

Container Store Group, Inc.  
Form 10-K  
May 31, 2018

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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 31, 2018**

**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

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

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

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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)      Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of September 29, 2017, the last business day of the registrant's most recently completed second quarter, the approximate market value of the registrant's common stock held by non-affiliates was \$71,629,934. Solely for purposes of this disclosure, shares of common stock held by executive officers and directors of the registrant as of such date have been excluded because such persons may be deemed to be affiliates.

As of May 25, 2018, the number of shares of common stock outstanding was 48,297,212.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for its 2018 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, anticipated tax rates, the sufficiency of our cash generated from operations and borrowings under our credit facilities, ability to increase our market share, expectations with respect to new store openings and relocations, expectations regarding key growth initiatives, expectations regarding the impact of, and potential charges related to, marketing and expense savings programs, including without limitation our Optimization Plan, as defined herein, 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.

The following discussion contains references to fiscal 2017, fiscal 2016, fiscal 2015, fiscal 2014, and fiscal 2013, which represent our fiscal years ending March 31, 2018, April 1, 2017, February 27, 2016, February 28, 2015, and March 1, 2014, respectively.

**Change in Fiscal Year**

On March 30, 2016, the Board of Directors of the Company approved a change in the Company's fiscal year end from the 52- or 53-week period ending on the Saturday closest to February 28 to the 52- or 53-week period ending on the Saturday closest to March 31. The fiscal year change was effective beginning with the Company's 2016 fiscal year, which began on April 3, 2016 and ended on April 1, 2017. As a result of the change, the Company had a March 2016 fiscal month transition period which began on February 28, 2016 and ended on April 2, 2016. The unaudited results of the transition period were reported in the Company's Form 10-Q filed for the new fiscal first quarter ended July 2, 2016 and the audited results are presented herein. Because the fiscal year change was not effective until after the completion of the Company's February 27, 2016 fiscal year, the prior year comparative financial and other information reported in the Financial Statements herein continues to be presented based on the Company's prior February 28 fiscal year end calendar. However, for comparative analysis purposes, the

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Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") presented herein compares the audited results for the 52-week period ended April 1, 2017 ("fiscal 2016") to the unaudited results for the 52-week period ended April 2, 2016 ("recast fiscal 2015") (in addition to comparing the audited results for the 52-week period ended March 31, 2018 ("fiscal 2017") to the audited results for the 52-week period ended April 1, 2017 ("fiscal 2016")). The Selected Financial and Operating Data presented herein includes the unaudited results for recast fiscal 2015 in addition to prior year audited results based on the February 28 fiscal year end calendar.

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**PART I**

**ITEM 1. BUSINESS**

**General**

The Container Store® is the original and leading specialty retailer of storage and organization products and solutions in the United States and the only national retailer solely devoted to the category. We provide a collection of creative, multifunctional and customizable storage and organization solutions that are sold in our stores and online through a high-service, differentiated shopping experience. Our vision is to be a beloved brand and the first choice for customized organization solutions and services. Our customers are highly educated, very busy and primarily homeowners with a higher than average household income. We service them with storage and organization solutions that help them accomplish projects, maximize their space, and make the most of their home. We believe an organized life is a happy life.

We were founded in 1978 in Dallas, Texas as The Container Store, Inc. In 2007, The Container Store, Inc. was sold to The Container Store Group, Inc. In November 2013, we completed the initial public offering of our common stock (the "IPO"). Our common stock now trades on the New York Stock Exchange ("NYSE") under the symbol "TCS." In fiscal 2017, we generated net sales of \$857.2 million. Today our operations consist of two operating segments:

*The Container Store ("TCS")*, which consists of our retail stores, website and call center, as well as our installation and organizational services business. We operate 90 stores with an average size of approximately 25,000 square feet (19,000 selling square feet) in 32 states and the District of Columbia. Our stores present our products in a unique and engaging atmosphere. Our visual merchandising team works to ensure that all of our merchandise is appropriately showcased to show solutions to accomplish our customer's projects, highlighting the value and functionality of our products, and to maximize the appeal of our image and brand. We maintain a relatively consistent store layout which creates a familiar shopping experience across our store base. Our stores are clean and spacious with orderly merchandising and strategic product placements to optimize our selling space and increase productivity. We allow our customers to shop with us in a variety of ways anywhere, anytime, any way they want through a multi-channel shopping experience. Our stores receive substantially all of our products directly from our distribution center co-located with our corporate headquarters and call center in Coppell, Texas. In fiscal 2017, TCS had net sales of \$787.4 million, which represented approximately 92% 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 three manufacturing facilities with two located in Sweden 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 44% of Elfa's total sales in fiscal 2017. Elfa also sells its products on a wholesale basis to various retailers in approximately 30 countries around the world, with a concentration in the Nordic region of Europe. In fiscal 2017, the Elfa segment had \$69.9 million of third party net sales, which represented approximately 8% of our total net sales.

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

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**Our Key Differentiators**

***Our Unique Product Collection Accomplishing Projects in Every Area of the Home:***

Our merchandising philosophy is to provide a carefully curated, one of a kind collection of storage and organization solutions for every area of the home, at a variety of price points. We offer approximately 10,000 products designed to accomplish projects and save space and time. Each year, we introduce over 2,000 new SKUs. Our solutions-based selling approach (versus items-based) is delivered by our highly trained salespeople. We believe helping customers accomplish their organizational projects by selling solutions primarily consisting of exclusive, proprietary products differentiates us from other retailers. In fact, over half of our annual sales come from exclusive or proprietary products.

Currently, our stores are typically organized into 15 distinct lifestyle departments. The types of products sold in each department are as follows:

<b>Lifestyle departments</b>	<b>Select products</b>
Bath	Countertop Organizers, Cosmetic and Jewelry Organizers, Shower and Bathtub Organizers, Drawer Organization, Cabinet Storage
Closet	Shoe Racks, Hangers, Drawer Organizers, Boxes and Bins, Hanging Storage Bags
Collections	Media Storage, Photo Storage, Display, Small Craft and Parts Organizers
elfa®	Includes elfa® collection of Ventilated and Solid Shelving and Drawer components and systems, Wall and Door Rack Solutions, Accessories, Utility and Garage Systems, and Sliding Doors
Gift Packaging	Gift Wrap and Tags, Ribbons and Bows, Gift Wrap Organizers, Gift Bags and Sacks, Gift Boxes, Tape, Small Boxes, Small Baskets, Tins, Divided Boxes, Decorative Containers
Hooks	Wall Mounted, Self-adhesive, Magnetic, Overdoor, Removable
Kitchen	Canisters, Jars, Lunchtime Essentials, Bulk Food Storage, Plastic and Glass Food Storage, 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
Long-Term Storage	Garment Racks, Archival Storage, Plastic Storage Totes, Corrugated Boxes, Packing Material, Storage Bags, Specialty Boxes
Office	Desktop Collections, Paper Storage, File Carts and Cabinets, Literature Organizers, Message Boards
Shelving	Free Standing Shelving, Wall Mounted Shelving, Cube Systems, Component Shelving, Desks, Chairs
Storage	Drawers, Boxes and Bins, Totes, Crates, Carts
TCS Closets®	Our exclusive luxury solid closet system with doors, drawers, integrated lighting and accessories
Trash	Recycle Bins, Wastebaskets, Open Cans, Step-on Cans, Bags
Travel	Luggage, Totes, Clothing Organizers, Cosmetic and Jewelry Organizers, Travel Bottles

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In order to offer our unique collection of products and to execute a competitive merchandising and business strategy, we work to form meaningful, long-lasting relationships with vendors from around the world. We believe these relationships benefit us in a number of ways, including providing us with an increased number of exclusive products and competitive pricing. We believe that by creatively crafting mutually beneficial vendor relationships we foster a unique sense of loyalty among our more than 800 product vendors. Seventeen of our top 20 vendors have been with us for at least 10 years and several of those vendors have been with us since our inception in 1978. For the TCS segment, our top 10 vendors, excluding Elfa, accounted for 30% of our total purchases in fiscal 2017. In order to maximize our purchasing flexibility, we generally do not enter into long-term contracts with our vendors.

**Custom Closets:**

We continue to believe that our focus on Custom Closets, inclusive of elfa® product solutions, TCS Closets®, closet completion products, and installation services provides a unique opportunity to drive comparable store sales through higher average ticket while differentiating the Company from online, items-based retailers. Our highly-trained and experienced sales force has been selling proprietary, custom-designed elfa® and other closet solutions for almost 40 years. We believe there is no other comparable retailer executing this holistic approach to custom closets. We offer the complete custom closet solution not just the framework of the closet, but the full array of closet organization products that accompany the closet, as well as a national footprint with millions of customers coming through the door and visiting our online site each year. We design and sell Custom Closets in-store, online, through our call center, as well as through our Contained Home® in-home organization service.

Our elfa® products continue to be an ever important, highly profitable and differentiating component in the growth of our company and our commitment to dominating the custom closet market, accounting for about 25% of our TCS retail sales. Due to our vertical integration with Elfa, we have control over the sourcing and availability of elfa®, our best selling and highest margin product. We are the exclusive distributor of elfa® products in the United States. Approximately 20% of our fiscal 2017 TCS segment purchases were attributed to intercompany purchases from our Elfa segment.

**Our Shopping Experience:**

We strive to create an Air of Excitement® in each of our stores across the country. We say, "three steps in the door and you can tell whether or not a store has it." You can experience the Air of Excitement® through our employees' smiling faces and their genuine interest in a customer's organizational projects; in the bright visual displays of products and solutions; in our clean, well-organized store; and in our energetic product demonstrations and upbeat music.

This is coupled with our highly personalized approach to customer service. Our employees are trained to ask questions to understand our customers' needs. We believe that if we fail to discover the underlying storage and organization challenges of our customers, we fail to truly help them and make them happy. Service and selling are the same thing at The Container Store. We believe we can best serve our customers by astonishing them and giving them the solutions they truly need to accomplish their organizational projects.

We are a multi-channel retailer, with a fully-integrated website, responsive mobile site, and call center to complement our physical stores. Our website, containerstore.com, is intended to replicate the store experience offering the same product assortment and providing real time inventory information for our stores, as well as certain products found exclusively online. We enhance the customer's experience and deepen loyalty by creating consistent, relevant messages, regardless of which channel is being used we are channel agnostic. We offer free shipping on orders over \$75 and our customers are able to purchase online and pick up at a store, with curbside pick-up in most markets, or request



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same-day home delivery in select markets. The website, mobile site, and call center sales channels accounted for an aggregate of approximately 17% of TCS net sales in fiscal 2017.

### **Our Stores:**

We have adopted a disciplined expansion strategy designed to leverage the strength of our business model and nationally recognized brand name to successfully develop new stores in an array of markets that are primed for growth, including new, existing, small and large markets. Our current footprint of 90 stores extends to 32 states and the District of Columbia. We opened a total of five new stores (including one relocation) in the 2017 fiscal year and we expect to open a total of four new stores (including two relocations) in the 2018 fiscal year. While our current expansion focus is on domestic markets, we believe international expansion may provide additional growth opportunities for us in the future.

We have a strong base of profitable stores and believe that our expansion opportunities in the United States are significant. We plan to continue to seek out strategic and profitable real estate expansion via a variety of store formats and sizes. In fiscal 2017, we opened a reduced-sized footprint store in Albuquerque, New Mexico, and three of the anticipated four new stores in fiscal 2018 are being designed as reduced-sized footprint stores as well. We also began a complete re-design of our flagship store in Dallas, which we believe will provide us insight to develop new store formats and evolve the future of our existing stores' experience. Our store opening strategy involves a strategic formula of training, marketing, non-profit partnerships and public relations, which enables our new stores to deliver strong sales volume more quickly.

### **Our Employees and Culture:**

The Container Store has been getting people organized for almost 40 years, and since 1978, we've also been running our business guided by our values-based set of principles. We're proud to be one of the founding companies in a movement called Conscious Capitalism®, which includes a group of like-minded businesses, thought leaders, authors and academics all working together to change the way business is done in America and around the world. We have a firm belief that creating value for and optimizing relationships between all of the stakeholders of our business—employees, customers, vendors, community and shareholders—is the right thing to do.

Consistent with our commitment to Conscious Capitalism, we believe that happy employees lead directly to better performance and higher profits. We believe in putting employees first and staying true to our seven Foundation Principles®—simple business philosophies that guide each decision we make. One of those Foundation Principles is 1 Great Person = 3 Good People® in terms of business productivity—that's our hiring philosophy. In fact, in fiscal 2017, we hired only 6% of job applicants. Our employee-first culture includes a tremendous commitment to communication, training and career development that helps deliver a differentiated experience to our customers, which we believe results in a higher average ticket, repeat visits and frequent referrals to other potential customers. We provide extensive formal training to full-time store employees, especially during their first year of employment. Our stores offer flexible work schedules, comprehensive benefits and above retail industry average compensation to both full-time and part-time employees. As a result, our full-time employee voluntary turnover rate was approximately 15% on average over the past two years, significantly below the retail average. It's for these reasons and more that The Container Store has been named by FORTUNE Magazine to its annual list of 100 Best Companies to Work For® 19 years in a row.

As of March 31, 2018, we had approximately 4,950 employees, of which approximately 4,400 were TCS employees and approximately 550 were Elfa employees. Of the 4,400 TCS employees, approximately 2,900 were part-time employees.

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

**Distribution**

In the TCS segment, substantially all of our merchandise flows through a centralized distribution center prior to transport to our retail stores. Our distribution center is co-located with our corporate offices in Coppell, Texas. The approximately 1.1 million square foot facility was designed and constructed specifically for The Container Store and is comprised of approximately 93,000 square feet of corporate office space and approximately 1 million square feet of warehouse space.

Our Coppell, Texas distribution center is utilized for retail store replenishment and direct-to-customer orders. With the exception of the Dallas / Fort Worth market, we utilize third party truckload carriers to transport all of our products to our stores. We utilize best in class logistics technology to optimize operations and current processes for picking, packing and shipping while providing a strong foundation for future growth. We continue to strengthen our distribution center with ongoing process and material handling improvements, as well as automation, in order to achieve even greater efficiencies in service levels and the management of our inventory.

Within our distribution operations, we have a culture of safety and efficiency, with a robust metric program and a commitment to continuous improvement. All processes, teams and individuals are held to high efficiency and performance standards. We believe that the size and scalability of the distribution center is sufficient to support our future expansion over the next 2 to 3 years. However, as we continually assess our distribution and supply chain operations to ensure we are operating the most efficient and cost-effective distribution network, we believe that opening a second distribution center will significantly improve service levels to our customers while at the same time reduce our supply chain and distribution costs. We are currently in the process of opening a second distribution center in the northeastern United States, which is expected to be operating in late fiscal 2019. We also continue to invest in supply chain system enhancements for increased logistics network support.

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

**Intellectual property**

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

**Competition**

We operate within the storage and organization category which extends across many retail segments including housewares, office supplies and travel, among others. However, we are the only national retailer solely devoted to it. Storage and organization products are sold by a variety of retailers, including mass merchants, specialty retail chains, and internet-based retailers, but they devote

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a smaller portion of their merchandise assortment to storage and organization. Some of these retailers are larger and have greater financial, marketing and other resources than The Container Store. We compete with such retailers based on our customer service, product selection and quality, price, convenience, effective consumer marketing and promotional activities, the ability to identify and satisfy emerging consumer preferences, vendor relationships, and brand recognition, among other things. We believe that the strength of our solutions-based selling with highly trained employees, exclusive offerings and vendor relationships, our passionate and loyal customer base and the quality, differentiation and breadth of product assortment compare favorably to those of our competitors.

### **Seasonality**

Our storage and organization product offering makes us less susceptible to holiday season shopping patterns than many retailers. Historically, our business has realized a higher portion of net sales, operating income and cash flows from operations in the fourth fiscal quarter, attributable primarily to the impact of Our Annual elfa® Sale, which traditionally starts on or about December 24th and runs into February. As such, our business has historically realized greater leverage on our selling, general and administrative expenses during our fiscal fourth quarter. In fact, over half of our adjusted net income was derived in the fiscal fourth quarter in fiscal years 2017, 2016, and 2015. For more information regarding our use of adjusted net income, and a reconciliation of adjusted net income to the GAAP financial measure of net income (loss) available to common shareholders, see "Item 6: Selected Financial and Operating Data."

### **Regulation and legislation**

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

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

### **Where you can find more information**

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

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

**ITEM 1A. RISK FACTORS**

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

**Risks related to our business**

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

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

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

The retail industry is highly competitive, with few barriers to entry. Competition is characterized by many factors, including level of service, merchandise assortment, product quality, price, location, reputation, credit availability, and customer loyalty. A variety of retailers offer products that are similar to the ones we offer in our stores and through our website. Competitive products can be found in mass merchants, as well as specialty retail chains. Some of our competitors, particularly the mass merchants, are larger and have greater financial resources than we do. We also face competition from internet-based retailers, in addition to traditional store-based retailers. This could result in increased price competition since our customers can more readily search and compare similar products.

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

In conducting our business, including our e-commerce business, we obtain and transmit confidential information about our customers, including credit card information, through our website and our information technology systems, and we depend on the secure transmission of such

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information. We also receive and maintain confidential information about our employees in the normal course of business. A security breach or cyber-attack could result in the disclosure of confidential information which may adversely affect our business and operations, including damaging our reputation and our relationships with our customers and employees, and exposing us to risks of litigation and liability. We cannot assure that any breaches, attacks or unauthorized disclosures will not occur. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, as a result of security breaches at a number of prominent retailers, the media and public scrutiny of information security and privacy has become more intense. As a result, we currently incur significant costs in maintaining cybersecurity protections and may incur significant costs to change our business practices or modify our service offerings in connection with the protection of personally identifiable information. Further, we may be subject to one or more claims or lawsuits related to intentional or unintentional exposure of our customer's personally identifiable information. Any security breach or resulting lawsuit could cause our customers to lose confidence in the security of our information systems, and choose not to do business with us, thereby adversely affecting our business and the trading price of our common stock.

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

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

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

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

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

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***We are undertaking a number of significant business initiatives at the same time and if these initiatives are not successful, they may have a negative impact on our operating results.***

We are increasing the number of our stores and are undertaking several business initiatives. We may incur costs for these initiatives before we realize any corresponding revenue. The number of current business initiatives could strain our financial, operational and management resources. In addition, these initiatives may not be successful or may take longer than planned to be successful. If we are not successful in managing our current store growth and the initiatives that are underway, we could experience an adverse impact on our financial condition and results of operations. All of the foregoing risks may be compounded in any economic downturn. If we fail to achieve the intended results of our current business initiatives, or if the implementation of these initiatives is delayed or abandoned, diverts management's attention or resources from other aspects of our business or costs more than anticipated, we may experience inadequate return on investment for some or all of our business initiatives, which would have a negative effect on our operating results.

***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 and convenient 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, appealing and convenient shopping experience. If we are not successful in creating a pleasant, appealing and convenient shopping experience we may lose customers or fail to obtain new 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, appealing and convenient 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 face risks related to our indebtedness.***

As of March 31, 2018, we had total outstanding debt of \$295.1 million and an additional \$82.4 million of availability under the Revolving Credit Facility and the 2014 Elfa Revolving Credit Facility. Our Senior Secured Term Loan Facility, which matures August 18, 2021, represented \$294.4 million of the total outstanding debt. We may incur additional indebtedness in the future. Our high degree of leverage could have important consequences to us, including:

exposing us to the risk of increased interest rates as our borrowings under our term loan, or the Senior Secured Term Loan Facility, the Revolving Credit Facility and the 2014 Elfa Senior Secured Credit Facilities are at variable rates;

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

limiting our ability to pay future dividends;

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

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

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.

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

We sell merchandise over the Internet through our website, [www.containerstore.com](http://www.containerstore.com), and through mobile applications for smart phones and tablets. We are vulnerable to certain 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. The failure of our website or mobile applications to perform as expected could result in disruptions and costs to our operations and make it more difficult for customers to purchase merchandise online.

In addition, we must successfully respond to changing consumer preferences and buying trends relating to e-commerce usage, 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.

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

We currently 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 customers. 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.

***We face risks related to opening a second distribution center.***

We are currently in the process of opening a second distribution center in the northeastern United States, which is expected to be operating in late fiscal 2019. We may not accurately anticipate all of the changing demands that our expanding operations will impose on our receiving and distribution system. We may also experience delays or increased costs in opening our new distribution center or integrating the center with our existing distribution operations. Disruption in our receiving and distribution system or increased costs as a result of opening a second distribution center could have a material adverse effect on our reputation, business, financial condition, and results of operations.

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

We rely upon independent third-party transportation providers for substantially all of our product shipments, including shipments to and from all of our stores. Our utilization of these delivery services for shipments is subject to risks, including increases in fuel prices, which would increase our shipping costs, and employee strikes and inclement weather which may impact a shipping company's ability to provide delivery services that adequately meet our shipping needs. Our reputation for providing a high level of customer service is dependent on such third-party transportation providers to timely deliver our product shipments. 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 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 and certain leases have early cancellation clauses, which permit the lease to be terminated by us or the landlord if certain sales levels are not met in specific periods or if the shopping venue does not meet specified occupancy standards. In addition to fixed minimum lease payments, most of our store leases provide for additional rental payments based on a percentage of sales, or "percentage rent," if sales at the respective stores exceed specified levels, as well as the payment of common area maintenance charges, real property insurance and real estate taxes. Many of our lease agreements have defined escalating rent provisions over the initial term and



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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.

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

Our success depends in large part on our ability to identify, originate and define storage and organization product trends, as well as to anticipate, gauge and react to changing consumer demands in a timely manner. Our products must appeal to a range of consumers whose preferences cannot always be predicted with certainty. We cannot assure you that we will be able to continue to develop products that customers respond to positively or that we will successfully meet consumer demands in the future. Any failure on our part to anticipate, identify or respond effectively to consumer preferences and demand could adversely affect sales of our products. If this occurs, our sales may decline, and we may be required to mark down certain products to sell the resulting excess inventory, which could have a material adverse effect on our financial condition and results of operations.

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

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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 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.

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

We also rely 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.

***We rely upon third party web service providers to operate certain aspects of our business operations and any disruption of or interference with such operations would materially and adversely impact our business.***

Third party web service providers provide a distributed computing infrastructure platform for business operations, or what is commonly referred to as a "cloud" computing service. We have architected our software and computer systems so as to utilize data processing, storage capabilities, and other services provided by these third-party providers. Any disruption of or interference with our use of

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third party service providers could have a material adverse effect on our business, financial condition, and results of operations.

***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.

***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.

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

During fiscal 2017, approximately 81% 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,

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including China, and thus changes in the value of the U.S. dollar compared to other currencies may affect the costs of goods that we purchase.

Our largest exposure to currency exchange rate fluctuations is between the U.S. dollar and Swedish krona. The TCS segment purchases all products from the Elfa segment in Swedish krona. Approximately 20% of our U.S. dollar merchandise purchases in the TCS segment in fiscal 2017 were originally made in Swedish krona from our Elfa segment. Additionally, all assets and liabilities of our Elfa segment are translated at year end rates of exchange, with the exception of certain assets and liabilities that are translated at historical rates of exchange. Revenues, expenses, and cash flows of our Elfa segment are translated at average rates of exchange for the year. As a result, our financial results may be adversely affected by fluctuations in the Swedish krona as compared to the U.S. dollar. Based on the average exchange rate from Swedish krona to U.S. dollar during fiscal 2017, and results of operations in functional currency, we believe that a 10% increase or decrease in the exchange rate of the Swedish krona would increase or decrease net income (loss) by approximately \$0.3 million.

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

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

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

We primarily depend on cash flow from operations, the Revolving Credit Facility, and the 2014 Elfa 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.

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***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.

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

During fiscal 2017, including purchases for Elfa, we purchased approximately 57% from vendors located outside the United States (including approximately 37% from vendors located in China) and approximately 43% of our merchandise from vendors located in the United States. In addition, some of the merchandise we purchase from vendors 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 vendors are located, including Asia. Our future success will depend in part upon our ability to maintain our existing foreign vendor relationships and to develop new ones. While we rely on our long-term relationships with our foreign vendors, we have no long-term contracts with them and transact business on an order by order basis.

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. Additionally, the current United States presidential administration has made statements and taken actions that signal a change in trade policy between the United States and other countries, including China. Because a large portion of our merchandise is sourced, directly or indirectly, from outside the United States, major changes in tax policy or trade relations, such as the disallowance of income tax deductions for imported merchandise or the imposition of additional tariffs or duties on imported products, could adversely affect our business, results of operations, effective income tax rate, liquidity and net income. Our dependence on foreign imports also makes us vulnerable to risks associated with products manufactured abroad, including, among other things, risks of damage, destruction or confiscation of products while in transit to our distribution centers located in the United States, charges on or assessment of additional import duties, tariffs and quotas, loss of "most favored nation" trading status by the United States in relation to a particular foreign country, work stoppages, including without limitation as a result of events such as longshoremen strikes, transportation and other delays in shipments, including without limitation as a result of heightened security screening and inspection processes or other port-of-entry limitations or restrictions in the United States, freight cost increases, economic uncertainties, including inflation, foreign government regulations, trade restrictions, including the United States retaliating against protectionist foreign trade practices and political unrest, increased labor costs and other similar factors that might affect the operations of our manufacturers in specific countries such as China.

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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.

***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

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

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

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

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

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***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 31, 2018, approximately 62% of Elfa's employees (approximately 7% 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.

***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.

***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, many 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.

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

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



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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 2017, we purchased merchandise from approximately 800 vendors. If our vendors fail to manufacture or import merchandise that adheres to product safety requirements or our quality control standards, our reputation and brands could be damaged, potentially leading to increases in customer litigation against us. It is possible that one or more of our vendors might not adhere to product safety requirements or our quality control standards, and we might not identify the deficiency before merchandise is sold. Any issues of product safety could cause us to recall some of those products. If our vendors are unable or unwilling to recall products failing to meet product safety requirements or our quality standards, we may be required to recall those products at a substantial cost to us. Furthermore, to the extent we are unable to replace any recalled products, we may have to reduce our merchandise offerings, resulting in a decrease in sales, especially if a recall occurs near a seasonal period.

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

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

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

We lease all of our properties at the TCS segment and the group headquarters and sales offices at the Elfa segment, and each is classified as an operating lease. In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, to revise lease accounting guidance. The update requires most leases to be recorded on the balance sheet as a lease liability, with a corresponding right-of-use asset, whereas these leases currently have an off-balance sheet classification. ASU 2016-02 will be effective for the Company in the first quarter of fiscal 2019. We are still evaluating the impact of implementation of this standard on our financial statements, but we expect that adoption will have a material impact to our total assets and liabilities given that we have a significant number of operating leases not currently recognized on our balance sheet.

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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.

***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.

***Recently enacted changes to U.S. tax laws may have a material impact on our business in the future***

The Tax Cuts and Jobs Act (the "Tax Act") was signed into law on December 22, 2017. The Tax Act made numerous changes to federal corporate tax law, including a permanent reduction to the federal corporate income tax rate, changes in the deductibility of interest on corporate debt obligations, acceleration of depreciation for certain assets, and limitations on the deductibility of certain executive compensation arrangements, among others, that we expect in the aggregate will reduce our effective tax rate in future periods. Additionally, the Tax Act implemented a one-time transition tax on accumulated foreign earnings that were not previously subject U.S. federal income tax.

Our fiscal 2017 effective income tax rate reflects a significant benefit primarily due to the provisional remeasurement of our deferred tax balances and includes a provisional amount for the one-time transition tax on foreign earnings. Changes to the taxation of undistributed foreign earnings could also affect our future intentions regarding reinvestment of such earnings. In addition, any future limitations on tax deductions for interest paid on outstanding indebtedness or executive compensation arrangements as a result of the Tax Act could have a material adverse effect on our results of operations and liquidity.

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The provisional impact of the Tax Act is based on management's current knowledge and assumptions, and final recognized impacts on our financial results could be materially different from current estimates. As we collect and prepare the necessary data, and further analyze the Tax Act and any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts in future periods. Those adjustments may materially impact our provision for income taxes and effective tax rate in the period in which the adjustments are made and could impact our results of operations, consolidated cash flows and liquidity.

***Our operating results are subject to quarterly and seasonal fluctuations, and results for any quarter may not necessarily be indicative of the results that may be achieved for the full fiscal year.***

Our quarterly results have fluctuated in the past and may fluctuate significantly in the future, depending upon a variety of factors, including our product offerings, promotional events, store openings, the weather, remodeling or relocations, shifts in the timing of holidays, timing of catalog releases or sales, timing of delivery of orders, competitive factors and general economic conditions, among other things, and may fluctuate significantly in the future. As a result of these factors, the demands on our product distribution and delivery network may fluctuate during the fiscal year. Accordingly, our results of operations may fluctuate on a seasonal and quarterly basis and relative to corresponding periods in prior years. We historically have realized 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 traditionally starts on or about December 24th and runs into February. In fact, over half of our adjusted net income was derived in the fiscal fourth quarter in fiscal years 2017, 2016, and 2015. In addition, 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 three manufacturing facilities: two in Sweden and one in Poland. 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**

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

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

quarterly variations in our operating results compared to market expectations;

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

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

size of the public float;

stock price performance of our competitors;

default on our indebtedness;

actions by competitors or other shopping center tenants;

changes in senior management or key personnel;

changes in financial estimates by securities analysts;

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

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

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

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natural disasters or other similar events;

issuances or expected issuances of capital stock; and

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

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

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***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 56.9%, 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, 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, qualify for and intend to rely on exemptions from certain corporate governance requirements. You do 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, 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 do not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

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

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

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

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***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 2014 Elfa Senior Secured Credit Facilities are currently restricted from paying cash dividends, and we expect these restrictions to continue in the future.

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

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

To comply with the requirements of Section 404, we have taken and may need to take various actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff. Testing and maintaining internal control can divert our management's attention from other matters that are important to the operation of our business. In addition, when evaluating 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. If we identify a material weakness in our internal control over financial reporting or are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be negatively affected, and we could become subject to investigations by the New York Stock Exchange, the SEC or other regulatory authorities, which could require additional financial and management resources.

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

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

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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 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 shareholders 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 shareholders who owns at least 15% of our 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. This provision may have the effect of discouraging lawsuits against our directors and officers.

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

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

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



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

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

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

We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of our initial public offering, which is March 30, 2019, (b) in which we have total annual gross revenue of at least \$1.07 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the prior June 30th, or (2) the date on which we have issued more than \$1.0 billion in non-convertible debt securities during the prior three-year period.

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

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

#### **ITEM 2. PROPERTIES**

We lease all of our 90 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

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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 31, 2018 is below:

Location	Store(s)	Location	Store(s)	Location	Store(s)
Arizona	4	Maryland	1	Ohio	3
Arkansas	1	Massachusetts	3	Oregon	1
California	13	Michigan	2	Pennsylvania	2
Colorado	3	Minnesota	1	Rhode Island	1
Delaware	1	Missouri	1	Tennessee	1
Florida	6	Nebraska	1	Texas	13
Georgia	3	Nevada	1	Utah	1
Illinois	5	New Jersey	3	Virginia	3
Iowa	1	New Mexico	1	Washington	2
Indiana	1	New York	6	Wisconsin	1
Kansas	1	North Carolina	2	District of Columbia	1
			<b>Total</b>		<b>90</b>

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 term for this lease expires in April 2025, and we retain three five-year renewal options.

Elfa leases its approximately 13,000 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). We closed the Elfa manufacturing facility in Lahti, Finland in December 2017.

### ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims, including employment claims, wage and hour claims, intellectual property claims, contractual and commercial disputes and other matters that arise in the ordinary course of business. While the outcome of these and other claims cannot be 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>		
Melissa Reiff	63	Chief Executive Officer and Director
Sharon Tindell	62	President, Chief Merchandising Officer and Director
Jodi Taylor	55	Chief Financial Officer, Chief Administrative Officer and Secretary
William A. ("Kip") Tindell, III	65	Chairman of the Board of Directors

*Melissa Reiff* has served as our Chief Executive Officer since July 2016, succeeding William A. ("Kip") Tindell, III. Previously, Ms. Reiff served as our President and Chief Operating Officer since March 2013 and as our President since 2006. She has also served on our board of directors since August 2007 (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 and assumed the role of Executive Vice President of Stores and Marketing in 2003. She is a member of the

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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. Ms. Reiff has served on the board of directors of Etsy since April 2015, where she is also a member of the Compensation Committee. 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. 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, marketing, merchandising, operations, communication and leadership.

*Sharon Tindell* has served as our President and Chief Merchandising Officer since July 2016, Chief Merchandising Officer since 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 and became our first buyer in 1981. In her current role, Tindell leads the retailer's merchandising vision, as well as its focus on custom closet solutions, development of exclusive and proprietary products, store format and design, and the visual impact of the customer's shopping experience. She also oversees supply chain and logistics, as well as the Company's Elfa International AB subsidiary serving as its Board Chair. 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 an understanding of our business and our customer. Sharon Tindell is married to William A. "Kip" Tindell, III, Chairman of the Board of Directors.

*Jodi Taylor* has served as our Chief Financial Officer and Chief Administrative Officer since July 2016, Chief Financial Officer since December 2007, and as our Secretary since October 2013. Ms. Taylor is responsible for the business areas of Finance, Accounting, Investor Relations, Real Estate, Procurement, Payroll, Benefits, Legal and Loss Prevention. Prior to joining us, Ms. Taylor served as Chief Financial Officer and Secretary from 1998 to 2007 at Harold's, a then publicly-traded apparel retailer which filed for bankruptcy in 2008. From 1986-1998, Ms. Taylor was an executive with Baby Superstore, Inc. or successor companies, which after an IPO in 1994, was ultimately acquired by Toys "R" Us, Inc. in 1996. Ms. Taylor was formerly an auditor with Deloitte, Haskins, & Sells (now Deloitte & Touche).

*William A. ("Kip") Tindell, III* has served as Chairman of our Board of Directors since August 2007 (and on the Board of Directors of The Container Store, Inc. since July 1978). Mr. Tindell served as our Chief Executive Officer from 2006 to 2016. Prior to that, he served as President and Chief Operating Officer of The Container Store through 2005. Mr. Tindell was presented Ernst & Young's 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 Baylor Healthcare Systems Foundation. Mr. Tindell also serves on the executive board of the National Retail Federation as its chairman, and served on the board of directors of the National Retail Federation Foundation from 2010 to 2013. He serves on the board of Conscious Capitalism Institute and Conscious Capitalism, Inc., a community of like-minded business, thought and academic leaders working to elevate humanity through a conscious approach to business. Mr. Tindell is an active member of the Dallas Salesmanship Club, a 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 developed while he was our Chief Executive Officer. Mr. Tindell is married to Sharon Tindell, our President and Chief Merchandising Officer.

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

Our common stock trades on The New York Stock Exchange ("NYSE"), under the symbol "TCS." The following table sets forth the highest and lowest sales prices for our common stock on the NYSE for the periods indicated.

	Highest	Lowest
<b>Fiscal 2016</b>		
First quarter ended July 2, 2016	\$ 7.98	\$ 4.47
Second quarter ended October 1, 2016	\$ 6.22	\$ 4.76
Third quarter ended December 31, 2016	\$ 8.34	\$ 4.58
Fourth quarter ended April 1, 2017	\$ 6.74	\$ 3.75
<b>Fiscal 2017</b>		
First quarter ended July 1, 2017	\$ 6.12	\$ 3.81
Second quarter ended September 30, 2017	\$ 6.37	\$ 4.02
Third quarter ended December 30, 2017	\$ 6.27	\$ 3.53
Fourth quarter ended March 31, 2018	\$ 5.86	\$ 3.57

The number of stockholders of record of our common stock as of May 25, 2018 was 64. This number excludes stockholders whose stock is held in nominee or street name by brokers. No dividends have been declared or paid on our common stock. We do not currently anticipate that we will pay any cash dividends on our common stock in the foreseeable future.

**Stock Performance Graph**

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

The following graph and table compare the cumulative total stockholder return for our common stock during the period from November 1, 2013 (the date our common stock commenced trading on the NYSE) through March 31, 2018 in comparison to the NYSE Composite Index and the S&P Retailing Select Index. The graph and the table below assume that \$100 was invested at the market close on November 1, 2013 in the common stock of The Container Store Group, Inc., the NYSE Composite Index and the S&P Retailing Select Index. Data for the NYSE Composite Index and the S&P Retailing Select Index assumes reinvestments of dividends. The comparisons in the graph and

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

	11/1/2013	3/1/2014	2/28/2015	2/27/2016	4/1/2017	3/31/2018
The Container Store Group, Inc.	100.00	98.92	50.88	14.56	11.69	15.03
NYSE Composite Index	100.00	104.07	110.43	96.02	114.72	124.30
S&P Retailing Select Index	100.00	101.21	116.35	102.88	100.44	105.28

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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 31, 2018 (fiscal 2017), April 1, 2017 (fiscal 2016), and February 27, 2016 (fiscal 2015), and the selected consolidated balance sheet data as of March 31, 2018 and April 1, 2017 have been derived from our audited consolidated financial statements, which are included elsewhere in this Annual Report on Form 10-K. The selected consolidated financial data for each of the years ended February 28, 2015 (fiscal 2014) and March 1, 2014 (fiscal 2013) and the selected consolidated balance sheet data as of February 27, 2016, February 28, 2015, and March 1, 2014 have been derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K. The table below also includes, for comparative purposes, unaudited data for the recast 52-week period ended April 2, 2016. Historical results are not indicative of the results to be expected in the future. Fiscal 2017, fiscal 2016, fiscal 2015, fiscal 2014, and fiscal 2013 included 52 weeks.

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

	March 31, 2018	April 1, 2017(1)	Fiscal year ended (unaudited)		February 28, 2015	March 1, 2014
			April 2, 2016(2)	February 27, 2016		
<b>Consolidated statement of operations</b>						
Net sales	\$ 857,228	\$ 819,930	\$ 797,087	\$ 794,630	\$ 781,866	\$ 748,538
Cost of sales (excluding depreciation and amortization)	360,167	343,860	332,594	331,079	323,800	308,755
Gross profit	497,061	476,070	464,493	463,551	458,066	439,783
Selling, general and administrative expenses (excluding depreciation and amortization)	411,721	387,948	394,585	393,810	372,867	354,271
Stock-based compensation	2,026	1,989	1,575	1,556	1,289	15,137
Pre-opening costs	5,293	6,852	9,004	9,033	8,283	6,672
Depreciation and amortization	37,922	37,124	34,628	34,230	31,011	30,353
Other expenses	5,734	1,058	102		1,132	1,585
Loss (gain) on disposal of assets	278	57	62	61	(3,487)	206
Income from operations	34,087	41,042	24,537	24,861	46,971	31,027
Interest expense, net	25,013	16,687	16,772	16,810	17,105	21,185
Loss on extinguishment of debt	2,369					1,229
Income before taxes	6,705	24,355	7,765	8,051	29,866	8,613
(Benefit) provision for income taxes(3)	(12,723)	9,402	2,907	2,909	7,193	447
Net income	\$ 19,428	\$ 14,953	\$ 4,858	\$ 5,142	\$ 22,673	\$ 8,166
Less: Distributions accumulated to preferred shareholders(4)						(59,747)
Net income (loss) available to common shareholders(4)	\$ 19,428	\$ 14,953	\$ 4,858	\$ 5,142	\$ 22,673	\$ (51,581)
Net income (loss) per common share basic and diluted(4)	\$ 0.40	\$ 0.31	\$ 0.10	\$ 0.11	\$ 0.47	\$ (2.87)
Weighted-average common shares basic	48,061,527	47,996,746	47,986,034	47,985,717	47,971,243	17,955,757
Weighted-average common shares diluted	48,147,725	48,016,010	47,976,034	47,985,717	48,520,865	17,955,757

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	Fiscal year ended					
	March 31, 2018	April 1, 2017(1)	April 2, 2016(2)	February 27, 2016	February 28, 2015	March 1, 2014
<b>Operating data:</b>						
Comparable store sales growth for the period(5)	0.9%	(2.4)%	(0.8)%	0.0%	(1.4)%	2.9%
Number of stores open at end of period	90	86	79	79	70	63
<b>Non-GAAP measures(6):</b>						
Adjusted EBITDA(7)	\$ 89,603	\$ 86,559	\$ 68,362	\$ 68,159	\$ 88,230	\$ 86,101
Adjusted EBITDA margin(7)	10.5%	10.6%	8.6%	8.6%	11.3%	11.5%
Adjusted net income(8)	\$ 13,594	\$ 13,393	\$ 4,858	\$ 5,142	\$ 16,501	\$ 16,354
Adjusted net income per common share diluted(8)	\$ 0.28	\$ 0.28	\$ 0.10	\$ 0.11	\$ 0.34	\$ 0.33

	As of					
	March 31, 2018	April 1, 2017	February 27, 2016	February 28, 2015	March 1, 2014	
<b>Consolidated balance sheet data:</b>						
Cash	\$ 8,399	\$ 10,736	\$ 13,609	\$ 24,994	\$ 18,046	
Net working capital(9)	27,029	44,342	22,913	20,965	34,832	
Total assets	749,369	761,834	758,119	761,579	773,841	
Long-term debt(10)	285,165	317,471	321,508	324,616	325,943	
Total stockholders' equity	248,707	221,790	207,068	201,862	197,186	

- (1) Beginning with fiscal 2016, the Company changed its fiscal year to a 52-53 week period ending on the Saturday closest to March 31; previously, the Company's fiscal year ended on the Saturday closest to February 28. See Note 17 to the Financial Statements for financial data for the five-week transition period ended April 2, 2016.
- (2) For comparative purposes, the Company has presented unaudited selected consolidated financial data for the 52-week period ended April 2, 2016.
- (3) The difference between the Company's effective tax rate and the statutory Federal tax rate can be attributed to fluctuations in the valuation allowance recorded against net deferred assets not expected to be realized, indefinite-lived intangible asset impairment charges not deductible for tax purposes, the effects of prior period adjustments, the effects of foreign income taxed at a different rate including statutory changes in those rates, intra-period tax allocations between continuing operations and other comprehensive income, and the estimated impact of the Tax Cuts and Jobs Act.
- (4) For fiscal 2013, common stockholders did not share in net income due to earnings not exceeding the accrued distributions on the Company's preferred stock. For fiscal 2013, basic and diluted net loss per common share are the same, as any additional common stock equivalents would be anti-dilutive.
- (5) 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. Comparable store sales are net of discounts and returns. 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. Prior to fiscal 2015, the comparable store sales growth operating measure does not include net sales from services.
- In the first quarter of fiscal 2016, we changed our comparable store sales operating measure to reflect the point at which merchandise and service orders are fulfilled and delivered to customers, excluding shipping and delivery. Prior to the first quarter of fiscal 2016, our comparable store sales operating measure in a given period was based on merchandise and service orders placed in that period, excluding shipping and delivery, which did not always reflect the point at which merchandise and services were received by the customer and, therefore, recognized in our financial statements as net sales. We believe that changing the comparable store sales operating metric to better align with net sales presented in our financial statements will assist investors in evaluating our financial performance. The comparable store sales growth metric is an operating measure intended only as supplemental information and is not a substitute for net sales presented in accordance with generally accepted accounting principles ("GAAP").
- (6) We have presented EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, adjusted net income, and adjusted net income per common share diluted 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



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any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be

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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. We present these non-GAAP measures because we believe they assist investors in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance and because we believe it is useful for investors to see the measures that management uses to evaluate the Company. These non-GAAP measures are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In evaluating these non-GAAP measures, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of these non-GAAP measures should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using non-GAAP measures supplementally. Our non-GAAP measures are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation. Please refer to footnotes (7) and (8) of this table for further information regarding why we believe each non-GAAP financial measure provides useful information to investors regarding our financial condition and results of operations, as well as the additional purposes for which management uses each of the non-GAAP financial measures.

(7)

EBITDA, Adjusted EBITDA, and Adjusted EBITDA margin 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 our Secured Term Loan Facility and the Revolving Credit Facility and is one of the components for performance evaluation under our executive compensation programs. Adjusted EBITDA reflects further adjustments to EBITDA to eliminate the impact of certain items, including certain non-cash and other items, that we do not consider in our evaluation of ongoing operating performance from period to period as discussed further below. Adjusted EBITDA margin means, for any period, the Adjusted EBITDA for that period divided by the net sales for that period presented in accordance with GAAP.

EBITDA, Adjusted EBITDA, and Adjusted EBITDA margin 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. In addition, we use Adjusted EBITDA in connection with covenant compliance and executive performance evaluations, and we use Adjusted EBITDA and Adjusted EBITDA margin 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 believe it is useful for investors to see the measures that management uses to evaluate the Company, its executives and our covenant compliance, as applicable. EBITDA and Adjusted EBITDA are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry.

EBITDA, Adjusted EBITDA, and Adjusted EBITDA margin 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, Adjusted EBITDA, and Adjusted EBITDA margin 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 and Adjusted EBITDA margin, 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 and Adjusted EBITDA margin 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, Adjusted EBITDA, and Adjusted EBITDA margin supplementally. Our measures of EBITDA, Adjusted EBITDA, and Adjusted EBITDA margin 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 to EBITDA and Adjusted EBITDA is set forth below:

	March 31, 2018	April 1, 2017	Fiscal year ended		February 28, 2015	March 1, 2014
			April 2, 2016	February 27, 2016		
			(unaudited)			
Net income	\$ 19,428	\$ 14,953	\$ 4,858	\$ 5,142	\$ 22,673	\$ 8,166
Depreciation and amortization	37,922	37,124	34,628	34,230	31,011	30,353
Interest expense, net	25,013	16,687	16,772	16,810	17,105	21,185
Income tax (benefit) expense	(12,723)	9,402	2,907	2,909	7,193	447
<b>EBITDA</b>	<b>69,640</b>	<b>78,166</b>	<b>59,165</b>	<b>59,091</b>	<b>77,982</b>	<b>60,151</b>
Management fees(a)						667
Pre-opening costs(b)	5,293	6,852	9,004	9,033	8,283	6,672
IPO costs(c)						1,259
Noncash rent(d)	(1,915)	(1,365)	(1,784)	(1,844)	(374)	260
Restructuring charges(e)						532
Stock-based compensation(f)	2,026	1,989	1,575	1,556	1,289	15,137
Loss on extinguishment of debt(g)	2,369					1,229
Foreign exchange (gains) losses(h)	(596)	(342)	226	241	(171)	(224)
Optimization Plan implementation charges(i)	11,479					
Elfa manufacturing facility closure(j)	803					
Other adjustments(k)	504	1,259	176	82	1,221	418
<b>Adjusted EBITDA</b>	<b>\$ 89,603</b>	<b>\$ 86,559</b>	<b>\$ 68,362</b>	<b>\$ 68,159</b>	<b>\$ 88,230</b>	<b>\$ 86,101</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) Charges incurred in connection with our IPO, which we do not expect to recur and do not consider in our evaluation of ongoing performance.
- (d) Reflects the extent to which our annual GAAP rent expense has been above or below our cash rent payment due to lease accounting adjustments. The adjustment varies depending on the average age of our lease portfolio (weighted for size), as our GAAP rent expense on younger leases typically exceeds our cash cost, while our GAAP rent expense on older leases is typically less than our cash cost.
- (e) Includes charges incurred to restructure business operations at Elfa, which we do not consider in our evaluation of our ongoing performance.
- (f) Non-cash charges related to stock-based compensation programs, which vary from period to period depending on volume and vesting timing of awards. We adjust for these charges to facilitate comparisons from period to period.
- (g) Loss recorded as a result of the amendments made to the Senior Secured Term Loan Facility in April 2013, November 2013 and August 2017, which we do not consider in our evaluation of our ongoing operations.
- (h) Realized foreign exchange transactional gains/losses our management does not consider in our evaluation of our ongoing operations.
- (i) Charges incurred to implement our Optimization Plan, which include certain consulting costs recorded in selling, general and administrative expenses, cash severance payments associated with the elimination of certain full-time positions at the TCS segment recorded in other expenses, and cash severance payments associated with organizational realignment at the Elfa segment recorded in other expenses, which we do not consider in our evaluation of ongoing performance.
- (j)

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Charges related to the closure of an Elfa manufacturing facility in Lahti, Finland in December 2017, recorded in other expenses, which we do not consider in our evaluation of our ongoing performance.

(k)

Other adjustments include amounts our management does not consider in our evaluation of our ongoing operations, including certain severance, costs incurred in preparation for being a public company, and other charges.

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(8)

Adjusted net income and adjusted net income per common share diluted have been presented as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We define adjusted net income as net income (loss) available to common shareholders before distributions accumulated to preferred shareholders, stock-based compensation and other costs in connection with our IPO, restructuring charges, impairment charges related to intangible assets, losses on extinguishment of debt, certain gains on disposal of assets, certain management transition costs incurred and benefits realized, charges incurred as part of the implementation of our Optimization Plan, charges associated with an Elfa manufacturing facility closure, and the tax impact of these adjustments and other unusual or infrequent tax items. We define adjusted net income per common share diluted as adjusted net income divided by the diluted weighted average common shares outstanding; however, for fiscal 2013 adjusted diluted weighted average common shares outstanding is calculated based on the assumption that the number of shares outstanding as of March 1, 2014 was outstanding at the beginning of the period. 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. We present adjusted net income and adjusted net income per common share diluted because we believe they assist investors in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance and because we believe it is useful for investors to see the measures that management uses to evaluate the Company.

We have included a presentation of adjusted net income and adjusted net income per diluted share for fiscal 2016 to show the net impact of the amended and restated employment agreements entered into with key executives during the fiscal 2016 ("management transition costs (benefits)"). Although we disclosed the net positive impact of the amended and restated employment agreements in our discussions of earnings per share and selling, general and administrative expenses ("SG&A") in our fiscal 2016 filings with the SEC, we did not adjust for the net impact of these agreements in our fiscal 2016 presentation of adjusted net income and adjusted net income per diluted share. However, in fiscal 2017, our Optimization Plan has caused us to incur similar charges that we believe are not indicative of our core operating performance. As a result, we believe that adjusting net income and net income per diluted share in fiscal 2016 for management transition costs (benefits), in addition to adjusting net income and net income per diluted share in fiscal 2017 for charges incurred as part of the implementation of our Optimization Plan will assist investors in comparing our core operating performance across reporting periods on a consistent basis.

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

	Fiscal year ended					
	March 31, 2018	April 1, 2017	April 2, 2016	February 27, 2016	February 28, 2015	March 1, 2014
	(unaudited)					
<b>Numerator:</b>						
Net income (loss) available to common shareholders	\$ 19,428	\$ 14,953	\$ 4,858	\$ 5,142	\$ 22,673	\$ (51,581)
Distributions accumulated to preferred shareholders(a)						59,747
IPO related stock-based compensation(b)						14,602
IPO costs(c)						1,259
Restructuring charges(d)						532
Gain on disposal of subsidiary and real estate(e)					(3,681)	
Management transition costs(f)		(2,852)				
Elfa manufacturing facility closure(g)	803					
Loss on extinguishment of debt(h)	2,369					1,229
Optimization Plan implementation charges(i)	11,479					
Taxes(j)	(20,485)	1,292			(2,491)	(9,434)
<b>Adjusted net income</b>	<b>\$ 13,594</b>	<b>\$ 13,393</b>	<b>\$ 4,858</b>	<b>\$ 5,142</b>	<b>\$ 16,501</b>	<b>\$ 16,354</b>
<b>Denominator:</b>						
Weighted average common shares outstanding diluted	48,147,725	48,016,010	47,976,034	47,985,717	48,520,865	17,955,757
Adjust weighting factor of outstanding shares(k)						30,939,876
<b>Adjusted weighted average common shares outstanding diluted</b>	<b>48,147,725</b>	<b>48,016,010</b>	<b>47,976,034</b>	<b>47,985,717</b>	<b>48,520,865</b>	<b>48,895,633</b>
<b>Adjusted net income per common share diluted</b>	<b>\$ 0.28</b>	<b>\$ 0.28</b>	<b>\$ 0.10</b>	<b>\$ 0.11</b>	<b>\$ 0.34</b>	<b>\$ 0.33</b>

- (a) Distributions accumulated to preferred shareholders in arrears were eliminated as of November 6, 2013 through the Distribution and Exchange (as defined in Note 8 to our audited consolidated financial statements), and are not considered in our evaluation of ongoing performance.
- (b) Non-cash charges related to stock-based compensation programs incurred in connection with our IPO, which we do not consider in our evaluation of our ongoing performance.
- (c) Charges incurred in connection with our IPO, which we do not expect to recur and do not consider in our evaluation of ongoing performance.
- (d) Includes charges incurred to restructure business operations at Elfa, which we do not consider in our evaluation of our ongoing performance.
- (e) Gain recorded as a result of the sale of a Norwegian subsidiary, whose primary asset was a manufacturing facility that was shut down and consolidated into a like facility in Sweden as part of Elfa's restructuring efforts in fiscal 2012, as well as the sale of a building at Elfa in fiscal 2014, which we do not consider in our evaluation of ongoing performance.
- (f) Certain management transition costs incurred and benefits realized, including the impact of amended and restated employment agreements entered into with key executives during fiscal 2016, which resulted in the reversal of accrued deferred compensation associated with the original employment agreements, net of costs incurred to execute the agreements, partially offset by cash severance payments, which we do not consider in our evaluation of ongoing performance.
- (g) Charges related to the closure of an Elfa manufacturing facility in Lahti, Finland in December 2017, recorded in other expenses, which we do not consider in our evaluation of our ongoing performance.



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- (h) Loss recorded as a result of the amendments made to the Senior Secured Term Loan Facility in April 2013, November 2013 and August 2017, which we do not consider in our evaluation of our ongoing operations.
- (i) Charges incurred to implement our Optimization Plan, which include certain consulting costs recorded in selling, general and administrative expenses, cash severance payments associated with the elimination of certain full-time positions at the TCS segment recorded in other expenses, and cash severance payments associated with organizational realignment at the Elfa segment recorded in other expenses, which we do not consider in our evaluation of ongoing performance.
- (j) Tax impact of adjustments to net income (loss), as well as other unusual or infrequent tax items, including the impact of a \$1.8 million reduction in tax expense recorded in fiscal 2014 primarily related to a refund of tax paid in a prior period, the estimated impact of the Tax Cuts and Jobs Act in fiscal 2017, 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.
- (k) Fiscal 2013 is calculated based on the assumption that the number of shares outstanding as of March 1, 2014 was outstanding at the beginning of the fiscal year.
- (9) Net working capital is defined as current assets (excluding cash) less current liabilities (excluding the current portion of long-term debt and revolving lines of credit).
- (10) Long-term debt consists of the current and long-term portions of the Senior Secured Term Loan Facility, the 2014 Elfa Term Loan Facility, Elfa Term Loan Facility, the Revolving Credit Facility, capital lease liabilities, and other mortgages and loans.



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**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**

The Container Store® is the original and leading specialty retailer of storage and organization products and solutions in the United States and the only national retailer solely devoted to the category. We provide a collection of creative, multifunctional and customizable storage and organization solutions that are sold in our stores and online through a high-service, differentiated shopping experience. Our vision is to be a beloved brand and the first choice for customized organization solutions and services. Our customers are highly educated, very busy and primarily homeowners with a higher than average household income. We service them with storage and organization solutions that help them accomplish projects, maximize their space, and make the most of their home. We believe an organized life is a happy life.

Our operations consist of two operating segments:

*The Container Store ("TCS")*, which consists of our retail stores, website and call center, as well as our installation and organizational services business. As of March 31 2018, we operated 90 stores with an average size of approximately 25,000 square feet (19,000 selling square feet) in 32 states and the District of Columbia. We also offer all of our products directly to customers through our website, responsive mobile site, and call center. Our stores receive substantially all of our products directly from our distribution center co-located with our corporate headquarters and call center in Coppell, Texas.

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

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

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

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***Optimization Plan***

As previously announced on May 23, 2017, the Company launched a four-part optimization plan to drive improved sales and profitability (the "Optimization Plan"). This plan includes sales initiatives, certain full-time position eliminations at TCS, which were concluded in the first quarter of fiscal 2017, organizational realignment at Elfa and ongoing savings and efficiency efforts. In fiscal 2016, the Company's savings program was primarily focused within selling, general and administrative expenses. However, as part of the Optimization Plan, the Company has also focused on savings and efficiency efforts within cost of sales, in addition to selling, general and administrative expenses.

The Company incurred pre-tax charges associated with the implementation of the Optimization Plan of approximately \$11 million in fiscal 2017. The expected annualized pre-tax savings associated with the Optimization Plan continue to be approximately \$20 million, of which approximately \$12 million was realized in fiscal 2017.

In fiscal 2018, the Company expects to complete the Optimization Plan through the execution of a price optimization initiative. The Company expects to incur approximately \$5 million of pre-tax charges in the first quarter of fiscal 2018 associated with the implementation of the price optimization initiative.

***Net sales***

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

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

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

***Gross profit and gross margin***

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

Our gross profit is variable in nature and generally follows changes in net sales. Our gross margin can be impacted by changes in the mix of products and services sold. For example, sales from our TCS segment typically provide a higher gross margin than sales to third parties from our Elfa segment. Additionally, sales of products typically provide a higher gross margin than sales of services. Gross

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margin for our TCS segment is also susceptible to foreign currency risk as purchases of elfa® products from our Elfa segment are in Swedish krona, while sales of these products are in U.S. dollars. We mitigate this risk through the use of forward contracts, whereby we hedge purchases of inventory by locking in foreign currency exchange rates in advance. Similarly, gross margin for our Elfa segment is susceptible to foreign currency risk as certain purchases of raw materials are transacted in currencies other than Swedish krona, which is the functional currency of Elfa.

***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 payroll and payroll-related expenses, marketing expenses, occupancy expenses (which include rent, real estate taxes, common area maintenance, utilities, telephone, property insurance, and repairs and maintenance), costs to ship product from the distribution center to our stores, and supplies expenses. We also incur costs for our distribution and corporate office operations. For our Elfa segment, these include sales and marketing expenses, product development costs, and all expenses related to operations at headquarters. Depreciation and amortization are excluded from both gross profit and selling, general and administrative expenses.

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

***Pre-opening costs***

Non-capital expenditures associated with opening new stores and relocating stores, including rent, marketing expenses, travel and relocation costs, training costs, and certain corporate overhead 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. Comparable store sales are net of discounts and returns. 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.

In the first quarter of fiscal 2016, we changed our comparable store sales operating measure to reflect the point at which merchandise and service orders are fulfilled and delivered to customers, excluding shipping and delivery. Prior to the first quarter of fiscal 2016, our comparable store sales operating measure in a given period was based on merchandise and service orders placed in that period, excluding shipping and delivery, which did not always reflect the point at which merchandise and services were received by the customer and, therefore, recognized in our financial statements as net sales. We believe that changing the comparable store sales operating metric to better align with net sales presented in our financial statements will assist investors in evaluating our financial performance.

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

national and regional economic trends in the United States;

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changes in our merchandise mix;

changes in pricing;

changes in timing of promotional events or holidays; and

weather.

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

***EBITDA and Adjusted EBITDA***

EBITDA and Adjusted EBITDA are key metrics used by management, our board of directors and LGP to assess our financial performance. In addition, we use Adjusted EBITDA in connection with covenant compliance, executive performance evaluations, and 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 believe it is useful for investors to see the measures that management uses to evaluate the Company, its executives and our covenant compliance, as applicable. EBITDA and Adjusted EBITDA are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry.

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

***Adjusted net income and adjusted net income per common share diluted***

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. We present adjusted net income and adjusted net income per common share diluted because we believe they assist investors in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance and because we believe it is useful for investors to see the measures that management uses to evaluate the Company. Adjusted net income is a supplemental measure of financial performance that is not required by, or presented in accordance with, GAAP.

We define adjusted net income as net income (loss) available to common shareholders before distributions accumulated to preferred shareholders, stock-based compensation and other costs in connection with our IPO, restructuring charges, losses on extinguishment of debt, certain gains on disposal of assets, certain management transition costs incurred and benefits realized, charges incurred as part of the implementation of our Optimization Plan, charges associated with an Elfa manufacturing facility closure, and the tax impact of these adjustments and unusual or infrequent tax items. We define adjusted net income per common share diluted as adjusted net income divided by the diluted weighted average common shares outstanding. For a reconciliation of adjusted net income to the most directly comparable GAAP measure, refer to "*Item 6: Selected Financial and Operating Data.*"

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#### *Adjustment for currency exchange rate fluctuations*

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

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

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

#### **Results of Operations**

The following data represents the amounts shown in our audited consolidated statements of operations for the fiscal years ended March 31, 2018 and April 1, 2017, and the five-weeks ended April 2, 2016 along with comparable unaudited data for the recast fiscal year ended April 2, 2016 and the five-weeks ended April 4, 2015 expressed in dollars and as a percentage of net sales and certain operating data and non-GAAP financial information. For segment data, see Note 14 to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

	March 31, 2018	Fiscal year ended April 1, 2017	April 2, 2016 (unaudited)	Five Weeks Ended April 2, 2016	April 4, 2015 (unaudited)
Net sales	\$ 857,228	\$ 819,930	\$ 797,087	\$ 69,218	\$ 66,761
Cost of sales (excluding depreciation and amortization)	360,167	343,860	332,594	29,023	27,507
Gross profit	497,061	476,070	464,493	40,195	39,254
Selling, general, and administrative expenses (excluding depreciation and amortization)	411,721	387,948	394,585	34,504	33,728
Stock-based compensation	2,026	1,989	1,575	147	129
Pre-opening costs	5,293	6,852	9,004	191	220
Depreciation and amortization	37,922	37,124	34,628	3,009	2,612
Other expenses	5,734	1,058	102	102	
Loss on disposal of assets	278	57	62		
Income from operations	34,087	41,042	24,537	2,242	2,565
Interest expense	25,013	16,687	16,772	1,550	1,587
Loss on extinguishment of debt	2,369				
Income before taxes	6,705	24,355	7,765	692	978
(Benefit) provision for income taxes	(12,723)	9,402	2,907	338	340
Net income	\$ 19,428	\$ 14,953	\$ 4,858	\$ 354	\$ 638

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	March 31, 2018	Fiscal year ended April 1, 2017	April 2, 2016  (unaudited)	Five Weeks Ended(3) April 2, 2016	April 4, 2015  (unaudited)
<b>Percentage of net sales:</b>					
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales (excluding depreciation and amortization)	42.0%	41.9%	41.7%	41.9%	41.2%
Gross profit	58.0%	58.1%	58.3%	58.1%	58.8%
Selling, general, and administrative expenses (excluding depreciation and amortization)					
Stock-based compensation	48.0%	47.3%	49.5%	49.8%	50.5%
Pre-opening costs	0.2%	0.2%	0.2%	0.2%	0.2%
Depreciation and amortization	0.6%	0.8%	1.1%	0.3%	0.3%
Other expenses	4.4%	4.5%	4.3%	4.3%	3.9%
Loss on disposal of assets	0.7%	0.1%	0.0%	0.1%	0.0%
Income from operations	0.0%	0.0%	0.0%	0.0%	0.0%
Interest expense	4.0%	5.0%	3.1%	3.2%	3.8%
Loss on extinguishment of debt	2.9%	2.0%	2.1%	2.2%	2.4%
Income before taxes	0.3%	0.0%	0.0%	0.0%	0.0%
(Benefit) provision for income taxes	0.8%	3.0%	1.0%	1.0%	1.5%
Net income	(1.5)%	1.1%	0.4%	0.5%	0.5%
<b>Operating data:</b>					
Comparable store sales growth for the period(1)	0.9%	(2.4)%	(0.8)%		
Number of stores open at end of period	90	86	79		
<b>Non-GAAP measures(2):</b>					
Adjusted EBITDA(2)	\$ 89,603	\$ 86,559	\$ 68,362		
Adjusted net income(2)	\$ 13,594	\$ 13,393	\$ 4,858		
Adjusted net income per common share diluted(2)	\$ 0.28	\$ 0.28	\$ 0.10		

(1)

A store is included in the comparable store sales calculation on the first day of the sixteenth full fiscal month following the store's opening. Comparable store sales are net of discounts and returns. 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.

In the first quarter of fiscal 2016, we changed our comparable store sales operating measure to reflect the point at which merchandise and service orders are fulfilled and delivered to customers, excluding shipping and delivery. Prior to the first quarter of fiscal 2016, our comparable store sales operating measure in a given period was based on merchandise and service orders placed in that period, excluding shipping and delivery, which did not always reflect the point at which merchandise and services were received by the customer and, therefore, recognized in our financial statements as net sales. We believe that changing the comparable store sales operating metric to better align with net sales presented in our financial statements will assist investors in evaluating our financial performance. The comparable store sales growth metric is an operating measure intended only as supplemental information and is not

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a substitute for net sales presented in accordance with generally accepted accounting principles ("GAAP").

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- (2) We have presented EBITDA, Adjusted EBITDA, adjusted net income, and adjusted net income per common share diluted 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. We present these non-GAAP measures because we believe they assist investors in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance and because we believe it is useful for investors to see the measures that management uses to evaluate the Company. These non-GAAP measures are also frequently used by analysts, investors and other interested parties to evaluate companies in our industry. In evaluating these non-GAAP measures, you should be aware that in the future we will incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of these non-GAAP measures should not be construed to imply that our future results will be unaffected by any such adjustments. Management compensates for these limitations by relying on our GAAP results in addition to using non-GAAP measures supplementally. Our non-GAAP measures are not necessarily comparable to other similarly titled captions of other companies due to different methods of calculation. For more information regarding our use of EBITDA and Adjusted EBITDA and a reconciliation of EBITDA and Adjusted EBITDA to the GAAP financial measure of net income (loss) see "How we assess the performance of our business" above and "Item 6: Selected Financial and Operating Data." For more information regarding our use of adjusted net income and adjusted net income per common share diluted, and a reconciliation of adjusted net income and adjusted net income per common share diluted to the GAAP financial measures of net income (loss) available to common shareholders and diluted net income (loss) per common share, see "How we assess the performance of our business" above and "Item 6: Selected Financial and Operating Data."
- (3) We have not presented operating data or non-GAAP measures for the five week periods ended April 2, 2016 and April 4, 2015.

**Fiscal 2017 compared to Fiscal 2016**

*Net sales*

The following table summarizes our net sales for fiscal 2017 and fiscal 2016:

	March 31, 2018	% total	April 1, 2017	% total
TCS net sales	\$ 787,375	91.9%	\$ 752,675	91.8%
Elfa third party net sales	69,853	8.1%	67,255	8.2%
<b>Net sales</b>	<b>\$ 857,228</b>	<b>100.0%</b>	<b>\$ 819,930</b>	<b>100.0%</b>



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Net sales in fiscal 2017 increased by \$37,298, or 4.5%, compared to fiscal 2016. This increase is comprised of the following components:

	<b>Net sales</b>
Net sales for fiscal 2016	\$ 819,930
Incremental net sales increase (decrease) due to:	
New stores	27,662
Comparable stores (including a \$11,398, or 20.3%, increase in online sales)	6,601
Elfa third party net sales (excluding impact of foreign currency translation)	(77)
Impact of foreign currency translation on Elfa third party net sales	2,675
Shipping and delivery	437
 Net sales for fiscal 2017	 \$ 857,228

During fiscal 2017, thirteen new stores generated \$27,662 of incremental net sales, nine of which were opened prior to or during fiscal 2016 and four of which were opened in fiscal 2017. Additionally, comparable stores generated \$6,601, or 0.9 percentage points, of the 4.5% increase in net sales. Elfa third party net sales increased \$2,598 during fiscal 2017, primarily due to the positive impact of foreign currency translation, which increased third party net sales by \$2,675. After converting Elfa's third party net sales from Swedish krona to U.S. dollars using the prior year's conversion rate for fiscal 2017 and fiscal 2016, Elfa third party net sales decreased \$77 primarily due to lower net sales in the Nordic markets, partially offset by higher net sales in Russia.

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

Gross profit in fiscal 2017 increased by \$20,991, or 4.4%, compared to fiscal 2016. The increase in gross profit was primarily the result of increased consolidated net sales, partially offset by lower consolidated gross margin. The following table summarizes the gross margin for fiscal 2017 and fiscal 2016 by segment and total. The segment margins include the impact of inter-segment sales from the Elfa segment to the TCS segment:

	<b>March 31, 2018</b>	<b>April 1, 2017</b>
TCS gross margin	57.2%	57.1%
Elfa gross margin	38.1%	39.9%
Total gross margin	58.0%	58.1%

TCS gross margin increased 10 basis points during fiscal 2017, primarily due to lower cost of goods sold associated with the Optimization Plan and the benefit of favorable foreign currency contracts, partially offset by a greater portion of sales generated by merchandise campaigns and higher costs associated with our installation services business. Elfa segment gross margin decreased 180 basis points, primarily due to higher direct materials costs. On a consolidated basis, gross margin declined 10 basis points, as the improvement in TCS gross margin was more than offset by the decline in Elfa gross margin.

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

Selling, general and administrative expenses in fiscal 2017 increased by \$23,773, or 6.1%, compared to fiscal 2016. As a percentage of consolidated net sales, selling, general and administrative expenses

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increased by 70 basis points. The following table summarizes selling, general and administrative expenses as a percentage of consolidated net sales for fiscal 2017 and fiscal 2016:

	<b>March 31, 2018</b>	<b>April 1, 2017</b>
	<b>% of net sales</b>	<b>% of net sales</b>
TCS selling, general and administrative	44.1%	43.1%
Elfa selling, general and administrative	3.9%	4.2%
<b>Total selling, general and administrative</b>	<b>48.0%</b>	<b>47.3%</b>

TCS selling, general and administrative expenses increased by 100 basis points as a percentage of consolidated net sales. The increase was primarily due to consulting costs incurred as part of the Optimization Plan, which contributed 80 basis points to the increase in fiscal 2017. Additionally, the impact of amended and restated employment agreements entered into with key executives during fiscal 2016, which led to the reversal of accrued deferred compensation associated with the original employment agreements, net of costs incurred to execute the agreements, contributed a 50 basis points benefit in fiscal 2016. This combined 130 basis points year-over-year increase was partially offset by a 30 basis point improvement in TCS selling, general and administrative expenses as a percentage of net sales, primarily due to ongoing savings and efficiency efforts, inclusive of savings from the Optimization Plan, partially offset by increased occupancy costs. Elfa selling, general and administrative expenses decreased by 30 basis points as a percentage of consolidated net sales primarily due to ongoing savings and efficiency efforts.

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

Pre-opening costs decreased by \$1,559, or 22.8% in fiscal 2017 to \$5,293, as compared to \$6,852 in fiscal 2016, due to a decrease in the number of stores opened in fiscal 2017 as compared to fiscal 2016. We opened five stores, inclusive of one relocation, in fiscal 2017, and we opened seven stores in fiscal 2016.

### ***Other expenses***

In fiscal 2017, we recorded \$5,734 of other expenses, which were primarily related to severance costs associated with the Optimization Plan. The Company incurred \$1,836 of severance charges associated with the elimination of certain full-time positions at TCS, as well as \$2,727 of severance charges associated with organizational realignment at Elfa. Additionally, other expenses of \$803 were recorded in connection with the closure of an Elfa manufacturing facility in Lahti, Finland in December 2017. We also recorded \$368 of severance expenses in fiscal 2017 that were not associated with the Optimization Plan. In fiscal 2016, we recorded \$1,058 of other expenses, which were primarily related to management transition costs.

### ***Interest expense and loss on extinguishment of debt***

Interest expense increased by \$8,326, or 49.9%, in fiscal 2017 to \$25,013, as compared to \$16,687 in fiscal 2016. On August 18, 2017, the Company entered into a fourth amendment (the "Term Loan Amendment") to the Senior Secured Term Loan Facility dated as of April 6, 2012. The fourth amendment amended the Senior Secured Term Loan Facility to, among other things, increase the applicable interest rate margin to 7.00% for LIBOR loans and 6.00% for base rate loans, which resulted in increased interest expense during fiscal 2017.

Additionally, as a result of the Term Loan Amendment, the Company recorded \$2,369 of loss on extinguishment of debt in fiscal 2017.

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#### **Taxes**

The benefit for income taxes in fiscal 2017 was \$12,723 as compared to a provision of \$9,402 in fiscal 2016. The effective tax rate for fiscal 2017 was 189.8%, as compared to 38.6% in fiscal 2016. The decrease in the effective tax rate is primarily due to the estimated impact of the Tax Act enacted in fiscal 2017, which was primarily driven by the remeasurement of deferred tax balances resulting in the recognition of a provisional benefit of \$24,210 in fiscal 2017, partially offset by a provisional accrual of the one-time transition tax on foreign earnings of \$8,521.

The Company has made provisional estimates of the impact of remeasuring its deferred tax balances during fiscal 2017, as well as the one-time transition tax on the earnings of foreign subsidiaries. Pursuant to Staff Accounting Bulletin No. 118, the Company's measurement period for implementing the accounting changes required by the Tax Act will close before December 22, 2018 and the Company anticipates completing the accounting under ASC Topic 740 in a subsequent reporting period within the measurement period.

The effective tax rate for fiscal 2018 and beyond is estimated to be in the high-20% to low-30% range, excluding the impact of any future adjustments to the provisional amounts recognized for the remeasurement of deferred tax balances and the one-time transition tax on foreign earnings, as the timing and amount of future adjustments cannot be reasonably estimated.

#### **Year Ended April 1, 2017 ("Fiscal 2016") compared to Year Ended April 2, 2016 ("Recast Fiscal 2015")**

#### **Net sales**

The following table summarizes our net sales for each of the fiscal years ended April 1, 2017 and April 2, 2016:

	April 1, 2017	% total	April 2, 2016	% total
TCS net sales	\$ 752,675	91.8%	\$ 727,659	91.3%
Elfa third party net sales	67,255	8.2%	69,428	8.7%
<b>Net sales</b>	<b>\$ 819,930</b>	<b>100.0%</b>	<b>\$ 797,087</b>	<b>100.0%</b>

Net sales in the fiscal year ended April 1, 2017 increased by \$22,843, or 2.9%, compared to the fiscal year ended April 2, 2016. This increase is comprised of the following components:

	<b>Net sales</b>
Net sales for the fiscal year ended April 2, 2016	\$ 797,087
Incremental net sales increase (decrease) due to:	
New stores	41,715
Comparable stores (including a \$2,607, or 4.4%, decrease in online sales)	(17,234)
Elfa third party net sales (excluding impact of foreign currency translation)	(490)
Impact of foreign currency translation on Elfa third party net sales	(1,683)
Shipping and delivery	535
<b>Net sales for the fiscal year ended April 1, 2017</b>	<b>\$ 819,930</b>

In the fifty-two weeks ended April 1, 2017, seventeen new stores generated \$41,715 of incremental net sales, ten of which were opened prior to April 2, 2016 and seven of which were opened in fiscal 2016. The increase in net sales generated by new stores was partially offset by a \$17,234, or 2.4%, decrease in sales from comparable stores. Elfa third party net sales decreased \$2,173 during fiscal 2016. After converting Elfa's third party net sales from Swedish krona to U.S. dollars using the prior year's

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conversion rate for fiscal 2016 and fiscal 2015, Elfa third party net sales decreased \$490 primarily due to lower net sales in Russia.

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

Gross profit in the fiscal year ended April 1, 2017 increased by \$11,577, or 2.5%, compared to the fiscal year ended April 2, 2016. The increase in gross profit was primarily the result of increased sales, partially offset by lower gross margins. The following table summarizes the gross margin for the fiscal year ended April 1, 2017 and the fiscal year ended April 2, 2016 by segment and total. The segment margins include the impact of inter-segment sales from the Elfa segment to the TCS segment:

	April 1, 2017	April 2, 2016
TCS gross margin	57.1%	57.7%
Elfa gross margin	39.9%	38.7%
Total gross margin	58.1%	58.3%

TCS gross margin decreased 60 basis points during fiscal 2016, primarily due to an increased mix of lower-margin product and service sales, combined with increased sales associated with promotional activities and partially offset by the impact of a stronger U.S. dollar. Elfa segment gross margin increased 120 basis points, primarily due to improved production efficiencies. On a consolidated basis, gross margin declined 20 basis points, as the improvement in Elfa gross margin was more than offset by the decline in TCS gross margin, due to a larger percentage of consolidated net sales coming from the TCS segment.

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

Selling, general and administrative expenses in the fiscal year ended April 1, 2017 decreased by \$6,637, or 1.7%, compared to the fiscal year ended April 2, 2016. As a percentage of consolidated net sales, selling, general and administrative expenses decreased by 220 basis points. The following table summarizes selling, general and administrative expenses as a percentage of consolidated net sales for the fiscal year ended April 1, 2017 and the fiscal year ended April 2, 2016:

	April 1, 2017 % of net sales	April 2, 2016 % of net sales
TCS selling, general and administrative	43.1%	44.9%
Elfa selling, general and administrative	4.2%	4.6%
Total selling, general and administrative	47.3%	49.5%

TCS selling, general and administrative expenses decreased by 180 basis points as a percentage of consolidated net sales. The decrease was primarily a result of the Company's SG&A savings program which contributed to decreased spending, including on 401(k) costs, store payroll, and certain major initiatives. Additionally, we experienced lower healthcare costs during fiscal 2016. Also, the impact of amended and restated employment agreements entered into with key executives during the first quarter of fiscal 2016 contributed to the decrease of selling, general and administrative expenses due to the reversal of accrued deferred compensation associated with the original employment agreements, net of costs incurred to execute the agreements, of \$3,910, or 50 basis points. The positive impact of these items was partially offset by deleveraging of occupancy costs associated with negative comparable store sales growth. Elfa selling, general and administrative expenses decreased by 40 basis points as a percentage of consolidated net sales primarily due to a positive impact from foreign currency exchange rates and a smaller percentage of consolidated net sales coming from the Elfa segment.

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***Pre-opening costs***

Pre-opening costs decreased by \$2,152, or 23.9% in the fiscal year ended April 1, 2017 to \$6,852, as compared to \$9,004 in the fiscal year ended April 2, 2016. The decrease was the result of opening seven new stores in fiscal 2016, as compared to opening of nine new stores and relocating one store in fiscal 2015.

***Depreciation and amortization***

Depreciation and amortization increased by \$2,496, or 7.2%, in the fiscal year ended April 1, 2017 to \$37,124, as compared to \$34,628 in the fiscal year ended April 2, 2016. The increase in depreciation and amortization is primarily related to an increase in the number of stores.

***Other expenses***

In the fiscal year ended April 1, 2017, we recorded \$1,058 of other expenses, which were primarily related to management transition costs.

***Taxes***

The provision for income taxes in the fiscal year ended April 1, 2017 was \$9,402 as compared to \$2,907 in the fiscal year ended April 2, 2016. The effective tax rate for the year ended April 1, 2017 was 38.6%, as compared to 37.4% in the year ended April 2, 2016. The increase in the effective tax rate is primarily due to changes in the mix of domestic and foreign earnings, combined with the expensing of certain deferred tax assets due to the expiration of certain stock based compensation awards.

**Five-week audited transition period ended April 2, 2016 compared to five-week unaudited period ended April 4, 2015**

Net sales in the five-week transition period ended April 2, 2016 increased by \$2,457, or 3.7%, compared to the five-week period ended April 4, 2015. The increase was primarily due to incremental sales from ten new stores, partially offset by a decrease in Elfa third-party sales and a decrease in shipping and delivery sales due to the introduction of free shipping on orders over \$75 in April 2015. Gross profit increased by \$941, or 2.4%, compared to the prior year comparable period, primarily due to the increase in net sales and partially offset by a 70 basis points decline in gross margin. The decline in gross margin is primarily due to a shift in timing of Our Annual elfa® Sale extension, which resulted in decreased sales of elfa® product in the five-weeks ended April 2, 2016 as compared to the prior year comparable period. Selling, general and administrative expenses increased by \$776, or 2.3%, compared to the prior year comparable period, primarily due to the increase in sales. As a percent of net sales, selling, general and administrative expenses declined 70 basis points, primarily due to improved leverage on store payroll during the month. Basic and diluted earnings per share remained consistent at \$0.01 in the five-week transition period ended April 2, 2016 as compared to the five-week period ended April 4, 2015.

**Seasonality**

Our storage and organization product offering makes us less susceptible to holiday shopping patterns than many retailers. Historically, our business has realized a higher portion of net sales, operating income and cash flows from operations in the fourth fiscal quarter, attributable primarily to the impact of Our Annual elfa® Sale, which traditionally starts on or about December 24th and runs into February. Over half of our adjusted net income was derived in the fiscal fourth quarter in fiscal years 2017, 2016, and 2015.

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**Liquidity and Capital Resources**

We rely on cash flows from operations, a \$100,000 asset-based revolving credit agreement (the "Revolving Credit Facility" as further discussed under "Revolving Credit Facility" below), and the SEK 140.0 million (approximately \$16,743 as of March 31, 2018) 2014 Elfa revolving credit facility (the "2014 Elfa Revolving Credit Facility" as further discussed under "Elfa Senior Secured Credit Facilities and 2014 Elfa Senior Secured Credit Facilities" below) as our primary sources of liquidity. Our primary cash needs are for merchandise inventories, direct materials, payroll, store rent, capital expenditures associated with opening new stores and updating existing stores, as well as information technology and infrastructure, including distribution center and Elfa manufacturing facility enhancements. The most significant components of our operating assets and liabilities are merchandise inventories, accounts receivable, prepaid expenses and other assets, accounts payable, other current and non-current liabilities, taxes receivable and taxes payable. Our liquidity fluctuates as a result of our building inventory for key selling periods, and as a result, our borrowings are generally higher during these periods when compared to the rest of our fiscal year. Our borrowings generally increase in our second and third fiscal quarters as we prepare for our Annual Shelving Sale, the holiday season, and Our Annual elfa® Sale. We believe that cash expected to be generated from operations and the availability of borrowings under the Revolving Credit Facility and the 2014 Elfa Revolving Credit Facility will be sufficient to meet liquidity requirements, anticipated capital expenditures and payments due under our existing credit facilities for at least the next 12 months. In the future, we may seek to raise additional capital, which could be in the form of loans, bonds, convertible debt or equity, to fund our operations and capital expenditures. There can be no assurance that we will be able to raise additional capital on favorable terms or at all.

At March 31, 2018, we had \$8,399 of cash, of which \$8,397 was held by our foreign subsidiaries. In addition, we had \$65,625 of additional availability under the Revolving Credit Facility and approximately \$16,743 of additional availability under the 2014 Elfa Revolving Credit Facility at March 31, 2018. There were \$3,901 in letters of credit outstanding under the Revolving Credit Facility and other contracts at that date.

Pursuant to the Tax Act, we will be required to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. The Company recorded a provisional amount for the one-time transition tax in fiscal 2017. Future amounts earned in our foreign subsidiaries are not expected to be subject to federal income taxes upon transfer to the United States. However, if these funds were transferred to the United States, we may be required to pay taxes in certain international jurisdictions as well as certain states. It is our intent to indefinitely reinvest these funds outside the United States.

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### ***Cash flow analysis***

A summary of our key components and measures of liquidity are shown in the following table:

	Fiscal Year Ended			Five Weeks
	March 31, 2018	April 1, 2017	February 27, 2016	Ended April 2, 2016
Net cash provided by (used in) operating activities	\$ 62,176	\$ 44,639	\$ 42,307	\$ (9,540)
Net cash used in investing activities	(27,550)	(28,508)	(45,750)	(2,434)
Net cash (used in) provided by financing activities	(37,688)	(13,981)	(7,516)	6,942
Effect of exchange rate changes on cash	725	(223)	(426)	232
<b>Net (decrease) increase in cash</b>	<b>\$ (2,337)</b>	<b>\$ 1,927</b>	<b>\$ (11,385)</b>	<b>\$ (4,800)</b>
Free cash flow (Non-GAAP)(1)	\$ 34,530	\$ 16,124	\$ (4,124)	\$ (11,975)

- (1) See below for a discussion of this non-GAAP financial measure and reconciliation to its most directly comparable GAAP financial measure.

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

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

Net cash provided by operating activities was \$62,176 for the fiscal year ended March 31, 2018. Net income of \$19,428 was combined with non-cash items of \$19,941 (primarily depreciation and amortization offset by deferred tax benefit) and a decrease in working capital of \$22,807. The decrease in working capital during fiscal 2017 was primarily due to a decrease in inventory and accounts receivable along with increases in accounts payable and accrued liabilities and other noncurrent liabilities. The decrease in inventory is due to improved inventory management combined with positive comparable store sales in fiscal 2017. The decrease in accounts receivable is primarily related to a shift in timing of receipt of rebate and landlord receivables during fiscal 2017, as well as a decrease in trade receivables for business sales. The increase in accounts payable and accrued liabilities is primarily due to an increase in deferred revenue. The increase in other noncurrent liabilities was primarily related to the liability recorded for the provisional one-time transition tax on foreign earnings.

Net cash provided by operating activities was \$44,639 for the fiscal year ended April 1, 2017, as non-cash items (primarily depreciation and amortization as well as stock-based compensation charges) of \$40,966 were combined with \$14,953 of net income and partially offset by an increase in working capital of \$11,280. The increase in working capital during fiscal 2016 was primarily due to an increase in inventory and accounts receivable, partially offset by increases in accounts payable and accrued liabilities and income taxes payable. The increase in inventory, as well as the increase in accounts payable and accrued liabilities, is primarily due to a change in promotional campaign cadency, combined with an increase in the number of stores. The increase in accounts receivable is primarily related to an increase in trade receivables for business sales, as well as a shift in timing of receipt of rebate and landlord receivables during the fiscal year. The increase in income taxes payable was primarily related to a shift in the timing of tax payments during the fiscal year.

Net cash provided by operating activities was \$42,307 for the fiscal year ended February 27, 2016, as non-cash items (primarily depreciation and amortization as well as stock-based compensation charges) of \$39,047 were combined with \$5,142 of net income and partially offset by an increase in working capital of \$1,882. The increase in working capital during fiscal 2015 was primarily due to an increase in accounts receivable and inventory, partially offset by an increase in accounts payable and

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accrued liabilities. The increase in accounts receivable, as well as the increase in accounts payable and accrued liabilities, was primarily related to a shift in timing of the end of Our Annual elfa® Sale in fiscal 2015. The increase in inventory was primarily related to the addition of nine new stores during the fiscal year.

Net cash used in operating activities was \$9,540 for the five-weeks ended April 2, 2016, as an increase in working capital of \$14,073 was partially offset by non-cash items (primarily depreciation and amortization as well as stock-based compensation charges) of \$4,179, combined with \$354 of net income. The increase in working capital during the five weeks ended April 2, 2016 was primarily due to a decrease in accounts payable and accrued liabilities, which was primarily related to delivery of customer orders related to the end of Our Annual elfa® Sale in fiscal 2015, interest payments on long-term debt, and a shift in timing of other payments during the five weeks ended April 2, 2016.

### ***Net cash used in investing activities***

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

Our total capital expenditures for the fiscal year ended March 31, 2018 were \$27,646 with new store openings and existing store remodels accounting for \$15,665. The remaining capital expenditures of \$11,981 were primarily for investments in information systems and Elfa manufacturing facility enhancements.

Our total capital expenditures for the fiscal year ended April 1, 2017 were \$28,515 with new store openings and existing store remodels accounting for \$16,001. The remaining capital expenditures of \$12,514 were primarily for investments in information systems and distribution center equipment, as well as Elfa manufacturing facility enhancements.

Our total capital expenditures for the fiscal year ended February 27, 2016 were \$46,431 with new store openings and existing store remodels accounting for \$19,226. The remaining capital expenditures of \$27,205 were primarily for strategic initiatives and distribution center automation, as well as investments in infrastructure to support growth and Elfa manufacturing facility enhancements.

Our total capital expenditures for the five-weeks ended April 2, 2016 were \$2,435 with new store openings and existing store remodels accounting for \$790. The remaining capital expenditures of \$1,645 were primarily for investments in information systems and Elfa manufacturing facility enhancements, as well as distribution center equipment.

### ***Net cash used in (provided by) financing activities***

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

Net cash used in financing activities was \$37,688 for the fiscal year ended March 31, 2018. This included net payments of \$26,403 for repayment of long-term indebtedness, \$11,246 for payment of debt issuance costs, and \$39 for taxes paid in connection with the withholding of shares upon vesting of restricted stock awards.

Net cash used in financing activities was \$13,981 for the fiscal year ended April 1, 2017, which was mainly attributable to payments of \$5,496 primarily on indebtedness outstanding under the Senior Secured Term Loan Facility and the 2014 Elfa Senior Secured Term Loan Facility. In addition, the Company made net payments of \$5,000 on the Revolving Credit Facility during fiscal 2016, and made net payments of \$3,485 on the 2014 Elfa Revolving Credit Facility.

Net cash used in financing activities was \$7,516 for the fiscal year ended February 27, 2016, which was mainly attributable to payments of \$5,246 on indebtedness outstanding under the Senior Secured



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Term Loan Facility and the 2014 Elfa Senior Secured Term Loan Facility. The Company borrowed and repaid \$33,000 on the Revolving Credit Facility during fiscal 2015, and made net payments of \$2,063 on the 2014 Elfa Revolving Credit Facility (as further discussed and defined under "Elfa Senior Secured Credit Facilities and 2014 Elfa Senior Secured Credit Facilities" below). The Company also paid \$266 in debt issuance costs related to Amendment No. 2 to the Revolving Credit Facility (as further discussed and defined under "Revolving Credit Facility" below). In addition, the Company received proceeds of \$59 from the exercise of stock options.

Net cash provided by financing activities was \$6,942 for the five-weeks ended April 2, 2016, which was mainly attributable to borrowings of \$5,000 on the Revolving Credit Facility and net borrowings of \$2,886 on the 2014 Elfa Revolving Credit Facility. The Company also made payments of \$944 primarily on indebtedness outstanding under the Senior Secured Term Loan Facility during the period.

As of March 31, 2018, we had a total of \$65,625 of unused borrowing availability under the Revolving Credit Facility, and \$3,490 in letters of credit issued under the Revolving Credit Facility. There were no borrowings outstanding under the Revolving Credit Facility as of March 31, 2018.

As of March 31, 2018, Elfa had a total of \$16,743 of unused borrowing availability under the 2014 Elfa Revolving Credit Facility and no borrowings outstanding under the 2014 Elfa Revolving Credit Facility.

### ***Free cash flow (Non-GAAP)***

The Company presents free cash flow, which the Company defines as net cash provided by (used in) operating activities in a period minus payments for property and equipment made in that period, because it believes it is a useful indicator of the Company's overall liquidity, as the amount of free cash flow generated in any period is representative of cash that is available for debt repayment, investment, and other discretionary and non-discretionary cash uses. Accordingly, we believe that free cash flow provides useful information to investors in understanding and evaluating our liquidity in the same manner as management. Our definition of free cash flow is limited in that it does not solely represent residual cash flows available for discretionary expenditures due to the fact that the measure does not deduct the payments required for debt service and other contractual obligations. Therefore, we believe it is important to view free cash flow as a measure that provides supplemental information to our Consolidated Statements of Cash Flows. Although other companies report their free cash flow, numerous methods may exist for calculating a company's free cash flow. As a result, the method used by our management to calculate our free cash flow may differ from the methods used by other companies to calculate their free cash flow.

The following table sets forth a reconciliation of free cash flow, a non-GAAP financial measure, to net cash provided by (used in) operating activities, which we believe to be the GAAP financial measure most directly comparable to free cash flow:

	Fiscal Year Ended			Five Weeks
	March 31, 2018	April 1, 2017	February 27, 2016	Ended April 2, 2016
Net cash provided by (used in) operating activities	\$ 62,176	\$ 44,639	\$ 42,307	\$ (9,540)
Less: Additions to property and equipment	(27,646)	(28,515)	(46,431)	(2,435)
<b>Free cash flow</b>	<b>\$ 34,530</b>	<b>\$ 16,124</b>	<b>\$ (4,124)</b>	<b>\$ (11,975)</b>

### ***Senior Secured Term Loan Facility***

On April 6, 2012, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into a credit agreement with JPMorgan Chase Bank, N.A., as

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Administrative Agent and Collateral Agent, and the lenders party thereto (as amended, the "Senior Secured Term Loan Facility"). On August 18, 2017, we entered into a fourth amendment (the "Term Loan Amendment") to the Senior Secured Term Loan Facility dated as of April 6, 2012. The fourth amendment amended the Senior Secured Term Loan Facility to, among other things, (i) extend the maturity date of the loans under the Senior Secured Term Loan Facility to August 18, 2021, (ii) add a maximum leverage covenant of 5.0:1.0 which steps down by 0.25x on June 30 of each year commencing on June 30, 2018, (iii) increase the applicable interest rate margin to 7.00% for LIBOR loans and 6.00% for base rate loans, (iv) reduce the aggregate principal amount of the Senior Secured Term Loan Facility to \$300,000, (v) increase principal amortization to 2.5% per annum, (vi) require a 3.0% upfront fee on the aggregate principal amount of the Senior Secured Term Loan Facility, and (vii) impose a 1% premium if a voluntary prepayment is made from the proceeds of a repricing transaction within 12 months after August 18, 2017. An affiliate of Leonard Green & Partners, L.P. ("LGP"), which, together with certain of its affiliates, beneficially owns a majority of our outstanding common stock, funded \$20,000 of the \$300,000 Senior Secured Term Loan Facility. As of March 31, 2018, the principal amount due to the LGP affiliate was zero, as it sold its interest in the loan syndicate.

Under the Senior Secured Term Loan Facility, we had \$294,375 in outstanding borrowings as of March 31, 2018 and the interest rate on such borrowings is LIBOR + 7.00%, subject to a LIBOR floor of 1.00%. The Senior Secured Term Loan Facility provides that we are required to make quarterly principal repayments of \$1,875 through June 30, 2021, with a balloon payment for the remaining balance due on August 18, 2021.

The Senior Secured Term Loan Facility is secured by (a) a first priority security interest in substantially all of our assets (excluding stock in foreign subsidiaries in excess of 65%, assets of non-guarantors and subject to certain other exceptions) (other than the collateral that secures the Revolving Credit Facility described below on a first-priority basis) and (b) a second priority security interest in the assets securing the Revolving Credit Facility described below on a first-priority basis. Obligations under the Senior Secured Term Loan Facility are guaranteed by The Container Store Group, Inc. and each of The Container Store, Inc.'s U.S. subsidiaries. The Senior Secured Term Loan Facility contains a number of covenants that, among other things, restrict our ability, subject to specified exceptions, to incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves, engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the financing agreements contain certain cross-default provisions. As of March 31, 2018, we were in compliance with all covenants and no Event of Default (as such term is defined in the Senior Secured Term Loan Facility) had occurred.

***Revolving Credit Facility***

On April 6, 2012, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into an asset-based revolving credit agreement with the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and Wells Fargo Bank, National Association, as Syndication Agent (as amended, the "Revolving Credit Facility"). On August 18, 2017, we entered into a fourth amendment (the "Revolving Amendment") to the Revolving Credit Facility dated as of April 6, 2012, which, among other things, extended the maturity date of the loans under the Revolving Credit Facility to the earlier of (i) August 18, 2022 and (ii) May 18, 2021 if any portion of the Senior Secured Term Loan Facility remains outstanding on such date and the maturity date of the Senior Secured Term Loan Facility is not extended.

The aggregate principal amount of the facility is \$100,000. Borrowings under the Revolving Credit Facility accrue interest at LIBOR+1.25%. In addition, the Revolving Credit Facility includes an uncommitted incremental revolving facility in the amount of \$50,000, which is subject to receipt of lender commitments and satisfaction of specified conditions.

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The Revolving Credit Facility provides that proceeds are to be used for working capital and other general corporate purposes, and allows for swing line advances of up to \$15,000 and the issuance of letters of credit of up to \$40,000.

The availability of credit at any given time under the Revolving Credit Facility is limited by reference to a borrowing base formula based upon numerous factors, including the value of eligible inventory, eligible accounts receivable, and reserves established by the administrative agent. As a result of the borrowing base formula, the actual borrowing availability under the Revolving Credit Facility could be less than the stated amount of the Revolving Credit Facility (as reduced by the actual borrowings and outstanding letters of credit under the Revolving Credit Facility).

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

The Revolving Credit Facility contains a number of covenants that, among other things, restrict our ability, subject to specified exceptions, to incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves, engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the financing agreements contain certain cross-default provisions. We are required to maintain a consolidated fixed-charge coverage ratio of 1.0 to 1.0 if excess availability is less than \$10,000 at any time. As of March 31, 2018, we were in compliance with all covenants and no Event of Default (as such term is defined in the Revolving Credit Facility) had occurred.

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

On April 1, 2014, Elfa entered into a master credit agreement with Nordea Bank AB ("Nordea"), which consists of a SEK 60.0 million (approximately \$7,175 as of March 31, 2018) term loan facility (the "2014 Elfa Term Loan Facility") and a SEK 140.0 million (approximately \$16,743 as of March 31, 2018) revolving credit facility (the "2014 Elfa Revolving Credit Facility," and together with the 2014 Elfa Term Loan Facility, the "2014 Elfa Senior Secured Credit Facilities"). The 2014 Elfa Senior Secured Credit Facilities term began on August 29, 2014 and matures on August 29, 2019. The remaining balance of the 2014 Elfa Term Loan Facility was paid on February 18, 2018, which was prior to the maturity date. Elfa was required to make quarterly principal payments under the 2014 Elfa Term Loan Facility in the amount of SEK 3.0 million (approximately \$359 as of March 31, 2018). The 2014 Elfa Revolving Credit Facility bears interest at Nordea's base rate + 1.4%. In the fourth quarter of fiscal 2016, Elfa and Nordea agreed that the stated rates would apply through maturity.

The 2014 Elfa Senior Secured Credit Facilities contain a number of covenants that, among other things, restrict Elfa's ability, subject to specified exceptions, to incur additional liens, sell or dispose of assets, merge with other companies, engage in businesses that are not in a related line of business and make guarantees. In addition, Elfa is required to maintain (i) a consolidated equity ratio (as defined in the 2014 Elfa Senior Secured Credit Facilities) of not less than 30% in year one and not less than 32.5% thereafter and (ii) a consolidated ratio of net debt to EBITDA (as defined in the 2014 Elfa Senior Secured Credit Facilities) of less than 3.2, the consolidated equity ratio tested at the end of each calendar quarter and the ratio of net debt to EBITDA tested as of the end of each fiscal quarter. As of March 31, 2018, Elfa was in compliance with all covenants and no Event of Default (as defined in the 2014 Elfa Senior Secured Credit Facilities) had occurred.

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**Critical accounting policies and estimates**

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

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

***Revenue recognition***

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

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

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

We reserve for projected merchandise returns based on historical experience and various other assumptions that we believe to be reasonable. The reserve reduces sales and cost of sales, accordingly. Merchandise exchanges of similar product and price are not considered merchandise returns and, therefore, are excluded when calculating the sales returns reserve.

***Inventories***

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

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

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

***Income taxes***

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

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

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

***Leases***

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

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*Intangibles and long-lived assets*

**Goodwill**

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

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

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

**Trade names**

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

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

The valuation of trade names requires assumptions and estimates of many critical factors, which are consistent with the factors discussed under "Goodwill" above. Forecasts of future operations are based, in part, on operating results and management's expectations as to future market conditions. These types of analyses contain uncertainties because they require management to make assumptions

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and to apply judgments to estimate industry economic factors and the profitability of future business strategies. If actual results are not consistent with our estimates and assumptions, we may be exposed to future impairment losses that could be material.

### **Long-lived assets**

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

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

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

### **Contractual obligations**

We enter into long-term obligations and commitments in the normal course of business, primarily debt obligations and non-cancelable operating leases. As of March 31, 2018, our contractual cash obligations over the next several periods were as follows:

	Payments due by period				
	Total	Within 1 Year	1 - 3 Years	3 - 5 Years	After 5 Years
<b>Recorded contractual obligations</b>					
Term loans	\$ 294,375	\$ 7,500	\$ 15,000	\$ 271,875	\$
<b>Revolving loans</b>					
Capital lease obligations	662	241	421		
Other long-term obligations(1)	8,521	1,470	1,343	1,931	3,777
<b>Unrecorded contractual obligations</b>					
Estimated interest(2)	84,948	26,058	49,810	9,080	
Operating leases(3)	552,504	87,525	161,715	118,741	184,523
Letters of credit	3,901	3,901			
Purchase obligations(4)	36,474	32,697	3,501	239	37
<b>Total(5)</b>	<b>\$ 981,385</b>	<b>\$ 159,392</b>	<b>\$ 231,790</b>	<b>\$ 401,866</b>	<b>\$ 188,337</b>

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(1) One-time transition tax on foreign earnings that will be paid over 8 years.

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- (2) For purposes of this table, interest has been estimated based on interest rates in effect for our indebtedness as of March 31, 2018, and estimated borrowing levels in the future. Actual borrowing levels and interest costs may differ.
- (3) We enter into operating leases during the normal course of business. Most lease arrangements provide us with the option to renew the leases at defined terms. The future operating lease obligations would change if we were to exercise these options, or if we were to enter into additional operating leases.
- (4) Purchase obligations include legally binding contracts such as firm commitments for inventory, equipment purchases, marketing-related contracts, software acquisition/license commitments, as well as commitments to make capital expenditures, and legally binding service contracts. Purchase orders for other services are not included in the table above. Purchase orders represent authorizations to purchase rather than binding agreements. For the purposes of this table, contractual obligations for the purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.
- (5) The table above excludes deferred lease incentives and defined benefit pension plan obligations which were included in "Deferred rent and other long-term liabilities" in the consolidated balance sheet as of March 31, 2018. Deferred lease incentives were excluded from the table above as such amounts do not represent known contractual obligations for future cash payments. Defined benefit pension plan obligations were excluded from the table as the timing of the forthcoming cash payments is uncertain.

***Off-Balance Sheet Arrangements***

Other than the operating leases, letters of credit, and purchase obligations discussed above, we are not party to any off-balance sheet arrangements.

***Recent Accounting Pronouncements***

Please refer to Note 1 *Nature of Business and Summary of Significant Accounting Policies* to our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K for a summary of recent accounting pronouncements and our critical accounting policies.

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

***Foreign currency risk***

We are subject to foreign currency risk in connection with the operations of our Swedish subsidiary, Elfa. All assets and liabilities of foreign subsidiaries are translated at year end rates of exchange, with the exception of certain assets and liabilities that are translated at historical rates of exchange. Revenues, expenses, and cash flows of foreign subsidiaries are translated at average rates of exchange for the year. The functional currency of Elfa is the Swedish krona. Based on the average exchange rate from Swedish krona to U.S. dollar during fiscal 2017, and results of operations in functional currency, we believe that a 10% increase or decrease in the exchange rate of the Swedish krona would increase or decrease net income (loss) by approximately \$0.3 million.

We are also subject to foreign currency risk in connection with the purchase of inventory from Elfa. We utilize foreign currency hedge instruments to mitigate this risk. For fiscal 2017 and fiscal 2016, we used forward currency hedge instruments for 80% and 78% of inventory purchases in Swedish krona at an average SEK rate of 9.0 and 8.6 each year, respectively. Currently, we have hedged 60% of our planned inventory purchases for fiscal 2018 at an average rate of 8.1.



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***Interest rate risk***

We are subject to interest rate risk in connection with borrowings under the Senior Secured Term Loan Facility, the Revolving Credit Facility and the 2014 Elfa Senior Secured Credit Facilities, which accrue interest at variable rates. At March 31, 2018, borrowings subject to interest rate risk were \$294.4 million, we had \$65.6 million of additional availability under the Revolving Credit Facility and approximately \$16.7 million of additional availability under the 2014 Elfa Revolving Credit Facility. We currently do not engage in any interest rate hedging activity; however we will continue to monitor the interest rate environment. Based on the average interest rate on each of the Revolving Credit Facility and the 2014 Elfa Revolving Credit Facility during fiscal 2017, and to the extent that borrowings were outstanding, we do not believe that a 10% change in the interest rate would have a material effect on our consolidated results of operations or financial condition.

***Impact of inflation***

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

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

**Report of Independent Registered Public Accounting Firm**

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

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of The Container Store Group, Inc. (the Company) as of March 31, 2018 and April 1, 2017, the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the two years in the period ended March 31, 2018, for the year ended February 27, 2016 and the related consolidated statements of operations, comprehensive income and cash flows for the five week transition period ended April 2, 2016 and the related notes and the financial statement schedule listed in the Index at Item 15 (2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2018 and April 1, 2017, and the results of its operations and its cash flows for each of the two years in the period ended March 31, 2018, for the year ended February 27, 2016, and the five week transition period ended April 2, 2016, in conformity with U.S. generally accepted accounting principles.

**Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2000.

Dallas, Texas  
May 31, 2018

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

<b>(In thousands)</b>	<b>March 31, 2018</b>	<b>April 1, 2017</b>
<b>Assets</b>		
Current assets:		
Cash	\$ 8,399	\$ 10,736
Accounts receivable, net	25,528	27,476
Inventory	97,362	103,120
Prepaid expenses	11,281	10,550
Income taxes receivable	15	16
Other current assets	11,609	10,787
<b>Total current assets</b>	<b>154,194</b>	<b>162,685</b>
Noncurrent assets:		
Property and equipment, net	158,389	165,498
Goodwill	202,815	202,815
Trade names	229,401	226,685
Deferred financing costs, net	312	320
Noncurrent deferred tax assets, net	2,404	2,139
Other assets	1,854	1,692
<b>Total noncurrent assets</b>	<b>595,175</b>	<b>599,149</b>
<b>Total assets</b>	<b>\$ 749,369</b>	<b>\$ 761,834</b>

See accompanying notes.

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

<b>(In thousands, except share and per share amounts)</b>	<b>March 31, 2018</b>	<b>April 1, 2017</b>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 43,692	\$ 44,762
Accrued liabilities	70,494	60,107
Revolving lines of credit		
Current portion of long-term debt	7,771	5,445
Income taxes payable	4,580	2,738
 Total current liabilities	 126,537	 113,052
Noncurrent liabilities:		
Long-term debt	277,394	312,026
Noncurrent deferred tax liabilities, net	54,839	80,679
Deferred rent and other long-term liabilities	41,892	34,287
 Total noncurrent liabilities	 374,125	 426,992
 Total liabilities	 500,662	 540,044
Commitments and contingencies <i>(Note 12)</i>		
Shareholders' equity:		
Common stock, \$0.01 par value, 250,000,000 shares authorized; 48,072,187 shares issued at March 31, 2018 and 48,045,114 shares issued at April 1, 2017	481	480
Additional paid-in capital	861,263	859,102
Accumulated other comprehensive loss	(17,316)	(22,643)
Retained deficit	(595,721)	(615,149)
 Total shareholders' equity	 248,707	 221,790
 Total liabilities and shareholders' equity	 \$ 749,369	 \$ 761,834

See accompanying notes.

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

(In thousands, except share and per share amounts)	Fiscal Year Ended			Five Weeks
	March 31, 2018	April 1, 2017	February 27, 2016	Ended April 2, 2016
Net sales	\$ 857,228	\$ 819,930	\$ 794,630	\$ 69,218
Cost of sales (excluding depreciation and amortization)	360,167	343,860	331,079	29,023
Gross profit	497,061	476,070	463,551	40,195
Selling, general, and administrative expenses (excluding depreciation and amortization)	411,721	387,948	393,810	34,504
Stock-based compensation	2,026	1,989	1,556	147
Pre-opening costs	5,293	6,852	9,033	191
Depreciation and amortization	37,922	37,124	34,230	3,009
Other expenses	5,734	1,058		102
Loss on disposal of assets	278	57	61	
Income from operations	34,087	41,042	24,861	2,242
Interest expense	25,013	16,687	16,810	1,550
Loss on extinguishment of debt	2,369			
Income before taxes	6,705	24,355	8,051	692
(Benefit) provision for income taxes	(12,723)	9,402	2,909	338
Net income	\$ 19,428	\$ 14,953	\$ 5,142	\$ 354
Net income per common share basic and diluted	\$ 0.40	\$ 0.31	\$ 0.11	\$ 0.01
Weighted-average common shares basic	48,061,527	47,996,746	47,985,717	47,986,975
Weighted-average common shares diluted	48,147,725	48,016,010	47,985,717	47,986,975

See accompanying notes.

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

(In thousands)	Fiscal year ended			Five Weeks
	March 31, 2018	April 1, 2017	February 27, 2016	Ended April 2, 2016
Net income	\$ 19,428	\$ 14,953	\$ 5,142	\$ 354
Unrealized gain (loss) on financial instruments, net of tax provision (benefit) of \$30, \$(85), \$606, and \$7	53	(138)	853	12
Pension liability adjustment, net of tax provision of \$98, \$142, \$39, and \$0	(349)	(386)	175	(66)
Foreign currency translation adjustment	5,623	(6,283)	(2,521)	4,053
<b>Comprehensive income</b>	<b>\$ 24,755</b>	<b>\$ 8,146</b>	<b>\$ 3,649</b>	<b>\$ 4,353</b>

See accompanying notes.

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

(In thousands, except share amounts)	Par value	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained deficit	Total shareholders' equity
Balance at February 28, 2015	\$ 0.01	47,983,660	\$ 480	\$ 855,322	\$ (18,342)	\$ (635,598)	\$ 201,862
Net income						5,142	5,142
Stock-based compensation				1,556			1,556
Excess tax provision from stock-based compensation				(58)			(58)
Stock option exercises		3,315		59			59
Foreign currency translation adjustment					(2,521)		(2,521)
Unrealized gain on financial instruments, net of \$606 tax provision					853		853
Pension liability adjustment, net of \$39 tax provision					175		175
Balance at February 27, 2016		47,986,975	480	856,879	(19,835)	(630,456)	207,068
Net income						354	354
Stock-based compensation				147			147
Foreign currency translation adjustment					4,053		4,053
Unrealized gain on financial instruments, net of \$7 tax provision					12		12
Pension liability adjustment, net of \$0 tax provision					(66)		(66)
Balance at April 2, 2016		47,986,975	480	857,026	(15,836)	(630,102)	211,568
Net income						14,953	14,953
Stock-based compensation				1,989			1,989
Vesting of restricted stock awards		31,216					
Taxes related to net share settlement of restricted stock awards				(39)			(39)
Common stock granted to non-employees		26,923		135			135
Excess tax provision from stock-based compensation				(9)			(9)
Foreign currency translation adjustment					(6,283)		(6,283)
Unrealized loss on financial instruments, net of \$85 tax benefit					(138)		(138)
Pension liability adjustment, net of \$142 tax provision					(386)		(386)
Balance at April 1, 2017		48,045,114	480	859,102	(22,643)	(615,149)	221,790
Net income						19,428	19,428
Stock-based compensation				2,026			2,026
Common stock granted to non-employees		27,073	1	135			136
Foreign currency translation adjustment					5,623		5,623
Unrealized gain on financial instruments, net of \$30 tax provision					53		53
Pension liability adjustment, net of \$98 tax provision					(349)		(349)
Balance at March 31, 2018	\$ 0.01	48,072,187	\$ 481	\$ 861,263	\$ (17,316)	\$ (595,721)	\$ 248,707

See accompanying notes.

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

(In thousands)	Fiscal Year Ended			Five Weeks
	March 31, 2018	April 1, 2017	February 27, 2016	Ended April 2, 2016
<b>Operating activities</b>				
Net income	\$ 19,428	\$ 14,953	\$ 5,142	\$ 354
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization	37,922	37,124	34,230	3,009
Stock-based compensation	2,026	1,989	1,556	147
Loss on disposal of assets	278	57	61	
Loss on extinguishment of debt	2,369			
Deferred tax (benefit) expense	(25,545)	(96)	859	818
Noncash interest	2,664	1,921	1,940	160
Other	227	(29)	401	45
Changes in operating assets and liabilities:				
Accounts receivable	3,192	(5,861)	(5,338)	6,958
Inventory	8,406	(19,598)	(1,929)	1,516
Prepaid expenses and other assets	(2,133)	4,028	487	(7,371)
Accounts payable and accrued liabilities	6,249	10,965	5,840	(14,258)
Income taxes	625	3,527	(1,330)	(719)
Other noncurrent liabilities	6,468	(4,341)	388	(199)
Net cash provided by (used in) operating activities	62,176	44,639	42,307	(9,540)
<b>Investing activities</b>				
Additions to property and equipment	(27,646)	(28,515)	(46,431)	(2,435)
Proceeds from investment grant			479	
Proceeds from sale of property and equipment	96	7	202	1
Net cash used in investing activities	(27,550)	(28,508)	(45,750)	(2,434)
<b>Financing activities</b>				
Borrowings on revolving lines of credit	47,486	42,731	55,872	4,958
Payments on revolving lines of credit	(47,486)	(46,216)	(57,935)	(2,072)
Borrowings on long-term debt	335,000	30,000	33,000	5,000
Payments on long-term debt and capital leases	(361,403)	(40,496)	(38,246)	(944)
Payment of debt issuance costs	(11,246)		(266)	
Payment of taxes with shares withheld upon restricted stock vesting	(39)			
Proceeds from the exercise of stock options			59	
Net cash (used in) provided by financing activities	(37,688)	(13,981)	(7,516)	6,942
Effect of exchange rate changes on cash	725	(223)	(426)	232
Net (decrease) increase in cash	(2,337)	1,927	(11,385)	(4,800)
Cash at beginning of fiscal year	10,736	8,809	24,994	13,609
Cash at end of fiscal year	\$ 8,399	\$ 10,736	\$ 13,609	\$ 8,809
Supplemental information:				

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Cash paid during the year for:

Interest	\$	22,119	\$	14,656	\$	14,850	\$	3,552
Taxes	\$	4,740	\$	7,651	\$	891	\$	236
Supplemental information for non-cash investing and financing activities:								
Purchases of property and equipment (included in accounts payable)	\$	741	\$	138	\$	1,386	\$	1,114
Capital lease obligation incurred	\$	215	\$	691	\$	541	\$	60

See accompanying notes.

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**The Container Store Group, Inc.**

**Notes to consolidated financial statements**

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

**March 31, 2018**

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

**Description of business**

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

The Container Store, Inc. consists of our retail stores, website and call center, as well as our installation and organizational services business. As of March 31, 2018, The Container Store, Inc. operated 90 stores with an average size of approximately 25,000 square feet (19,000 selling square feet) in 32 states and the District of Columbia. The Container Store, Inc. also offers all of its products directly to its customers, including business-to-business customers, through its website and call center. The Container Store, Inc.'s wholly owned Swedish subsidiary, Elfa International AB ("Elfa"), designs and manufactures component-based shelving and drawer systems and made-to-measure sliding doors that are customizable for any area of the home. elfa® branded products are sold exclusively in the United States in The Container Store® retail stores, website, and call center and Elfa sells to various retailers and distributors primarily in the Nordic region and throughout Europe on a wholesale basis.

**Basis of presentation**

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

**Basis of consolidation**

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

**Fiscal year**

The Company follows a 4-4-5 fiscal calendar, whereby each fiscal quarter consists of thirteen weeks grouped into two four-week "months" and one five-week "month", and its fiscal year ends on the Saturday closest to March 31<sup>st</sup>. Elfa's fiscal year ends on the last day of the calendar month of March. Prior to fiscal year 2016, the Company's fiscal year ended on the Saturday closest to February 28<sup>th</sup>.

All references herein to "fiscal 2017" represent the results of the 52-week fiscal year ended March 31, 2018, and references to "fiscal 2016" represent the results of the 52-week fiscal year ended April 1, 2017. In addition, all references herein to "fiscal 2015" represent the results of the 52-week fiscal year ended February 27, 2016.

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

**Management estimates**

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

**Revenue recognition**

Revenue from sales related to retail operations is recognized when the merchandise is delivered to the customer at the point of sale. Revenue from sales that are shipped or delivered directly to customers is recognized upon estimated delivery to the customer and includes applicable shipping or delivery revenue. Revenue from sales that are installed is recognized upon completion of the installation service to the customer and includes applicable installation revenue. Revenue from sales of other services is recognized upon the completion of the service. Revenue from sales related to manufacturing operations is recorded upon shipment. Sales are recorded net of sales taxes collected from customers. A sales return allowance is recorded for estimated returns of merchandise subsequent to the balance sheet date that relate to sales prior to the balance sheet date. The returns allowance is based on historical return patterns and reduces sales and cost of sales, accordingly. Merchandise exchanges of similar product and price are not considered merchandise returns and, therefore, are excluded when calculating the sales returns allowance.

**Gift cards and merchandise credits**

Gift cards are sold to customers in retail stores, through the call center and website, and through certain third parties. We issue merchandise credits in our stores and through our call center. Revenue from sales of gift cards and issuances of merchandise credits is recognized when the gift card is redeemed by the customer, or the likelihood of the gift card being redeemed by the customer is remote (gift card breakage). The gift card breakage rate is determined based upon historical redemption patterns. An estimate of the rate of gift card breakage is applied over the period of estimated performance (48 months as of the end of fiscal 2017) and the breakage amounts are included in net sales in the consolidated statement of operations. The Company recorded \$1,656, \$1,072, \$948, and \$73 of gift card breakage in fiscal years 2017, 2016, 2015, and the five weeks ended April 2, 2016, respectively.

**Cost of sales**

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

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

production, including materials, wages, other variable production costs, and other applicable manufacturing overhead.

**Leases**

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

**Advertising**

All advertising costs of the Company are expensed when incurred, or upon the release of the initial advertisement, except for production costs related to catalogs and direct mailings to customers, which are initially capitalized. Production costs related to catalogs and direct mailings consist primarily of printing and postage and are expensed when mailed to the customer, except for direct mailings related to promotional campaigns, which are expensed over the period during which the promotional sales are expected to occur. Advertising costs are recorded in selling, general, and administrative expenses. Pre-opening advertising costs are recorded in pre-opening costs.

Catalog and direct mailings costs capitalized at March 31, 2018 and April 1, 2017, amounted to \$375 and \$605 respectively, and are recorded in prepaid expenses on the accompanying consolidated balance sheets. Total advertising expense incurred for fiscal years 2017, 2016, 2015, and the five-weeks ended April 2, 2016 was \$32,860, \$31,525, \$32,343, and \$2,164, respectively.

**Pre-opening costs**

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

**Income taxes**

We account for income taxes utilizing Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, *Income Taxes*. ASC 740 requires an asset and liability approach, which requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. There were no uncertain tax positions requiring accrual as of March 31, 2018 and April 1,

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

2017. Valuation allowances are established against deferred tax assets when it is more-likely-than-not that the realization of those deferred tax assets will not occur. Valuation allowances are released as positive evidence of future taxable income sufficient to realize the underlying deferred tax assets becomes available.

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

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

**Stock-based compensation**

The Company accounts for stock-based compensation in accordance ASC 718, *Compensation-Stock Compensation*, which requires the fair value of stock-based payments to be recognized in the consolidated financial statements as compensation expense over the requisite service period. For time-based awards, compensation expense is recognized on a straight line basis, net of forfeitures, over the requisite service period for awards that actually vest. For performance-based awards, compensation expense is estimated based on achievement of the performance condition and is recognized using the accelerated attribution method over the requisite service period for awards that actually vest. Stock-based compensation expense is recorded in the stock-based compensation line in the consolidated statements of operations.

*Stock Options*

The Board determines the exercise price of stock options based on the closing price of the Company's common stock as reported on The New York Stock Exchange on the grant date. The Company estimates the fair value of each stock option grant on the date of grant based upon the Black-Scholes option-pricing model. This model requires various significant judgmental assumptions in order to derive a final fair value determination for each type of award including:

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

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

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

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

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

*Restricted Stock Awards*

The fair value of each restricted stock award is determined based on the closing price of the Company's common stock as reported on The New York Stock Exchange on the grant date.

**Accounts receivable**

Accounts receivable consist primarily of trade receivables, receivables from The Container Store, Inc.'s credit card processors for sales transactions, and tenant improvement allowances from The Container Store, Inc.'s landlords in connection with new leases. An allowance for doubtful accounts is established on trade receivables, if necessary, for estimated losses resulting from the inability of customers to make required payments. Factors such as payment terms, historical loss experience, and economic conditions are generally considered in determining the allowance for doubtful accounts. Accounts receivable are presented net of allowances for doubtful accounts of \$170 and \$305 at March 31, 2018 and April 1, 2017, respectively.

**Inventories**

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

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

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****1. Nature of business and summary of significant accounting policies (Continued)****Property and equipment**

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

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

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

Costs of developing or obtaining software for internal use or developing the Company's website, such as external direct costs of materials or services and internal payroll costs directly related to the software development projects are capitalized. For the fiscal years ended March 31, 2018, April 1, 2017, and February 27, 2016, the Company capitalized \$4,397, \$4,392, and \$3,272, respectively, and amortized \$4,346, \$3,498, and \$3,258, respectively, of costs in connection with the development of internally used software. For the five-week period ended April 2, 2016, the Company capitalized \$299 and amortized \$296 of costs in connection with the development of internally used software.

**Long-lived assets**

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

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

Since there is typically no active market for our long-lived tangible assets, we estimate fair values based on the expected future cash flows. We estimate future cash flows based on store-level historical results, current trends, and operating and cash flow projections. Our estimates are subject to uncertainty and may be affected by a number of factors outside our control, including general economic conditions and the competitive environment. While we believe our estimates and judgments about



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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

future cash flows are reasonable, future impairment charges may be required if the expected cash flow estimates, as projected, do not occur or if events change requiring us to revise our estimates.

**Foreign currency forward contracts**

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

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

**Self-insured liabilities**

We are primarily self-insured for workers' compensation, employee health benefits and general liability claims. We record self-insurance liabilities based on claims filed, including the development of those claims, and an estimate of claims incurred but not yet reported. Factors affecting these estimates include future inflation rates, changes in severity, benefit level changes, medical costs and claim settlement patterns. Should a different amount of claims occur compared to what was estimated, or costs of the claims increase or decrease beyond what was anticipated, reserves may need to be adjusted accordingly. We determine our workers' compensation liability and general liability claims reserves based on an analysis of historical claims data. Self-insurance reserves for employee health benefits, workers' compensation and general liability claims are recorded in the accrued liabilities line item of the consolidated balance sheet and were \$2,810 and \$3,016 as of March 31, 2018 and April 1, 2017, respectively.

**Goodwill**

We evaluate goodwill annually to determine whether it is impaired. Goodwill is also tested between annual impairment tests if an event occurs or circumstances change that would indicate that the fair

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

value of a reporting unit is less than its carrying amount. Conditions that may indicate impairment include, but are not limited to, a significant adverse change in customer demand or business climate that could affect the value of an asset. If an impairment indicator exists, we test goodwill for recoverability. We have identified two reporting units and we have selected the first day of the fourth fiscal quarter to perform our annual goodwill impairment testing.

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

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

**Trade names**

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

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

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

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

**Foreign currency translation**

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

The functional currency for the Company's wholly owned subsidiary, Elfa, is the Swedish krona. During fiscal 2017, the rate of exchange from U.S. dollar to Swedish krona decreased from 8.9 to 8.4. The carrying amount of assets related to Elfa and subject to currency fluctuation was \$119,995 and \$108,707 as of March 31, 2018 and April 1, 2017, respectively. Foreign currency realized gains of \$596, realized gains of \$342, realized losses of \$241, and realized gains of \$60 are included in selling, general, and administrative expenses in the consolidated statements of operations in fiscal 2017, fiscal 2016, fiscal 2015, and the five-weeks ended April 2, 2016, respectively.

**Recent accounting pronouncements**

In February 2016, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, to revise lease accounting guidance. The update requires most leases to be recorded on the balance sheet as a lease liability, with a corresponding right-of-use asset, whereas these leases currently have an off-balance sheet classification. ASU 2016-02 must be applied on a modified retrospective basis and is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted. The Company currently intends to adopt this standard in the first quarter of fiscal 2019. The Company is still evaluating the impact of implementation of this standard on its financial statements, but expects that adoption will have a material impact to the Company's total assets and liabilities given the Company has a significant number of operating leases not currently recognized on its balance sheet.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, an updated standard on revenue recognition (codified as Accounting Standards Codification ("ASC") Topic 606). ASU 2014-09 provides enhancements to the quality and consistency of how revenue is reported while also improving comparability in the financial statements of companies reporting using IFRS and GAAP. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

Company expects to be entitled in exchange for those goods or services. The new standard also will result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The Company has identified certain impacts to our accounting for gift cards given away for promotional or marketing purposes. Under current GAAP, the value of promotional gift cards are recorded as selling, general, and administrative expense. The new standard requires these types of gift cards to be accounted for as a reduction of revenue (i.e. a discount). Additionally, ASU 2014-09 will disallow the capitalization of direct-response advertising costs which will impact the timing of recognition of certain advertising production and distribution costs. This standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted for interim and annual periods beginning after December 15, 2016. The Company intends to adopt this standard in the first quarter of fiscal 2018 and the Company has elected to use the modified-retrospective approach for implementation of the standard. Overall, the Company does not expect the adoption of ASU 2014-09 to have a material impact on the financial statements. Upon transition on April 1, 2018, the Company expects to record a cumulative adjustment to increase retained earnings/(deficit) and decrease accrued liabilities by approximately \$400 related to the change for gift cards given away for promotional or marketing purposes. The Company also expects to reclassify the asset balance for the estimate of future returned merchandise, which was approximately \$900 as of March 31, 2018, from the "Inventory" line to the "Other current assets" line on the balance sheet.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which outlined new provisions intended to simplify various aspects related to accounting for share-based payments, including income tax consequences, forfeitures, and classification in the statement of cash flows. Under the new guidance, an entity will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital ("APIC"). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement when the awards vest or are settled. This standard was effective for and adopted by the Company in the first quarter of fiscal 2017 and the Company now recognizes all income tax effects of share-based payments in the income statement on a prospective basis. The Company elected to continue to estimate forfeitures expected to occur to determine the amount of share-based compensation cost to recognize in each period, as permitted by ASU 2016-09. The adoption of ASU 2016-09 did not result in a material impact to the Company's financial statements.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires entities to recognize the income tax effects of intercompany sales and transfers of assets, other than inventory, in the period in which the transfer occurs. This is a change from current GAAP, which requires entities to defer the income tax effects of intercompany transfers of assets until the asset has been sold to an outside party or otherwise recognized (i.e. depreciated, amortized, impaired). The income tax effects of intercompany sales and transfers of inventory will continue to be deferred until the inventory is sold to an outside party. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company currently intends to adopt this standard in the first

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

quarter of fiscal 2018, and the Company does not expect this standard to have a material impact on its financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which provides guidance to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test under ASC Topic 350. Under the new guidance, an entity should perform goodwill impairment testing by comparing the fair value of a reporting unit with its carrying amount. If the reporting unit's carrying amount exceeds its fair value, an entity should recognize an impairment charge based on that difference, limited to the total amount of goodwill allocated to that reporting unit. The Company elected to early adopt this standard in the third quarter of fiscal 2017 on a prospective basis. The adoption of ASU 2017-04 did not result in a material impact to the Company's financial statements.

In March 2017, the FASB issued ASU 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*, which provides guidance that requires an employer to present the service cost component separate from the other components of net periodic benefit cost. The update requires that employers present the service cost component of the net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered by participating employees during the period. The other components of the net periodic benefit cost are required to be presented separately from the line item that includes service cost and outside of the subtotal of income from operations. If a separate line item is not used, the line item used in the income statement must be disclosed. In addition, only the service cost component is eligible for capitalization in assets. This ASU will be applied retrospectively and is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company does not expect this standard to have a material impact on its financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*, which clarifies when modification accounting should be applied for changes to terms or conditions of a share-based payment award. This ASU will be applied prospectively and is effective for fiscal years beginning after December 15, 2017, and interim periods within those years, with early adoption permitted. The Company currently intends to adopt this standard in the first quarter of fiscal 2018, and the Company does not expect this standard to have a material impact on its financial statements.

In August 2017, the FASB issued ASU 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which is intended to improve and simplify hedge accounting and improve the disclosures of hedging arrangements. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting the new standard on its financial statements.

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****2. Goodwill and trade names**

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

The Company recorded no impairments during fiscal 2017, fiscal 2016, and fiscal 2015 as a result of the goodwill and trade names impairment tests performed.

The changes in the carrying amount of goodwill and trade names were as follows in fiscal 2017, fiscal 2016, and the five weeks ended April 2, 2016:

	<b>Goodwill</b>	<b>Trade names</b>
<b>Balance at February 27, 2016</b>		
Gross balance	410,467	259,902
Accumulated impairment charges	(207,652)	(31,534)
<b>Total, net</b>	<b>\$ 202,815</b>	<b>\$ 228,368</b>
Foreign currency translation adjustments		2,423
<b>Balance at April 2, 2016</b>		
Gross balance	410,467	262,325
Accumulated impairment charges	(207,652)	(31,534)
<b>Total, net</b>	<b>\$ 202,815</b>	<b>\$ 230,791</b>
Foreign currency translation adjustments		(4,106)
<b>Balance at April 1, 2017</b>		
Gross balance	410,467	258,219
Accumulated impairment charges	(207,652)	(31,534)
<b>Total, net</b>	<b>\$ 202,815</b>	<b>\$ 226,685</b>
Foreign currency translation adjustments		2,716
<b>Balance at March 31, 2018</b>		
Gross balance	410,467	260,935
Accumulated impairment charges	(207,652)	(31,534)
<b>Total, net</b>	<b>\$ 202,815</b>	<b>\$ 229,401</b>

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****3. Detail of certain balance sheet accounts**

	March 31, 2018	April 1, 2017
Accounts receivable, net:		
Trade receivables, net	\$ 15,968	\$ 15,873
Credit card receivables	6,939	6,531
Tenant allowances	998	2,353
Other receivables	1,623	2,719
	\$ 25,528	\$ 27,476

**Inventory:**

Finished goods	\$ 91,970	\$ 98,438
Raw materials	4,840	4,183
Work in progress	552	499
	\$ 97,362	\$ 103,120

**Property and equipment, net:**

Land and buildings	\$ 22,981	\$ 20,758
Furniture and fixtures	69,777	68,837
Machinery and equipment	87,105	83,523
Computer software and equipment	90,512	81,380
Leasehold improvements	157,858	152,630
Construction in progress	12,114	13,188
Leased vehicles and other	658	917
	441,005	421,233
Less accumulated depreciation and amortization	(282,616)	(255,735)
	\$ 158,389	\$ 165,498

**Accrued Liabilities:**

Accrued payroll, benefits and bonuses	\$ 24,940	\$ 20,897
Unearned revenue	11,080	7,708
Accrued transaction and property tax	12,846	11,086
Gift cards and store credits outstanding	8,891	9,229
Accrued lease liabilities	5,105	4,767
Accrued interest	292	143
Other accrued liabilities	7,340	6,277

\$ 70,494 \$ 60,107



Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****4. Long-term debt and revolving lines of credit**

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

	March 31, 2018	April 1, 2017
Senior secured term loan facility	\$ 294,375	\$ 316,760
2014 Elfa term loan facility		3,358
2014 Elfa revolving credit facility		
Obligations under capital leases	662	901
Other loans	16	119
Revolving credit facility		
<b>Total debt</b>	<b>295,053</b>	<b>321,138</b>
Less current portion	(7,771)	(5,445)
Less deferred financing costs(1)	(9,888)	(3,667)
<b>Total long-term debt</b>	<b>\$ 277,394</b>	<b>\$ 312,026</b>

(1)

Represents deferred financing costs related to our Senior Secured Term Loan Facility, which are presented net of long-term debt in the consolidated balance sheet.

Scheduled total revolving lines of credit and debt maturities for the fiscal years subsequent to March 31, 2018, are as follows:

Within 1 year	\$ 7,771
2 years	7,761
3 years	7,646
4 years	271,875
5 years	
Thereafter	
	<b>\$ 295,053</b>

**Senior Secured Term Loan Facility**

On April 6, 2012, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into a credit agreement with JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and the lenders party thereto (as amended, the "Senior Secured Term Loan Facility"). On August 18, 2017, the Company entered into a fourth amendment (the "Term Loan Amendment") to the Senior Secured Term Loan Facility dated as of April 6, 2012. The fourth amendment amended the Senior Secured Term Loan Facility to, among other things, (i) extend the maturity date of the loans under the Senior Secured Term Loan Facility to August 18, 2021, (ii) add a

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maximum leverage covenant of 5.0:1.0 which steps down by 0.25x on June 30 of each year commencing on June 30, 2018, (iii) increase the applicable interest rate margin to 7.00% for LIBOR loans and 6.00% for base rate loans, (iv) reduce the aggregate principal amount of the Senior Secured Term Loan Facility to \$300,000, (v) increase principal amortization to 2.5% per annum,

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

(vi) require a 3.0% upfront fee on the aggregate principal amount of the Senior Secured Term Loan Facility, and (vii) impose a 1% premium if a voluntary prepayment is made from the proceeds of a repricing transaction within 12 months after August 18, 2017.

Under the Senior Secured Term Loan Facility, we had \$294,375 in outstanding borrowings as of March 31, 2018 and the interest rate on such borrowings is LIBOR + 7.00%, subject to a LIBOR floor of 1.00%. The Senior Secured Term Loan Facility provides that we are required to make quarterly principal repayments of \$1,875 through June 30, 2021, with a balloon payment for the remaining balance due on August 18, 2021.

The Senior Secured Term Loan Facility is secured by (a) a first priority security interest in substantially all of our assets (excluding stock in foreign subsidiaries in excess of 65%, assets of non-guarantors and subject to certain other exceptions) (other than the collateral that secures the Revolving Credit Facility described below on a first-priority basis) and (b) a second priority security interest in the assets securing the Revolving Credit Facility described below on a first-priority basis. Obligations under the Senior Secured Term Loan Facility are guaranteed by The Container Store Group, Inc. and each of The Container Store, Inc.'s U.S. subsidiaries.

The Senior Secured Term Loan Facility includes restrictions on the ability of the Company's subsidiaries to incur additional liens and indebtedness, make investments and dispositions, pay dividends or make other distributions, make loans, prepay certain indebtedness and enter into sale and lease back transactions, among other restrictions. Under the Senior Secured Term Loan Facility, provided no event of default has occurred and is continuing, The Container Store, Inc. is permitted to pay dividends to The Container Store Group, Inc. in an amount not to exceed the sum of \$10,000 plus if after giving effect to such dividend on a pro forma basis, the Consolidated Leverage Ratio (as defined in the Senior Secured Term Loan Facility) does not exceed 2.0 to 1.0, the Available Amount (as defined in the Senior Secured Term Loan Facility) during the term of the Senior Secured Term Loan Facility, and pursuant to certain other limited exceptions. The restricted net assets of the Company's consolidated subsidiaries was \$236,207 as of March 31, 2018. As of March 31, 2018, we were in compliance with all Senior Secured Term Loan Facility covenants and no Event of Default (as such term is defined in the Senior Secured Term Loan Facility) had occurred.

*Related Party Debt*

On August 18, 2017, Green Credit Investors, L.P. funded \$20,000 of the \$300,000 Senior Secured Term Loan Facility based on the same terms, including interest rates, repayment terms, and collateral, as all other lenders. Green Credit Investors, L.P. is a related party due to its affiliation with LGP, the majority shareholder of the outstanding common stock of the Company. As of March 31, 2018, the principal amount due to Green Credit Investors, L.P. was zero, as it sold its interest in the loan syndicate.

**Revolving Credit Facility**

On April 6, 2012, The Container Store Group, Inc., The Container Store, Inc. and certain of its domestic subsidiaries entered into an asset-based revolving credit agreement with the lenders party

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent, and Wells Fargo Bank, National Association, as Syndication Agent (as amended, the "Revolving Credit Facility"). On August 18, 2017, the Company also entered into a fourth amendment (the "Revolving Amendment") to the Revolving Credit Facility dated as of April 6, 2012, which, among other things, extended the maturity date of the loans under the Revolving Credit Facility to the earlier of (i) August 18, 2022 and (ii) May 18, 2021 if any portion of the Senior Secured Term Loan Facility remains outstanding on such date and the maturity date of the Senior Secured Term Loan Facility is not extended.

The aggregate principal amount of the facility is \$100,000. Borrowings under the Revolving Credit Facility accrue interest at LIBOR+1.25%. In addition, the Revolving Credit Facility includes an uncommitted incremental revolving facility in the amount of \$50,000, which is subject to receipt of lender commitments and satisfaction of specified conditions.

In connection with the closing of the Term Loan Amendment and the Revolving Amendment, the Company borrowed a net amount of \$20,000 on the Revolving Credit Facility. In addition, the Company recorded a loss on extinguishment of debt of \$2,369 in the second quarter of fiscal 2017 associated with the Term Loan Amendment and the Revolving Amendment.

The Revolving Credit Facility provides that proceeds are to be used for working capital and other general corporate purposes, and allows for swing line advances of up to \$15,000 and the issuance of letters of credit of up to \$40,000.

The availability of credit at any given time under the Revolving Credit Facility is limited by reference to a borrowing base formula, which is the sum of (i) 90% of eligible credit card receivables and (ii) 90% of the appraised value of eligible inventory; minus (iii) certain availability reserves and (iv) outstanding credit extensions including letters of credit and existing revolving loans.

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

The Revolving Credit Facility contains a number of covenants that, among other things, restrict our ability, subject to specified exceptions, to incur additional debt; incur additional liens and contingent liabilities; sell or dispose of assets; merge with or acquire other companies; liquidate or dissolve ourselves, engage in businesses that are not in a related line of business; make loans, advances or guarantees; engage in transactions with affiliates; and make investments. In addition, the financing agreements contain certain cross-default provisions. We are required to maintain a consolidated fixed-charge coverage ratio of 1.0 to 1.0 if excess availability is less than \$10,000 at any time. As of March 31, 2018, we were in compliance with all Revolving Credit Facility covenants and no Event of Default (as such term is defined in the Revolving Credit Facility) had occurred.

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

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

There was \$65,625 available under the Revolving Credit Facility as of March 31, 2018, based on the factors described above. Maximum borrowings, including letters of credit issued under the Revolving Credit Facility during the period ended March 31, 2018, were \$38,490.

**2014 Elfa Senior Secured Credit Facilities**

On April 1, 2014, Elfa entered into a master credit agreement with Nordea Bank AB ("Nordea"), which consists of a SEK 60.0 million (approximately \$7,175 as of March 31, 2018) term loan facility (the "2014 Elfa Term Loan Facility") and a SEK 140.0 million (approximately \$16,743 as of March 31, 2018) revolving credit facility (the "2014 Elfa Revolving Credit Facility," and together with the 2014 Elfa Term Loan Facility, the "2014 Elfa Senior Secured Credit Facilities"). The 2014 Elfa Senior Secured Credit Facilities term began on August 29, 2014 and matures on August 29, 2019. The remaining balance of the 2014 Elfa Term Loan Facility was paid on February 18, 2018, which was prior to the maturity date. Elfa was required to make quarterly principal payments under the 2014 Elfa Term Loan Facility in the amount of SEK 3.0 million (approximately \$359 as of March 31, 2018). The 2014 Elfa Revolving Credit Facility bears interest at Nordea's base rate + 1.4%. In the fourth quarter of fiscal 2016, Elfa and Nordea agreed that the stated rates would apply through maturity. As of March 31, 2018, the Company had \$16,743 of additional availability under the 2014 Elfa Revolving Credit Facility.

Under the 2014 Elfa Senior Secured Credit Facilities, Elfa's ability to pay dividends to its parent entity, The Container Store, Inc., is based on its future net income and on historical intercompany practices as between Elfa and The Container Store, Inc. The 2014 Elfa Senior Secured Credit Facilities are secured by the majority of assets of Elfa. The 2014 Elfa Senior Secured Credit Facilities contains a number of covenants that, among other things, restrict Elfa's ability, subject to specified exceptions, to incur additional liens, sell or dispose of assets, merge with other companies, engage in businesses that are not in a related line of business and make guarantees. In addition, Elfa is required to maintain (i) a consolidated equity ratio (as defined in the 2014 Elfa Senior Secured Credit Facilities) of not less than 30% in year one and not less than 32.5% thereafter and (ii) a consolidated ratio of net debt to EBITDA (as defined in the 2014 Elfa Senior Secured Credit Facilities) of less than 3.2, the consolidated equity ratio tested at the end of each calendar quarter and the ratio of net debt to EBITDA tested as of the end of each fiscal quarter. As of March 31, 2018, Elfa was in compliance with all covenants and no Event of Default (as defined in the 2014 Elfa Senior Secured Credit Facilities) had occurred.

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****4. Long-term debt and revolving lines of credit (Continued)****Deferred financing costs**

The Company capitalizes certain costs associated with issuance of various debt instruments. These deferred financing costs are amortized to interest expense on a straight-line method, which is materially consistent with the effective interest method, over the terms of the related debt agreements. In fiscal 2017, the Company capitalized \$9,640 of fees associated with the Term Loan Amendment that will be amortized through August 18, 2021 and \$57 of fees associated with the Revolving Amendment that will be amortized through August 18, 2022.

Amortization expense of deferred financing costs was \$2,664, \$1,921, \$1,940, and \$160 in fiscal 2017, fiscal 2016, fiscal 2015, and the five weeks ended April 2, 2016, respectively. The following is a schedule of amortization expense of deferred financing costs:

	Senior Secured Term Loan Facility	Revolving Credit Facility	Total
Within 1 year	\$ 2,966	\$ 71	\$ 3,037
2 years	2,966	71	3,037
3 years	2,966	71	3,037
4 years	990	71	1,061
5 years		28	28
Thereafter			
	\$ 9,888	\$ 312	\$ 10,200

**5. Income taxes**

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

	Fiscal Year Ended			Five Weeks Ended
	March 31, 2018	April 1, 2017	February 27, 2016	April 2, 2016
Income before income taxes:				
U.S.	\$ 3,001	\$ 19,307	\$ 4,830	\$ 1,059
Foreign	3,704	5,048	3,221	(367)
	\$ 6,705	\$ 24,355	\$ 8,051	\$ 692
Current				
Federal	\$ 10,685	\$ 6,039	\$ (385)	\$ 235
State	792	1,374	585	63
Foreign	1,345	2,085	1,850	(778)

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Total current provision (benefit)	12,822	9,498	2,050	(480)
Deferred				
Federal	(25,418)	553	1,881	122
State	158	22	57	(46)
Foreign	(285)	(671)	(1,079)	742
Total deferred (benefit) provision	(25,545)	(96)	859	818
Total (benefit) provision for income taxes	\$ (12,723)	\$ 9,402	\$ 2,909	\$ 338

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

**5. Income taxes (Continued)**

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. The Tax Act made numerous changes to federal corporate tax law, including, but not limited to, the following:

reducing the U.S. federal corporate tax rate from 35% to 21%,

requiring companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred,

imposing limitations on the deductibility of net interest expense and certain executive compensation arrangements under Section 162(m) of the Internal Revenue Code,

allowing for the immediate expensing of qualified property purchases, and

creation of a new tax on global intangible low-taxed income ("GILTI").

SEC Staff Accounting Bulletin ("SAB") 118 allows the Company to record provisional amounts for the impact of the Tax Act during a measurement period not to extend beyond one year from the enactment date to complete the accounting under ASC 740, *Income Taxes*. As of March 31, 2018, the Company had not completed the accounting for the tax effects of the enactment of the Tax Act, however, it was able to make reasonable estimates of the effects and, therefore, recorded provisional estimates for these items. The Company will continue to analyze the full effects of the Tax Act on the financial statements. As the Company prepares necessary data and continues to interpret the Tax Act and any additional guidance, the Company may make adjustments to the provisional amounts during the measurement period, as permitted by SAB 118. The impact of the Tax Act may differ from the current estimate, possibly materially, due to changes in interpretations and assumptions the Company has made and future guidance that may be issued. The Company anticipates completing the accounting for the tax effects of the Tax Act in a subsequent reporting period, prior to the end of the measurement period on December 22, 2018.

The net provisional tax benefit recorded in fiscal 2017 related to the Tax Act was \$15,689. Provisional amounts for the following income tax effects of the Tax Act have been recorded as of March 31, 2018 and are subject to change during fiscal 2018.

*Deferred tax effects*

Deferred tax balances were remeasured in fiscal 2017 based on the rates at which they are expected to reverse in the future, generally 21% pursuant to the Tax Act. The Company recorded a provisional benefit of \$24,210 in fiscal 2017 related to the remeasurement of the Company's deferred tax balances, which is included as a component of (benefit) provision for income taxes on the consolidated statement of operations.

The Company believes the remeasurement of its deferred tax balances is complete, except for changes in estimates that can result from finalizing the filing of its 2017 U.S. income tax return and changes that may be a direct impact of other provisional amounts due to the enactment of the Tax Act. In addition, the estimate may be impacted as the Company further analyzes state tax conformity to the federal tax changes and guidance issued by regulatory bodies that provide interpretive guidance of the Tax Act. Any adjustments to the provisional amounts will be recognized as a component of the





Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****5. Income taxes (Continued)**

provision for income taxes in the period in which such adjustments are determined within the annual period following the enactment of the Tax Act.

The Company has not recorded any provisional amounts with respect to the GILTI provision of the Tax Act as the Company has not yet elected an accounting policy to determine whether it will recognize GILTI as a period cost when incurred or to recognize deferred taxes for basis differences expected to reverse.

*One-time transition tax on earnings of foreign subsidiaries*

The one-time transition tax is based on accumulated earnings and profits ("E&P") from our 1999 acquisition of Elfa for which U.S. income taxes were previously deferred. During fiscal 2017, a provisional expense of \$8,521 was recorded related to the one-time transition tax on foreign earnings, which is net of foreign tax credit utilization of \$4,178. Additionally, as a result of the Tax Act, future foreign tax credits of \$5,184 were generated. We do not expect to utilize these credits to offset future taxable income, and have recorded a full valuation allowance related to these credits, the effect of which is included within the net transition tax liability. While we were able to make a reasonable estimate of the transition tax based on the guidance issued as of the date of these financial statements, the Company is continuing to gather additional information to be able to more precisely compute the final amount.

*Effective income tax rate reconciliation*

Since the Company has a fiscal year that does not follow the calendar year, it is subject to a blended U.S. corporate income tax rate of 31.5% for fiscal year 2017. The differences between the actual provision for income taxes and the amounts computed by applying the statutory federal tax rate to income before taxes are as follows:

	Fiscal Year Ended			Five Weeks
	March 31, 2018	April 1, 2017	February 27, 2016	Ended April 2, 2016
Provision computed at federal statutory rate	\$ 2,114	\$ 8,525	\$ 2,818	\$ 242
Permanent differences	566	536	192	10
One-time transition tax, net	8,521			
Change in valuation allowance	211	178	248	37
State income taxes, net of federal benefit	455	855	402	11
Effect of foreign income taxes	(351)	(619)	(384)	53
Remeasurement of deferred tax balances	(24,210)			
Economic zone credits			(292)	
Other, net	(29)	(73)	(75)	(15)
	\$ (12,723)	\$ 9,402	\$ 2,909	\$ 338

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****5. Income taxes (Continued)***Deferred taxes*

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Components of deferred tax assets and liabilities as of March 31, 2018 and April 1, 2017, are as follows:

	March 31, 2018	April 1, 2017
Deferred tax assets:		
Inventory	\$ 1,004	\$ 1,763
Loss and credit carryforwards	9,163	3,445
Stock compensation	4,995	7,220
Accrued liabilities	3,728	4,439
Capital assets	454	352
	19,344	17,219
Valuation allowance	(7,724)	(2,015)
Total deferred tax assets	11,620	15,204
Deferred tax liabilities:		
Intangibles	(58,568)	(82,775)
Capital assets	(4,104)	(7,412)
Other	(1,383)	(3,557)
Total deferred tax liabilities	(64,055)	(93,744)
Net deferred tax liabilities	\$ (52,435)	\$ (78,540)

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

Foreign and domestic tax credits, net of valuation allowances, totaled approximately \$1,545 at March 31, 2018 and approximately \$1,490 at April 1, 2017. The various credits available at March 31, 2018 expire in the 2026 tax year.

The Company had deferred tax assets for foreign and state net operating loss carryovers of \$2,434 at March 31, 2018, and approximately \$1,955 at April 1, 2017. Valuation allowances of \$2,201 and \$1,753 were recorded against the net operating loss deferred tax assets at March 31, 2018 and April 1, 2017, respectively.

The Company files income tax returns in the U.S. federal jurisdiction, various states and foreign jurisdictions. The Company is currently subject to U.S. federal income tax examinations for the year



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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

**5. Income taxes (Continued)**

ended February 28, 2015 and forward. With respect to state and local jurisdictions and countries outside of the United States, the Company and subsidiaries are typically subject to examination for three to six years after the income tax returns have been filed.

The Company accounts for the repatriation of foreign earnings in accordance with ASC 740-30. As such, the Company's earnings are partially reinvested based on the guidance provided in ASC 740-30. The Company has historically asserted that all undistributed earnings were indefinitely reinvested. Therefore, no provision has been made for deferred taxes related to any outside basis differences associated with Elfa, the Company's foreign subsidiary. The Company continues to assess the impact of the Tax Act, which could impact its assertion regarding indefinite reinvestment and potential future repatriation. As discussed above, once the accounting for the one-time transition tax on foreign earnings is complete, the Company will provide updated disclosures related to any potential changes to its assertions as appropriate.

The Company does not have any uncertain tax positions, according to ASC 740-10, as of March 31, 2018 and April 1, 2017.

**6. Employee benefit plans**

**401(k) Plan**

All domestic employees of the Company who complete 11 months of service are eligible to participate in the Company's 401(k) Plan. Participants may contribute up to 80% of annual compensation, limited to eighteen thousand annually (twenty-four thousand for participants aged 50 years and over) as of January 1, 2017. During fiscal 2015, the Company matched 100% of employee contributions up to 4% of compensation. Effective April 15, 2016, the Company temporarily ceased 401(k) matching contributions. The amount charged to expense for the Company's matching contribution was \$0, \$58, \$3,165, and \$309, for fiscal 2017, fiscal 2016, fiscal 2015, and the five weeks ended April 2, 2016, respectively.

**Nonqualified retirement plan**

The Company has a nonqualified retirement plan whereby certain employees can elect to defer a portion of their compensation into retirement savings accounts. Under the plan, there is no requirement that the Company match contributions, although the Company may contribute matching payments at its sole discretion. No matching contributions were made to the plan during any of the periods presented. The total fair value of the plan asset recorded in other current assets was \$5,848 and \$5,092 as of March 31, 2018 and April 1, 2017, respectively. The total carrying value of the plan liability recorded in accrued liabilities was \$5,854 and \$5,086 as of March 31, 2018 and April 1, 2017, respectively.

**Pension plan**

The Company provides pension benefits to the employees of Elfa under collectively bargained pension plans in Sweden, which are recorded in other long-term liabilities. The defined benefit plan

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****6. Employee benefit plans (Continued)**

provides benefits for participating employees based on years of service and final salary levels at retirement. Certain employees also participate in defined contribution plans for which Company contributions are determined as a percentage of participant compensation. The defined benefit plans are unfunded and approximately 3% of Elfa employees are participants in the defined benefit pension plan.

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

	March 31, 2018	April 1, 2017
Change in benefit obligation:		
Projected benefit obligation, beginning of year	\$ 4,138	\$ 3,691
Service cost	37	67
Interest cost	143	117
Benefits paid	(83)	(77)
Actuarial loss	382	710
Exchange rate loss (gain)	283	(370)
Projected benefit obligation, end of year	4,900	4,138
Fair value of plan assets, end of year		
Underfunded status, end of year	\$ (4,900)	\$ (4,138)

Discount rate	3.1%	3.3%
Rate of pay increases	3.0%	3.0%

The following table provides the components of net periodic benefit cost for fiscal years 2017, 2016, 2015, and the five weeks ended April 2, 2016:

	Fiscal Year Ended			Five Weeks Ended
	March 31, 2018	April 1, 2017	February 27, 2016	April 2, 2016
Components of net periodic benefit cost:				
Defined benefit plans:				
Service cost	\$ 37	\$ 67	\$ 86	\$ 6
Interest cost	143	117	103	10
Amortization of unrecognized net loss	63	37	45	
Net periodic benefit cost for defined benefit plan	243	221	234	16
Defined contribution plans	2,237	1,904	2,246	129
Total net periodic benefit cost	\$ 2,480	\$ 2,125	\$ 2,480	\$ 145

**7. Stock-based compensation**

On October 16, 2013, the Board approved the 2013 Incentive Award Plan ("2013 Equity Plan"). The 2013 Equity Plan provides for grants of nonqualified stock options, incentive stock options,

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****7. Stock-based compensation (Continued)**

restricted stock, restricted stock units, deferred stock awards, deferred stock units, stock appreciation rights, dividends equivalents, performance awards, and stock payments.

On September 12, 2017, the Company's shareholders approved The Container Store Group Inc. Amended and Restated 2013 Incentive Award Plan (the "Amended and Restated Plan"). The Amended and Restated Plan (i) increased the number of shares of common stock available for issuance under such plan from 3,616,570 shares to 11,116,570 shares; (ii) was intended to allow awards under the Amended and Restated Plan to continue to qualify as tax-deductible performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, subject to anticipated changes resulting from the Tax Act as described below; and (iii) made certain minor technical changes to the terms of the Amended and Restated Plan.

Pursuant to the Tax Act, the exception for performance-based compensation has been repealed, effective for tax years beginning after December 31, 2017, and, therefore, compensation previously intended to be performance-based may not be deductible unless it qualifies for limited transition relief applicable to certain amounts payable pursuant to a written binding contract that was in effect on November 2, 2017.

As of March 31, 2018, there are 11,116,570 shares authorized and 7,884,679 shares available for grant under the Amended and Restated Plan. Awards that are surrendered or terminated without issuance of shares are available for future grants.

***Stock Options***

The Company grants nonqualified stock options under the Amended and Restated Plan annually to non-employee directors of the Company. The stock options granted vest in equal annual installments over 3 years. The stock options granted were approved by the Board and consisted of nonqualified stock options as defined by the IRS for corporate and individual tax reporting purposes. The following table summarizes the Company's annual stock option grants during fiscal 2017, 2016, and 2015:

<b>Grant Date</b>	<b>Number of Stock Options Granted</b>
August 3, 2015	94,568
August 1, 2016	276,075
September 12, 2017	343,352

In connection with our stock-based compensation plans, the Board considers the estimated fair value of the Company's stock when setting the stock option exercise price as of the date of each grant. The Board determines the exercise price of stock options based on the closing price of the Company's common stock as reported on The New York Stock Exchange on the grant date. Stock-based compensation cost is measured at the grant date fair value and is recognized as an expense in the consolidated statements of operations, on a straight-line basis, over the employee's requisite service period (generally the vesting period of the equity grant). The Company estimates forfeitures for option grants that are not expected to vest. The Company issues new shares of common stock upon stock option exercise.



Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****7. Stock-based compensation (Continued)**

Stock-based compensation cost related to stock options was \$1,520, \$1,526, \$1,556, and \$147 during fiscal year 2017, 2016, 2015, and the five weeks ended April 2, 2016, respectively. As of March 31, 2018, there was a remaining unrecognized compensation cost of \$2,956 (net of estimated forfeitures) that the Company expects to be recognized on a straight-line basis over a weighted-average remaining service period of approximately 1.3 years. The intrinsic value of shares exercised was \$0, \$0, and \$2 during fiscal 2017, 2016, and 2015, respectively. The fair value of shares vested was \$1,613, \$1,464, and \$1,367 during fiscal 2017, 2016, and 2015, respectively.

The following table summarizes the Company's stock option activity during fiscal 2017, 2016, and 2015:

	2017			Fiscal Year 2016(1)			2015		
	Shares	Weighted-average exercise price (per share)	Weighted-average contractual term remaining (years)	Shares	Weighted-average exercise price (per share)	Weighted-average contractual term remaining (years)	Shares	Weighted-average exercise price (per share)	Weighted-average contractual term remaining (years)
Beginning balance	2,946,028	\$ 16.81		2,890,476	\$ 18.02		2,856,005	\$ 18.04	
Granted	343,352	\$ 4.10		276,075	\$ 5.35		94,568	\$ 17.28	
Exercised		\$			\$		(3,315)	\$ 17.71	
Forfeited	(90,881)	\$ 15.13		(98,815)	\$ 18.63		(41,791)	\$ 18.00	
Expired	(158,293)	\$ 17.31		(121,708)	\$ 17.95		(14,991)	\$ 17.80	
Ending balance	3,040,206	\$ 15.40	6.23	2,946,028	\$ 16.81	6.83	2,890,476	\$ 18.02	7.66
Vested and exercisable at end of year	2,241,283	\$ 17.53	5.65	2,156,537	\$ 17.98	6.51	2,110,661	\$ 17.95	7.55

(1) Fiscal 2016 includes 6,690 options forfeited and 576 options expired during the five-weeks ended April 2, 2016. There were no options granted or exercised during the five-weeks ended April 2, 2016.

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

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

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

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

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

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****7. Stock-based compensation (Continued)**

Stock options granted during fiscal year 2017, 2016, and 2015 were granted at a weighted-average grant date fair value of \$2.33, \$3.26, and \$8.46, respectively. Such amounts were estimated using the Black Scholes option pricing model with the following weighted-average assumptions:

	Fiscal Year		
	2017	2016	2015
Expected term	6.0 years	6.0 years	6.0 years
Expected volatility	60.6%	67.9%	50.3%
Risk-free interest rate	1.9%	1.2%	1.7%
Dividend yield	0%	0%	0%

**Restricted Stock Awards**

The Company periodically grants time-based and performance-based restricted stock awards under the Company's Amended and Restated Plan to key executives and officers of the Company. The following table summarizes the Company's restricted stock award grants during fiscal 2017 and 2016:

Grant Date	Total Number of Awards Granted	Grant Date Fair Value	Number of Time-Based Awards Granted	Time-Based Vesting Period	Number of Performance-Based Awards Granted	Performance-Based Vesting Period	Number of Performance-Based Awards that Met Performance Condition
July 1, 2016	372,842	\$ 5.42	76,089	2.75 years	296,753(1)	3.75 years	104,320
August 2, 2016	248,937	\$ 5.29	50,802	2.67 years	198,135(1)	3.67 years	61,552
December 12, 2017	22,191	\$ 5.52	4,528	3 years	17,663(2)	3 years	9,011

(1) These performance-based restricted stock awards vest based on achievement of fiscal 2016 performance targets and are also subject to time-based vesting requirements.

(2) These performance-based restricted stock awards vest based on achievement of fiscal 2017 performance targets and are also subject to time-based vesting requirements.

Stock-based compensation cost related to restricted stock awards was \$506 and \$463 for fiscal year 2017 and 2016, respectively. Unrecognized compensation expense related to outstanding restricted stock awards to employees as of March 31, 2018 is expected to be \$490 (net of estimated forfeitures) to be recognized on a straight-line basis over a weighted average period of 1.3 years.

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****7. Stock-based compensation (Continued)**

The following table summarizes the Company's restricted stock awards activity during fiscal 2016 and fiscal 2017:

	<b>Restricted Stock Awards</b>	<b>Weighted Average Grant Date Fair Value</b>
<b>Nonvested at April 2, 2016</b>		<b>\$</b>
Granted	621,779	5.37
Vested	(31,216)	5.37
Forfeited	(334,923)	5.36
Withheld related to net settlement	(9,106)	5.37
<b>Nonvested at April 1, 2017</b>	<b>246,534</b>	<b>\$ 5.37</b>
Granted	22,191	5.52
Forfeited	(25,490)	5.38
<b>Nonvested at March 31, 2018</b>	<b>243,235</b>	<b>\$ 5.39</b>

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

During fiscal 2017 and fiscal 2016, the Company issued 27,073 and 26,923 shares of common stock in exchange for consultation services received from a third-party at a weighted-average price of \$4.99 and \$5.01 per share, respectively.

As of March 31, 2018, the Company had 250,000,000 shares of common stock authorized, with a par value of \$0.01, of which 48,072,187 were issued.

The holders of common stock are entitled to one vote per common share. The holders have no preemptive or other subscription rights and there are no redemptions or sinking fund provisions with respect to such shares. Common stock is subordinate to any preferred stock outstanding with respect to rights upon liquidation and dissolution of the Company.

**Preferred stock**

As of March 31, 2018, the Company had 5,000,000 shares of preferred stock authorized, with a par value of \$0.01, of which no shares were issued or outstanding.

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****9. Accumulated other comprehensive income**

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

	Foreign currency hedge instruments	Pension liability adjustment	Foreign currency translation	Total
Balance at February 27, 2016	\$ (29)	\$ (992)	\$ (18,814)	\$ (19,835)
Other comprehensive (loss) income before reclassifications, net of tax		(66)	4,053	3,987
Amounts reclassified to earnings, net of tax	12			12
Net current period other comprehensive income (loss)	12	(66)	4,053	3,999
Balance at April 2, 2016	\$ (17)	\$ (1,058)	\$ (14,761)	\$ (15,836)
Other comprehensive loss before reclassifications, net of tax	(543)	(413)	(6,283)	(7,239)
Amounts reclassified to earnings, net of tax	405	27		432
Net current period other comprehensive loss	(138)	(386)	(6,283)	(6,807)
Balance at April 1, 2017	\$ (155)	\$ (1,444)	\$ (21,044)	\$ (22,643)
Other comprehensive loss before reclassifications, net of tax	1,203	(398)	5,623	6,428
Amounts reclassified to earnings, net of tax	(1,150)	49		(1,101)
Net current period other comprehensive loss	53	(349)	5,623	5,327
Balance at March 31, 2018	\$ (102)	\$ (1,793)	\$ (15,421)	\$ (17,316)

The unrecognized net actuarial loss included in accumulated other comprehensive income as of March 31, 2018 and April 1, 2017 was \$1,793 and \$1,444, respectively. Amounts reclassified from AOCI to earnings for the pension liability adjustment category are generally included in cost of sales and selling, general and administrative expenses in the Company's consolidated statements of operations. For a description of the Company's employee benefit plans, refer to Note 6. Amounts reclassified from AOCI to earnings for the foreign currency hedge instruments category are generally included in cost of sales in the Company's consolidated statements of operations. For a description of the Company's use of foreign currency forward contracts, refer to Note 10.

**10. Foreign currency forward contracts**

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The Company's international operations and purchases of its significant product lines from foreign suppliers are subject to certain opportunities and risks, including foreign currency fluctuations. In the TCS segment, we utilize foreign currency forward contracts in Swedish krona to stabilize our retail gross margins and to protect our domestic operations from downward currency exposure by hedging purchases of inventory from our wholly owned subsidiary, Elfa. Forward contracts in the TCS segment are designated as cash flow hedges, as defined by ASC 815. In the Elfa segment, we utilize foreign

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

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

currency forward contracts to hedge purchases, primarily of raw materials, that are transacted in currencies other than Swedish krona, which is the functional currency of Elfa. Forward contracts in the Elfa segment are economic hedges, and are not designated as cash flow hedges as defined by ASC 815.

In fiscal 2017, fiscal 2016, and fiscal 2015, the TCS segment used forward contracts for 80%, 78%, and 54% of inventory purchases in Swedish krona each year, respectively. In fiscal 2017, fiscal 2016, and fiscal 2015, the Elfa segment used forward contracts to purchase U.S. dollars in the amount of \$1,648, \$3,905, and \$5,495, which represented 21%, 56%, and 67% of the Elfa segment's U.S. dollar purchases each year, respectively. In the five-weeks ended April 2, 2016, the TCS segment used forward contracts for 0% of inventory purchases in Swedish krona and the Elfa segment used forward contracts to purchase U.S. dollars in the amount of \$155, which represented 23% of the Elfa segment's U.S. dollar purchases.

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

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

The Company records all foreign currency forward contracts on its consolidated balance sheet at fair value. The Company accounts for its foreign currency hedge instruments in the TCS segment as cash flow hedges, as defined. Changes in the fair value of the foreign currency hedge instruments that are considered to be effective, as defined, are recorded in other comprehensive income (loss) until the hedged item (inventory) is sold to the customer, at which time the deferred gain or loss is recognized through cost of sales. Any portion of a change in the foreign currency hedge instrument's fair value that is considered to be ineffective, as defined, or that the Company has elected to exclude from its measurement of effectiveness, is immediately recorded in earnings as cost of sales. The Company assessed the effectiveness of the foreign currency hedge instruments and determined the foreign currency hedge instruments were highly effective during the fiscal years ended March 31, 2018, April 1, 2017, and February 27, 2016. Forward contracts not designated as hedges in the Elfa segment are adjusted to fair value as selling, general, and administrative expenses on the consolidated statements of operations. During fiscal 2017, the Company recognized a net unrealized loss of \$184 associated with the change in fair value of forward contracts not designated as hedge instruments.

The Company had \$102 in accumulated other comprehensive loss related to foreign currency hedge instruments at March 31, 2018. Settled foreign currency hedge instruments related to inventory on hand as of March 31, 2018 represents \$372 of accumulated unrealized gain. The Company expects the unrealized gain of \$372, net of taxes, to be reclassified into earnings over the next 12 months as the underlying inventory is sold to the end customer.

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

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****11. Leases**

The Company conducts all of its U.S. operations from leased facilities that include a corporate headquarters/warehouse facility and 90 store locations. The corporate headquarters/warehouse and stores are under operating leases that will expire over the next 1 to 20 years. The Company also leases computer hardware under operating leases that expire over the next few years. In most cases, management expects that in the normal course of business, leases will be renewed or replaced by other leases.

Most of the operating leases for the stores contain a renewal option at predetermined rental payments for periods of 5 to 20 years. This option enables the Company to retain use of facilities in desirable operating areas. The rental payments under certain store leases are based on a minimum rental plus a percentage of the sales in excess of a stipulated amount. These payments are accounted for as contingent rent and expensed when incurred.

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

	<b>Operating leases</b>	<b>Capital leases</b>
Within 1 year	\$ 87,525	\$ 254
2 years	83,717	261
3 years	77,998	165
4 years	63,208	
5 years	55,533	
Thereafter	184,523	
<b>Total minimum lease payments</b>	<b>\$ 552,504</b>	<b>\$ 680</b>
Less amount representing interest		(18)
<b>Present value of minimum lease payments</b>		<b>\$ 662</b>

Rent expense for fiscal years 2017, 2016, 2015, and the five weeks ended April 2, 2016 was \$86,070, \$80,647, \$75,834, and \$6,495, respectively. Included in rent expense is percentage-of-sales rent expense of \$354, \$416, \$450, and \$32 for fiscal years 2017, 2016, 2015, and the five weeks ended April 2, 2016, respectively.

**12. Commitments and contingencies**

In connection with insurance policies and other contracts, the Company has outstanding standby letters of credit totaling \$3,901 as of March 31, 2018.

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





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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

**13. Fair value measurements**

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

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

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

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

As of March 31, 2018 and April 1, 2017, the Company held certain items that are required to be measured at fair value on a recurring basis. These included the nonqualified retirement plan and foreign currency forward contracts. The nonqualified retirement plan consists of investments purchased by employee contributions to retirement savings accounts. The Company's international operations and purchases of its significant product lines from foreign suppliers are subject to certain opportunities and risks, including foreign currency fluctuations. The Company utilizes foreign currency forward exchange contracts to stabilize its retail gross margins and to protect its operations from downward currency exposure. Foreign currency hedge instruments are related to the Company's attempts to hedge foreign currency fluctuation on purchases of inventory in Swedish krona. The Company's foreign currency hedge instruments consist of over-the-counter (OTC) contracts, which are not traded on a public exchange. See Note 10 for further information on the Company's hedging activities.

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

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****13. Fair value measurements (Continued)**

The following items are measured at fair value on a recurring basis, subject to the disclosure requirements of ASC 820, *Fair Value Measurements*, at March 31, 2018 and April 1, 2017:

Description		Balance Sheet Location	March 31, 2018	April 1, 2017
Assets				
Nonqualified retirement plan(1)	N/A	Other current assets	\$ 5,848	\$ 5,092
Foreign currency forward contracts	Level 2	Other current assets		841
Total assets			\$ 5,848	\$ 5,933

(1) The fair value amount of the nonqualified retirement plan is measured at fair value using the net asset value per share practical expedient, and therefore, is not classified in the fair value hierarchy.

The fair value of long-term debt was estimated using quoted prices as well as recent transactions for similar types of borrowing arrangements (level 2 valuations). As of March 31, 2018 and April 1, 2017, the estimated fair value of the Company's long-term debt, including current maturities, was \$295,605 and \$295,005, respectively.

**14. Segment reporting**

The Company's reportable segments were determined on the same basis as how management evaluates performance internally by the Chief Operating Decision Maker ("CODM"). The Company has determined that the Chief Executive Officer is the CODM and the Company's two reportable segments consist of TCS and Elfa. The TCS segment includes the Company's retail stores, website and call center, as well as the installation and organization services business.

The Elfa segment includes the manufacturing business that produces the elfa® brand products that are sold domestically exclusively through the TCS segment, as well as on a wholesale basis in approximately 30 countries around the world with a concentration in the Nordic region of Europe. The intersegment sales in the Elfa column represent elfa® product sales to the TCS segment. These sales and the related gross margin on merchandise recorded in TCS inventory balances at the end of the period are eliminated for consolidation purposes in the Eliminations column. The net sales to third parties in the Elfa column represent sales to customers outside of the United States.

The Company has determined that adjusted earnings before interest, tax, depreciation, and amortization ("Adjusted EBITDA") is the profit or loss measure that the CODM uses to make resource allocation decisions and evaluate segment performance. Adjusted EBITDA assists management in comparing our performance on a consistent basis for purposes of business decision-making by removing the impact of certain items that management believes do not directly reflect our core operations and, therefore, are not included in measuring segment performance. Adjusted EBITDA is calculated in accordance with the Senior Secured Term Loan Facility and the Revolving Credit Facility and we define Adjusted EBITDA as net income before interest, taxes, depreciation and amortization, certain non-cash



Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****14. Segment reporting (Continued)**

items, and other adjustments that we do not consider in our evaluation of ongoing operating performance from period to period.

<b>Fiscal year ended March 31, 2018</b>	<b>TCS</b>	<b>Elfa</b>	<b>Eliminations</b>	<b>Total</b>
Net sales to third parties	\$ 787,375	\$ 69,853	\$	\$ 857,228
Intersegment sales		54,939	(54,939)	
Adjusted EBITDA	77,274	13,233	(904)	89,603
Depreciation and amortization	32,504	5,418		37,922
Interest expense, net	24,740	273		25,013
Capital expenditures(1)	25,678	1,968		27,646
Goodwill	202,815			202,815
Trade names(1)	187,048	42,353		229,401
Assets(1)	635,529	117,592	(3,752)	749,369

<b>Fiscal year ended April 1, 2017</b>	<b>TCS</b>	<b>Elfa</b>	<b>Eliminations</b>	<b>Total</b>
Net sales to third parties	\$ 752,675	\$ 67,255	\$	\$ 819,930
Intersegment sales		47,898	(47,898)	
Adjusted EBITDA(2)	75,268	11,186	105	86,559
Depreciation and amortization	31,572	5,552		37,124
Interest expense, net	16,403	284		16,687
Capital expenditures(1)	25,901	2,614		28,515
Goodwill	202,815			202,815
Trade names(1)	187,048	39,637		226,685
Assets(1)	656,884	107,998	(3,048)	761,834

<b>Fiscal year ended February 27, 2016</b>	<b>TCS</b>	<b>Elfa</b>	<b>Eliminations</b>	<b>Total</b>
Net sales to third parties	\$ 724,079	\$ 70,551	\$	\$ 794,630
Intersegment sales		47,010	(47,010)	
Adjusted EBITDA	58,827	9,157	175	68,159
Depreciation and amortization	28,767	5,463		34,230
Interest expense, net	16,484	326		16,810
Capital expenditures(1)	42,412	4,019		46,431
Goodwill	202,815			202,815
Trade names(1)	187,048	41,320		228,368
Assets(1)	654,611	107,136	(3,628)	758,119

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****14. Segment reporting (Continued)**

<b>Five weeks ended April 2, 2016</b>	<b>TCS</b>	<b>Elfa</b>	<b>Eliminations</b>	<b>Total</b>
Net sales to third parties	\$ 64,331	\$ 4,887	\$	\$ 69,218
Intersegment sales		1,990	(1,990)	
Adjusted EBITDA	5,271	(471)	639	5,439
Depreciation and amortization	2,543	466		3,009
Interest expense, net	1,532	18		1,550
Capital expenditures(1)	1,640	795		2,435

(1) Tangible assets and trade names in the Elfa column are located outside of the United States.

(2) The TCS segment includes a net benefit of \$3.9 million related to amended and restated employment agreements entered into with key executives during the first quarter, leading to a reversal of accrued deferred compensation associated with the original employment agreements.

A reconciliation of Adjusted EBITDA by segment to income before taxes is set forth below:

	<b>Fiscal Year Ended</b>			<b>Five Weeks Ended</b>
	<b>March 31, 2018</b>	<b>April 1, 2017</b>	<b>February 27, 2016</b>	<b>April 2, 2016</b>
Income before taxes	\$ 6,705	\$ 24,355	\$ 8,051	\$ 692
Add:				
Depreciation and amortization	37,922	37,124	34,230	3,009
Interest expense, net	25,013	16,687	16,810	1,550
Pre-opening costs(a)	5,293	6,852	9,033	191
Non-cash rent(b)	(1,915)	(1,365)	(1,844)	(200)
Stock-based compensation(c)	2,026	1,989	1,556	147
Loss on extinguishment of debt(d)	2,369			
Foreign exchange (gains) losses(e)	(596)	(342)	241	60
Optimization Plan implementation charges(f)	11,479			
Elfa manufacturing facility closure(g)	803			
Other adjustments(h)	504	1,259	82	(10)
<b>Total Adjusted EBITDA</b>	<b>89,603</b>	<b>86,559</b>	<b>68,159</b>	<b>5,439</b>

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- (a) 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.
- (b) Reflects the extent to which our annual GAAP rent expense has been above or below our cash rent payment due to lease accounting adjustments. The adjustment varies depending on the average age of our lease portfolio (weighted for size), as our GAAP rent expense on younger leases typically exceeds our cash cost, while our GAAP rent expense on older leases is typically less than our cash cost.

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**The Container Store Group, Inc.**

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

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

**March 31, 2018**

**14. Segment reporting (Continued)**

- (c) Non-cash charges related to stock-based compensation programs, which vary from period to period depending on volume and vesting timing of awards. We adjust for these charges to facilitate comparisons from period to period.
- (d) Loss recorded as a result of the amendments made to the Senior Secured Term Loan Facility and the Revolving Credit Facility in August 2017, which we do not consider in our evaluation of our ongoing operations.
- (e) Realized foreign exchange transactional gains/losses our management does not consider in our evaluation of our ongoing operations.
- (f) Charges incurred to implement our Optimization Plan, which include certain consulting costs recorded in selling, general and administrative expenses, cash severance payments associated with the elimination of certain full-time positions at the TCS segment recorded in other expenses, and cash severance payments associated with organizational realignment at the Elfa segment recorded in other expenses, which we do not consider in our evaluation of ongoing performance.
- (g) Charges related to the closure of an Elfa manufacturing facility in Lahti, Finland in December 2017, recorded in other expenses, which we do not consider in our evaluation of our ongoing performance.
- (h) Other adjustments include amounts our management does not consider in our evaluation of our ongoing operations, including certain severance and other charges.

The following table shows sales by merchandise category as a percentage of total net sales for fiscal years 2017, 2016, and 2015:

	Fiscal year ended		
	March 31, 2018	April 1, 2017	February 27, 2016
Custom Closets(1)	48%	48%	46%
Storage, Long-Term Storage, Shelving	14%	14%	14%
Kitchen and Trash	13%	13%	13%
Office, Collections, Hooks	8%	8%	9%
Bath, Travel, Laundry	8%	8%	9%
Gift Packaging, Seasonal, Impulse	7%	8%	8%
Other	2%	1%	1%
Total	100%	100%	100%

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(1)



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Includes elfa® and TCS Closets® products and installation services as well as closet completion products sold by the TCS segment and Elfa segment sales to third parties.

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

The following is a reconciliation of net income and the number of shares used in the basic and diluted net income per share calculations:

	<b>Fiscal Year Ended</b>			<b>Five Weeks Ended</b>
	<b>March 31, 2018</b>	<b>April 1, 2017</b>	<b>February 27, 2016</b>	<b>April 2, 2016</b>
<b>Numerator:</b>				
Net income	\$ 19,428	\$ 14,953	\$ 5,142	\$ 354
<b>Denominator:</b>				
Weighted-average common shares basic	48,061,527	47,996,746	47,985,717	47,986,975
Options and other dilutive securities	86,198	19,264		
Weighted-average common shares diluted	48,147,725	48,016,010	47,985,717	47,986,975
Net income per common share basic and diluted	\$ 0.40	\$ 0.31	\$ 0.11	\$ 0.01
<b>Antidilutive securities not included:</b>				
Stock options outstanding	3,006,604	2,954,114	2,875,900	2,886,138
Nonvested restricted stock awards	41,907	131,957		

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****16. Quarterly results of operations (unaudited)**

Due to the seasonal nature of our business, fourth quarter operating results historically represent a larger share of annual net sales and operating income primarily due to Our Annual elfa® Sale. We follow the same accounting policies for preparing quarterly and annual financial data. The table below summarizes quarterly results for fiscal 2017 and 2016:

	<b>Fiscal Year Ended March 31, 2018</b>			
	<b>Fourth Quarter Ended March 31, 2018</b>	<b>Third Quarter Ended December 30, 2017</b>	<b>Second Quarter Ended September 30, 2017</b>	<b>First Quarter Ended July 1, 2017</b>
Net sales	\$ 232,764	\$ 222,986	\$ 218,410	\$ 183,068
Gross profit	136,516	130,561	126,374	103,610
Income (loss) from operations	20,341	13,899	7,884	(8,037)
Net (loss) income	(399)	28,379	(875)	(7,677)
Weighted-average shares used in computing basic net (loss) income per share	48,072,187	48,067,754	48,058,231	48,047,937
Weighted-average shares used in computing diluted net (loss) income per share	48,072,187	48,167,882	48,058,231	48,047,937
Basic and diluted net (loss) income per common share	\$ (0.01)	\$ 0.59	\$ (0.02)	\$ (0.16)

	<b>Fiscal Year Ended April 1, 2017</b>			
	<b>Fourth Quarter Ended April 1, 2017</b>	<b>Third Quarter Ended December 31, 2016</b>	<b>Second Quarter Ended October 1, 2016</b>	<b>First Quarter Ended July 2, 2016</b>
Net sales	\$ 221,042	\$ 216,380	\$ 205,060	\$ 177,448
Gross profit	127,318	125,702	118,355	104,695
Income (loss) from operations	17,181	12,561	10,272	1,028
Net income (loss)	8,377	5,092	3,541	(2,057)
Weighted-average shares used in computing basic net income (loss) per share	48,009,029	47,999,535	47,991,445	47,986,975
Weighted-average shares used in computing diluted net income (loss) per share	48,073,420	48,022,499	48,001,112	47,986,975
Basic and diluted net income (loss) per common share	\$ 0.17	\$ 0.11	\$ 0.07	\$ (0.04)

**17. Transition Period Financial Information**

On March 30, 2016, the Board of Directors approved a change in the Company's fiscal year end from the Saturday closest to February 28 to the Saturday closest to March 31 of each year. Accordingly, the Company is presenting audited financial statements for the five-week transition period from February 28, 2016 to April 2, 2016. The following table provides certain unaudited comparative

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****17. Transition Period Financial Information (Continued)**

financial information of the same period of the prior year. The periods below both represent 35 day periods.

(In thousands, except share and per share amounts)	Five Weeks Ended	
	April 2, 2016	April 4, 2015 (unaudited)
<b>Consolidated statement of operations data:</b>		
Net sales	\$ 69,218	\$ 66,761
Gross profit	40,195	39,254
Selling, general, and administrative expenses	34,504	33,728
Income from operations	2,242	2,565
Income before taxes	692	978
Provision for income taxes	338	340
Net income	354	638
<b>Net income per common share:</b>		
Basic and diluted	\$ 0.01	\$ 0.01
Weighted-average common shares basic and diluted	47,986,975	47,983,681

**18. Optimization Plan**

On May 23, 2017, the Company announced a four-part plan designed to optimize its consolidated business and drive improved sales and profitability (the "Optimization Plan"), which included sales initiatives, certain full-time position eliminations at TCS, organizational realignment at Elfa and ongoing savings and efficiency efforts.

In fiscal 2017, the Company incurred the following charges related to the implementation of the Optimization Plan:

	Income Statement Location	Fifty-Two Weeks Ended March 31, 2018
Consulting fees and other costs	Selling, general & administrative	\$ 6,916
Severance full-time position eliminations at TCS	Other expenses	1,836
Severance organizational realignment at Elfa	Other expenses	2,727
<b>Total Optimization Plan charges</b>		<b>\$ 11,479</b>

Table of Contents**The Container Store Group, Inc.****Notes to consolidated financial statements (Continued)****(In thousands, except share amounts and unless otherwise stated)****March 31, 2018****18. Optimization Plan (Continued)**

Certain aspects of the Optimization Plan meet the definition of exit or disposal costs as defined in the Accounting Standards Codification ("ASC") Topic 420, *Exit or Disposal Cost Obligations*. The following table summarizes the exit or disposal activities during fiscal 2017:

	<b>TCS Position Eliminations Severance</b>	
<b>Liability Balance as of April 1, 2017</b>	<b>\$</b>	
Costs Incurred		1,836
Payments		(1,788)
<b>Liability Balance as of March 31, 2018</b>	<b>\$</b>	<b>48</b>
<b>As of</b>		
Total costs incurred to date	\$	1,836
Total costs expected to be incurred	\$	1,836

The balance of \$48 as of March 31, 2018 is recorded in the Accrued liabilities line item in the Consolidated Balance Sheets. The Company does not expect future severance costs to be incurred related to full-time position eliminations at TCS as the actions were completed during the first quarter of fiscal 2017.

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

(in thousands)	March 31, 2018	April 1, 2017
<b>Assets</b>		
Current assets:		
Accounts receivable from subsidiaries	\$ 1,120	\$ 985
Total current assets	1,120	985
Noncurrent assets:		
Investment in subsidiaries	247,587	220,805
Total noncurrent assets	247,587	220,805
Total assets	\$ 248,707	\$ 221,790
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Accounts payable to subsidiaries	\$	\$
Total current liabilities		
Noncurrent liabilities		
Total liabilities		
Shareholders' equity:		
Common stock	481	480
Additional paid-in capital	861,263	859,102
Retained deficit	(613,037)	(637,792)
Total shareholders' equity	248,707	221,790
Total liabilities and shareholders' equity	\$ 248,707	\$ 221,790

See accompanying notes.

Table of Contents**Schedule I The Container Store Group, Inc.****(parent company only)****Condensed statements of operations**

(in thousands)	Fiscal Year Ended			Five Weeks Ended April 2, 2016
	March 31, 2018	April 1, 2017	February 27, 2016	
Net sales				
Cost of sales (excluding depreciation and amortization)				
Gross profit				
Selling, general, and administrative expenses (excluding depreciation and amortization)				
Stock-based compensation				
Pre-opening costs				
Depreciation and amortization				
Restructuring charges				
Other expenses				
Loss (gain) on disposal of assets				
Income from operations				
Interest expense				
Income before taxes and equity in net income of subsidiaries				
Provision for income taxes				
Income before equity in net income of subsidiaries				
Net income of subsidiaries	19,428	14,953	5,142	354
Net income	\$ 19,428	\$ 14,953	\$ 5,142	\$ 354

See accompanying notes.

Table of Contents**Schedule I The Container Store Group, Inc.****(parent company only)****Condensed statements of comprehensive income**

<b>(In thousands)</b>	<b>Fiscal year ended</b>			<b>Five Weeks</b>
	<b>March 31, 2018</b>	<b>April 1, 2017</b>	<b>February 27, 2016</b>	<b>Ended April 2, 2016</b>
Net income	\$ 19,428	\$ 14,953	\$ 5,142	\$ 354
Unrealized gain (loss) on financial instruments, net of tax provision (benefit) of \$30, \$(85), \$606, and \$7	53	(138)	853	12
Pension liability adjustment, net of tax provision of \$98, \$142, \$39, and \$0	(349)	(386)	175	(66)
Foreign currency translation adjustment	5,623	(6,283)	(2,521)	4,053
<b>Comprehensive income</b>	<b>\$ 24,755</b>	<b>\$ 8,146</b>	<b>\$ 3,649</b>	<b>\$ 4,353</b>

See accompanying notes.



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**Schedule I The Container Store Group, Inc.**

**(parent company only)**

**Notes to Condensed Financial Statements**

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

**March 31, 2018**

**Note 1: Basis of presentation**

In the parent-company-only financial statements, The Container Store Group, Inc.'s investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. The parent-company-only financial statements should be read in conjunction with the Company's consolidated financial statements. A condensed statement of cash flows was not presented because The Container Store Group, Inc. had no cash flow activities during fiscal 2017, fiscal 2016, fiscal 2015, or the five-weeks ended April 2, 2016.

**Note 2: Guarantees and restrictions**

The Container Store, Inc., a subsidiary of the Company, has \$294,375 of long-term debt outstanding under the Senior Secured Term Loan Facility, as of March 31, 2018. Under the terms of the Senior Secured Term Loan Facility, The Container Store Group, Inc. and the domestic subsidiaries of The Container Store, Inc. have guaranteed the payment of all principal and interest. In the event of a default under the Senior Secured Term Loan Facility, The Container Store Group, Inc. and the domestic subsidiaries of The Container Store, Inc. will be directly liable to the debt holders.

On August 18, 2017, The Container Store, Inc. entered into a fourth amendment (the "Term Loan Amendment") to the Senior Secured Term Loan Facility dated as of April 6, 2012. The fourth amendment amended the Senior Secured Term Loan Facility to, among other things, (i) extend the maturity date of the loans under the Senior Secured Term Loan Facility to August 18, 2021, (ii) add a maximum leverage covenant of 5.0:1.0 which steps down by 0.25x on June 30 of each year commencing on June 30, 2018, (iii) increase the applicable interest rate margin to 7.00% for LIBOR loans and 6.00% for base rate loans, (iv) reduce the aggregate principal amount of the Senior Secured Term Loan Facility to \$300,000, (v) increase principal amortization to 2.5% per annum, (vi) require a 3.0% upfront fee on the aggregate principal amount of the Senior Secured Term Loan Facility, and (vii) impose a 1% premium if a voluntary prepayment is made from the proceeds of a repricing transaction within 12 months after August 18, 2017.

The Senior Secured Term Loan Facility also includes restrictions on the ability of The Container Store Group, Inc. and its subsidiaries to incur additional liens and indebtedness, make investments and dispositions, pay dividends or make other distributions, make loans, prepay certain indebtedness and enter into sale and lease back transactions, among other restrictions. Under the Senior Secured Term Loan Facility, provided no event of default has occurred and is continuing, The Container Store, Inc. is permitted to pay dividends to The Container Store Group, Inc. in an amount not to exceed the sum of \$10,000 plus if after giving effect to such dividend on a pro forma basis, the Consolidated Leverage Ratio (as defined in the Senior Secured Term Loan Facility) does not exceed 2.0 to 1.0, the Available Amount (as defined in the Senior Secured Term Loan Facility) during the term of the Senior Secured Term Loan Facility, and pursuant to certain other limited exceptions. The restricted net assets of the Company's consolidated subsidiaries was \$236,207 as of March 31, 2018.

As of March 31, 2018, The Container Store, Inc. also has \$65,625 of available credit on the Revolving Credit Facility that provides commitments of up to \$100,000 for revolving loans and letters of credit. The Container Store Group, Inc. and the domestic subsidiaries of The Container Store, Inc.

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**Schedule I The Container Store Group, Inc.**

**(parent company only)**

**Notes to Condensed Financial Statements (Continued)**

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

**March 31, 2018**

**Note 2: Guarantees and restrictions (Continued)**

have guaranteed all obligations under the Revolving Credit Facility. In the event of default under the Revolving Credit Facility, The Container Store Group, Inc. and the domestic subsidiaries of The Container Store, Inc. will be directly liable to the debt holders. The Revolving Credit Facility includes restrictions on the ability of The Container Store Group, Inc. and its subsidiaries to incur additional liens and indebtedness, make investments and dispositions, pay dividends or make other transactions, among other restrictions.

On October 8, 2015, The Container Store, Inc. executed an amendment to the Revolving Credit Facility ("Amendment No. 2"). Under the terms of Amendment No. 2, among other items, the maturity date of the loan was extended from April 6, 2017 to the earlier of (x) October 8, 2020 and (y) January 6, 2019, if any of The Container Store, Inc.'s obligations under its term loan credit facility remain outstanding on such date and have not been refinanced with debt that has a final maturity date that is no earlier than April 6, 2019 or subordinated debt. Under the Revolving Credit Facility, provided no event of default has occurred and is continuing, The Container Store, Inc. is permitted to pay dividends to The Container Store Group, Inc., in an amount not to exceed the sum of \$10,000 plus if after giving effect to such dividend on a pro forma basis, the Consolidated Fixed Charge Coverage Ratio (as defined in the Revolving Credit Facility) is not less than 1.25 to 1.0, the Available Amount (as defined in the Revolving Credit Facility) during the term of the Revolving Credit Facility, and pursuant to certain other limited exceptions.

On August 18, 2017, The Container Store, Inc. also entered into a fourth amendment (the "Revolving Amendment") to the Revolving Credit Facility dated as of April 6, 2012, which, among other things, extended the maturity date of the loans under the Revolving Credit Facility to the earlier of (i) August 18, 2022 and (ii) May 18, 2021 if any portion of the Senior Secured Term Loan Facility remains outstanding on such date and the maturity date of the Senior Secured Term Loan Facility is not extended.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Limitations on Effectiveness of Controls and Procedures*

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

*Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Annual Report on Form 10-K, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2018.

*Changes in Internal Control*

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2018 identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

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

Our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in "Internal Control Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of March 31, 2018, our internal control over financial reporting was effective.

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

**ITEM 9B. OTHER INFORMATION**

None.

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**PART III**

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

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

The information regarding the Company's executive officers is located at the end of Part I of this Annual Report on Form 10-K. All other information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders under the headings "Proposal 1 Election of Directors," "Section 16(a) Beneficial Ownership Reporting Compliance," and "Committees of the Board".

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders under the headings "Executive and Director Compensation" and "Compensation Committee Interlocks and Insider Participation".

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

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders under the headings "Security Ownership of Beneficial Owners and Management" and "Executive and Director Compensation Equity Compensation Plan Information".

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

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders under the headings "Corporate Governance," "Committees of the Board" and "Certain Relationships and Related Person Transactions".

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

The information required by this Item is incorporated herein by reference from our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders under the heading "Independent Registered Public Accounting Firm Fees and Other Matters".

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

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

<u>Reports of Independent Registered Public Accounting Firm</u>	<u>67</u>
<u>Consolidated Balance Sheets as of March 31, 2018 and April 1, 2017</u>	<u>68</u>
<u>Consolidated Statements of Operations for the Fiscal Years Ended March 31, 2018, April 1, 2017, February 27, 2016, and the Five Weeks Ended April 2, 2016</u>	<u>70</u>
<u>Consolidated Statements of Comprehensive Income for the Fiscal Years Ended March 31, 2018, April 1, 2017, February 27, 2016, and the Five Weeks Ended April 2, 2016</u>	<u>71</u>
<u>Consolidated Statements of Shareholders' Equity for the Fiscal Years Ended March 31, 2018, April 1, 2017, February 27, 2016, and the Five Weeks Ended April 2, 2016</u>	<u>72</u>
<u>Consolidated Statements of Cash Flows for the Fiscal Years Ended March 31, 2018, April 1, 2017, February 27, 2016, and the Five Weeks Ended April 2, 2016</u>	<u>73</u>
<u>Notes to Consolidated Financial Statements</u>	<u>74</u>

**2. Financial Statements Schedules**

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

## Schedule I Condensed Financial Statement Information of Registrant

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

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

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed/ Furnished Herewith
<u>3.1</u>	<u>Amended and Restated Certificate of Incorporation of The Container Store Group, Inc.</u>	<u>10-Q</u>	<u>001-36161</u>	<u>3.1</u>	<u>1/10/2014</u>	
<u>3.2</u>	<u>Amended and Restated By-laws of The Container Store Group, Inc.</u>	<u>10-Q</u>	<u>001-36161</u>	<u>3.2</u>	<u>1/10/2014</u>	
<u>4.1</u>	<u>Specimen Stock Certificate evidencing the shares of common stock</u>	<u>S-1/A</u>	<u>333-191465</u>	<u>4.1</u>	<u>10/21/2013</u>	
<u>4.2</u>	<u>Amended and Restated Stockholders Agreement, dated as of November 6, 2013</u>	<u>10-Q</u>	<u>001-36161</u>	<u>4.1</u>	<u>1/10/2014</u>	

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#### Incorporated by Reference

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed/ Furnished Herewith
<u>10.1</u>	<u>Third Amended and Restated Employment Agreement dated May 6, 2016 between Kip Tindell and The Container Store Group, Inc.</u>	<u>8-K</u>	<u>001-36161</u>	<u>10.1</u>	<u>5/9/2016</u>	
<u>10.2</u>	<u>Third Amended and Restated Employment Agreement dated May 6, 2016 between Sharon Tindell and The Container Store Group, Inc.</u>	<u>8-K</u>	<u>001-36161</u>	<u>10.3</u>	<u>5/9/2016</u>	
<u>10.3</u>	<u>Third Amended and Restated Employment Agreement dated May 6, 2016 between Melissa Reiff and The Container Store Group, Inc.</u>	<u>8-K</u>	<u>001-36161</u>	<u>10.2</u>	<u>5/9/2016</u>	
<u>10.4</u>	<u>Employment Agreement, dated May 6, 2016, between Jodi Taylor and The Container Store Group, Inc.</u>	<u>8-K</u>	<u>001-36161</u>	<u>10.4</u>	<u>5/9/2016</u>	
<u>10.5</u>	<u>The Container Store Group, Inc. 2012 Stock Option Plan</u>	<u>S-8</u>	<u>333-193255</u>	<u>4.3</u>	<u>1/10/2014</u>	
<u>10.6</u>	<u>Form of Non-Qualified Stock Option Agreement under 2012 Stock Option Plan</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.2</u>	<u>9/30/2013</u>	
<u>10.7</u>	<u>The Container Store Group, Inc. 2013 Incentive Award Plan</u>	<u>10-Q</u>	<u>001-36161</u>	<u>10.4</u>	<u>1/10/2014</u>	
<u>10.8</u>	<u>The Container Store Group, Inc. Amended and Restated 2013 Incentive Award Plan</u>	<u>8-K</u>	<u>001-36161</u>	<u>10.1</u>	<u>9/18/2017</u>	
<u>10.9</u>	<u>Form of Stock Option Agreement under 2013 Incentive Award Plan</u>	<u>S-1/A</u>	<u>333-191465</u>	<u>10.21</u>	<u>10/21/2013</u>	
<u>10.10</u>	<u>The Container Store Group, Inc. Senior Executive Bonus Plan</u>	<u>10-Q</u>	<u>001-36161</u>	<u>10.6</u>	<u>1/10/2014</u>	
<u>10.11</u>	<u>The Container Store Group, Inc. Non-Qualified Retirement Plan, dated as of March 28, 2011</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.3</u>	<u>9/30/2013</u>	
<u>10.12</u>	<u>Intercreditor Agreement, dated as of April 6, 2012, by and between JPMorgan Chase Bank, N.A. as ABL Agent, and JPMorgan Chase Bank, N.A. as Term Agent</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.11</u>	<u>9/30/2013</u>	

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Incorporated by Reference

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed/ Furnished Herewith
<u>10.13</u>	<u>Amendment No. 1 to Intercreditor Agreement, dated as of April 8, 2013, by and between JPMorgan Chase Bank, N.A., as ABL Agent and JPMorgan Chase Bank, N.A., as Term Agent</u>	<u>10-K</u>	<u>001-36161</u>	<u>10.13</u>	<u>5/28/2014</u>	
<u>10.14</u>	<u>Credit Agreement, dated as of April 6, 2012, among The Container Store, Inc., as Borrower, the Guarantors party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent and Wells Fargo Bank, N.A. as Syndication Agent ("ABL Credit Agreement")</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.12</u>	<u>9/30/2013</u>	
<u>10.15</u>	<u>Amendment No. 1 to ABL Credit Agreement, dated as of April 8, 2013</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.13</u>	<u>9/30/2013</u>	
<u>10.16</u>	<u>Amendment No. 2 to ABL Credit Agreement, dated as of October 8, 2015</u>	<u>8-K</u>	<u>001-36161</u>	<u>10.1</u>	<u>10/09/2015</u>	
<u>10.17</u>	<u>Amendment No. 3 to ABL Credit Agreement, dated as of May 20, 2016</u>	<u>10-Q</u>	<u>001-36161</u>	<u>10.6</u>	<u>8/10/2016</u>	
<u>10.18</u>	<u>Amendment No. 4 to ABL Credit Agreement, dated as of August 18, 2017 among The Container Store, Inc., the guarantors party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent and the lenders from time to time party thereto</u>	<u>8-K</u>	<u>001-36161</u>	<u>10.2</u>	<u>8/21/2017</u>	
<u>10.19</u>	<u>ABL Facility Pledge Agreement, dated as of April 6, 2012, by and between The Container Store, Inc., the Pledgors party thereto and JPMorgan Chase Bank, N.A., as Collateral Agent</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.14</u>	<u>9/30/2013</u>	
<u>10.20</u>	<u>ABL Facility Security Agreement, dated as of April 6, 2012, by and among The Container Store, Inc., the Guarantors party thereto, the Grantors party thereto and JPMorgan Chase Bank, N.A., as Collateral Agent</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.15</u>	<u>9/30/2013</u>	

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Incorporated by Reference

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed/ Furnished Herewith
<u>10.21</u>	<u>Credit Agreement, dated as of April 6, 2012 (as amended through November 27, 2013), among The Container Store, Inc., as Borrower, the Guarantors party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent and Collateral Agent and Wells Fargo Bank, N.A. as Syndication Agent, attached as Exhibit A to Amendment No. 2 to Credit Agreement ("Term Facility Credit Agreement")</u>	<u>8-K</u>	<u>001-36161</u>	<u>10.1</u>	<u>11/27/2013</u>	
<u>10.22</u>	<u>Amendment No. 3 to Term Facility Credit Agreement, dated as of May 20, 2016</u>	<u>10-Q</u>	<u>001-36161</u>	<u>10.5</u>	<u>8/10/2016</u>	
<u>10.23</u>	<u>Amendment No. 4 to Term Facility Credit Agreement, dated as of August 18, 2017 among The Container Store, Inc., the guarantors party thereto, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent and the lenders from time to time party thereto</u>	<u>8-K</u>	<u>001-36161</u>	<u>10.1</u>	<u>8/21/2017</u>	
<u>10.24</u>	<u>Term Facility Pledge Agreement, dated as of April 6, 2012, by and between The Container Store, Inc. as Borrower, the Pledgors party thereto, and JPMorgan Chase Bank, N.A., as Collateral Agent</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.9</u>	<u>9/30/2013</u>	
<u>10.25</u>	<u>Term Facility Security Agreement, dated as of April 6, 2012, by and among The Container Store, Inc., the Guarantors party thereto, the Grantors party thereto, and JPMorgan Chase Bank, N.A., as Collateral Agent</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.10</u>	<u>9/30/2013</u>	
<u>10.26</u>	<u>Credit Agreement, dated April 27, 2009, among Elfa International AB, as Borrower, and Tjustbygdens Sparbank AB, as Bank, as transferred to Swedbank AB on January 27, 2012</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.16</u>	<u>9/30/2013</u>	



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#### Incorporated by Reference

Exhibit Number	Exhibit Description	Form	File No.	Exhibit	Filing Date	Filed/ Furnished Herewith
<u>10.27</u>	<u>Form of Indemnification Agreement by and between The Container Store Group, Inc. and certain directors and officers</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.17</u>	<u>9/30/2013</u>	
<u>10.28</u>	<u>Office, Warehouse and Distribution Center Lease Agreement, as of October 8, 2002, by and between Texas Dugan Limited Partnership, as landlord, and The Container Store, Inc., as tenant, as amended through August 24, 2011</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.18</u>	<u>9/30/2013</u>	
<u>10.29</u>	<u>Indemnification and Hold Harmless Agreement, dated as of June 13, 2012, by and between The Container Store Group, Inc. (formerly known as TCS Holdings, Inc.) and William A. Tindell, III</u>	<u>S-1</u>	<u>333-191465</u>	<u>10.20</u>	<u>9/30/2013</u>	
<u>10.30</u>	<u>Assumption Agreement, dated as of April 2, 2014, by and between The Container Store Group, Inc. and William A. Tindell, III and Rufus Tindell LLC</u>	<u>10-K</u>	<u>001-36161</u>	<u>10.23</u>	<u>5/28/2014</u>	
<u>10.31</u>	<u>Master Credit Agreement, dated April 1, 2014, between Elfa International AB, as Borrower, and Nordea Bank AB (publ), as Bank</u>	<u>10-Q</u>	<u>001-36161</u>	<u>10.1</u>	<u>7/11/2014</u>	
<u>10.32</u>	<u>Non-Employee Director Compensation Policy of The Container Store Group, Inc., amended and restated as of March 28, 2018</u>					*
<u>10.33</u>	<u>Form of Restricted Stock Award Agreement and Grant Notice (time-vesting)</u>	<u>10-Q</u>	<u>001-36161</u>	<u>10.7</u>	<u>8/10/2016</u>	
<u>10.34</u>	<u>Form of Restricted Stock Award Agreement and Grant Notice (performance-vesting)</u>	<u>10-Q</u>	<u>001-36161</u>	<u>10.8</u>	<u>8/10/2016</u>	
<u>21.1</u>	<u>Subsidiary List</u>					*
<u>23.1</u>	<u>Consent of Ernst &amp; Young LLP</u>					*
<u>31.1</u>	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)</u>					*

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

\*  
Filed herewith.

\*\*  
Furnished herewith.

Management contract or compensatory plan or arrangement.

### **ITEM 16. FORM 10-K SUMMARY.**

None.

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### SIGNATURES

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

The Container Store Group, Inc.  
(Registrant)

/s/ JODI L. TAYLOR

Date: May 31, 2018

\_\_\_\_\_  
Jodi L. Taylor  
*Chief Financial Officer, Chief Administrative Officer and Secretary  
(duly authorized officer and Principal Financial Officer)*

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

Signature	Title	Date
/s/ MELISSA REIFF	Chief Executive Officer and Director (principal executive officer)	May 31, 2018
Melissa Reiff		
/s/ JODI L. TAYLOR	Chief Financial Officer, Chief Administrative Officer and Secretary (principal financial officer)	May 31, 2018
Jodi L. Taylor		
/s/ JEFFREY A. MILLER	Vice President and Chief Accounting Officer (principal accounting officer)	May 31, 2018
Jeffrey A. Miller		
/s/ SHARON TINDELL	President, Chief Merchandising Officer and Director	May 31, 2018
Sharon Tindell		
/s/ WILLIAM A. KIP TINDELL, III	Chairman of the Board of Directors	May 31, 2018
William A. "Kip" Tindell, III		
/s/ JONATHAN SOKOLOFF	Director	May 31, 2018
Jonathan Sokoloff		
/s/ TIMOTHY FLYNN	Director	May 31, 2018
Timothy Flynn		

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<b>Signature</b>	<b>Title</b>	<b>Date</b>
<u>/s/ J. KRISTOFER GALASHAN</u> J. Kristofer Galashan	Director	May 31, 2018
<u>/s/ ROBERT E. JORDAN</u> Robert E. Jordan	Director	May 31, 2018
<u>/s/ WALTER ROBB</u> Walter Robb	Director	May 31, 2018
<u>/s/ RAJENDRA SISODIA</u> Rajendra Sisodia	Director	May 31, 2018
<u>/s/ CARYL STERN</u> Caryl Stern	Director	May 31, 2018