part to anticipate, identify or respond effectively to consumer preferences and

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demand could adversely affect sales of our products. If this occurs, our sales may decline, and we may be required to mark down certain products to sell the resulting excess inventory, which could have a material adverse effect on our financial condition and results of operations.

In addition, we must manage our merchandise in stock and inventory levels to track consumer demand. Much of our merchandise requires that we provide vendors with significant ordering lead time, frequently before market factors are known. In addition, the nature of our products requires us to carry a significant amount of inventory prior to peak selling seasons. If we are not able to anticipate consumer demand for our different product offerings, or successfully manage inventory levels for products that are in demand, we may experience:

back orders, order cancellations and lost sales for products that are in high demand for which we did not stock adequate inventory; and

overstock inventory levels for products that have lower consumer demand, requiring us to take markdowns or other steps to sell slower moving merchandise.

As a result of these and other factors, we are vulnerable to demand and pricing shifts and to misjudgments in the selection and timing of merchandise purchases.

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

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

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

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

We do not own any real estate at our TCS segment. Instead, we lease all of our store locations, as well as our corporate headquarters and distribution center in Coppell, Texas. Our stores are leased from third parties and generally have an initial term of ten to fifteen years. Many of our lease agreements also have additional five-year renewal options. We believe that we have been able to negotiate favorable rental rates and tenant allowances over the last few years due in large part to the state of the economy and higher than usual vacancy rates in a number of regional malls and shopping centers. These trends may not continue, and there is no guarantee that we will be able to continue to negotiate such favorable terms. Many of our leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if

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the shopping venue does not meet specified occupancy standards. In addition to fixed minimum lease payments, most of our store leases provide for additional rental payments based on a percentage of sales, or "percentage rent," if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and any extensions. Increases in our already substantial occupancy costs and difficulty in identifying economically suitable new store locations could have significant negative consequences, which include:

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

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

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

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

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

During fiscal 2013, approximately 80% of our merchandise was manufactured abroad based on cost of merchandise purchased. The prices charged by foreign manufacturers may be affected by the fluctuation of their local currency against the U.S. dollar. We source goods from various countries, including China, and thus changes in the value of the U.S. dollar compared to other currencies may affect the costs of goods that we purchase.

Our largest exposure to currency exchange rate fluctuations is between the U.S. dollar and Swedish krona. The TCS segment purchases all products from the Elfa segment in Swedish krona. Approximately 22% of our U.S. dollar merchandise purchases in the TCS segment in fiscal 2013 were originally made in Swedish krona from our Elfa segment.

***We have experienced net losses in the past and we may experience net losses in the future.***

We experienced net losses of \$0.1 million and \$30.7 million in fiscal 2012, and fiscal 2011, respectively. The net losses in fiscal 2012 and fiscal 2011 are inclusive of intangible asset impairments at our Elfa segment in the amounts of \$15.5 million and \$47.0 million in fiscal 2012 and fiscal 2011, respectively. We may experience net losses in the future, and although we experienced a net income of \$8.2 million in fiscal 2013, we cannot assure you that we will achieve profitability in future periods.

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

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

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

***Disruptions in the global financial markets may make it difficult for us to borrow a sufficient amount of capital to finance the carrying costs of inventory and to pay for capital expenditures and operating costs, which could negatively affect our business.***

Disruptions in the global financial markets and banking systems have made credit and capital markets more difficult for companies to access, even for some companies with established revolving or other credit facilities. Under the Revolving Credit Facility, each member of the syndicate for the Revolving Credit Facility is responsible for providing a portion of the loans to be made under the facility. Factors that have previously affected our borrowing ability under the Revolving Credit Facility have included the borrowing base formula limitations, adjustments in the appraised value of our inventory used to calculate the borrowing base and the availability of each of the lenders to advance its portion of requested borrowing drawdowns under the facility. If, in connection with a disruption in the global financial markets or otherwise, any participant, or group of participants, with a significant portion of the commitments in the Revolving Credit Facility fails to satisfy its obligations to extend credit under the facility and we are unable to find a replacement for such participant or group of participants on a timely basis (if at all), our liquidity and our business may be materially adversely affected.

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

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

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

In conducting our business, including our e-commerce business, we obtain and transmit confidential information about our customers, including credit card information, through our website and our information technology systems. We also receive and maintain confidential information about

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our employees in the normal course of business. While, to the best of our knowledge, we have not experienced any material misappropriation, loss or other unauthorized disclosure of confidential or personally identifiable information as a result of a security breach or cyber-attack, such a security breach or cyber-attack could adversely affect our business and operations, including damaging our reputation and our relationships with our customers and employees, and exposing us to risks of litigation and liability. While we believe we are diligent in hiring employees and selecting vendors, systems and procedures to enable us to maintain the integrity of our systems, we recognize that there are inherent risks and we cannot assure that any future breaches, attacks or unauthorized disclosures will not occur, or that our vendors and employees will comply with all applicable laws, regulations and contractual provisions pertaining to the use of personal information. In addition, as a result of recent security breaches at a number of prominent retailers, the media and public scrutiny of information security and privacy has become more intense and the regulatory environment has become more uncertain. As a result, we may incur significant costs to comply with laws regarding the protection and unauthorized disclosure of personal information.

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

While our differentiated product offerings have limited direct competition, similar items can be found in a variety of retailers. We compete primarily based on level of service and by product quality and selection. Competitive products can be found in mass merchants (e.g., Walmart and Target), as well as specialty retail chains (e.g., Bed Bath & Beyond and Crate & Barrel). Some of our competitors, particularly the mass merchants, are larger and have greater financial resources than we do. We also face competition from internet-based retailers (e.g., Amazon), in addition to traditional store-based retailers. This could result in increased price competition since our customers can more readily search and compare similar products.

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

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

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

discontinue selling merchandise to us;

enter into exclusivity arrangements with our competitors;

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

raise the prices they charge us;

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

lengthen their lead times; or

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

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

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

Although many of our products are sold by our vendors only to The Container Store, products related to the majority of our non-elfa® sales are not sold to us on an exclusive basis. Of the non-elfa® products that we purchase on an exclusive basis, none of these products are sold pursuant to agreements with exclusivity provisions. As a result, most of our vendors have no obligation to refrain from selling similar or identical products to our competitors, some of whom purchase products in significantly greater volume, or entering into exclusive arrangements with other retailers that could limit our access to their products. Our vendors could also initiate or expand sales of their products through their own stores or through the Internet to the retail market and therefore compete with us directly or sell their products through outlet centers or discount stores, increasing the competitive pricing pressure we face.

***We depend on key executive management.***

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

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

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of store employees, including general managers and store managers, who understand and appreciate our customers, products, brand and corporate culture, and are able to adequately and effectively represent our culture and establish credibility with our customers. Our planned growth will require us to hire and train even more personnel to manage such growth. If we are unable to hire and retain personnel capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm

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for our culture, understanding of our customers and knowledge of the merchandise we offer, our ability to open new stores may be impaired, the performance of our existing and new stores could be materially adversely affected and our brand image may be negatively impacted. There is a high level of competition for experienced, qualified personnel in the retail industry and we compete for personnel with a variety of companies looking to hire for retail positions. Our growth plans could strain our ability to staff our new stores, particularly at the store manager level, which could have an adverse effect on our ability to maintain a cohesive and consistently strong team, which in turn could have an adverse impact on our business. If we are unable to attract, train and retain employees in the future, we may not be able to serve our customers effectively, thus reducing our ability to continue our growth and to operate our existing stores as profitably as we have in the past.

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

None of our U.S.-based employees is currently subject to a collective bargaining agreement. As we continue to grow and enter different regions, unions may attempt to organize all or part of our employee base at certain stores or within certain regions. Responding to such organization attempts may distract management and employees and may have a negative financial impact on individual stores, or on our business as a whole.

As of March 1, 2014, approximately 53% of Elfa's employees (approximately 6% of our total employees) were covered by collective bargaining agreements. A dispute with a union or employees represented by a union, including a failure to extend or renew our collective bargaining agreements, could result in production interruptions caused by work stoppages. If a strike or work stoppage were to occur, our results of operations could be adversely affected.

***Higher health care costs and labor costs could adversely affect our business.***

With the passage in 2010 of the *U.S. Patient Protection and Affordable Care Act*, we are required to provide affordable coverage, as defined in the Act, to all employees, or otherwise be subject to a payment per employee based on the affordability criteria in the Act. Many of these requirements will be phased in over a period of time, with the majority of the most impactful provisions affecting us presently anticipated to begin in the second quarter of fiscal 2014. Additionally, some states and localities have passed state and local laws mandating the provision of certain levels of health benefits by some employers. Increased health care and insurance costs could have a material adverse effect on our business, financial condition and results of operations. In addition changes in federal or state workplace regulations could adversely affect our ability to meet our financial targets.

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

During fiscal 2013, excluding purchases for Elfa, we purchased approximately 25% of our merchandise from manufacturers located in the United States and approximately 75% from manufacturers located outside the United States (including approximately 44% from manufacturers located in China). In addition, some of the merchandise we purchase from manufacturers in the United States also depends, in whole or in part, on manufacturers located outside the United States. As a result, our business depends on global trade, as well as trade and cost factors that impact the specific countries where our manufacturers are located, including Asia. Our future success will depend in part upon our ability to maintain our existing foreign manufacturer relationships and to develop new ones. While we rely on our long-term relationships with our foreign manufacturers, we have no long-term contracts with them and transact business on an order by order basis. Additionally, many of our imported products are subject to existing duties, tariffs and quotas that may limit the quantity of some types of goods which we may import into the United States. Our dependence on foreign imports also makes us vulnerable to risks associated with products manufactured abroad, including, among other things, risks of damage, destruction or confiscation of products while in transit to our distribution



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centers located in the United States, charges on or assessment of additional import duties, tariffs and quotas, loss of "most favored nation" trading status by the United States in relation to a particular foreign country, work stoppages, including without limitation as a result of events such as longshoremen strikes, transportation and other delays in shipments, including without limitation as a result of heightened security screening and inspection processes or other port-of-entry limitations or restrictions in the United States, freight cost increases, economic uncertainties, including inflation, foreign government regulations, trade restrictions, including the United States retaliating against protectionist foreign trade practices and political unrest, increased labor costs and other similar factors that might affect the operations of our manufacturers in specific countries such as China.

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

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

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

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

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

As of March 1, 2014, we had total outstanding debt of \$351.3 million and an additional \$69.7 million of availability under the Revolving Credit Facility and the Elfa Revolving Credit Facility. We may incur additional indebtedness in the future. Our high degree of leverage could have important consequences to us, including:

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

limiting our ability to pay future dividends;

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

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

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

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

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

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

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

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

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

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

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

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

We depend largely upon our information technology systems in the conduct of all aspects of our operations. Such systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, fire and natural disasters. Damage or

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interruption to our information systems may require a significant investment to fix or replace them, and we may suffer interruptions in our operations in the interim. In addition, costs and potential problems and interruptions associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations. Any material interruptions or failures in our information systems may have a material adverse effect on our business or results of operations.

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

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

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

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

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

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

We are subject to regulations by a variety of federal, state and international regulatory authorities, including the Consumer Product Safety Commission. During fiscal 2013, we purchased merchandise from approximately 700 vendors. If our vendors fail to manufacture or import merchandise that adheres to product safety requirements or our quality control standards, our reputation and brands

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could be damaged, potentially leading to increases in customer litigation against us. It is possible that one or more of our vendors might not adhere to product safety requirements or our quality control standards, and we might not identify the deficiency before merchandise is sold. Any issues of product safety, could cause us to recall some of those products. If our vendors are unable or unwilling to recall products failing to meet product safety requirements or our quality standards, we may be required to recall those products at a substantial cost to us. Furthermore, to the extent we are unable to replace any recalled products, we may have to reduce our merchandise offerings, resulting in a decrease in sales, especially if a recall occurs near a seasonal period.

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

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

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

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

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

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

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

Our total assets include intangible assets with an indefinite life, goodwill and trademarks, and substantial amounts of property and equipment. We make certain estimates and projections in connection with impairment analyses for these long lived assets, in accordance with FASB Accounting Standards Codification ("ASC") 360, "Property, Plant and Equipment" ("ASC 360"), and ASC 350, "Intangibles Goodwill and Other" ("ASC 350"). We also review the carrying value of these assets for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable in accordance with ASC 360 or ASC 350. We will record an impairment loss when the carrying value of the underlying asset, asset group or reporting unit exceeds its fair value. These calculations require us to make a number of estimates and projections of future results. If these estimates or projections change, we may be required to record additional impairment charges on certain of these assets. If these impairment charges are significant, our results of operations would be adversely affected. We recorded impairment charges of \$15.5 million and \$15.6 million related to the elfa® trade name in fiscal 2012 and fiscal 2011, respectively. We also recorded goodwill impairment charges of \$31.5 million related to the Elfa segment in fiscal 2011.

***Significant increases in raw material prices or energy costs may adversely affect our costs, including cost of merchandise.***

Any future increases in commodity prices for raw materials that are directly or indirectly related to the production of our products, such as the prices of steel, oil, resin and pulp, may adversely affect our costs. Furthermore, the transportation industry may experience a shortage or reduction of capacity, which could be exacerbated by higher fuel prices. Our results of operations may be adversely affected if we or our vendors are unable to secure, or are able to secure only at significantly higher costs, such commodities or fuel.

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

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

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

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***Our operating results are subject to quarterly and seasonal fluctuations, and results for any quarter may not necessarily be indicative of the results that may be achieved for the full fiscal year. As a result, the market price of our common stock may fluctuate substantially.***

Our quarterly results have fluctuated in the past and may fluctuate significantly in the future, depending upon a variety of factors, including, among other things, our product offerings, promotional events, store openings, the weather, remodeling or relocations, shifts in the timing of holidays, timing of catalog releases or sales, timing of delivery of orders, competitive factors and general economic conditions. As a result of these quarterly and seasonal fluctuations, the market price of our common stock may fluctuate substantially.

Our comparable store sales and quarterly results have fluctuated significantly in the past based on a number of economic, seasonal and competitive factors, and we expect them to continue to fluctuate in the future. Since the beginning of fiscal 2009, our quarterly comparable store sales growth has ranged from a decrease of 12.0% to an increase of 12.9%. This variability could cause our comparable store sales and quarterly results to fall below the expectations of securities analysts or investors, which could result in a decline in the market price of our common stock.

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

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

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

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

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

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

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

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

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

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

LGP owns approximately 27.5 million shares, or 57.4%, of our outstanding common stock. LGP will, for the foreseeable future, have significant influence over our reporting and corporate management and affairs, and will be able to control virtually all matters requiring shareholder approval. LGP is able to, subject to applicable law, and the voting arrangements with management, designate a majority of the members of our board of directors and control actions to be taken by us and our board of directors, including amendments to our certificate of incorporation and bylaws and approval of significant corporate transactions, including mergers and sales of substantially all of our assets. The directors so elected will have the authority, subject to the terms of our indebtedness and our rules and regulations, to issue additional stock, implement stock repurchase programs, declare dividends and make other decisions. It is possible that the interests of LGP may in some circumstances conflict with our interests and the interests of our other shareholders, including you.

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

Because of the aggregate voting power over our Company held by certain affiliates of LGP and certain members of management, we are considered a "controlled company" for the purposes of the New York Stock Exchange listing requirements. As such, we are exempt from the corporate governance requirements that our board of directors, our culture and compensation committee and our nominating and corporate governance committee meet the standard of independence established by those corporate governance requirements. The independence standards are intended to ensure that directors who meet those standards are free of any conflicting interest that could influence their actions as directors.

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

***As a newly public company, the share price for our common stock may fluctuate significantly.***

Prior to our IPO, there was no public market for our common stock. As a public company, the market price for our common stock is likely to be volatile, in part because our shares have not been

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traded publicly. In addition, the market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

quarterly variations in our operating results compared to market expectations;

changes in preferences of our customers;

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

size of the public float;

stock price performance of our competitors;

fluctuations in stock market prices and volumes;

default on our indebtedness;

actions by competitors or other shopping center tenants;

changes in senior management or key personnel;

changes in financial estimates by securities analysts;

the market's reaction to our reduced disclosure as a result of being an emerging growth company under the JOBS Act;

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

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

issuances of capital stock; and

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

Numerous factors affect our business and cause variations in our operating results and affect our net sales and comparable store sales, including consumer preferences, buying trends and overall economic trends; our ability to identify and respond effectively to trends and customer preferences; actions by competitors and other shopping center tenants; changes in our merchandise mix; pricing; the timing of our releases of new merchandise and promotional events; the level of customer service that we provide in our stores; changes in sales mix among sales channels; our ability to source and distribute products effectively; inventory shrinkage; weather conditions, particularly during the holiday season; and the number of stores we open in any period.



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

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

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the price of our common stock and could impair our ability to raise capital through the sale of additional shares. As of March 1, 2014, we have 47,941,180 shares of outstanding common stock, of which approximately 31,029,917 shares became eligible to be sold 180 days after October 31, 2013. The 31,029,917 shares are owned by each of our executive officers and directors and certain shareholders, including LGP. In addition, under our 2013 Equity Plan, we granted to our directors and certain of our employees stock options to purchase, at the IPO price of \$18.00 per share, 2,622,721 shares, of which stock options to purchase 1,666,066 shares became

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immediately vested upon the closing of the IPO. The remaining stock options will vest in equal annual installments over seven years. All of the stock options granted to directors became immediately vested upon the closing of the IPO. The shares issuable under these options not held by our affiliates are freely tradable without restriction under the Securities Act. The shares of common stock offered in the IPO are freely tradable without restriction under the Securities Act, except for any shares of our common stock that may be held or acquired by our directors, executive officers and other affiliates, as that term is defined in the Securities Act, which are restricted securities under the Securities Act. Restricted securities may not be sold in the public market unless the sale is registered under the Securities Act or an exemption from registration is available. Certain existing holders of our common stock have rights, subject to certain conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other shareholders.

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

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

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

***We will incur increased costs as a result of becoming a public company.***

As a newly public company, we will incur significant legal, accounting, insurance and other expenses that we had not incurred as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with the Sarbanes-Oxley Act and related rules implemented by the Securities and Exchange Commission ("SEC"). The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time-consuming and costly. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our common stock, fines, sanctions and other regulatory action and potentially civil litigation.

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

Provisions of our amended and restated certificate of incorporation and amended and restated bylaws as well as provisions of Delaware law could discourage, delay or prevent a merger, acquisition

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or other change in control of our Company, even if such change in control would be beneficial to our shareholders. These include:

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

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

the removal of directors only for cause;

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

limiting the ability of shareholders to call special meetings;

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

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

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

Finally, on November 6, 2013, the affiliates of LGP which own our common stock, and Kip Tindell, Sharon Tindell and Melissa Reiff (the "management directors") entered into a voting agreement. Pursuant to the terms of this agreement, for so long as such LGP affiliates and the management directors collectively hold at least 40% of our outstanding common stock, or the agreement is otherwise terminated in accordance with its terms, such affiliates of LGP agree to vote their shares of our common stock in favor of the election of the management directors to our board of directors upon their nomination by the nominating and corporate governance committee of our board of directors and the management directors agree to vote their shares of our common stock in favor of the election of the directors affiliated with LGP upon their nomination by the nominating and corporate governance committee of our board of directors. The parties to this agreement collectively hold approximately 31.0 million shares, or 64.6%, of our outstanding common stock.

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

Our certificate of incorporation requires, to the fullest extent permitted by law, that (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees to us or our shareholders, (iii) any action asserting a claim against us arising pursuant to any provision of the General Corporation Law of the State of Delaware or our certificate of incorporation or the bylaws or (iv) any action asserting a claim against us governed by the internal affairs doctrine will have to be brought only in the Court of Chancery in the State of Delaware. Although we believe this provision benefits us by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers.

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

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

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

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

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

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

We currently intend to take advantage of the reduced disclosure requirements regarding executive compensation. We have irrevocably elected not to take advantage of the extension of time to comply with new or revised financial accounting standards available under Section 107(b) of the JOBS Act. If we remain an "emerging growth company" after fiscal 2013, we may take advantage of other exemptions, including the exemptions from the advisory vote requirements and executive compensation disclosures under the Dodd-Frank Act and the exemption from the provisions of Section 404(b) of the Sarbanes-Oxley Act. We cannot predict if investors will find our common stock less attractive if we elect to rely on these exemptions, or if taking advantage of these exemptions would result in less active trading or more volatility in the price of our common stock. Also, as a result of our intention to take advantage of some or all of the reduced regulatory and reporting requirements that will be available to us as long as we qualify as an "emerging growth company," our financial statements may not be comparable to companies that fully comply with regulatory and reporting requirements upon the public company effective dates.

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

In the past, as a privately held company, we were not required to comply with the rules of the SEC implementing Section 404 of the Sarbanes-Oxley Act and were therefore not required to make a formal assessment of the effectiveness of our internal control over financial reporting for that purpose. We anticipate being required to comply with the SEC's rules implementing Section 404 of the Sarbanes-Oxley Act, which requires management to provide an annual management report on the effectiveness of controls over financial reporting. We are not required to make our first annual assessment of our internal control over financial reporting pursuant to Section 404 until fiscal 2014. As an emerging growth company, our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting pursuant to Section 404 until the later of fiscal 2014 or the date we are no longer an emerging growth company. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our controls are documented, designed or operating.

To comply with the requirements of being a public company, we may need to undertake various actions, such as implementing new internal controls and procedures and hiring additional accounting or

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internal audit staff. Testing and maintaining internal control can divert our management's attention from other matters that are important to the operation of our business. In addition, when evaluating our internal control over financial reporting, we may identify material weaknesses that we may not be able to remediate in time to meet the applicable deadline imposed upon us for compliance with the requirements of Section 404. For example, a material weakness was identified during fiscal 2012 relating to the accounting for the elfa® trade name. This material weakness was remediated in the fourth quarter of fiscal 2013. If we identify additional material weaknesses in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which could require additional financial and management resources.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We lease all of our 63 retail stores. Our leases generally have a term of 10 to 15 years, with renewal options that generally range from 5 to 15 years. Most leases for our retail stores provide for a minimum rent, typically including escalating rent increases. Further, certain leases also include a percentage rent based upon sales after certain minimum thresholds are achieved. The leases generally require us to pay insurance, utilities, real estate taxes and repair and maintenance expenses. A summary of our store locations by state as of March 1, 2014 is below:

Location	Store(s)	Location	Store(s)	Location	Store(s)
Arizona	1	Maryland	1	Ohio	2
Arkansas	1	Massachusetts	3	Oregon	1
California	10	Minnesota	1	Tennessee	1
Colorado	3	Missouri	1	Texas	12
Florida	5	Nevada	1	Virginia	3
Georgia	2	New Jersey	2	Washington	1
Illinois	4	New York	4	District of Columbia	1
Indiana	1	North Carolina	2		
Total					63

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

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

**ITEM 3. LEGAL PROCEEDINGS**

We are subject to various legal proceedings and claims, including employment claims, wage and hour claims, intellectual property claims, contractual and commercial disputes and other matters that

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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 4. MINE SAFETY DISCLOSURES**

None.

**Executive Officers of the Registrant**

Name	Age	Position(s)
<i>Executive Officers:</i>		
		Chief Executive Officer and Chairman of the Board of
William A. ("Kip") Tindell, III	61	Directors
Sharon Tindell	58	Chief Merchandising Officer and Director
Melissa Reiff	59	President, Chief Operating Officer and Director
Jodi Taylor	51	Chief Financial Officer
Per von Mentzer	54	Chief Executive Officer of Elfa

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

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

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

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

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

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

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**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information and Dividend Policy**

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

	Highest	Lowest
<b>Fiscal 2013</b>		
Fourth Quarter	\$ 47.07	\$ 32.80
Third Quarter (from November 1, 2013)	\$ 41.70	\$ 32.10

The number of stockholders of record of our common stock as of May 14, 2014 was 92. This number excludes stockholders whose stock is held in nominee or street name by brokers. No dividends have been declared or paid on our common stock. We do not currently anticipate that we will pay any cash dividends on our common stock in the foreseeable future.



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**Stock Performance Graph**

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

The following graph and table compare the cumulative total stockholder return for our common stock during the period from November 1, 2013 (the date our common stock commenced trading on the NYSE) through March 1, 2014 in comparison to the NYSE Composite Index and the S&P Retailing Select Index. The graph and the table below assume that \$100 was invested at the market close on November 1, 2013 in the common stock of The Container Store Group, Inc., the NYSE Composite Index and the S&P Retailing Select Index. Data for the NYSE Composite Index and the S&P Retailing Select Index assumes reinvestments of dividends. The comparisons in the graph and table are required by the SEC and are not intended to be indicative of possible future performance of our common stock.

	11/1/2013	12/1/2013	1/1/2014	2/1/2014	3/1/2014
The Container Store Group, Inc.	100.00	112.40	128.76	101.52	98.92
NYSE Composite Index	100.00	101.65	103.81	99.50	104.07
S&P Retailing Select Index	100.00	104.65	104.14	94.33	101.21

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

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

The following selected consolidated financial data for each of the years ended March 1, 2014 (fiscal 2013), March 2, 2013 (fiscal 2012), and February 25, 2012 (fiscal 2011) and the selected consolidated balance sheet data as of March 1, 2014 and March 2, 2013 have been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data for the year ended and the consolidated balance sheet data as of February 26, 2011 (fiscal 2010) and February 27, 2010 (fiscal 2009) have been derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. Historical results are not indicative of the results to be expected in the future. Fiscal 2012 included 53 weeks, whereas fiscal 2013, fiscal 2011, fiscal 2010, and fiscal 2009 included 52 weeks. Categories that are only applicable to our TCS segment are noted with (\*) and to our Elfa segment with (+). For segment data, see Note 14 to our consolidated financial statements.

	Fiscal year ended				
	March 1, 2014	March 2, 2013	February 25, 2012	February 26, 2011	February 27, 2010
<b>Consolidated statement of operations</b>					
Net sales	\$ 748,538	\$ 706,757	\$ 633,619	\$ 568,820	\$ 523,004
Cost of sales (excluding depreciation and amortization)	308,755	291,146	266,355	235,295	223,759
Gross profit	439,783	415,611	367,264	333,525	299,245
Selling, general and administrative expenses (excluding depreciation and amortization)	354,271	331,097	293,665	269,474	252,272
Stock-based compensation	15,137	283			
Pre-opening costs*	6,672	7,562	5,203	1,747	1,167
Goodwill and trade name impairment+		15,533	47,037	52,388	
Depreciation and amortization	30,353	29,550	27,451	24,354	23,845
Restructuring charges+	532	6,369	133	341	
Other expenses	1,585	987	193		329
Loss on disposal of assets	206	88	210	139	121
Income (loss) from operations	31,027	24,142	(6,628)	(14,918)	21,511
Interest expense, net	21,185	21,388	25,417	26,006	27,331
Loss on extinguishment of debt*	1,229	7,333			
Income (loss) before taxes	8,613	(4,579)	(32,045)	(40,924)	(5,820)
Provision (benefit) for income taxes(1)	447	(4,449)	(1,374)	4,129	(1,623)
Net income (loss)	\$ 8,166	\$ (130)	\$ (30,671)	\$ (45,053)	\$ (4,197)
Less: Distributions accumulated to preferred shareholders(2)	(59,747)	(90,349)	(78,575)	(69,723)	(61,868)
Net loss available to common shareholders(2)	\$ (51,581)	\$ (90,479)	\$ (109,246)	\$ (114,776)	\$ (66,065)
Basic and diluted net loss per common share(2)	\$ (2.87)	\$ (30.88)	\$ (37.26)	\$ (39.12)	\$ (22.50)
Weighted-average common shares outstanding basic and diluted	17,955,757	2,929,789	2,931,996	2,933,794	2,936,341



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	March 1, 2014	March 2, 2013	Fiscal year ended		
			February 25, 2012	February 26, 2011	February 27, 2010
<b>Operating data:</b>					
Comparable store sales growth for the period*(3)	2.9%	4.4%	7.6%	8.1%	(5.7)%
Number of stores open at end of period*	63	58	53	49	47
Average ticket*(4)	\$ 60.55	\$ 57.34	\$ 55.60	\$ 53.68	\$ 52.48
<b>Non-GAAP measures(5):</b>					
Adjusted EBITDA(6)	\$ 86,101	\$ 87,585	\$ 75,644	\$ 67,707	\$ 51,862
Adjusted EBITDA margin(7)	11.5%	12.4%	11.9%	11.9%	9.9%
Adjusted net income (loss)(8)	\$ 16,354	\$ 16,159	\$ 8,921	\$ 7,221	\$ (3,305)
Adjusted net income (loss) per common share diluted(8)	\$ 0.33	\$ 0.34	\$ 0.19	\$ 0.15	\$ (0.07)

	March 1, 2014	March 2, 2013	As of		
			February 25, 2012	February 26, 2011	February 27, 2010
<b>Consolidated balance sheet data:</b>					
Cash	\$ 18,046	\$ 25,351	\$ 51,163	\$ 49,756	\$ 26,162
Net working capital(9)	33,405	29,076	24,128	24,054	35,665
Total assets	783,474	752,820	746,678	773,303	797,133
Long-term debt(10)	335,251	285,371	300,166	300,893	305,673
Total stockholders' equity	197,186	233,375	232,989	268,227	303,301

- (1) The difference between our effective tax rate and the statutory Federal tax rate is predominantly related to fluctuations in the valuation allowance recorded against net deferred assets not expected to be realized, the effects of foreign income taxed at a different rate and intraperiod tax allocations between continuing operations and other comprehensive income
- (2) For fiscal 2009 through fiscal 2013, common stockholders did not share in net income due to earnings not exceeding the accrued distributions on our preferred stock. For all periods presented, basic and diluted net loss per common share are the same, as any additional common stock equivalents would be anti-dilutive.
- (3) In fiscal 2012, the Company's fiscal year included 53 weeks. As a result, sales recorded in weeks one through fifty-two of fiscal 2013 and 2011 are comparable to weeks two through fifty-three of fiscal 2012. A store is included in the comparable store sales calculation on the first day of the sixteenth full fiscal month following the store's opening. When a store is relocated, we continue to consider sales from that store to be comparable store sales. Net sales from our website and call center are also included in calculations of comparable store sales. The comparable store sales growth metric is an operating measure intended only as supplemental information and is not a substitute for net sales presented in accordance with generally accepted accounting principles.
- (4) Average ticket for all periods is calculated by dividing (a) sales of merchandise by our TCS segment for that period (regardless of whether such sales are included in comparable store sales for such period) by (b) the number of transactions for that period comprising such sales. Average ticket is an operating measure intended only as supplemental information and is not a substitute for net sales presented in accordance with generally accepted accounting principles.
- (5) We have presented certain non-GAAP measures as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. These non-GAAP measures should not be considered as alternatives to net income (loss) as a measure of financial performance or cash flows from operations as a measure of liquidity, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. These non-GAAP measures are key metrics used by management, our board of directors and LGP to assess our

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financial performance. These non-GAAP measures are frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In evaluating these non-GAAP measures, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of these non-GAAP measures should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using non-GAAP measures

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supplementally. Our non-GAAP measures are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

(6)

EBITDA and Adjusted EBITDA have been presented in this Annual Report on Form 10-K as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We define EBITDA as net income before interest, taxes, depreciation, and amortization. Adjusted EBITDA is calculated in accordance with the Secured Term Loan Facility and the Revolving Credit Facility and is the basis for performance evaluation under our executive compensation programs. Adjusted EBITDA reflects further adjustments to EBITDA to eliminate the impact of certain items, including certain non-cash and other items, that we do not consider in our evaluation of ongoing operating performance from period to period as discussed further below.

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

EBITDA and Adjusted EBITDA are not GAAP measures of our financial performance or liquidity and should not be considered as alternatives to net income (loss) as a measure of financial performance or cash flows from operations as a measure of liquidity, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Additionally, EBITDA and Adjusted EBITDA are not intended to be measures of free cash flow for management's discretionary use, as they do not reflect certain cash requirements such as tax payments, debt service requirements, capital expenditures, store openings and certain other cash costs that may recur in the future. EBITDA and Adjusted EBITDA contain certain other limitations, including the failure to reflect our cash expenditures, cash requirements for working capital needs and cash costs to replace assets being depreciated and amortized. In evaluating Adjusted EBITDA, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation, such as pre-opening costs and stock compensation expense. Our presentation of Adjusted EBITDA should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using EBITDA and Adjusted EBITDA supplementally. Our measures of EBITDA and Adjusted EBITDA are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation.

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

	Fiscal year ended				
	March 1, 2014	March 2, 2013	February 25, 2012	February 26, 2011	February 27, 2010
Net income (loss)	\$ 8,166	\$ (130)	\$ (30,671)	\$ (45,053)	\$ (4,197)
Depreciation and amortization	30,353	29,550	27,451	24,354	23,845
Interest expense, net	21,185	21,388	25,417	26,006	27,331
Income tax expense (benefit)	447	(4,449)	(1,374)	4,129	(1,623)
<b>EBITDA</b>	<b>60,151</b>	<b>46,359</b>	<b>20,823</b>	<b>9,436</b>	<b>45,356</b>
Management fees(a)	667	1,000	500		
Pre-opening costs*(b)	6,672	7,562	5,000	1,747	1,167
Goodwill and trade name impairment+(c)		15,533	47,037	52,388	
IPO costs*(d)	1,259				
Noncash rent(e)	260	2,014	1,935	2,442	4,033
Restructuring charges+(f)	532	6,369	133	341	
Stock-based compensation(g)	15,137	283			
Loss on extinguishment of debt*(h)	1,229	7,333			
Foreign exchange (gains) losses(i)	(224)	55	(66)	1,269	959
Other adjustments(j)	418	1,077	282	84	347
<b>Adjusted EBITDA</b>	<b>\$ 86,101</b>	<b>\$ 87,585</b>	<b>\$ 75,644</b>	<b>\$ 67,707</b>	<b>\$ 51,862</b>

- (a) Fees paid to LGP in accordance with our management services agreement, which was terminated on November 6, 2013 in association with our IPO.
- (b) Non-capital expenditures associated with opening new stores and relocating stores, including rent, marketing expenses, travel and relocation costs, and training costs. We adjust for these costs to facilitate comparisons of our performance from period to period.
- (c) Non-cash charges related to impairment of intangible assets, primarily related to Elfa, which we do not consider in our evaluation of our ongoing performance.
- (d) Charges incurred in connection with our IPO, which we do not expect to recur and do not consider in our evaluation of ongoing performance.
- (e) Reflects the extent to which our annual GAAP rent expense has been above or below our cash rent payment due to lease accounting adjustments. The adjustment varies depending on the average age of our lease portfolio (weighted for size), as our GAAP rent expense on younger leases typically exceeds our cash cost, while our GAAP rent expense on older leases is typically less than our cash cost.
- (f) Includes charges incurred to restructure business operations at Elfa, including the sale of a subsidiary in Germany and a manufacturing facility in Norway in fiscal 2012, as well as the relocation of certain head office functions in sales and marketing from the Västervik, Sweden, manufacturing location to the group headquarters in Malmö, Sweden in fiscal 2012, which we do not consider in our evaluation of our ongoing performance.
- (g) Non-cash charges related to stock-based compensation programs, which vary from period to period depending on volume and vesting timing of awards. We adjust for these charges to facilitate comparisons from period to period.

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- (h) Loss recorded as a result of the repayment of the then outstanding term loan facility and senior subordinated notes in April 2012, and the amendments made to the Senior Secured Term Loan Facility in April 2013 and November 2013, which we do not consider in our evaluation of our ongoing operations.
- (i) Realized foreign exchange transactional gains/losses.
- (j) Other adjustments include amounts our management does not consider in our evaluation of our ongoing operations, including costs incurred in preparation for being a public company and other charges.
- (7) Adjusted EBITDA margin means, for any period, the Adjusted EBITDA for that period divided by the net sales for that period.



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(8)

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 loss available to common shareholders before distributions accumulated to preferred shareholders, stock-based compensation and other costs in connection with our IPO, restructuring charges, impairment charges related to intangible assets, losses on extinguishment of debt, and the tax impact of these adjustments and other unusual or infrequent tax items. We define adjusted net income (loss) per common share diluted as adjusted net income divided by the number of fully diluted shares outstanding as of the end of the current fiscal period (i.e. March 1, 2014), assuming those shares were outstanding at the beginning of all periods presented. 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 loss available to common shareholders and diluted net 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:

	March 1, 2014	March 2, 2013	Fiscal year ended		
			February 25, 2012	February 26, 2011	February 27, 2010
<b>Numerator:</b>					
Net loss available to common shareholders	\$ (51,581)	\$ (90,479)	\$ (109,246)	\$ (114,776)	\$ (66,065)
Distributions accumulated to preferred shareholders(a)	59,747	90,349	78,575	69,723	61,868
Stock-based compensation(b)	14,602				
IPO costs*(c)	1,259				
Restructuring charges+(d)	532	6,369	133	341	
Goodwill and trade name impairment+(e)		15,533	47,037	52,388	
Loss on extinguishment of debt*(f)	1,229	7,333			
Taxes(g)	(9,434)	(12,946)	(7,578)	(455)	892
<b>Adjusted net income (loss)</b>	<b>\$ 16,354</b>	<b>\$ 16,159</b>	<b>\$ 8,921</b>	<b>\$ 7,221</b>	<b>\$ (3,305)</b>
<b>Denominator:</b>					
Weighted average common shares outstanding diluted	17,955,757	2,929,789	2,931,996	2,933,794	2,936,341
Adjust weighting factor of outstanding shares(h)	30,939,876	45,011,391	45,009,184	45,007,386	45,004,839
<b>Adjusted weighted average common shares outstanding diluted</b>	<b>48,895,633</b>	<b>47,941,180</b>	<b>47,941,180</b>	<b>47,941,180</b>	<b>47,941,180</b>
<b>Adjusted net income (loss) per common share diluted</b>	<b>\$ 0.33</b>	<b>\$ 0.34</b>	<b>\$ 0.19</b>	<b>\$ 0.15</b>	<b>\$ (0.07)</b>

(a)

Distributions accumulated to preferred shareholders in arrears were eliminated as of November 6, 2013 through the Distribution and Exchange (as defined in Note 1 to our audited consolidated financial statements), and are not considered in our evaluation of ongoing performance.

(b)

Non-cash charges related to stock-based compensation programs incurred in connection with our IPO, which we do not consider in our evaluation of our ongoing performance. This amount includes \$13,008 of stock-based compensation expense incurred as a result of the 2013 Equity Plan stock option grants. It also includes \$1,594 of stock-based compensation expense related to the modification of options granted as part of the 2012 Equity Plan to provide for immediate vesting.

(c)

Charges incurred in connection with our IPO, which we do not expect to recur and do not consider in our evaluation of ongoing performance.

(d)

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Includes charges incurred to restructure business operations at Elfa, including the sale of a subsidiary in Germany and the closedown of a manufacturing facility in Norway in fiscal 2012, as well as the relocation of certain head office functions in sales and marketing from the Västervik, Sweden, manufacturing

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location to the group headquarters in Malmö, Sweden in fiscal 2012, which we do not consider in our evaluation of our ongoing performance.

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

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

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

#### **Overview**

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

Our operations consist of two operating segments:

*The Container Store ("TCS")*, which consists of our retail stores, website and call center, as well as our installation services business. As of March 1, 2014, we operated 63 stores with an average size of approximately 19,000 selling square feet in 22 states and the District of Columbia. We also offer all of our products directly to customers through our website and call center. Our stores receive all products directly from our distribution center co-located with our corporate headquarters in Coppell, Texas.



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

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

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

***Net sales***

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

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

Our business is moderately seasonal. As a result, our revenues fluctuate from quarter to quarter, which often affects the comparability of our interim results. Net sales are historically higher in the fourth quarter due primarily to the impact of Our Annual elfa® Sale, which begins on December 24<sup>th</sup> and runs into early February each year. After a shorter, weather-impacted holiday season, Our Annual elfa® Sale was extended during fiscal 2013 to March 1, 2014 to allow our customers more time to take advantage of the sale.

***Gross profit and gross margin***

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

Our gross profit is variable in nature and generally follows changes in net sales. Our gross margin can be impacted by changes in the mix of products sold. For example, sales from our TCS segment typically provide a higher gross margin than sales to third parties from our Elfa segment. Gross margin for our TCS segment is also susceptible to foreign currency risk as purchases of elfa® products from

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our Elfa segment are in Swedish krona, while sales of these products are in U.S. dollars. We mitigate this risk through the use of forward contracts, whereby we hedge purchases of inventory by locking in foreign currency exchange rates in advance.

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

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

Selling, general and administrative expenses include both fixed and variable components and, therefore, is not directly correlated with net sales. The components of our selling, general and administrative expenses may not be comparable to the components of similar measures of other retailers. We expect that our selling, general and administrative expenses will increase in future periods with future growth and in part due to additional legal, accounting, insurance, and other expenses that we expect to incur as a result of being a public company, including compliance with the Sarbanes-Oxley Act.

***Pre-opening costs***

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

***Comparable store sales***

A store is included in the comparable store sales calculation on the first day of the sixteenth full fiscal month following the store's opening, which is when we believe comparability is achieved. When a store is relocated, we continue to include sales from that store in comparable store sales. Sales from our website and call center, which are included in our net sales for all periods discussed below, are also included in calculations of comparable store sales.

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

national and regional economic trends in the United States;

changes in our merchandise mix;

changes in pricing;

changes in timing of promotional events or holidays; and

weather.

Opening new stores is an important part of our growth strategy. As we continue to pursue our growth strategy, we anticipate that a significant percentage of our net sales will come from stores not

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included in our comparable store sales calculation. Accordingly, comparable store sales are only one measure we use to assess the success of our growth strategy.

#### *Average ticket*

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

#### *Adjusted EBITDA*

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

We define EBITDA as net income before interest, taxes, depreciation, and amortization. Adjusted EBITDA is calculated in accordance with the Senior Secured Term Loan Facility and the Revolving Credit Facility and is the basis for performance evaluation under our executive compensation programs. Adjusted EBITDA reflects further adjustments to EBITDA to eliminate the impact of certain items, including certain non-cash and other items, that we do not consider representative of our ongoing operating performance. For reconciliation of Adjusted EBITDA to the most directly comparable GAAP measure, see "Results of Operations."

#### **Note on Dollar Amounts**

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

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### Results of Operations

The following data represents the amounts shown in our audited consolidated statements of operations expressed in dollars and as a percentage of net sales and operating data for the periods presented (categories that are only applicable to our TCS segment are noted with (\*) and to our Elfa segment with (+)). For segment data, see Note 14 to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

	Fiscal year ended		
	March 1, 2014	March 2, 2013	February 25, 2012
Net sales	\$ 748,538	\$ 706,757	\$ 633,619
Cost of sales (excluding depreciation and amortization)	308,755	291,146	266,355
<b>Gross profit</b>	<b>439,783</b>	<b>415,611</b>	<b>367,264</b>
Selling, general, and administrative expenses (excluding depreciation and amortization)	354,271	331,097	293,665
Stock-based compensation	15,137	283	
Pre-opening costs*	6,672	7,562	5,203
Goodwill and trade name impairment+		15,533	47,037
Depreciation and amortization	30,353	29,550	27,451
Restructuring charges+	532	6,369	133
Other expenses	1,585	987	193
Loss on disposal of assets	206	88	210
<b>Income (loss) from operations</b>	<b>31,027</b>	<b>24,142</b>	<b>(6,628)</b>
Interest expense	21,185	21,388	25,417
Loss on extinguishment of debt*	1,229	7,333	
<b>Income (loss) before taxes</b>	<b>8,613</b>	<b>(4,579)</b>	<b>(32,045)</b>
Provision (benefit) for income taxes	447	(4,449)	(1,374)
<b>Net income (loss)</b>	<b>\$ 8,166</b>	<b>\$ (130)</b>	<b>\$ (30,671)</b>
Less: Distributions accumulated to preferred shareholders	(59,747)	(90,349)	(78,575)
<b>Net loss available to common shareholders</b>	<b>\$ (51,581)</b>	<b>\$ (90,479)</b>	<b>\$ (109,246)</b>



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	Fiscal year ended		
	March 1, 2014	March 2, 2013	February 25, 2012
<b>Percentage of net sales:</b>			
Net sales	100.0%	100.0%	100.0%
Cost of sales (excluding depreciation and amortization)	41.2%	41.2%	42.0%
Gross profit	58.8%	58.8%	58.0%
Selling, general and administrative expenses (excluding depreciation and amortization)	47.3%	46.8%	46.3%
Stock-based compensation	2.0%	0.0%	
Pre-opening costs*	0.9%	1.1%	0.8%
Goodwill and trade name impairment+		2.2%	7.5%
Depreciation and amortization	4.1%	4.2%	4.3%
Restructuring charges+	0.1%	0.9%	0.0%
Other expenses	0.2%	0.1%	0.0%
Loss on disposal of assets	0.0%	0.0%	0.0%
Income (loss) from operations	4.1%	3.4%	(1.0)%
Interest expense, net	2.8%	3.0%	4.0%
Loss on extinguishment of debt*	0.2%	1.0%	
Income (loss) before taxes	1.2%	(0.6)%	(5.0)%
Provision (benefit) for income taxes	0.1%	(0.6)%	(0.2)%
Net income (loss)	1.1%	(0.0)%	(4.8)%
<b>Operating data:</b>			
Comparable store sales growth for the period(1)*	2.9%	4.4%	7.6%
Number of stores open at end of period*	63	58	53
Average ticket*	\$ 60.55	\$ 57.34	\$ 55.60
<b>Non-GAAP measures(2):</b>			
Adjusted EBITDA(3)	\$ 86,101	\$ 87,585	\$ 75,644
Adjusted net income(4)	\$ 16,354	\$ 16,159	\$ 8,921
Adjusted net income per common share diluted(4)	\$ 0.33	\$ 0.34	\$ 0.19

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

(2)

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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, our board of directors and LGP 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

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

(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. For more information and a reconciliation of the GAAP financial measures of net loss to EBITDA and Adjusted EBITDA refer to "Item 6: Selected Financial and Operating Data."

(4) Adjusted net income and adjusted net income per common share diluted have been presented as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We define adjusted net income as net loss available to common shareholders before distributions accumulated to preferred shareholders, stock-based compensation and other costs in connection with our IPO, restructuring charges, impairment charges related to intangible assets, losses on extinguishment of debt, and the tax impact of these adjustments and other unusual or infrequent tax items. We define adjusted net income per common share diluted as adjusted net income divided by the number of fully diluted shares outstanding as of the end of the current fiscal period (i.e. March 1, 2014), assuming those shares were outstanding at the beginning of all periods presented. We use adjusted net income and adjusted net income per common share diluted to supplement GAAP measures of performance to evaluate the effectiveness of our business strategies, to make budgeting decisions and to compare our performance against that of other peer companies using similar measures. For more information and a reconciliation of the GAAP financial measures of net loss available to common shareholders and diluted net loss per common share to the non-GAAP financial measures of adjusted net income and adjusted net income per common share diluted refer to "Item 6: Selected Financial and Operating Data."

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

#### *Net sales*

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

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

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

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

The increase in net sales was driven by comparable store sales growth of 2.9%, which was primarily attributable to an increase in the average ticket of 5.6%. New store net sales increases are due to ten incremental stores, five of which were opened in fiscal 2013. These increases were partially offset by incremental sales recorded during the 53<sup>rd</sup> week of fiscal 2012 of \$11,702; fiscal 2013 consisted of 52 weeks. Additionally, there was a \$5,332 decline in Elfa third party net sales, which was primarily related to the sale of a German subsidiary in fiscal 2012 and continuing weakness in the European economy and the Nordic market. The decline in Elfa third-party net sales was partially offset by the appreciation of the Swedish krona against the U.S. dollar. Installation services increased \$2,319, due to an ongoing, focused effort to increase the number of installed spaces sold.

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

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

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

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

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

Selling, general and administrative expenses in fiscal 2013 increased by \$23,174, or 7.0%, compared to the fiscal 2012. The increase in selling, general and administrative expenses was primarily due to the

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increase in sales. The following table summarizes selling, general and administrative expenses as a percentage of consolidated net sales for fiscal 2013 and fiscal 2012:

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

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

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

We recorded \$15,137 of stock-based compensation expense in fiscal 2013. Of this amount, \$1,846 was due to 240,435 stock options granted under the 2012 Equity Plan, of which \$1,594 was due to the modification of these awards to provide for immediate vesting as of October 31, 2013. Additionally, \$12,969 was due to 1,666,066 stock options granted under the 2013 Equity Plan which immediately vested upon closing of the IPO. The remaining \$322 was due to 956,655 stock options granted under the 2013 Equity Plan which vest in equal annual installments over seven years.

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

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

### ***Goodwill and trade name impairment***

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

### ***Restructuring charges***

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

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***Other expenses***

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

***Interest expense***

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

***Loss on extinguishment of debt***

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

In April 2012, The Container Store, Inc.'s debt was refinanced. In connection with the refinancing, a new \$275,000 Secured Term Loan Facility (the "Senior Secured Term Loan Facility") was entered into. The Senior Secured Term Loan Facility replaced the previously existing \$125,000 secured term loan and \$150,000 of senior subordinated notes. In addition, a new \$75,000 Revolving Credit Facility (the "Revolving Credit Facility") was entered into replacing the previously existing \$75,000 asset-based revolving credit facility (these transactions are referred to collectively as the "Refinancing Transaction"). We recorded expenses of \$7,333 in fiscal 2012 associated with the Refinancing Transaction described above. This amount consisted of an early extinguishment fee, acceleration of deferred financing costs, legal fees and other associated costs.

***Taxes***

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

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#### **Fiscal 2012 compared to fiscal 2011**

##### *Net sales*

The following table summarizes our net sales for fiscal 2012 and fiscal 2011:

	<b>Fiscal 2012</b>	<b>% total</b>	<b>Fiscal 2011</b>	<b>% total</b>
TCS net sales	\$ 613,252	86.8%	\$ 530,909	83.8%
Elfa third party net sales	93,505	13.2%	102,710	16.2%
<b>Net Sales</b>	<b>\$ 706,757</b>	<b>100.0%</b>	<b>\$ 633,619</b>	<b>100.0%</b>

Net sales in fiscal 2012 increased by \$73,138, or 11.5%, compared to fiscal 2011. This increase is comprised of the following components:

	<b>Net sales</b>
Net sales for fiscal 2011	\$ 633,619
Incremental net sales increase (decrease) due to:	
Comparable stores (including a \$5,616, or 24.6%, increase in online sales)	19,915
New stores	40,785
53 <sup>rd</sup> week sales	11,702
Installation services	9,312
Elfa third party net sales	(9,205)
Other	629
<b>Net sales fiscal 2012</b>	<b>\$ 706,757</b>

The increase in net sales was driven by comparable store sales growth of 4.4%, which was primarily attributable to an increase in the average ticket of 4.2%. New store net sales increases are due to nine incremental stores, five of which were opened in fiscal 2012. The additional (53<sup>rd</sup>) week of fiscal 2012 generated incremental sales of \$11,702; fiscal 2011 consisted of 52 weeks. The increase in installation services was due to the acquisition of The Container Store Services, LLC in the fourth quarter of fiscal 2011. The Container Store Services, LLC is a subsidiary that performs installation of elfa products. These increases were partially offset by the \$9,205 decline in Elfa third party net sales, which were impacted negatively by continuing weakness in the European economy and the Nordic market, the sale of a German subsidiary, and the depreciation of the Swedish krona against the U.S. dollar.

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

Gross profit in fiscal 2012 increased by \$48,347, or 13.2%, compared to fiscal 2011. The increase in gross profit was primarily the result of increased sales, as well as improved margins at Elfa. The following table summarizes the gross margin for fiscal 2012 and fiscal 2011 by segment and total. The segment margins include the impact of inter-segment sales from the Elfa segment to the TCS segment:

	<b>Fiscal 2012</b>	<b>Fiscal 2011</b>
TCS gross margin	59.0%	59.0%
Elfa gross margin	38.7%	37.5%
<b>Total gross margin</b>	<b>58.8%</b>	<b>58.0%</b>

TCS gross margin remained consistent at 59.0%. Elfa gross margin improved primarily due to lower direct material costs compared to the same time period last year. On a consolidated basis, gross margin improved due to a larger percentage of net sales coming from the more profitable TCS segment compared to the same time period last year.





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

Selling, general and administrative expenses in fiscal 2012 increased by \$37,432 or 12.7%, compared to the fiscal 2011. The increase in selling, general and administrative expenses was primarily due to the increase in sales. The following table summarizes the selling, general and administrative expenses as a percentage of consolidated net sales for fiscal 2012 and fiscal 2011:

	Fiscal 2012 % of net sales	Fiscal 2011 % of net sales
TCS selling, general and administrative	41.0%	39.5%
Elfa selling, general and administrative	5.8%	6.8%
Total selling, general and administrative	46.8%	46.3%

TCS selling, general and administrative expenses increased by 150 basis points as a percentage of total net sales. Compensation, benefits, and recruiting expenses was the most significant factor as we invested in training in our stores and additional personnel to support our growth, primarily in certain corporate office functions and our distribution center. Health insurance claims also increased in fiscal 2012 as compared to fiscal 2011. Other expenses contributing to the increase were transportation and information technology maintenance costs. Reductions as a percentage of sales included occupancy expenses, which are largely fixed in nature and decline as a percentage of sales when comparable store sales increase. Elfa selling, general and administrative expenses decreased by 100 basis points as a percentage of total net sales due to strong cost management during the year, including the sale of a German subsidiary.

***Pre-opening costs***

Pre-opening costs increased \$2,359 or 45.3% in fiscal 2012 to \$7,562, as compared to \$5,203 in fiscal 2011. We incurred significant pre-opening costs for eight stores in fiscal 2012, six of which opened in fiscal 2012 (five new stores and one relocation) and two which opened in the first quarter of fiscal 2013. This is compared to pre-opening costs incurred for five stores in fiscal 2011.

***Goodwill and trade name impairment***

Goodwill and trade name impairment expense was \$15,533 in fiscal 2012 as compared to \$47,037 in fiscal 2011. As part of the LGP transaction in 2007, a substantial portion of the purchase price was recorded as goodwill and other intangible assets at Elfa. All impairment expenses incurred in fiscal 2012 and fiscal 2011 are related to the Elfa segment. Elfa has experienced a challenging economic climate in Europe, which resulted in Elfa not achieving its third party sales and profit forecasts in fiscal 2012 and fiscal 2011. The impairment expense in fiscal 2012 was related to the Elfa trade name and was calculated using a relief from royalty discounted cash flow analysis. Of the \$47,037 impairment expense recorded in fiscal 2011, \$31,453 was related to goodwill associated with the Elfa segment, calculated using an income approach, and represented a complete impairment of goodwill for the Elfa segment. The remaining \$15,584 of the impairment expense in fiscal 2011 was related to the Elfa trade name.

As discussed above, reported impairment expenses relate solely to the write-off of goodwill and the write-down of the trade name at Elfa due to the ongoing European recession which affected the segment's wholesale business and other factors discussed herein. The goodwill for the Elfa segment was fully impaired in fiscal 2011 and there is no balance remaining on our balance sheet. These impairment expenses exceeded our consolidated net loss in every period presented herein.

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***Restructuring charges***

During fiscal 2012, Elfa implemented a plan to restructure its business operations to improve efficiency. In conjunction with these efforts, a subsidiary in Germany was sold and a manufacturing facility in Norway was shut down and consolidated into a like facility in Sweden. Additionally, certain head office functions in sales and marketing were relocated from the Västervik, Sweden, manufacturing location to the group headquarters in Malmö, Sweden. In conjunction with these moves, \$6,369 of charges were incurred and recorded as restructuring charges during fiscal 2012, the majority of which was severance.

***Interest expense***

Interest expense decreased \$4,029, or 15.9%, to \$21,388 in fiscal 2012 as compared to \$25,417 in fiscal 2011. This decrease resulted primarily from the Refinancing Transactions, whereby a new \$275,000 Senior Secured Term Loan Facility was entered into, replacing the Prior Senior Secured Term Loan Facility and senior subordinated notes. The Senior Secured Term Loan Facility accrued interest at LIBOR plus 5.0%, subject to a LIBOR floor of 1.25%. The Prior Senior Secured Term Loan Facility accrued interest at LIBOR plus 3.0%. The senior subordinated notes accrued interest at 11.0% (11.5% to the extent paid in kind).

***Loss on extinguishment of debt***

We recorded expenses of \$7,333 in fiscal 2012 associated with the Refinancing Transactions described above. This amount consisted of an early extinguishment fee, acceleration of deferred financing costs, legal fees and other associated costs.

***Taxes***

The benefit for income taxes increased by \$3,075 in fiscal 2012 to \$4,449 as compared to \$1,374 in fiscal 2011. The increase was largely attributable to a reduction in impairments of intangibles not deductible for tax purposes and changes in the valuation allowance on deferred tax assets not expected to be realized in the future. Also contributing to the increase in the income tax benefit was a statutory reduction in Swedish tax rates and other effects of foreign income taxes.

***Seasonality***

Our storage and organization product offering makes us less susceptible to holiday shopping patterns than many retailers. In addition, our marketing plan is designed to minimize volatility and seasonal fluctuations of sales across periods. Historically, our business has realized a higher portion of net sales, operating income and cash flows from operations in the fourth fiscal quarter, attributable primarily to the impact of Our Annual elfa® Sale (which starts on December 24th and traditionally runs through early February). In fact, in excess of 60% of our adjusted net income was derived in the fiscal fourth quarter in the past three years. In addition, our Annual Shelving Sale occurs in the third fiscal quarter and results in historically higher sales, operating income and cash flows from operations for the period. As a result of these factors, working capital requirements and demands on our product distribution and delivery network fluctuate during the year, and are greatest in the second and third fiscal quarters as we prepare for our Annual Shelving Sale, the holiday selling season, and Our Annual elfa® Sale.

***Liquidity and Capital Resources***

We rely on cash flows from operations, a \$75,000 asset-based revolving credit agreement (the "Revolving Credit Facility" as further discussed under "Revolving Credit Facility" below), and the SEK 175.0 million (approximately \$27,297 as of March 1, 2014) Elfa revolving credit facility (the "Elfa

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Revolving Credit Facility" as further discussed under "Elfa Senior Secured Credit Facilities" below) as our primary sources of liquidity. Our primary cash needs are for merchandise inventories, direct materials, payroll, store rent, capital expenditures associated with opening new stores and updating existing stores, as well as information technology and infrastructure, including distribution center and Elfa manufacturing facility enhancements. The most significant components of our operating assets and liabilities are merchandise inventories, accounts receivable, prepaid expenses and other assets, accounts payable, other current and non-current liabilities, taxes receivable and taxes payable. Our liquidity is seasonal as a result of our building inventory for key selling periods, and as a result, our borrowings are generally higher during these periods when compared to the rest of our fiscal year. Our borrowings generally increase in our second and third fiscal quarters as we prepare for Our Annual elfa® Sale which is in our fourth fiscal quarter. We believe that cash expected to be generated from operations and the availability of borrowings under the Revolving Credit Facility will be sufficient to meet liquidity requirements, anticipated capital expenditures and payments due under our existing credit facilities for at least the next 24 months.

At March 1, 2014, we had \$18,046 of cash and \$58,404 of additional availability under the Revolving Credit Facility and approximately \$11,264 of additional availability under the Elfa revolving credit facility. There were \$2,986 in letters of credit outstanding under the Revolving Credit Facility at that date.

### *Cash flow analysis*

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

	<b>Fiscal Year</b>		
	<b>March 1, 2014</b>	<b>March 2, 2013</b>	<b>February 25, 2012</b>
Net cash provided by operating activities	\$ 50,762	\$ 44,590	\$ 42,203
Net cash used in investing activities	(47,826)	(47,649)	(41,203)
Net cash (used in) provided by financing activities	(9,974)	(22,642)	167
Effect of exchange rate changes on cash	(267)	(111)	240
<b>Net (decrease) increase in cash</b>	<b>\$ (7,305)</b>	<b>\$ (25,812)</b>	<b>\$ 1,407</b>

### *Net cash provided by operating activities*

Cash from operating activities consists primarily of net income adjusted for non-cash items, inclu