

REFINITIV

DELTA REPORT

10-Q

TCS - CONTAINER STORE GROUP, IN

10-Q - JUNE 29, 2024 COMPARED TO 10-Q - DECEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1573

■ CHANGES	157
■ DELETIONS	969
■ ADDITIONS	447

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended **December 30, 2023**

June 29, 2024

or

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

For the transition period from **to**

to

Commission File Number: 001-36161

THE CONTAINER STORE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware

26-0565401

Delaware

26-

0565401

(State or other jurisdiction of incorporation or organization)

(I.R.S.

Employer

Identification

No.)

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

75019
(Zip Code)

Registrant's telephone number, including area code: (972) 972 538-6000

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	TCS	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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 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 Exchange Act). Yes No

The registrant had 51,611,770 51,580,839 shares of its common stock outstanding as of February 2, 2024 July 31, 2024.

[Table of Contents](#)

TABLE OF CONTENTS

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>
<u>Item 1.</u>	<u>Financial statements</u>
	<u>PART I.</u> <u>FINANCIAL INFORMATION</u>
<u>Item 1.</u> <u>Financial statements</u>	
<u>Unaudited consolidated balance sheets as of December 30, 2023</u> <u>June 29, 2024</u> <u>March 30, 2024</u> <u>April 1, 2023</u> <u>2024</u> , and <u>December 31, 2022</u> <u>July 1, 2023</u>	
	<u>Unaudited consolidated statements of operations for the thirteen weeks ended June 29, 2024 and thirty-nine weeks ended December 30, 2023 and December 31, 2022 July 1, 2023</u>
	<u>Unaudited consolidated statements of comprehensive (loss) income for the thirteen and thirty-nine weeks ended December 30, 2023</u> <u>June 29, 2024</u> and <u>December 31, 2022</u> <u>July 1, 2023</u>
	<u>Unaudited consolidated statements of cash flows for the thirty-nine thirteen weeks ended December 30, 2023</u> <u>June 29, 2024</u> and

	<u>December 31,</u>	8
	<u>2022 July 1,</u>	
	<u>2023</u>	
	<u>Unaudited consolidated statements of shareholders' equity for the thirteen weeks ended June 29, 2024 and thirty-nine weeks ended December 30, 2023 and December 31, 2022 July 1, 2023</u>	
	<u>Notes to the unaudited consolidated financial statements</u>	10
<u>Item 2.</u>	<u>Management's discussion and analysis of financial condition and results of operations</u>	21
		18
<u>Item 3.</u>	<u>Quantitative and qualitative disclosures about market risk</u>	36
		30
<u>Item 4.</u>	<u>Controls and procedures</u>	36
		30
<u>PART II</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal proceedings</u>	31
<u>PART II, Item 1A.</u>	<u>OTHER INFORMATION</u> <u>Risk factors</u>	31
<u>Item 1.</u>	<u>Legal proceedings</u>	37
<u>Item 1A. Risk factors</u>		37
<u>Item 2. Unregistered sales of equity securities and use of proceeds</u>		37

		31
Item 3.	Default upon senior securities	37
		31
Item 4.	Mine safety disclosures	37
Item 5.	Other information	37
Item 6.	Exhibits	38

2

31

PART I.

Item 5.	FINANCIAL INFORMATION	31
	Other information	
Item 1.	Financial statements	32
	Exhibits	
6.		
	Table of Contents	

PART I. FINANCIAL INFORMATION

Item 1. Financial statements

The Container Store Group, Inc.

Consolidated balance sheets

(In thousands)	December 30,	April 1,	December 31,
	2023	2023	2022
Assets			
Current assets:			
Cash	\$ 16,007	\$ 6,958	\$ 5,760
Accounts receivable, net	27,489	25,870	30,790
Inventory	163,090	170,637	190,307
Prepaid expenses	15,515	14,989	15,596
Income taxes receivable	1,235	858	1,357
Other current assets	10,343	10,914	9,941
Total current assets	233,679	230,226	253,751
Noncurrent assets:			

Property and equipment, net	159,879	158,702	152,282
Noncurrent operating lease right-of-use assets	340,883	347,959	357,607
Goodwill	—	23,447	221,159
Trade names	222,285	221,278	221,046
Deferred financing costs, net	110	150	163
Noncurrent deferred tax assets, net	352	568	690
Other assets	3,589	2,844	2,323
Total noncurrent assets	727,098	754,948	955,270
Total assets	\$ 960,777	\$ 985,174	\$ 1,209,021

(In thousands)	June 29, 2024	March 30, 2024	July 1, 2023
	(unaudited)	(unaudited)	(unaudited)
Assets			
Current assets:			
Cash	\$ 44,088	\$ 21,000	\$ 12,155
Accounts receivable, net	22,609	22,010	21,870
Inventory	157,758	158,434	170,512
Prepaid expenses	14,001	12,940	14,624
Income taxes receivable	4,571	5,118	964
Other current assets	8,870	11,046	9,985
Total current assets	251,897	230,548	230,110
Noncurrent assets:			
Property and equipment, net	152,791	155,402	157,747
Noncurrent operating lease right-of-use assets	401,927	400,188	353,402
Goodwill	—	—	23,447
Trade names	146,632	146,449	219,894
Deferred financing costs, net	84	97	137
Noncurrent deferred tax assets, net	485	393	517
Other assets	4,853	3,288	2,702
Total noncurrent assets	706,772	705,817	757,846
Total assets	\$ 958,669	\$ 936,365	\$ 987,956

See accompanying notes.

3

[Table of Contents](#)

The Container Store Group, Inc.
Consolidated balance sheets (continued)

(In thousands, except share and per share amounts)	December 30, 2023	April 1, 2023	December 31, 2022
	(unaudited)	(unaudited)	(unaudited)
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	\$ 49,325	\$ 52,637	\$ 57,704
Accrued liabilities	72,587	74,673	75,338

Current borrowings on revolving lines of credit	3,300	2,423	8,131
Current portion of long-term debt	2,068	2,063	2,061
Current operating lease liabilities	62,525	57,201	58,309
Income taxes payable	2,994	1,318	276
Total current liabilities	192,799	190,315	201,819
Noncurrent liabilities:			
Long-term debt	179,288	163,385	178,416
Noncurrent operating lease liabilities	315,327	314,100	322,243
Noncurrent deferred tax liabilities, net	42,746	49,338	50,050
Other long-term liabilities	5,731	5,851	6,983
Total noncurrent liabilities	543,092	532,674	557,692
Total liabilities	735,891	722,989	759,511
Commitments and contingencies (Note 7)			
Shareholders' equity:			
Common stock, \$0.01 par value, 250,000,000 shares authorized; 49,591,111 shares issued at December 30, 2023; 49,181,562 shares issued at April 1, 2023; 49,164,862 shares issued at December 31, 2022	496	492	492
Additional paid-in capital	873,664	872,204	871,384
Accumulated other comprehensive loss	(29,351)	(32,509)	(33,614)
Retained deficit	(619,923)	(578,002)	(388,752)
Total shareholders' equity	224,886	262,185	449,510
Total liabilities and shareholders' equity	\$ 960,777	\$ 985,174	\$1,209,021

(In thousands, except share and per share amounts)	June 29,	March 30,	July 1,
	2024	2024	2023
Liabilities and shareholders' equity	(unaudited)		(unaudited)
Current liabilities:			
Accounts payable	\$ 60,815	\$ 59,873	\$ 53,305
Accrued liabilities	66,970	70,076	68,218
Current portion of long-term debt	2,181	2,166	2,055
Current operating lease liabilities	62,045	60,692	59,996
Income taxes payable	261	280	670
Total current liabilities	192,272	193,087	184,244
Noncurrent liabilities:			
Long-term debt	214,553	174,611	183,333
Noncurrent operating lease liabilities	379,472	378,524	320,845
Noncurrent deferred tax liabilities, net	20,146	24,185	45,062
Other long-term liabilities	6,585	6,267	5,394
Total noncurrent liabilities	620,756	583,587	554,634
Total liabilities	813,028	776,674	738,878
Commitments and contingencies (Note 6)			
Shareholders' equity:			
Common stock, \$0.01 par value, 250,000,000 shares authorized; 49,788,349 shares issued at June 29, 2024; 49,607,811 shares issued at March 30, 2024; 49,390,882 shares issued at July 1, 2023	498	496	494
Additional paid-in capital	874,203	873,927	872,536
Accumulated other comprehensive loss	(33,039)	(33,443)	(34,113)
Retained deficit	(696,021)	(681,289)	(589,839)
Total shareholders' equity	145,641	159,691	249,078

Total liabilities and shareholders' equity	\$ 958,669	\$ 936,365	\$ 987,956
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See accompanying notes.

4

[Table of Contents](#)

The Container Store Group, Inc.
Consolidated statements of operations

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	December 30,	December 31,	December 30,	December 31,
(In thousands, except share and per share amounts)				
(unaudited)	2023	2022	2023	2022
Net sales	\$ 214,899	\$ 252,236	\$ 641,742	\$ 787,542
Cost of sales (excluding depreciation and amortization)	89,682	108,795	275,308	339,583
Gross profit	125,217	143,441	366,434	447,959
Selling, general, and administrative expenses (excluding depreciation and amortization)	111,820	121,540	332,471	362,104
Impairment charges	—	—	23,447	—
Stock-based compensation	515	825	1,605	2,562
Pre-opening costs	849	430	1,583	1,049
Depreciation and amortization	11,532	9,952	32,427	28,507
Other expenses	130	—	2,589	—
Loss on disposal of assets	—	10	221	91
Income (loss) from operations	371	10,684	(27,909)	53,646
Interest expense, net	5,151	4,389	15,356	11,395
(Loss) income before taxes	(4,780)	6,295	(43,265)	42,251
Provision (benefit) for income taxes	1,651	2,127	(1,344)	11,857
Net (loss) income	\$ (6,431)	\$ 4,168	\$ (41,921)	\$ 30,394
Net (loss) income per common share — basic	\$ (0.13)	\$ 0.08	\$ (0.85)	\$ 0.61
Net (loss) income per common share — diluted	\$ (0.13)	\$ 0.08	\$ (0.85)	\$ 0.61
Weighted-average common shares — basic	49,591,111	49,263,122	49,435,182	49,661,209
Weighted-average common shares — diluted	49,591,111	49,452,980	49,435,182	50,024,589

	Thirteen Weeks Ended		
	June 29,	July 1,	
		2024	2023
(In thousands, except share and per share amounts) (unaudited)			
Net sales	\$ 181,861	\$ 207,112	
Cost of sales (excluding depreciation and amortization)	75,766	92,563	
Gross profit	106,095	114,549	

Selling, general, and administrative expenses (excluding depreciation and amortization)	105,350	111,380
Stock-based compensation	318	474
Pre-opening costs	747	185
Depreciation and amortization	10,873	10,512
Long-lived asset impairment charges	901	—
Other expenses	1,686	2,453
(Gain) loss on disposal of assets	(23)	1
Loss from operations	(13,757)	(10,456)
Interest expense, net	5,468	4,967
Loss before taxes	(19,225)	(15,423)
Benefit for income taxes	(4,493)	(3,586)
Net loss	\$ (14,732)	\$ (11,837)
Net loss per common share — basic and diluted	\$ (0.30)	\$ (0.24)
Weighted-average common shares — basic and diluted	49,665,345	49,252,869

See accompanying notes.

5

[Table of Contents](#)

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

(In thousands)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	December 30,	December 31,	December 30,	December 31,
	2023	2022	2023	2022
Net (loss)				
income	\$ (6,431)	\$ 4,168	\$ (41,921)	\$ 30,394
Unrealized (loss) on financial instruments, net of tax provision (benefit) of \$0, (\$6), \$0 and (\$25)	—	(18)	—	(51)
Pension liability adjustment	(119)	(140)	(45)	252
Foreign currency translation adjustment	6,508	4,995	3,203	(6,371)

Comprehensive				
(loss) income	\$ <u>(42)</u>	\$ <u>9,005</u>	\$ <u>(38,763)</u>	\$ <u>24,224</u>

(In thousands) (unaudited)	Thirteen Weeks Ended	
	June 29, 2024	July 1, 2023
	\$ (14,732)	\$ (11,837)
Net loss	(12)	59
Pension liability adjustment	416	(1,663)
Foreign currency translation adjustment	\$ (14,328)	\$ (13,441)
Comprehensive loss		

See accompanying notes.

6

[Table of Contents](#)

The Container Store Group, Inc.s

Inc.

Consolidated statements of cash flows

(In thousands) (unaudited)	Thirty-Nine Weeks Ended	
	December 30, 2023	December 31, 2022
	\$ (41,921)	\$ 30,394
Operating activities		
Net (loss) income	\$ (41,921)	\$ 30,394
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	32,427	28,507
Stock-based compensation	1,605	2,562
Impairment charges	23,447	—
Loss (gain) on disposal of assets	221	91
Deferred tax (benefit) expense	(6,619)	(1,018)
Non-cash interest	1,413	1,413
Other	5	855
Changes in operating assets and liabilities:		
Accounts receivable	(904)	(2,955)
Inventory	8,585	511
Prepaid expenses and other assets	(1,111)	(3,303)
Accounts payable and accrued liabilities	(4,622)	(33,126)
Net change in lease assets and liabilities	13,641	607
Income taxes	1,329	(5,539)

Other noncurrent liabilities	(823)	(143)
Net cash provided by operating activities	26,673	18,856
Investing activities		
Additions to property and equipment		
Investments in non-qualified plan trust	(33,376)	(46,558)
Proceeds from non-qualified plan trust redemptions	(220)	(1,049)
Proceeds from sale of property and equipment	642	811
Net cash used in investing activities	1	36
Financing activities		
Borrowings on revolving lines of credit	54,492	64,790
Payments on revolving lines of credit	(53,733)	(58,243)
Borrowings on long-term debt	31,000	35,000
Payments on long-term debt	(16,550)	(16,572)
Repurchases of common stock	—	(5,000)
Payment of taxes with shares withheld upon restricted stock vesting	(144)	(712)
Proceeds from the exercise of stock options	—	340
Net cash provided by financing activities	15,065	19,603
Effect of exchange rate changes on cash		
Net increase (decrease) in cash	264	(191)
Cash at beginning of fiscal period		
Cash at end of fiscal period	\$ 16,007	\$ 5,760
Supplemental information:		
Purchases of property and equipment (included in accounts payable)	\$ 2,416	\$ 4,873
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 71,319	\$ 67,625
Additions to right-of-use assets in exchange for operating lease liabilities	\$ 35,501	\$ 49,056

(In thousands) (unaudited)	Thirteen Weeks Ended	
	June 29, 2024	July 1, 2023
Operating activities		
Net loss	\$ (14,732)	\$ (11,837)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	10,873	10,512
Stock-based compensation	318	474
Long-lived asset impairment charges	901	—
(Gain) loss on disposal of assets	(23)	1
Deferred tax benefit	(4,334)	(3,975)
Non-cash interest	471	471
Other	362	193
Changes in operating assets and liabilities:		
Accounts receivable	(830)	5,894
Inventory	771	(234)
Prepaid expenses and other assets	(736)	1,173
Accounts payable and accrued liabilities	(1,620)	(8,707)
Net change in lease assets and liabilities	(99)	4,101
Income taxes	531	(739)
Other noncurrent liabilities	37	(315)
Net cash used in operating activities	(8,110)	(2,988)
Investing activities		
Additions to property and equipment	(8,599)	(8,898)
Investments in non-qualified plan trust	(22)	(128)
Proceeds from non-qualified plan trust redemptions	311	83
Proceeds from sale of property and equipment	52	1
Net cash used in investing activities	(8,258)	(8,942)
Financing activities		
Borrowings on revolving lines of credit	—	12,799
Payments on revolving lines of credit	—	(15,180)
Borrowings on long-term debt	40,000	20,000
Payments on long-term debt	(543)	(518)
Payment of taxes with shares withheld upon restricted stock vesting	(40)	(140)
Net cash provided by financing activities	39,417	16,961
Effect of exchange rate changes on cash	39	166
Net increase in cash	23,088	5,197
Cash at beginning of fiscal period	21,000	6,958
Cash at end of fiscal period	\$ 44,088	\$ 12,155
Supplemental information:		
Purchases of property and equipment (included in accounts payable)	\$ 2,721	\$ 4,678

Cash paid for amounts included in the measurement of operating lease liabilities	\$ 24,740	\$ 23,474
Additions to right-of-use assets in exchange for operating lease liabilities	\$ 17,114	\$ 19,429

See accompanying notes.

7

[Table of Contents](#)

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

(In thousands, except share amounts) (unaudited)	Par value	Accumulated						Total shareholders' equity	
		Common stock		Additional paid-in capital		other			
		Shares	Amount			comprehensive loss	Retained deficit		
Balance at April 1, 2023	\$0.01	49,181,562	\$ 492	\$ 872,204	\$	(32,509)	\$ (578,002)	\$ 262,185	
Net loss		—	—	—		—	(11,837)	(11,837)	
Stock-based compensation		—	—	474		—	—	474	
Vesting of restricted stock awards		209,320	2	(2)		—	—	—	
Taxes related to net share settlement of restricted stock awards		—	—	(140)		—	—	(140)	
Foreign currency translation adjustment		—	—	—		(1,663)	—	(1,663)	
Pension liability adjustment		—	—	—		59	—	59	
Balance at July 1, 2023	\$0.01	49,390,882	\$ 494	\$ 872,536	\$	(34,113)	\$ (589,839)	\$ 249,078	
Net loss		—	—	—		—	(23,653)	(23,653)	
Stock-based compensation		—	—	615		—	—	615	
Vesting of restricted stock awards		200,229	2	(2)		—	—	—	
Foreign currency translation adjustment		—	—	—		(1,642)	—	(1,642)	
Pension liability adjustment		—	—	—		15	—	15	
Balance at September 30, 2023	\$0.01	49,591,111	\$ 496	\$ 873,149	\$	(35,740)	\$ (613,492)	\$ 224,413	
Net loss		—	—	—		—	(6,431)	(6,431)	
Stock-based compensation		—	—	515		—	—	515	
Foreign currency translation adjustment		—	—	—		6,508	—	6,508	
Pension liability adjustment		—	—	—		(119)	—	(119)	
Balance at December 30, 2023	\$0.01	49,591,111	\$ 496	\$ 873,664	\$	(29,351)	\$ (619,923)	\$ 224,886	

8

(In thousands, except share amounts) (unaudited)	Accumulated						Total shareholders' equity	
	Common stock		Additional paid-in capital		other			
	Shares	Amount	capital		comprehensive loss	Retained deficit		
Balance at	49,607,811	\$ 496	\$ 873,927	\$	(33,443)	\$ (681,289)	\$ 159,691	

March 30, 2024						
	Net loss	—	—	—	—	(14,732)
Stock-based compensation	—	—	318	—	—	318
Vesting of restricted stock awards	180,538	2	(2)	—	—	—
Taxes related to net share settlement of restricted stock awards	—	—	(40)	—	—	(40)
Foreign currency translation adjustment	—	—	—	416	—	416
Pension liability adjustment	—	—	—	(12)	—	(12)
Balance at June 29, 2024	49,788,349	\$ 498	\$ 874,203	\$ (33,039)	\$ (696,021)	\$ 145,641
(In thousands, except share amounts)						
	Common stock	Additional paid-in capital	other comprehensive loss	Retained deficit	Total shareholders' equity	
(unaudited)	Shares	Amount				
Balance at April 1, 2023						
49,181,562	\$ 492	\$ 872,204	\$ (32,509)	\$ (578,002)	\$ 262,185	
Net loss	—	—	—	—	(11,837)	(11,837)
Stock-based compensation	—	—	474	—	—	474
Vesting of restricted stock awards	209,320	2	(2)	—	—	—
Taxes related to net share settlement of restricted stock awards	—	—	(140)	—	—	(140)
Foreign currency translation adjustment	—	—	—	(1,663)	—	(1,663)
Pension liability adjustment	—	—	—	59	—	59
Balance at July 01, 2023	49,390,882	\$ 494	\$ 872,536	\$ (34,113)	\$ (589,839)	\$ 249,078
(In thousands, except share amounts)						
(unaudited)	Par value	Common stock	Additional paid-in capital	other comprehensive loss	Retained deficit	Total shareholders' equity
	Shares	Amount	capital	loss	deficit	
Balance at April 2, 2022						
\$ 0.01	49,635,447	\$ 496	\$ 874,190	\$ (27,444)	\$ (419,146)	\$ 428,096
Net income	—	—	—	—	10,479	10,479
Stock-based compensation	—	—	1,201	—	—	1,201
Stock options exercised	73,594	1	339	—	—	340

Vesting of restricted stock awards	232,295	2	(2)	—	—	—
Taxes related to net share settlement						
of restricted stock awards	—	—	(712)	—	—	(712)
Foreign currency translation						
adjustment	—	—	—	(5,898)	—	(5,898)
Unrealized gain on financial						
instruments, net of \$39 tax benefit	—	—	—	(113)	—	(113)
Pension liability adjustment	—	—	—	214	—	214
Balance at July 2, 2022	\$ 0.01	49,941,336	\$ 499	\$ 875,016	\$ (33,241)	\$ (408,667)
Net income	—	—	—	—	15,747	15,747
Stock-based compensation	—	—	536	—	—	536
Vesting of restricted stock awards	163,493	2	(2)	—	—	—
Foreign currency translation						
adjustment	—	—	—	(5,468)	—	(5,468)
Unrealized gain on financial						
instruments, net of \$20 tax provision	—	—	—	80	—	80
Pension liability adjustment	—	—	—	178	—	178
Balance at October 1, 2022	\$ 0.01	50,104,829	\$ 501	\$ 875,550	\$ (38,451)	\$ (392,920)
Net income	—	—	—	—	4,168	4,168
Stock-based compensation	—	—	825	—	—	825
Foreign currency translation						
adjustment	—	—	—	4,995	—	4,995
Unrealized gain on financial						
instruments, net of \$6 tax benefit	—	—	—	(18)	—	(18)
Pension liability adjustment	—	—	—	(140)	—	(140)
Repurchases of common stock	(939,967)	(9)	(4,991)	—	—	(5,000)
Balance at December 31, 2022	\$ 0.01	49,164,862	492	871,384	(33,614)	(388,752)
						449,510

See accompanying notes.

9

[Table of Contents](#)

The Container Store Group, Inc.
Notes to consolidated financial
statements (unaudited)

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

December 30, 2023

June 29, 2024

**1. Description of business and basis of
presentation**

These financial statements should be read in
conjunction with the financial statement
disclosures in our Annual Report on Form
10-K for the fiscal year ended **April 1,**
2023 **March 30, 2024**, filed with the
Securities and Exchange Commission

(“SEC”) on **May 26, 2023** **May 28, 2024** (the “**2022** **2023** Annual Report on Form 10-K”). The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). We use the same accounting policies in preparing quarterly and annual financial statements. All adjustments necessary for a fair presentation of quarterly operating results are reflected herein and are of a normal, recurring nature. Certain items in these consolidated financial statements have been reclassified to conform to the current period presentation.

Furthermore, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Based on the Company's current financial projections, management believes the Company will maintain compliance with its financial covenants and the Company's existing cash, projected operating cash flows and available borrowing capacity under its Revolving Credit Facility are adequate to meet its operating needs, liabilities and commitments over the next twelve months from the issuance of the accompanying consolidated financial statements. However, forecasts and projections are subject to risks and uncertainties about our operations, industry, financial condition, performance, operating results and liquidity. If future actual results differ from current financial projections, the Company could fail to comply with these financial covenants in future periods.

Compliance with the financial covenants in the Company's Senior Secured Term Loan Facility (as defined in Item 2 of Part I of this Quarterly Report on Form 10-Q) is measured quarterly and failure to meet the covenant requirements would constitute an event of default. As of June 29, 2024, the Company was in compliance with the financial covenants in the Senior Secured Term Loan Facility.

All references herein to “fiscal 2024” refer to the 52-week fiscal year ending March 29, 2025, and “fiscal 2023” refer to the 52-week fiscal year ended March 30, 2024.

On May 8, 2024, we were notified by the New York Stock Exchange (the “NYSE”) that we are not in compliance with Section 802.01C of the NYSE Listed Company Manual because the average closing price of our common stock was less than \$1.00 over a consecutive 30 trading-day period. The notice does not result in the immediate

delisting of the Company's common stock from the NYSE.

On May 14, 2024 we notified the NYSE that we intend to cure the stock price deficiency and to return to compliance with the NYSE continued listing standard. We can regain compliance at any time within the six-month period following receipt of the NYSE notice if on the last trading day of any calendar month during the cure period we have a closing share price of at least \$1.00 and an average closing share price of at least \$1.00 over the 30 trading-day period ending March 30, 2024 on the last trading day of that month. Under the NYSE's rules, if we determine that we will cure the stock price deficiency by taking an action that will require stockholder approval at our next annual meeting of stockholders, the price condition will be deemed cured if the price promptly exceeds \$1.00 per share, and the price remains above that level for at least the following 30 trading days. Our common stock will continue to be listed and trade on the NYSE during this period, subject to our compliance with other NYSE continued listing standards.

As described in our definitive proxy statement filed with the SEC on July 9, 2024, and "fiscal 2022" refer at the Company's 2024 Annual Meeting of Shareholders, the Company's shareholders will vote on a proposed amendment to the 52-week fiscal year ended April 1, 2023.

Company's certificate of incorporation to effect a reverse stock split of the Company's common stock at a ratio ranging from any whole number between 1-for-10 and 1-for-15, with the exact ratio within such range to be determined by the Board of Directors (the "Board") in its discretion if such proposal is approved by shareholders.

Description of business

Our operations consist of two reportable segments:

[Table of Contents](#)

The Container Store, Inc. ("TCS"): 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 (the "IPO"), of its common stock at which time LGP held a controlling interest in the Company as the majority shareholder. During fiscal 2020, LGP sold some of the common stock of the Company, reducing their ownership to less than 50% of the Company's outstanding common stock. Although LGP is no longer the majority shareholder, LGP continues to have significant influence over the Company.

Today, TCS includes The Container Store Custom Spaces ("Custom Spaces") consisting of our elfa® Classic, elfa® Décor, Avera® and Preston® systems, which are wholly-owned and manufactured by TCS. Custom Spaces includes metal-based and wood-based custom space products and in-home installation services. Our vision is to deepen our relationship with our customers, expand our reach and strengthen our capabilities, all while transforming lives through the power of organization.

The Container Store, Inc. consists of our retail stores, website and call center (which includes business sales), as well as our in-home services business. As of December 30, 2023 June 29, 2024, we operated 100 103 stores with an average size of approximately 24,000 square feet (18,000 selling square feet) in 34 states and the District of Columbia. The Container Store, Inc. also offers all of its products directly to its customers, through its website, responsive mobile site and app, call center, in-home design specialists and in-home design organizers. We operate the C Studio manufacturing facility in Elmhurst, Illinois, which designs and manufactures the Company's premium wood-based custom space product offering, and is included in the TCS reportable segment.

Elfa: 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 on a wholesale basis in approximately 30 countries around the world, with a concentration in the Nordic region of Europe.

10
Seasonality

Seasonality

Our unique offering of organizing solutions, custom spaces, and in-home services makes us less susceptible to holiday season shopping patterns than many retailers. Our quarterly results fluctuate, 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 delivery of orders, competitive factors and general economic conditions, including economic downturns as a result of unforeseen events such as pandemics, inflation, and supply chain disruptions, among other things. Accordingly, our results of operations may fluctuate on a seasonal and quarterly basis, relative to corresponding periods in prior years. 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.

Recent accounting pronouncements

In November 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which is intended to improve the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. A public entity should apply the amendments in this update retrospectively to all prior periods presented in the financial statements. We do not anticipate that the adoption of this update will result in a

material impact to our financial position,
results of operations or cash flows.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*, which is intended to address investor requests for more transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information, as well as certain other amendments to improve the effectiveness of income tax disclosures. This ASU is effective for fiscal years beginning after December 15, 2024, for all public business entities. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments in this update should be applied on a prospective basis, however, retrospective application is permitted. We do not anticipate that the adoption of this update will result in a material impact to our financial position, results of operations or cash flows.

[Table of Contents](#)

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 or as of an interim assessment date. The Company makes estimates and assumptions about sales, gross margins, selling, general and administrative percentages and profit margins, 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 and our estimated weighted average cost of capital. 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.

Due As there are numerous assumptions and estimations utilized to certain indicators identified during derive the second quarter estimated enterprise fair value of fiscal 2023, each reporting unit, it is possible

that actual results may differ from estimated results requiring future impairment charges.

As of June 29, 2024, we completed an interim conducted a qualitative assessment of our goodwill trade names indefinite-lived intangible asset balance as of September 30, 2023 in accordance with the Financial Accounting Standard Board Accounting Standards Codification (ASC) Topic 350, *Intangibles – Goodwill and Other*. We identified if the fair value of the reporting unit's goodwill was less than its carrying value. In connection with our interim assessment, which we determined there was an impairment of goodwill in the TCS reporting unit and recorded a non-cash goodwill impairment charge of \$23,447. The charges were primarily the result of continued macroeconomic impacts on our business which led to a decline in customer demand.

We also completed an interim quantitative assessment of it is not more likely than not that our trade names balance as are impaired. We will continue to reassess each quarter for the need of September 30, 2023 in accordance with ASC 350 a quantitative assessment, which did not result in an impairment. As may lead to future impairment charges.

	Goodwill	Trade names
Balance at March 30, 2024		
Gross balance	428,811	251,815
Fiscal 2023 impairment charges	(23,447)	(73,832)
Accumulated impairment charges	(405,364)	(31,534)
Total, net	\$ —	\$ 146,449
Foreign currency translation adjustments in the thirteen weeks ended June 29, 2024	—	183
Balance at June 29, 2024		
Gross balance	—	251,998
Accumulated impairment charges	—	(105,366)
Total, net	\$ —	\$ 146,632

[Table of December 30, 2023, we conducted a qualitative assessment of our trade names balance in accordance with ASC 350, which resulted in no indicators of impairment.](#)

[11](#)

[Contents](#)

	<u>Goodwill</u>	<u>Trade names</u>
Balance at April 1, 2023		
Gross balance	428,811	252,812
Accumulated impairment charges	(405,364)	(31,534)
Total, net	<u>\$ 23,447</u>	<u>\$ 221,278</u>
Foreign currency translation adjustments in the thirty-nine weeks ended December 30, 2023	—	1,007
Balance at December 30, 2023		
Gross balance	428,811	253,819
Fiscal 2023 impairment charges	(23,447)	—
Accumulated impairment charges	(405,364)	(31,534)
Total, net	<u>\$ —</u>	<u>\$ 222,285</u>

3. Detail of certain balance sheet accounts

	<u>December 30, 2023</u>	<u>April 1, 2023</u>	<u>December 31, 2022</u>
Accounts receivable, net:			
Trade receivables, net	\$ 13,863	\$ 18,269	\$ 16,656
Credit card receivables	10,971	6,165	11,309

Other receivables	2,655	1,436	2,825
	<u>\$ 27,489</u>	<u>\$ 25,870</u>	<u>\$ 30,790</u>
Inventory:			
Finished goods	\$ 153,305	\$ 160,108	\$ 179,984
Raw materials	8,500	9,289	9,120
Work in progress	1,285	1,240	1,203
	<u>\$ 163,090</u>	<u>\$ 170,637</u>	<u>\$ 190,307</u>
Accrued liabilities:			
Accrued payroll, benefits and bonuses	\$ 17,038	\$ 24,224	\$ 17,979
Unearned revenue	17,531	15,700	18,830
Accrued transaction and property tax	14,240	14,072	15,346
Gift cards and store credits outstanding	13,980	13,002	13,924
Accrued sales returns	2,788	3,366	4,302
Accrued interest	166	189	348
Other accrued liabilities	6,844	4,120	4,609
	<u>\$ 72,587</u>	<u>\$ 74,673</u>	<u>\$ 75,338</u>

	June 29, 2024	March 30, 2024	July 1, 2023
Accounts receivable, net:			
Trade receivables, net	\$ 12,153	\$ 13,943	\$ 12,727
Credit card receivables	7,166	4,859	7,351
Other receivables	3,290	3,208	1,792
	<u>\$ 22,609</u>	<u>\$ 22,010</u>	<u>\$ 21,870</u>
Inventory:			
Finished goods	\$ 150,030	\$ 150,493	\$ 160,198

Raw materials	6,728	6,869	9,024
Work in progress	1,000	1,072	1,290
	<u>\$157,758</u>	<u>\$158,434</u>	<u>\$170,512</u>
Accrued liabilities:			
Accrued payroll, benefits and bonuses	\$ 15,744	\$ 20,590	\$ 18,907
Unearned revenue	16,634	14,385	17,036
Accrued transaction and property tax	11,512	12,272	11,789
Gift cards and store credits outstanding	13,473	13,365	12,978
Accrued sales returns	2,328	1,974	2,999
Accrued interest	167	215	245
Other accrued liabilities	7,112	7,275	4,264
	<u>\$ 66,970</u>	<u>\$ 70,076</u>	<u>\$ 68,218</u>

Contract balances as a result of transactions with customers primarily consist of trade receivables included in accounts receivable, net, unearned revenue, and gift cards and store credits outstanding included in accrued liabilities in the Company's consolidated balance sheets.

Unearned revenue was \$15,700 \$14,385 as of April 1, 2023 March 30, 2024, and \$14,397 \$12,500 was subsequently recognized into revenue for the thirty-nine thirteen weeks ended December 30, 2023 June 29, 2024.

Gift cards and store credits outstanding was \$13,002 \$13,365 as of April 1, 2023 March 30, 2024, and \$3,139 \$1,102 was subsequently recognized into revenue for the thirty-nine thirteen weeks ended December 30, 2023 June 29, 2024. See Note 10 for disaggregated revenue disclosures.

4. Leases

We conduct all of our U.S. operations from leased facilities that include our support center, distribution centers, manufacturing facilities, and 100 store locations. The support center, distribution centers, manufacturing facilities, and stores are leased under operating leases that generally expire over the next 1 to 15 years. We also lease computer hardware under operating leases that generally 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. The Company also has finance leases at our Elfa segment which are immaterial.

12

Lease expense on operating leases 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 and is recorded in selling, general and administrative expenses ("SG&A").

We consider lease payments that cannot be predicted with reasonable certainty upon lease commencement to be variable lease payments, which are recorded as incurred each period and are excluded from our calculation of lease liabilities. Our variable lease payments include lease payments that are based on a percentage of sales. Upon lease commencement, we recognize the lease liability measured at the present value of the fixed future minimum lease payments. We have elected the practical expedient to not separate lease and non-lease components. Therefore, lease payments included in the measurement of the lease liability include all fixed payments in the lease arrangement. We record a right-of-use asset for an amount equal to the lease liability, increased for any prepaid lease costs and initial direct

costs and reduced by any lease incentives. We remeasure the lease liability and right-of-use asset when a change to our future minimum lease payments occurs. Key assumptions and judgments included in the determination of the lease liability include the discount rate applied to present value of the future lease payments and the exercise of renewal options.

Many of our leases contain renewal options. The option periods are generally not included in the lease term used to measure our lease liabilities and right-of-use assets upon commencement as exercise of the options is not reasonably certain. We remeasure the lease liability and right-of-use asset when we are reasonably certain to exercise a renewal option.

Discount Rate

Our leases do not provide information about the rate implicit in the lease. Therefore, we utilize an incremental borrowing rate to calculate the present value of our future lease obligations. The incremental borrowing rate represents the rate of interest we would have to pay on a collateralized borrowing, for an amount equal to the lease payments, over a similar term and in a similar economic environment.

The components of lease costs for the thirteen and thirty-nine weeks ended December 30, 2023 and December 31, 2022 were as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	December 30, 2023	December 31, 2022	December 30, 2023	December 31, 2022
Operating lease costs	\$ 23,572	\$ 22,868	\$ 70,385	\$ 68,043
Variable lease costs	182	335	553	1,084
Total lease costs	\$ 23,754	\$ 23,203	\$ 70,938	\$ 69,127

We do not have sublease income and do not recognize lease assets or liabilities for short-term leases, defined as operating leases with initial terms of less than 12 months. Our short-term lease costs were not material for the thirteen and thirty-nine weeks ended December 30, 2023 and December 31, 2022.

Weighted average remaining operating lease term and incremental borrowing rate as of December 30, 2023 and December 31, 2022 were as follows:

	Thirty-Nine Weeks Ended	
	December 30, 2023	December 31, 2022
Weighted average remaining lease term (years)	6.1	6.6
Weighted average incremental borrowing rate	10.0 %	10.6 %

13

As of December 30, 2023, future minimum lease payments under our operating lease liabilities were as follows:

	Operating leases ⁽¹⁾
Within 1 year (remaining)	\$ 23,345
2 years	95,461
3 years	87,237
4 years	77,459
5 years	65,383
Thereafter	<u>155,593</u>
Total lease payments	\$ 504,478
Less amount representing interest	<u>126,626</u>
Total lease liability	\$ 377,852
Less current lease liability	<u>62,525</u>
Total noncurrent lease liability	<u>\$ 315,327</u>

(1) Operating lease payments exclude approximately \$64,177 of legally binding minimum lease payments for

5.4. Net (loss) income loss per common share

Basic net (loss) income loss per common share is computed as net (loss) income loss divided by the weighted-average number of common shares outstanding for the period. Net (loss) income Diluted net loss per common share - diluted is computed as net (loss) income loss divided by the

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

[Table of Contents](#)

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	December 30,	December 31,	December 30,	December 31,
	2023	2022	2023	2022
Numerator:				
Net (loss) income	\$ (6,431)	\$ 4,168	\$ (41,921)	\$ 30,394
Denominator:				
Weighted-average common shares	—			
basic	49,591,111	49,263,122	49,435,182	49,661,209
Nonvested restricted stock awards and other dilutive securities	—	189,858	—	363,380
Weighted-average common shares	—			
diluted	49,591,111	49,452,980	49,435,182	50,024,589
Net (loss) income per common share	—			
basic	\$ (0.13)	\$ 0.08	\$ (0.85)	\$ 0.61

Net (loss)					
income per					
common					
share —					
diluted \$ (0.13)	\$ 0.08	\$ (0.85)	\$ 0.61		
Antidilutive					
securities not					
included:					
Stock options					
outstanding 781,849	1,555,286	1,379,009	1,481,921		
Nonvested					
restricted					
stock awards 513,847	432,344	683,236	405,011		

6.

	Thirteen Weeks Ended	
	June 29, 2024	July 1, 2023
Numerator:		
Net loss \$ (14,732)	\$ (11,837)	
Denominator:		
Weighted-average common shares —		
basic and diluted 49,665,345	49,252,869	
Net loss per common share —		
basic and diluted \$ (0.30)	\$ (0.24)	
Antidilutive securities not included:		
Stock options outstanding 382,082	1,711,246	
Nonvested restricted stock awards 495,457	613,394	

5. Income taxes

The provision benefit for income taxes in the thirteen weeks ended December 30, 2023 June 29, 2024 was \$1,651 \$4,493 as compared to a provision benefit of \$2,127 \$3,586 in the thirteen weeks ended December 31, 2022 July 1, 2023. The effective tax rate for the thirteen weeks ended December

30, 2023 June 29, 2024 was (34.5)% 23.4%, as compared to 33.8% 23.3% in the thirteen weeks ended December 31, 2022 July 1, 2023. During the thirteen weeks ended December 30, 2023 June 29, 2024, the effective tax rate was lower higher than the U.S. statutory rate of 21%, primarily due to U.S state income taxes, partially offset by the tax impact of discrete items related to share-based compensation on a pre-tax loss. In the thirteen weeks ended

14

December 31, 2022, July 1, 2023, the effective tax rate rose above the U.S. statutory rate of 21% primarily due to U.S. state income taxes, and the impact of the global intangible low-taxed ("GILTI") provision on a pre-tax income.

The benefit for income taxes in the thirty-nine weeks ended December 30, 2023 was (\$1,344) as compared to a provision of \$11,857 in the thirty-nine weeks ended December 31, 2022. The effective tax rate for the thirty-nine weeks ended December 30, 2023 was 3.1%, as compared to 28.1% in the thirty-nine weeks ended December 31, 2022. During the thirty-nine weeks ended December 30, 2023, the effective tax rate was lower than the U.S. statutory rate of 21%, primarily due to the tax impact of goodwill impairment and discrete items related to share-based compensation on a pre-tax loss. In the thirty-nine weeks ended December 31, 2022, the effective tax rate rose above the U.S. statutory rate of 21% primarily due to U.S. state income taxes, and the impact of the GILTI provision on a pre-tax income.

7. provision.

6. Commitments and contingencies

In connection with insurance policies and other contracts, the Company has outstanding standby letters of credit totaling ~~\$3,829~~ \$3,930 as of ~~December 30, 2023~~ June 29, 2024.

The Company is subject to ordinary litigation and routine reviews by regulatory bodies that are incidental to its business. The Company has recorded accruals with respect to these matters, where appropriate, which are reflected in the Company's unaudited condensed consolidated financial statements. For some matters, a liability is not probable, or the monetary amount cannot be reasonably estimated and therefore an accrual has not been made. No material amounts were accrued at ~~December 30, 2023~~ on June 29, 2024, April 1, 2023 ~~March 30, 2024, or December 31, 2022~~ July 1, 2023 pertaining to legal proceedings or other contingencies.

Rashon Hayes v. The Container Store, Inc.

The Company was named as a defendant in a putative class action and representative action was filed on February 10, 2020 in Santa Clara Superior Court by Rashon Hayes ("Plaintiff"), a former, hourly-paid employee of TCS who was employed from April 2019 to June 2019. The First Amended Complaint was filed on August 3, 2020 and alleges alleged eleven causes of action: (1) unpaid overtime, (2) unpaid meal period premiums, (3) unpaid rest period premiums, (4) unpaid minimum wages, (5) final wages not timely paid, (6) wages not timely paid during employment, (7) non-compliant wage statements, (8) failure to keep requisite payroll records, (9) unreimbursed business expenses, (10) violation of California Business and Professions Code section 17200, and (11) violation of the California

Private Attorneys General Act. The lawsuit seeks restitution of unpaid wages for plaintiff and other class members, pre-judgement interest, appointment of class administrator, and attorney's fees and costs. TCS denies the allegations and will continue to defend the case. The parties are currently engaged in the discovery process and have agreed to participate in a mediation on February 21, 2024.

and reached a preliminary, confidential settlement.

Based on information currently available, the Company does not believe that its pending legal matters, either on an individual basis or in the aggregate, will have a material adverse effect on the Company's consolidated financial statements as a whole. However, litigation and other legal matters involve an element of uncertainty. Adverse decisions and settlements, including any required changes to the Company's business, or other developments in such matters could affect our operating results in future periods or result in a liability or other amounts monetary payments material to the Company's annual consolidated financial statements.

None of the

15

[Table of Contents](#)

current ordinary litigation proceedings or routine reviews that the company is subject to are expected to have a material adverse effect on the Company's consolidated financial statements on an individual basis or in the aggregate.

8.7. Accumulated other comprehensive loss

Accumulated other comprehensive loss ("AOCL") consists of changes in our foreign currency forward contracts, pension liability adjustment, and foreign currency translation. The components of

AOCL, net of tax, are shown below
 for the ~~thirty-nine~~ ~~thirteen~~ weeks
 ended ~~December 30, 2023~~ ~~June~~
29, 2024:

	Pension liability adjustment	Foreign currency translation	Total
Balance at April 1, 2023	<u>\$ (1,117)</u>	<u>\$(31,392)</u>	<u>\$(32,509)</u>
Other comprehensive (loss) income before reclassifications, net of tax	(45)	3,203	3,158
Amounts reclassified to earnings, net of tax	—	—	—
Net current period other comprehensive (loss) income	<u>(45)</u>	<u>3,203</u>	<u>3,158</u>
Balance at December 30, 2023	<u>\$ (1,162)</u>	<u>\$(28,189)</u>	<u>\$(29,351)</u>

9.

	Pension liability adjustment	Foreign currency translation	Total
Balance at March 30, 2024	<u>\$ (1,143)</u>	<u>\$(32,300)</u>	<u>\$(33,443)</u>
Other comprehensive (loss) income before reclassifications, net of tax	(12)	416	404
Amounts reclassified to earnings, net of tax	—	—	—
Net current period other comprehensive (loss) income	<u>(12)</u>	<u>416</u>	<u>404</u>
Balance at June 29, 2024	<u>\$ (1,155)</u>	<u>\$(31,884)</u>	<u>\$(33,039)</u>

8. Fair value measurements

Under GAAP, the Company is required to a) measure certain assets and liabilities at fair value and 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.

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 **December 30, 2023** **June 29, 2024, April 1, 2023** **March 30, 2024** and **December 31, 2022** **July 1, 2023**, the Company held certain items that are required to be measured at fair value on a recurring basis. These items are included in the non-qualified retirement plan, which consists of investments purchased by employee contributions to retirement savings accounts. The fair value amount of the non-qualified retirement plan is measured using the net asset value per share practical expedient, and therefore, is not classified in the fair value hierarchy. 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.

16

[Table of Contents](#)

The following items are measured at fair value on a recurring basis, subject to

the requirements of ASC

820, *Fair Value*

Measurements:

Description	Balance Sheet Location	December 30,	April 1,	December 31,	
		2023	2023	2022	
Assets					
Nonqualified retirement plan					
Other current assets		\$ 3,798	\$ 3,743	\$ 3,526	
Total assets		\$ 3,798	\$ 3,743	\$ 3,526	

Description	Balance Sheet Location	March			
		June 29,	30,	July 1,	
Assets					
Nonqualified retirement plan					
Other current assets		\$ 3,887	\$ 4,125	\$ 4,012	
Total assets		\$ 3,887	\$ 4,125	\$ 4,012	

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 December 30, 2023 June 29, 2024, April 1, 2023 March 30, 2024 and December 31, 2022 July 1, 2023, the estimated fair value of the Company's long-term debt, including current maturities, was as follows:

	December 30,	April 1,	December 31,
	2023	2023	2022
Senior secured term loan facility			
facility	\$ 149,240	\$ 153,915	\$ 153,135
Revolving credit facility			
facility	21,000	5,000	20,000
2019 Elfa revolving facilities			
facilities	3,300	2,423	8,131
Obligations under finance leases			
leases	171	136	123
Total fair value of debt	\$ 173,711	\$ 161,474	\$ 181,389

10.

	June 29, 2024	March 30, 2024	July 1, 2023
Senior secured term loan facility	\$112,368	\$132,435	\$152,625
Revolving credit facility	56,000	16,000	25,000
Obligations under finance leases	634	634	117
Total fair value of debt	<u>\$169,002</u>	<u>\$149,069</u>	<u>\$177,742</u>

9. 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 in-home services. We operate the C Studio manufacturing facility in Elmhurst, Illinois, which designs and manufactures the Company's premium wood-based custom space product offering. We determined that TCS and C Studio have similar economic characteristics and meet the aggregation criteria set forth in ASC 280, Segment Reporting.

Therefore, we have combined these two operating segments into the TCS reportable segment.

The Elfa segment includes the manufacturing business that produces 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 (loss) loss** before interest, taxes, depreciation and amortization, certain non-cash items, and other adjustments that we do not consider in our evaluation

of ongoing operating performance from period to period.

17

Thirteen Weeks Ended June 29, 2024				
	TCS	Elfa	Eliminations	Total
Net sales to third parties	\$171,512	\$10,349	\$ —	\$181,861
Intersegment sales	—	9,549	(9,549)	—
Adjusted EBITDA	1,164	1,189	(635)	1,718
Interest expense (income), net	5,564	(96)	—	5,468
Assets(1)	882,524	84,897	(8,752)	958,669

[Table of Contents](#)

Thirteen Weeks Ended July 01, 2023				
	TCS	Elfa	Eliminations	Total
Net sales to third parties	\$195,127	\$11,985	\$ —	\$207,112
Intersegment sales	—	12,552	(12,552)	—
Adjusted EBITDA	774	1,953	192	2,919
Interest expense, net	4,885	82	—	4,967
Assets(1)	899,462	96,987	(8,493)	987,956

Thirteen Weeks Ended December 30, 2023				
	TCS	Elfa	Eliminations	Total
Net sales to third parties	\$202,485	\$ 12,414	\$ —	\$214,899
Intersegment sales	—	21,207	(21,207)	—
Adjusted EBITDA	10,704	3,879	(1,788)	12,795
Interest expense, net	5,112	39	—	5,151
Assets (1)	868,239	101,308	(8,770)	960,777

(1)

Thirteen Weeks Ended December 31, 2022				
	TCS	Elfa	Eliminations	Total
Net sales to third parties	\$ 239,271	\$ 12,965	\$ —	\$ 252,236
Intersegment sales	—	19,083	(19,083)	—
Adjusted EBITDA	22,086	3,970	(3,895)	22,161
Interest expense, net	4,265	124	—	4,389
Assets (1)	1,261,798	119,176	(171,953)	1,209,021

Thirty-Nine Weeks Ended December 30, 2023				
	TCS	Elfa	Eliminations	Total
Net sales to third parties	\$606,137	\$ 35,605	\$ —	\$641,742
Intersegment sales	—	43,800	(43,800)	—
Adjusted EBITDA	25,756	7,167	(182)	32,741
Interest expense, net	15,139	217	—	15,356
Assets (1)	868,239	101,308	(8,770)	960,777

Thirty-Nine Weeks Ended December 31, 2022	TCS	Elfa	Eliminations	Total
Net sales to third parties	\$ 745,914	\$ 41,628	\$ —	\$ 787,542
Intersegment sales	—	50,792	(50,792)	—
Adjusted EBITDA	82,071	10,123	(5,934)	86,260
Interest expense, net	11,025	370	—	11,395
Assets (1)	1,261,798	119,176	(171,953)	1,209,021

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

18

A reconciliation of
(loss) income loss
before taxes to
Adjusted EBITDA is
set forth below:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	December 30, December 31,		December 30, December 31,	
	2023	2022	2023	2022
(Loss) income before taxes	\$ (4,780)	\$ 6,295	\$ (43,265)	\$ 42,251
Add:				
Depreciation and amortization	11,532	9,952	32,427	28,507
Interest expense, net	5,151	4,389	15,356	11,395
Pre-opening costs (a)	849	430	1,583	1,049
Non-cash lease expense (b)	(573)	232	(902)	403
Impairment charges (c)	—	—	23,447	—
Stock-based compensation (d)	515	825	1,605	2,562
Foreign exchange losses (gains) (e)	(29)	38	(102)	30
Acquisition-related costs (f)	—	—	—	63
Severance charges (g)	—	—	2,462	—

Elfa restructuring (h)	130	—	130	—
Adjusted EBITDA	\$ 12,795	\$ 22,161	\$ 32,741	\$ 86,260
Thirteen Weeks Ended				
	June 29, 2024	July 1, 2023		
Loss before taxes	\$(19,225)	\$(15,423)		
Add:				
Depreciation and amortization	10,873	10,512		
Interest expense, net	5,468	4,967		
Pre-opening costs ^(a)	747	185		
Non-cash lease expense ^(b)	(132)	(174)		
Long-lived asset impairment charges ^(c)	901	—		
Stock-based compensation ^(d)	318	474		
Foreign exchange losses (gains) ^(e)	2	(75)		
Severance and retention charges ^(f)	53	2,453		
Strategic alternatives fees ^(g)	1,632	—		
Non-cash inventory reserve ^(h)	1,081	—		
Adjusted EBITDA	\$ 1,718	\$ 2,919		

(a)

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

Non-capital expenditures associated with opening new stores and relocating stores, including 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 operating lease expense has been above or below our cash operating lease payments. The amount varies depending on the average age of our lease portfolio (weighted for size), as our GAAP operating lease expense on younger leases typically exceeds our cash operating lease payments, while our GAAP operating lease expense on older leases is typically less than our cash operating lease payments.

(b)

(c) Non-cash goodwill impairment charge recognized in the second quarter of fiscal 2023, which we do not consider in our evaluation of ongoing performance. Reflects the extent to

which
our
annual
GAAP
operating
lease
expense
has
been
above or
below
our cash
operating
lease
payments.
The
amount
varies
depending
on the
average
age of
our
lease
portfolio
(weighted
for size),
as our
GAAP
operating
lease
expense
on
younger
leases
typically
exceeds
our cash
operating
lease
payments,
while our
GAAP
operating
lease
expense
on older
leases is
typically
less than
our cash
operating
lease
payments.

(d) 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.

(c)

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

(f) Includes legal costs incurred in the second quarter of fiscal 2022 associated with the acquisition of Closet Works, all of which are recorded as selling, general and administrative expenses, which we do not consider in our evaluation of ongoing performance.

(g) Severance charges associated with the elimination of certain positions Non-cash long-lived asset impairment charge was recorded in other expenses in the first and second quarters of fiscal 2023, of which approximately \$800 remains recorded in accrued liabilities on the consolidated balance sheet as of December 30, 2023, and which we do not consider in our evaluation of ongoing performance.

(h) Charges associated with the close-down of Elfa segment sales operations in Poland in the third quarter of fiscal 2023, which we do not consider in our evaluation of ongoing performance.

11. Subsequent event

On February 1, 2024, the Company entered into a Seventh Amendment to Lease (the "Seventh Amendment") to the Office, Warehouse and Distribution Center Lease Agreement dated October 8, 2002. The Seventh Amendment amends the lease to, among other things, extend the term of the lease for 120 months, commencing on May 1, 2025, such that the expiration of the lease term, is amended to be April 30, 2035, an annual lease payment of approximately \$7,435 for the first year, quarter of fiscal 2024 related to a store which has been identified for closure in fiscal 2024, which we do not consider in our evaluation of ongoing performance.

(d) Non-cash charges related to stock-based compensation programs, which vary from period to period depending on volume and increase lease payments 4.0% on an annual-base, following vesting

timing of awards.
We adjust for
these charges to
facilitate
comparisons
from period to
period.

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

(f) Severance and
retention
charges
recorded in other
expenses in the
first year quarter
of fiscal 2024
and 2023, of
which
approximately
\$678 remains
recorded in
accrued liabilities
on the amended
lease. The
amended lease
is expected to
have
a consolidated
balance sheet
impact as of
approximately
\$55,000 June 29,
2024, which we
do not consider
in our evaluation
of ongoing
performance.

(g) Expenses
associated with
legal and
professional fees
related to
increase our
review of
strategic
alternatives
incurred in the
operating lease
right-of-use
assets and first
quarter of fiscal
2024, which we
do not consider
in our evaluation
of ongoing
performance.operating
lease liabilities,
respectively.

[Table of Contents](#)

(h) Non-cash charges related to lower of cost or market inventory reserve, which was recorded in the first quarter of fiscal 2024, which we do not consider in our evaluation of ongoing performance.

[Table of](#)

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

**Cautionary note
regarding forward-
looking statements**

This report, including this Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates,"

“believes,”
“estimates,”
“predicts,” “potential”
or “continue” or the
negative of these
terms or other similar
expressions. The
forward-looking
statements included
in this Quarterly
Report, including
without limitation
statements regarding
expectations for our
business including
anticipated store
openings, anticipated
financial performance
and liquidity, the
impact of
macroeconomic
conditions,
expectations related
to litigation matters,
anticipated capital
expenditures, and
other expenses,
regaining compliance
with NYSE rules, are
only predictions and
involve known and
unknown risks,
uncertainties and
other important
factors that may
cause our actual
results, performance
or achievements to be
materially different
from any future
results, performance
or achievements
expressed or implied
by the forward-looking
statements. These
include, but are not
limited to: the timeline
for the completion of
the strategic
alternatives review
process is unknown
and there can be no
assurance that the
process will result in
any particular
outcome; a decline in
the health of the
economy and the
purchase of
discretionary items;
the anticipated impact
of macroeconomic
conditions on our
business, results of
operations and
financial condition;
our ability to continue
to lease space on

favorable terms; costs and risks relating to new store openings; quarterly and seasonal fluctuations in our operating results; cost increases that are beyond our control; our inability to protect our brand; our failure or inability to protect our intellectual property rights; our inability to source and market new products to meet consumer preferences; failure to successfully anticipate, or manage inventory commensurate with, consumer preferences and demand; competition from other stores and internet-based competition; our inability to obtain merchandise from our vendors on a timely basis and at competitive prices; the risk that our vendors may sell similar or identical products to our competitors; our and our vendors' vulnerability to natural disasters and other unexpected events; product recalls and/or product liability, as well as changes in product safety and other consumer protection laws; risks relating to operating two distribution centers; centers and domestic and international manufacturing facilities; our dependence on foreign imports for our merchandise; our reliance upon independent third-party transportation providers; our inability to effectively manage our online sales; failure to comply with laws and regulations relating to privacy, data protection, and consumer protection;

effects of a security breach or cyber-attack of our website or information technology systems, including relating to our use of third-party web service providers; damage to, or interruptions in, our information systems as a result of external factors, working from home arrangements, staffing shortages and difficulties in updating our existing software or developing or implementing new software; risk related to our indebtedness may restrict our current and future operations, and we may not be able to refinance our debt on favorable terms, or at all; fluctuations in currency exchange rates; our inability to maintain sufficient levels of cash flow to meet growth expectations; our fixed lease obligations; disruptions in the global financial markets leading to difficulty in borrowing sufficient amounts of capital to finance the carrying costs of inventory to pay for capital expenditures and operating costs; changes to global markets and inability to predict future interest expenses; our reliance on key executive management; our inability to find, train and retain key personnel; labor relations difficulties; increases in **health care costs and labor** costs; risks related to violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery and anti-kickback laws; impairment charges and effects of

changes in estimates or projections used to assess the fair value of our assets; effects of tax reform and other tax fluctuations; significant fluctuations in the price of our common stock; substantial future sales of our common stock, or the perception that such sales may occur, which could depress the price of our common stock; any failure to meet the NYSE's continued listing standards could result in the delisting of our common stock; risks related to being a public company; our performance meeting guidance provided to the public; risks relating to acquisitions; anti-takeover provisions in our governing documents, which could delay or prevent a change in control; and our failure to establish and maintain effective internal controls. Other important risk factors that could affect the outcome of the events set forth in these statements and that could affect our operating results and financial condition are described in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended April 1, 2023 March 30, 2024, (the "2022/2023 Annual Report on Form 10-K"), filed with the Securities and Exchange Commission (the "SEC") on May 26, 2023 May 28, 2024.

We have based these forward-looking statements largely on our current

expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this report. Because forward-looking statements are inherently subject to risks and uncertainties, you should not rely on these forward-looking statements as predictions of future

21

events. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein after the date of this report, whether as a result of any new information, future events or otherwise.

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

We follow a 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 our fiscal year is the 52- or 53-week period ending on the Saturday closest to March 31. Fiscal **2023** **2024** ends on **March 30, 2024** March 29, 2025 and will include 52 weeks and fiscal **2022** **2023** ended on **April 1, 2023** **March 30, 2024** and

[Table of Contents](#)

included 52 weeks. The **third** **first** quarter of fiscal 2024 ended on June 29, 2024 and the first quarter of fiscal 2023 ended on December 30, 2023 and the third quarter of fiscal 2022 ended on December 31, **2022** **July 1, 2023**, and both included thirteen weeks.

Note on Dollar Amounts

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

Overview

Overview

The Container **Store**® **Store** is the original and leading specialty nation's only retailer with a solution-oriented offering of custom spaces, organizing solutions, custom spaces and in-home

services in the United States and the only national retailer solely devoted to the category services. 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. We feature The Container Store Custom Spaces ("Custom Spaces") exclusive products consisting of our elfa® Classic, elfa® Décor, Avera® and Preston® systems, brands, which are wholly-owned and manufactured by The Container Store. Custom Spaces includes metal-based and premium wood-based custom space products and in-home installation services. Our customers are highly educated, very busy and primarily homeowners with a higher than average household income. Our customers crave discovery, inspiration, and solutions that simplify their lives and maximize their spaces within their homes. Our vision is to deepen our relationship with our

customers, expand our reach and strengthen our capabilities, all while transforming in order to transform lives through the power of organization.

Our operations consist of two reportable segments:

- **The Container Store** ("TCS") consists of our retail stores, website and call center (which includes business sales), as well as our in-home services business. As of **December 30, 2023** **June 29, 2024**, we operated **100** **103** stores with an average size of approximately 24,000 square feet (18,000 selling square feet) in 34 states and the District of Columbia. We also offer all of our products directly to customers through our

website, responsive mobile site and app, call center, and in-home design specialists and in-home design organizers. Our stores receive substantially all of our products directly from one of our two distribution centers. Our first distribution center in Coppell, Texas, is co-located with our support center and call center, and our second distribution center is located in Aberdeen, Maryland.

We operate the C Studio Manufacturing, Inc. ("C Studio"), (formerly known as "Closet Parent Company, Inc.", or "Closet Works") facility in Elmhurst, Illinois, which designs and manufactures

the
Company's our
premium
wood-based
custom
space
product
offering, and
is included
in the TCS
reportable
segment.

• *Elfa*, The
Container
Store, Inc.'s
wholly-
owned wholly
owned
Swedish
subsidiary,
Elfa
International
AB
("Elfa" Elfa),
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.

22

In May 2024, we announced that the Board has initiated a formal review process to evaluate strategic alternatives for the Company. The Board has established a Transaction Committee to help oversee the process, with the goal of maximizing the potential of the business and returns for shareholders. The Company has not set a deadline or definitive timetable for

the completion of the strategic alternatives review process, and there can be no assurance that this process will result in any particular outcome.

On May 8, 2024, we were notified by the New York Stock Exchange (the "NYSE") that we are not in compliance with Section 802.01C of the NYSE Listed Company Manual because the average closing price of our common stock was less than \$1.00 over a consecutive 30 trading-day period. The notice does not result in the immediate delisting of the Company's common stock from the NYSE. As described in our definitive proxy statement filed with the SEC on July 9, 2024, at the Company's 2024 Annual Meeting of Shareholders, the Company's shareholders will vote on a proposed amendment to the Company's certificate of incorporation to effect a reverse stock split of the Company's common stock at a ratio ranging from any whole number between 1-for-10 and 1-for-15, with the exact ratio within such range to be determined by the Board of Directors (the "Board") in its discretion if such proposal is approved by shareholders. For

[Table of Contents](#)

additional information, see Note 1 to our unaudited consolidated financial

statements included
elsewhere in this
Quarterly Report on
Form 10-Q.

**Results of
Operations**

The following data
represents the
amounts shown in our
unaudited
consolidated
statements of
operations expressed
in dollars and as a
percentage of net
sales and operating
data for the periods
presented. For
segment data, see
Note 109 to our
unaudited
consolidated financial
statements included
elsewhere in this
Quarterly Report on
Form 10-Q.

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	December 30,		December 31,	
	2023	2022	2023	2022
Net sales	\$ 214,899	\$ 252,236	\$ 641,742	\$ 787,542
Cost of sales (excluding depreciation and amortization)	89,682	108,795	275,308	339,583
Gross profit	125,217	143,441	366,434	447,959
Selling, general, and administrative expenses (excluding depreciation and amortization)	111,820	121,540	332,471	362,104
Impairment charges	—	—	23,447	—
Stock-based compensation	515	825	1,605	2,562
Pre-opening costs	849	430	1,583	1,049
Depreciation and amortization	11,532	9,952	32,427	28,507
Other expenses	130	—	2,589	—

Loss on disposal of assets	—	10	221	91
Income (loss) from operations	371	10,684	(27,909)	53,646
Interest expense, net (Loss) income before taxes	5,151	4,389	15,356	11,395
Provision (benefit) for income taxes	1,651	2,127	(1,344)	11,857
Net (loss) income	<u>\$ (6,431)</u>	<u>\$ 4,168</u>	<u>\$ (41,921)</u>	<u>\$ 30,394</u>
Net (loss) income per common share	—	(0.13)	0.08	\$ (0.85) \$ 0.61
Net (loss) income per common share diluted	—	(0.13)	0.08	\$ (0.85) \$ 0.61
Weighted-average common shares	—	49,591,111	49,263,122	49,435,182
Weighted-average common shares diluted	—	49,591,111	49,452,980	49,435,182
				50,024,589

23

	Thirteen Weeks Ended	
	June 29, 2024	July 1, 2023
Net sales	\$ 181,861	\$ 207,112
Cost of sales (excluding depreciation and amortization)	75,766	92,563
Gross profit	106,095	114,549

Selling, general, and administrative expenses (excluding depreciation and amortization)	105,350	111,380
Stock-based compensation	318	474
Pre-opening costs	747	185
Depreciation and amortization	10,873	10,512
Long-lived asset impairment charges	901	—
Other expenses	1,686	2,453
(Gain) loss on disposal of assets	(23)	1
Loss from operations	(13,757)	(10,456)
Interest expense, net	5,468	4,967
Loss before taxes	(19,225)	(15,423)
Benefit for income taxes	(4,493)	(3,586)
Net loss	<u>\$ (14,732)</u>	<u>\$ (11,837)</u>
Net loss per common share — basic and diluted	\$ (0.30)	\$ (0.24)
Weighted- average common shares — basic and diluted	49,665,345	49,252,869

[Table of Contents](#)

	Thirteen Weeks Ended	
	June 29, 2024	July 1, 2023
Percentage of net sales:		
Net sales	100.0 %	100.0 %
Cost of sales (excluding depreciation and amortization)	41.7 %	44.7 %
Gross profit	58.3 %	55.3 %

Selling, general, and administrative expenses (excluding depreciation and amortization)	57.9 %	53.8 %
Stock-based compensation	0.2 %	0.2 %
Pre-opening costs	0.4 %	0.1 %
Depreciation and amortization	6.0 %	5.1 %
Long-lived asset impairment charges	0.5 %	— %
Other expenses	0.9 %	1.2 %
(Gain) loss on disposal of assets	0.0 %	0.0 %
Loss from operations	(7.6 %)	(5.0 %)
Interest expense, net	3.0 %	2.4 %
Loss before taxes	(10.6)%	(7.4 %)
Benefit for income taxes	(2.5 %)	(1.7 %)
Net loss	<u>(8.1)%</u>	<u>(5.7 %)</u>
Operating data:		
Comparable store sales change for the period ⁽¹⁾	(13.7)%	(19.9) %
Number of stores at end of period	103	97
Non-GAAP measures⁽²⁾:		
Adjusted EBITDA ⁽²⁾	\$ 1,718	\$ 2,919
Adjusted net loss ⁽²⁾	\$ (12,693)	\$ (10,133)
Adjusted net loss per common share — diluted ⁽²⁾	\$ (0.26)	\$ (0.21)

(1) Comparable
store sales
includes all net
sales from our
TCS segment,
except for (i)
sales from stores
open less than
sixteen months,
(ii) stores that
have been

closed
 permanently, (iii)
 stores that have
 been closed
 temporarily for
 more than seven
 days and (iv) C
 Studio sales to
 third parties. A
 store is included
 in the
 comparable
 store sales
 calculation on
 the first day of
 the sixteenth full
 fiscal month
 following the
 store's opening.
 When a store is
 relocated, we
 continue to
 consider sales
 from that store to
 be comparable
 store sales. A
 store
 permanently
 closed is not
 considered
 comparable in
 the fiscal month
 that it closes. A
 store temporarily
 closed for more
 than seven days
 is not considered
 comparable in
 the fiscal month
 it is closed. The
 store then
 becomes
 comparable on
 the first day of
 the following
 fiscal month in
 which it reopens.

Percentage of net sales:	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	December 30, 2023		December 31, 2023	
	2023	2022	2023	2022
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales (excluding depreciation and amortization)	41.7 %	43.1 %	42.9 %	43.1 %
Gross profit	58.3 %	56.9 %	57.1 %	56.9 %

Selling, general, and administrative expenses (excluding depreciation and amortization)	52.0 %	48.2 %	51.8 %	46.0 %
Impairment charges	— %	— %	3.7 %	— %
Stock-based compensation	0.2 %	0.3 %	0.3 %	0.3 %
Pre-opening costs	0.4 %	0.2 %	0.2 %	0.1 %
Depreciation and amortization	5.4 %	3.9 %	5.1 %	3.6 %
Other expenses	0.1 %	— %	0.4 %	— %
Loss on disposal of assets	— %	0.0 %	0.0 %	0.0 %
Income (loss) from operations	0.2 %	4.2 %	(4.3)%	6.8 %
Interest expense, net	2.4 %	1.7 %	2.4 %	1.4 %
(Loss) income before taxes	(2.2)%	2.5 %	(6.7)%	5.4 %
Provision (benefit) for income taxes	0.8 %	0.8 %	(0.2)%	1.5 %
Net (loss) income	(3.0)%	1.7 %	(6.5)%	3.9 %
Operating data:				
Comparable store sales change for the period (1)	(16.8)%	(4.3)%	(18.9)%	(0.2)%
Number of stores at end of period	100	95	100	95
Non-GAAP measures (2):				
Adjusted EBITDA (3) \$	12,795	\$ 22,161	\$ 32,741	\$ 86,260
Adjusted net (loss) income (4) \$	(4,063)	\$ 4,109	\$ (13,831)	\$ 28,402
Adjusted net (loss) income per common share — diluted (4) \$	(0.08)	\$ 0.08	\$ (0.28)	\$ 0.57

(1) Comparable store sales includes all net sales from our TCS segment, except for (i) sales from stores open less than sixteen months, (ii) stores that have been closed permanently, (iii) stores that have been closed temporarily for more than seven days and (iv) C Studio sales to third parties. A store is included in the comparable store sales calculation on the first day of the sixteenth full fiscal month following the store's opening. When a store is relocated, we continue to consider sales from that store to be comparable store sales. A store permanently closed is not considered comparable in the fiscal month that it closes. A store temporarily closed for more than seven days is not considered comparable in the fiscal

month it is closed. The store then becomes comparable on the first day of the following fiscal month in which it reopens.

(2)

(2) We have presented in the table above Adjusted EBITDA, adjusted net income (loss), and adjusted net income (loss) per common share – diluted as supplemental measures of financial performance that are not required by, or presented in accordance with, accounting principles generally accepted in the United States of America ("GAAP"). We have presented Adjusted EBITDA, adjusted net loss, and adjusted loss 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 or
net 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 Leonard
Green and
Partners,
L.P. ("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
(3) and (4) of
this table for
further
information
regarding
why we
believe each
non-GAAP
measure
provides
useful

24

information
to investors
regarding our
financial
condition and
results of
operations,
as well as
the additional
purposes for
which
management
uses each
non-GAAP
financial
measure.

Additionally,
this
Management's
Discussion
and

Analysis
also refers to the change in 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, which is a financial measure not calculated in accordance with GAAP. The Company believes the disclosure of the change in Elfa third-party net sales without the effects of currency exchange rate fluctuations helps investors understand the Company's underlying performance.

(3) EBITDA and Adjusted EBITDA have been presented in this Quarterly Report on Form 10-Q as supplemental measures of

financial performance that are not required by, or presented in accordance with, GAAP. We define EBITDA as net income (loss) before interest, taxes, depreciation, and amortization. Adjusted EBITDA is calculated in accordance with our Secured Term Loan Facility (as defined below) and the Revolving Credit Facility (as defined below) 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.

EBITDA and
Adjusted
EBITDA are
included in
this
Quarterly
Report on
Form 10-Q
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 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 and
Adjusted
EBITDA are
not GAAP
measures of
our financial
performance
or liquidity
and should
not be
considered
as
alternatives
to net
income
(loss) as a
measure of
financial
performance
or cash
flows from

operations as a measure of liquidity, or any other performance measure derived in accordance with GAAP and they should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

Additionally,
EBITDA These non-GAAP measures are key metrics used by management, our Board of Directors, and **Adjusted EBITDA** are not intended LGP to be assess our financial performance. We present these non-GAAP measures of free cash flow for management's discretionary use, as because we believe they assist investors in

comparing
our
performance
across
reporting
periods on a
consistent
basis by
excluding
items that
we do not
reflect
certain cash
requirements
such as tax
payments,
debt service
requirements,
capital
expenditures,
store
openings believe
are
indicative of
our core
operating
performance
and
certain 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
cash costs
that may
recur interested
parties to
evaluate
companies
in the
future.

EBITDA and
Adjusted
EBITDA
contain
certain
other
limitations,
including
the failure to
reflect our
cash
expenditures,
cash
requirements
for working
capital
needs and
cash costs
to replace
assets
being
depreciated
and
amortized. industry.

In
evaluating
Adjusted
EBITDA, 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,
such as pre-
opening
costs and
stock-based
compensation
expense. presentation.

Our
presentation
of Adjusted
EBITDA 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
EBITDA and
Adjusted
EBITDA non-
GAAP
measures
supplementally.
Our **non-**
GAAP
measures of
EBITDA and
Adjusted
EBITDA are
not
necessarily
comparable
to other
similarly
titled
captions of
other
companies
due to
different

[Table of Contents](#)

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 loss, see "How we assess the performance of our business" above and "Non-GAAP Financial Measures" below. For more information regarding our use of adjusted net loss and adjusted net loss per common share—diluted, and a reconciliation of adjusted net loss and adjusted net loss per common share—diluted to the GAAP financial measures of net loss and diluted net loss per common share, see "How we assess the performance of our business" above and "Non-GAAP Financial Measures" below.

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

	Thirteen Weeks Ended	
	June 29, 2024	July 1, 2023
Net loss	\$(14,732)	\$(11,837)
Depreciation and amortization	10,873	10,512
Interest expense, net	5,468	4,967
Benefit for income taxes	(4,493)	(3,586)
EBITDA	(2,884)	56
Pre-opening costs ^(a)	747	185
Non-cash lease expense ^(b)	(132)	(174)
Long-lived asset impairment charges ^(c)	901	—
Stock-based compensation ^(d)	318	474
Foreign exchange losses (gains) ^(e)	2	(75)
Severance and retention charges ^(f)	53	2,453
Strategic alternatives fees ^(g)	1,632	—
Non-cash inventory reserve ^(h)	1,081	—
Adjusted EBITDA	\$ 1,718	\$ 2,919

(a)

Net (loss) income	Thirty-Nine Weeks			
	Thirteen Weeks Ended		Ended	
	December 30, 2023	December 31, 2022	December 30, 2023	December 31, 2022
	_____	_____	_____	_____
Net (loss) income	\$ (6,431)	\$ 4,168	\$(41,921)	\$ 30,394

Depreciation and amortization	11,532	9,952	32,427	28,507
Interest expense, net	5,151	4,389	15,356	11,395
Income tax provision (benefit)	1,651	2,127	(1,344)	11,857
EBITDA	<u>11,903</u>	<u>20,636</u>	<u>4,518</u>	<u>82,153</u>
Pre-opening costs (a)	849	430	1,583	1,049
Non-cash lease expense (b)	(573)	232	(902)	403
Impairment charges (c)	—	—	23,447	—
Stock-based compensation (d)	515	825	1,605	2,562
Foreign exchange losses (gains) (e)	(29)	38	(102)	30
Severance charges (f)	—	—	2,462	—
Elfa restructuring (g)	130	—	130	—
Acquisition-related costs (h)	—	—	—	63
Adjusted EBITDA	<u><u>\$12,795</u></u>	<u><u>\$22,161</u></u>	<u><u>\$ 32,741</u></u>	<u><u>\$86,260</u></u>

Non-capital expenditures associated with opening new stores and relocating stores, including 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 operating lease expense has been above or below our cash operating lease payments. The amount varies depending on the average age of our lease portfolio (weighted for size), as our GAAP operating lease expense on younger leases typically exceeds our cash operating lease payments, while our GAAP operating lease expense on older leases is typically less than our cash operating lease payments.

(c) Non-cash long-lived asset impairment charge was recorded in the first quarter of fiscal 2024 related to a store which has been identified for closure in fiscal 2024, which we do not consider in our evaluation

of ongoing performance.

(d) 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.

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

(f) Severance and retention charges recorded in other expenses in the first quarter of fiscal 2024 and 2023, which we do not consider in our evaluation of ongoing performance.

(g) Expenses associated with legal and professional fees related to our review of strategic alternatives incurred in the first

quarter of fiscal 2024, which we do not consider in our evaluation of ongoing performance.

(h) Non-cash charges related to lower of cost or market inventory reserve, which was recorded in the first quarter of fiscal 2024, which we do not consider in our evaluation of ongoing performance.

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

(b) Reflects the extent to which our annual GAAP operating lease expense has been above or below our cash operating lease payments. The amount varies depending on the average age of our lease portfolio (weighted for size), as our GAAP operating lease expense on younger leases typically exceeds our cash operating lease payments, while our GAAP operating lease expense on older leases is typically less than our cash operating lease payments.

(c) Non-cash goodwill impairment charge recognized in the second quarter of fiscal 2023, which we do not consider in our evaluation of ongoing performance.

(d) 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.

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

(f) Severance charges associated with the elimination of certain positions recorded in other expenses in the first and second quarters of fiscal 2023, which we do not consider in our evaluation of ongoing performance.

(g) Charges associated with the close-down of Elfa segment sales operations in Poland in the third quarter of fiscal 2023, which we do not consider in our evaluation of ongoing performance.

(h) Includes legal costs incurred in the second quarter of fiscal 2022 associated with the acquisition of Closet Works, all of which are recorded in selling, general, and administrative expenses, which we do not consider in our evaluation of ongoing performance.

(4) Adjusted net income (loss) and adjusted net income (loss) per common share – diluted have been presented in this Quarterly Report on Form 10-Q as supplemental measures of financial performance that are not required by, or presented in accordance with, GAAP. We define adjusted net income (loss) as net income (loss) before restructuring charges, severance charges, acquisition-related costs, impairment charges related to intangible assets, loss on extinguishment of debt, certain losses (gains) on disposal of assets, legal settlements and the tax impact of these adjustments and other unusual or infrequent tax items. We define adjusted net income (loss) per common share –

diluted as
adjusted net
income (loss)
divided by
the diluted
weighted
average
common
shares
outstanding.
We use
adjusted net
income (loss)
and adjusted
net income
(loss) per
common
share –
diluted to
supplement
GAAP
measures of
performance
to evaluate
the
effectiveness
of our
business
strategies, to
make
budgeting
decisions
and to
compare our
performance
against that
of other peer
companies
using similar
measures.
We present
adjusted net
income (loss)
and adjusted
net income
(loss) 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.

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

Numerator:	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	December 30, 2023		December 30, 2022	
Net (loss) income	\$ (6,431)	\$ 4,168	\$ (41,921)	\$ 30,394
Impairment charges (a)	—	—	23,447	—
Severance charges (b)	—	—	2,462	—
Elfa restructuring (c)	130	—	130	—

Acquisition-related costs				
(d)	—	—	—	63
Legal				
settlement (e)	—	—	—	(2,600)
Taxes (f)	2,238	(59)	2,051	545
Adjusted net				
(loss) income \$	(4,063) \$	4,109 \$	(13,831) \$	28,402
Denominator:				
Weighted-average common shares outstanding				
— basic	49,591,111	49,263,122	49,435,182	49,661,209
Weighted-average common shares outstanding				
— diluted	49,591,111	49,452,980	49,435,182	50,024,589
Net (loss) income per common share				
— diluted	\$ (0.13) \$	0.08 \$	(0.85) \$	0.61
Adjusted net (loss) income per common share				
— diluted	\$ (0.08) \$	0.08 \$	(0.28) \$	0.57

(a) Non-cash goodwill impairment charge recognized in the second quarter of fiscal 2023, which we do not consider in our evaluation of ongoing performance.

(b) Severance charges associated with the elimination of certain positions recorded in other expenses in the first and second quarters of fiscal 2023, which we do not consider in our evaluation of ongoing performance.

(c) Charges associated with the close-down of Elfa segment sales operations in Poland in the third quarter of fiscal 2023, which we do not consider in our evaluation of ongoing performance.

(d) Includes legal costs incurred in the second quarter of fiscal 2022 associated with the acquisition of Closet Works, all of which are recorded in selling, general and administrative expenses, which we do not consider in our evaluation of ongoing performance.

(e) The Company received a legal settlement, net of legal fees, in the second quarter of fiscal 2022, which we do not consider in our evaluation of ongoing performance. The amount is recorded as selling, general and administrative expenses.

(f) Tax impact of adjustments to net income (loss) that are considered to be unusual or infrequent tax items. For fiscal 2023, also includes \$2.6 million of discrete income tax expense recorded in the third quarter of fiscal 2023 related to the expiration of certain stock options granted in connection with our initial public offering in 2013, all of which we do not consider in our evaluation of ongoing performance.

	Thirteen Weeks Ended	
	June 29, 2024	July 1, 2023
Numerator:		
Net loss	\$ (14,732)	\$ (11,837)

Long-lived asset impairment charges ^(a)	901	—
Severance and retention charges ^(b)	53	2,453
Strategic alternatives fees ^(c)	1,632	—
Taxes ^(d)	(547)	(749)
Adjusted net loss	<u>\$ (12,693)</u>	<u>\$ (10,133)</u>
Denominator:		
Weighted-average common shares — basic and diluted	49,665,345	49,252,869
Net loss per common share — diluted	\$ (0.30)	\$ (0.24)
Adjusted net loss per common share — diluted	<u>\$ (0.26)</u>	<u>\$ (0.21)</u>

27

(a) Non-cash long-lived asset impairment charge was recorded in the first quarter of fiscal 2024 related to a store which has been identified for closure in fiscal 2024, which we do not consider in our evaluation of ongoing performance.

(b) Severance and retention charges recorded in other expenses in the first quarter of fiscal 2024 and 2023, which we do not consider in our evaluation of ongoing performance.

(c) Expenses associated with legal and professional fees

related to our review of strategic alternatives incurred in the first quarter of fiscal 2024, which we do not consider in our evaluation of ongoing performance.

(d) Tax impact of adjustments to net loss that are considered to be unusual or infrequent tax items, all of which we do not consider in our evaluation of ongoing performance.

**Thirteen Weeks
Ended December 30,
2023**

**Compared June 29,
2024 compared to
Thirteen Weeks
Ended December 31,
2022**

July 1, 2023

Net sales

The following table summarizes our net sales for each of the thirteen weeks ended

**December 30,
2023** June 29, 2024
and **December 31,
2022** July 1, 2023:

	December 30, 2023	% total	December 31, 2022	% total
TCS				
net				
sales	\$ 202,485	94.2 %	\$ 239,271	94.9 %
Elfa				
third-party				
net				
sales	12,414	5.8 %	12,965	5.1 %
Net				
sales	\$ 214,899	100.0 %	\$ 252,236	100.0 %

	June 29, 2024		July 1, 2023			
		% total		% total		
TCS						
net						
sales	\$171,512	94.3 %	\$195,127	94.2 %		
Elfa						
third-						
party						
net						
sales	10,349	5.7 %	11,985	5.8 %		
Net						
sales	\$181,861	100.0 %	\$207,112	100.0 %		

Net sales in the
thirteen weeks ended
**December 30,
2023** June 29, 2024
decreased
\$37,337, \$25,251, or
14.8% 12.2%
compared to the
thirteen weeks ended
**December 31,
2022** July 1, 2023.
This decrease was
comprised of the
following components:

Net sales	
Net sales for the thirteen weeks ended July 1, 2023	\$207,112
Incremental net sales (decrease) increase due to:	
Comparable store sales (including a \$7,230, or 25.6%, decrease in online sales)	(26,544)
Non- comparable sales	2,929
Elfa third- party net sales (excluding impact of foreign currency translation)	(1,482)

Impact of foreign currency translation on Elfa third-party net sales	<u>(154)</u>
Net sales for the thirteen weeks ended June 29, 2024	<u><u>\$181,861</u></u>

[Table of Contents](#)

Net sales	<u>_____</u>
Net sales for the thirteen weeks ended December 31, 2022	<u>\$252,236</u>
Incremental net sales (decrease)	
increase due to:	
Comparable store sales (including a \$8,169, or 26.3%, decrease in online sales)	<u>(39,807)</u>
Non- comparable sales	<u>3,021</u>
Elfa third- party net sales (excluding impact of foreign currency translation)	<u>(636)</u>
Impact of foreign currency translation on Elfa third-party net sales	<u>85</u>
Net sales for the thirteen weeks ended December 30, 2023	<u><u>\$214,899</u></u>

TCS net sales decreased **\$36,786** **\$23,615** or **15.4%** **12.1%**. Comparable store sales decreased **16.8%** **\$26,544** or **13.7%**, with led by general merchandise categories down **20.4%** **21.8%**, negatively impacting comparable store sales by **1,380** **1,440** basis points, and partially offset by a **1.9%** increase for Custom Spaces, down **9.2%**, negatively positively impacting comparable store sales by **300** **70** basis points. Non-comparable sales were **\$3,021** **\$2,929** during the thirteen weeks ended December 30, **2023** June 29, 2024. Elfa third-party net sales decreased **\$551** **\$1,636** or **4.2%** **13.7%** in the thirteen weeks ended December 30, **2023** June 29, 2024. After converting Elfa's third-party net sales from Swedish krona to U.S. dollars using the prior year's conversion rate for both the thirteen weeks ended December 30, **2023** June 29, 2024 and the thirteen weeks ended December 31, **2022** July 1, 2023, Elfa third-party net sales decreased **\$636** **\$1,482** or **4.9%** **12.4%**, primarily due to a decline in sales in Nordic markets.

Gross profit and gross margin

Gross profit in the thirteen weeks ended December 30,

2023 June 29, 2024
decreased
\$18,224, \$8,454, or
12.7% 7.4%,
compared to the
thirteen weeks ended
December 31,
2022 July 1, 2023.
The decrease in gross
profit was primarily
the result of
decreased
consolidated sales,
partially offset by an
increase in
consolidated gross
margin. The following
table summarizes
gross margin for the
thirteen weeks ended
December 30,
2023 June 29, 2024
and December 31,
2022 July 1, 2023 by
segment and
consolidated. The
segment gross
margins include the
impact of
intersegment net
sales from the Elfa
segment to the TCS
segment:

	December 30, 2023	December 31, 2022
TCS gross margin	57.6 %	57.2 %
Elfa gross margin	31.0 %	32.7 %
Consolidated gross margin	58.3 %	56.9 %

	June 29, 2024	July 1, 2023
TCS gross margin	57.9 %	54.5 %
Elfa gross margin	37.1 %	32.4 %
Consolidated gross margin	58.3 %	55.3 %

TCS gross margin
increased 40340
basis points primarily
due to lower freight
costs, partially offset
by
unfavorable decreased
promotional activity,
and favorable product
and services mix and
increased promotional
activity in the thirteen
weeks ended
December 30,
2023 June 29, 2024.
Elfa gross margin

decreased
170 increased 470
basis points
compared to the
third first quarter of
fiscal 2022 2023
primarily due to
unfavorable mix,
partially offset by
price increases to
customers. On a
consolidated basis,
gross margin
increased 140 300
basis points primarily
due to a higher mix of
Custom Spaces+
sales year over year
in lower freight costs
and decreased
promotional activity
during the thirteen
weeks ended
December 30,
2023 June 29, 2024.

28

**Selling, general and
administrative
expenses**

Selling, general and
administrative
expenses in the
thirteen weeks ended
December 30,
2023 June 29, 2024
decreased
\$9,720, \$6,030, or
8.0% 5.4%, compared
to the thirteen weeks
ended December 31,
2022 July 1, 2023.
The following table
summarizes SG&A as
a percentage of
consolidated net sales
for the thirteen weeks
ended December 30,
2023 June 29, 2024
and December 31,
2022 July 1, 2023:

	December 30, 2023	December 31, 2022
	% of Net sales	% of Net sales

TCS selling, general and administrative	49.0 %	45.6 %
Elfa selling, general and administrative	3.0 %	2.6 %
Consolidated selling, general and administrative	52.0 %	48.2 %

	June 29, 2024	July 1, 2023
	% of Net sales	% of Net sales
TCS selling, general and administrative	54.5 %	50.9 %
Elfa selling, general and administrative	3.4 %	2.9 %
Consolidated selling, general and administrative	57.9 %	53.8 %

Consolidated selling,
general and
administrative
expenses as a
percentage of
consolidated net sales
increased **380.410**
basis points, primarily
due to deleverage of
fixed costs on lower
sales and increased
marketing spend in
the **third** first quarter
of fiscal **2023** **2024** as
compared to the
third first quarter of
fiscal **2022**.

**Depreciation and
amortization**

Depreciation and
amortization
increased to
\$11,532 **2023**.

**Long-lived asset
impairment charges**

A non-cash long-lived
asset impairment
charge of \$901 was
recorded in the
thirteen weeks ended
December 30, 2023,
as compared **June 29**.

2024 related to
\$9,952 a store which
has been identified for
closure in fiscal 2024.

We did not record
long-lived asset
impairment charges in
the thirteen weeks
ended December 31,
2022 primarily
due July 1, 2023.

Other expenses

Consolidated other
expenses decreased
\$767 or 31.3%, to
capital investments in
stores and technology
in fiscal 2022.

Interest expense

Interest expense
increased by \$762, or
17.4% to
\$5,151 \$1,686, in the
thirteen weeks ended
December 30,
2023 June 29, 2024
as compared to
\$4,389 \$2,453 in the
thirteen weeks ended
December 31,
2022 July 1, 2023.
Other expenses in the
thirteen weeks ended
June 29, 2024 consist
of legal and
professional fees
related to our review
of strategic
alternatives.

[Table of Contents](#)

Interest expense

Interest expense
increased by \$501 or
10.1%, to \$5,468, in
the thirteen weeks
ended June 29, 2024
as compared to
\$4,967 in the thirteen
weeks ended July 1,
2023 primarily due to
higher borrowings
under the Revolving
Credit Facility and a
higher interest rate on

the Senior Secured Term Loan Facility and higher average borrowings on the Revolving Credit Facility.

Taxes

The provision benefit for income taxes in the thirteen weeks ended December 30, 2023 June 29, 2024 was \$1,651 \$4,493 as compared to \$2,127 a benefit of \$3,586 in the thirteen weeks ended December 31, 2022 July 1, 2023. The effective tax rate for the thirteen weeks ended December 30, 2023 June 29, 2024 was (34.5)% 23.4%, as compared to 33.8% 23.3% in the thirteen weeks ended December 31, 2022 July 1, 2023. The negative effective tax rate in the thirteen weeks ended December 30, 2023 was primarily related to the impact of discrete items related to share-based compensation on a pre-tax loss as compared to pre-tax income in the thirteen weeks ended December 31, 2022.

Thirty-Nine Weeks Ended December 30, 2023 Compared to Thirty-Nine Weeks Ended December 31, 2022

Net sales

The following table summarizes our net sales for each of the thirty-nine weeks ended December 30,

2023 and December
31, 2022:

	December 30, 2023	% total	December 31, 2022	% total
TCS				
net				
sales	\$ 606,137	94.5 %	\$ 745,914	94.7 %
Elfa				
third-party				
net				
sales	35,605	5.5 %	41,628	5.3 %
Net				
sales	\$ 641,742	100.0 %	\$ 787,542	100.0 %

29

Net sales in the thirty-nine weeks ended December 30, 2023 decreased \$145,800 or 18.5%, compared to the thirty-nine weeks ended December 31, 2022. This decrease was comprised of the following components:

	Net sales
Net sales for the thirty-nine weeks ended December 31, 2022	\$ 787,542
Incremental net sales decrease to:	
Comparable store sales (including a \$20,456, or 21.2%, decrease in online sales)	(139,763)
Non-comparable sales	(14)
Elfa third-party net sales (excluding impact of foreign currency translation)	(5,051)
Impact of foreign currency translation on Elfa third-party net sales	(972)
Net sales for the thirty-nine weeks ended December 30, 2023	<u>\$ 641,742</u>

TCS net sales decreased \$139,777 or 18.7%. Comparable store sales decreased 18.9%, with general merchandise categories down 20.5%, contributing 1,350 basis points of the decrease, combined with a decrease in Custom Spaces of 15.9%, contributing a negative impact of 540 basis points to comparable store sales. Non-comparable sales

decreased \$14 during the thirty-nine weeks ended December 30, 2023 primarily due to the discontinuation of C Studio third-party sales, partially offset by new store sales. Elfa third-party net sales decreased \$6,023 or 14.5% in the thirty-nine weeks ended December 30, 2023. After converting Elfa's third-party net sales from Swedish krona to U.S. dollars using the prior year's conversion rate for both the thirty-nine weeks ended December 30, 2023 and the thirty-nine weeks ended December 31, 2022, Elfa third-party net sales decreased \$5,051 or 12.1%, primarily due to a decline in sales in Nordic markets.

Gross profit and gross margin

Gross profit in the thirty-nine weeks ended December 30, 2023 decreased \$81,525, or 18.2% compared to the thirty-nine weeks ended December 31, 2022. The decrease in gross profit was primarily the result of a decrease in consolidated net sales partially offset by an increase in consolidated gross margin. The following table summarizes the gross margin for the thirty-nine weeks ended December 30, 2023 and December 31, 2022 by segment and consolidated. The segment gross margins include the impact of intersegment net sales from the Elfa segment to the TCS segment:

	December 30, 2023	December 31, 2022
TCS gross margin	56.4 %	56.9 %
Elfa gross margin	31.5 %	31.6 %
Consolidated gross margin	57.1 %	56.9 %

TCS gross margin
decreased 50 basis points
primarily due to increased
promotional activity and
unfavorable product and
services mix, partially
offset by lower freight
costs. **Elfa gross margin**
decreased 10 basis points
primarily due to
unfavorable mix, partially
offset by price increases
to customers. On a
consolidated basis, gross
margin increased 20
basis points compared to
the thirty-nine weeks
ended of fiscal 2022.

**Selling, general and
administrative expenses**

**Selling, general and
administrative expenses**
in the thirty-nine weeks
ended December 30, 2023
decreased \$29,633, or
8.2% compared to the
thirty-nine weeks ended
December 31, 2022. The
following table
summarizes SG&A as a
percentage of
consolidated net sales for
the thirty-nine weeks
ended December 30, 2023
and December 31, 2022:

	December 30, 2023 % of Net sales	December 31, 2022 % of Net sales
TCS selling, general and administrative	49.0 %	43.6 %
Elfa selling, general and administrative	2.8 %	2.4 %
Consolidated selling, general and administrative	51.8 %	46.0 %

Consolidated selling, general and administrative expenses as a percentage of consolidated net sales increased 580 basis points, with the increase primarily due to deleverage on fixed costs on lower sales in the thirty-nine weeks ended of fiscal 2023, and due to the benefit of the legal settlement received in the second quarter of fiscal 2022.

Goodwill impairment

A non-cash goodwill impairment charge of \$23,447 was recorded in the thirty-nine weeks ended December 30, 2023 as compared to zero in the thirty-nine weeks ended December 31, 2022. We completed an interim assessment of our goodwill balance as of September 30, 2023 in accordance with ASC 350 due to certain indicators identified during the second quarter of fiscal 2023. The interim assessment resulted in the Company recording a \$23,447 charge which represented

an impairment of the remaining goodwill balance in the TCS reporting unit as of September 30, 2023.

Depreciation and amortization

Depreciation and amortization increased to \$32,427 in the thirty-nine weeks ended December 30, 2023, as compared to \$28,507 in the thirty-nine weeks ended December 31, 2022 primarily due to capital investments in stores and technology in fiscal 2022.

Other expenses

Other expenses of \$2,589 were recorded in the thirty-nine weeks ended December 30, 2023 primarily related to severance costs associated with the previously announced elimination of certain positions. We did not record other expenses in the thirty-nine weeks ended December 31, 2022.

Interest expense

Interest expense increased by \$3,961, or 34.8%, in the thirty-nine weeks ended December 30, 2023 to \$15,356, as compared to \$11,395 in the thirty-nine weeks ended

December 31, 2022.
The increase is primarily due to a higher interest rate on the Senior Secured Term Loan Facility.

Taxes

The benefit for income taxes in the December 30, 2023 was (\$1,344) as compared to the provision for income taxes of \$11,857 in the thirty-nine weeks ended December 31, 2022. The effective tax rate for the thirty-nine weeks ended December 30, 2023 was 3.1%, as compared to 28.1% in the thirty-nine weeks ended December 31, 2022. The decrease in the effective tax rate was primarily related to the impact of discrete items related to share-based compensation on a pre-tax loss in the thirty-nine weeks ended December 30, 2023, as compared to pre-tax income in the thirty-nine weeks ended December 31, 2022.

Liquidity and Capital Resources

We have relied 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 2019 Elfa Senior
Secured Credit
Facilities (as defined
below) as our primary
sources of liquidity.

Our primary cash
needs are for
merchandise
inventories and
direct materials,
payroll, store leases,
capital expenditures
associated with
opening new stores
and updating
existing stores, as
well as information
technology and
infrastructure,
including our
distribution centers,
and manufacturing
facility
enhancements. The
most significant
components of our
operating assets
and liabilities are
merchandise
inventories,
accounts receivable,
prepaid expenses,
operating lease
assets and other
assets, accounts
payable, operating
lease liabilities,
other current and
noncurrent
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 promotional campaigns and the holiday season. In fiscal 2023, 2024, we expect total capital expenditures to be in the range of \$40,000 to \$45,000 for technology \$25,000

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31

infrastructure and software projects, existing store merchandising and refresh activities, our Elfa business, and mainly related to new store development, openings or relocations, as well as additional investments in technology and manufacturing infrastructure. The Company relocated one store and opened two new stores during the third fiscal first quarter of fiscal 2023 and 2024. The Company is on track to open two three new small format build-to-suit stores in and close one store for the remainder of fiscal 2023 and four new stores in fiscal 2024. We also plan to have one store closure and

one store relocation on fiscal 2024. We believe that cash expected to be generated from operations and the remaining availability of borrowings under the Revolving Credit Facility and the 2019 Elfa Revolving Facilities, as amended (as further discussed under "2019 Elfa Senior Secured Credit Facilities" below) 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.

On August 1, 2022, our board of directors approved a stock repurchase program with authorization to purchase up to \$30,000 of our common stock. Repurchases under the program may be made in the open market, in privately negotiated transactions or otherwise, with the

amount and timing of repurchases to be determined at our discretion, depending on market conditions and corporate needs.

Open market repurchases will be structured to occur in accordance with applicable federal securities laws, including within the pricing and volume requirements of Rule 10b-18 under the Securities Exchange

Act of 1934, as amended (the "Exchange Act"), amended. We

may also, from time to time, enter into Rule

10b5-1 plans to facilitate repurchases of our shares under this authorization.

This program does not obligate us to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at the discretion of our board of directors. We expect to fund repurchases with existing cash on hand. We did not repurchase any shares of our

common stock during the thirty-nine thirteen

weeks ended

December 30,

2023 June 29, 2024.

As of December 30,

2023 June 29, 2024,

\$25,000 remains available to repurchase common stock under the share repurchase program.

At December 30, 2023 June 29, 2024, we had

\$16,007 \$44,088 of cash, of which \$5,338 \$6,760 was

held by our foreign subsidiaries. In addition, we had

\$75,980 \$40,980 of additional availability

under the Revolving Credit Facility and approximately **\$7,645** **\$10,378** of additional availability under the 2019 Elfa Revolving Facilities (as defined below) as of **December 30**, **2023** **June 29, 2024**. There were **\$3,829** **\$3,930** in letters of credit outstanding under the Revolving Credit Facility and other contracts at that date.

[Table of Contents](#)

Cash flow analysis

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

	Thirteen Weeks Ended	
	June 29, 2024	July 1, 2023
Net cash used in operating activities	\$ (8,110)	\$ (2,988)
Net cash used in investing activities	(8,258)	(8,942)
Net cash provided by financing activities	39,417	16,961
Effect of exchange rate changes on cash	39	166
Net increase in cash	\$ 23,088	\$ 5,197
Free cash flow (Non-GAAP) ⁽¹⁾	<u>\$(16,709)</u>	<u>\$(11,886)</u>
	Thirty-Nine Weeks Ended	
	December 30, 2023	December 31, 2022

Net cash provided by operating activities	\$ 26,673	\$ 18,856
Net cash used in investing activities	(32,953)	(46,760)
Net cash provided by financing activities	15,065	19,603
Effect of exchange rate changes on cash	264	(191)
Net increase (decrease) in cash	\$ 9,049	\$ (8,492)
Free cash flow (Non-GAAP) (1)	\$ (6,703)	\$ (27,702)

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

(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** **(loss)** **loss** adjusted for non-cash items, including depreciation and amortization, stock-based compensation, and deferred taxes as well as the effect of changes in operating assets and liabilities.

Net cash **provided by** **used in** operating activities was **\$26,673** **\$8,110** for the **thirty-nine** **thirteen** weeks ended **December 30, 2023** **June 29, 2024** and was comprised of a net loss of **\$41,921** **\$14,732**, partially offset by non-cash items of **\$52,499** primarily due to the non-cash goodwill impairment charge recorded in the second quarter of fiscal 2023, as well as **\$8,568** and a net change in operating assets and liabilities of **\$16,095** primarily driven by a decrease in accounts payable and accrued liabilities due to the timing of receipts and payments.

\$1,946.

32

Net cash **provided by** **used in** operating activities was **\$18,856** **\$2,988** for the **thirty-nine** **thirteen** weeks ended **December 31, 2022** **July 1, 2023** and was comprised of a net **income** **loss** of **\$30,394** and **\$11,837**, partially offset by non-cash items of **\$32,410**, partially offset by **\$7,676** and a net change in operating assets and liabilities of **\$43,948**. The net change in operating assets and liabilities was primarily driven by a decrease in accounts payable and accrued liabilities due to the timing of payments.

\$1,173.

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

Investing activities consist primarily of capital expenditures for new store openings, existing store remodels and maintenance, infrastructure, information systems, and our distribution centers, and **manufacturing facilities, as well as investments and** proceeds in the Company's non-qualified retirement plan trust.

Net cash used in investing activities was **\$32,953** **\$8,258** for the **thirty-nine** **thirteen** weeks ended **December 30, 2023** **June 29, 2024**. Our total capital expenditures for the **thirty-nine** **thirteen** weeks ended **December 30, 2023** **June 29, 2024** were **\$33,376** **\$8,599**. We incurred capital expenditures of **\$16,700** **\$3,596** for technology investments. We incurred capital expenditures of **\$3,289** for investments in our stores. We incurred capital expenditures of **\$12,078** for technology investments. The remaining capital expenditures of **\$4,598** **\$1,714** were related to maintenance capital in manufacturing facilities and distribution centers. In addition, we had net **proceeds** **investments** of **\$422** from **\$289** in the non-qualified retirement plan **trust** and **\$52** in **proceeds** on **sales** of **assets**.

Net cash used in investing activities was **\$46,760** **\$8,942** for the

thirty-nine thirteen weeks ended December 31, 2022 July 1, 2023. Our total capital expenditures for the thirty-nine thirteen weeks ended December 31, 2022 July 1, 2023 were \$46,558. \$8,898. We incurred capital expenditures of \$24,150 \$2,589 for technology investments. investments. We incurred capital expenditures of \$17,108 \$5,323 for investments in our stores. The remaining capital expenditures of \$5,300 \$986 were related to maintenance capital in manufacturing facilities and distribution centers. In addition, we had net investments of \$238 \$128 in the non-qualified retirement plan trust.

Net cash provided by financing activities

Financing activities consist primarily of borrowings and payments under the Senior Secured Term Loan Facility, the Revolving Credit Facility, and the 2019 Elfa Senior Secured Credit Facilities.

Net cash provided by financing activities was \$15,065 \$39,417 for the thirty-nine thirteen weeks ended December 30, 2023 June 29, 2024. This included net borrowings of \$16,000 \$40,000 on the Revolving Credit Facility, and net borrowings of \$759 on the 2019 Elfa Senior Secured Credit Facilities, partially offset by repayments of \$1,550 \$543 on indebtedness outstanding under the Senior Secured Term Loan Facility and the 2019 Elfa

Senior Secured Term Loan Facility, and payments of \$144 \$40 in connection with the withholding of shares upon vesting of restricted stock awards.

Net cash provided by financing activities was \$19,603 \$16,961 for the thirty-nine thirteen weeks ended December 31, 2022 July 1, 2023. This included net borrowings of \$20,000 on the Revolving Credit Facility, combined with net borrowings partially offset by repayments of \$6,547 \$2,381 on the 2019 Elfa Senior Secured

[Table of Contents](#)

Credit Facilities, and proceeds of \$340 from the exercise of stock options, partially offset by share repurchases of \$5,000, repayments of \$1,572 \$518 on indebtedness outstanding under the Senior Secured Term Loan Facility and the 2019 Elfa Senior Secured Term Loan Facility, and payments of \$712 \$140 in connection with the withholding of shares upon vesting of restricted stock awards.

As of December 30, 2023 June 29, 2024, TCS we had a total of \$75,980 \$40,980 of unused borrowing availability and \$21,000 borrowings outstanding under the Revolving Credit Facility.

Facility and \$56,000 borrowings outstanding.

As of December 30, 2023 June 29, 2024, Elfa had a total of \$7,645 \$10,378 of unused borrowing availability and \$3,300 borrowings outstanding under the 2019 Elfa Revolving Facilities.

**Facilities and zero
borrowings outstanding.**

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

We present

The Company presents free cash flow, which we define the Company defines as net cash provided by operating activities in a period minus payments for property and equipment made in that period, because we believe 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

33

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.

Our free cash flow fluctuates as a result of seasonality of net sales, building inventory for key selling periods, and timing of investments in new store openings, existing store remodels **and maintenance**, infrastructure, information systems, and our distribution centers, among other things. Historically, our free cash flow has been lower in the first half of the fiscal year, due to lower net sales, operating income, and cash flows from operations, and as such, is not necessarily indicative of the free cash flow for the full year. We generated negative free cash flow of **\$6,703** **\$16,709** for the **thirty-nine** **thirteen** weeks ended **December 30, 2023** **June 29, 2024**, as compared to negative free cash flow of **\$27,702** **\$11,886** for the **thirty-nine** **thirteen** weeks ended **December 31, 2022** **July 1, 2023**.

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:

	Thirty-Nine Weeks Ended	
	December 30,	December 31,
	2023	2022
Net cash provided by operating activities	\$ 26,673	\$ 18,856

Less:	
Additions	
to	
property	
and	
equipment	(33,376) (46,558)
Free cash	
flow	\$ (6,703) \$ (27,702)

	Thirteen Weeks Ended	
	June 29, 2024	July 1, 2023
Net cash used in operating activities	\$ (8,110)	\$ (2,988)
Less:		
Additions to property and equipment	(8,599) (8,898)	
Free cash flow	<u><u>\$ (16,709)</u></u> <u><u>\$ (11,886)</u></u>	

***Senior Secured Term
Loan Facility***

On April 6, 2012, the Company, The Container Store, Inc. and certain of our 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 to date, the "Senior Secured Term Loan Facility"). On June 14, 2023, the Company entered into Amendment No. 8 (the "Eighth Amendment") to the Senior Secured Term Loan Facility. Pursuant to the terms of the Eighth Amendment, the parties agreed to replace the LIBOR-based interest rate applicable to borrowings under the Senior Secured Term Loan Facility with a SOFR-based interest rate, subject to adjustment as specified in the Eighth Amendment. The Company is required to make quarterly amortization payments of \$500 on the term loan facility, with the

remaining balance due on the maturity date of January 31, 2026. Prior to the date of delivery of a compliance certificate for the fiscal quarter ended December 30, 2023 June 29, 2024, the applicable interest rate margin for term benchmark loans was 4.75%, subject to a floor of 1.00%, and 3.75% for base rate loans and, thereafter, may step up to 5.00% for term benchmark loans and 4.00% for base rate loans unless the consolidated leverage ratio achieved is less than or equal to 2.75 to 1.00. As of December 30, 2023 June 29, 2024, the aggregate principal amount in outstanding borrowings under the Senior Secured Term Loan Facility was \$160,185 \$160,101 net of deferred financing costs, and the consolidated leverage ratio was approximately 2.8x. 3.8x

[Table of Contents](#)

The Senior Secured Term Loan Facility is secured by (a) a first priority security interest in substantially all of our assets (other assets other than the collateral that secures the Revolving Credit Facility described below on a first-priority basis and excluding stock in foreign subsidiaries in excess of 65%, assets of non-guarantors and subject to certain other exceptions) and (b) a second priority security interest in the assets securing the Revolving Credit Facility. Facility described below on a first-priority basis. Obligations under the Senior Secured Term Loan Facility are guaranteed by the Company and certain 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 Senior Secured Term Loan Facility contains certain cross-default provisions and requires certain mandatory prepayments of the loans thereunder upon the occurrence of specific events, including an Excess Cash Flow (as such term is defined in the Senior Secured Term Loan Facility) requirement. As of

34

December 30, 2023, June 29, 2024, we were in compliance with all covenants under the Senior Secured Term Loan Facility 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 Company, The Container Store, Inc. and certain of our 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 to date, the "Revolving Credit Facility"). On May 22, 2023, the Company entered into

Amendment No. 6 (the "Sixth Amendment"), pursuant to which the LIBOR-based interest rate applicable to borrowings under the Revolving Credit Facility was replaced with a SOFR-based interest rate, subject to adjustment as specified in the Sixth Amendment. The Revolving Credit Facility matures on the earlier of (a) November 25, 2025 and (b) October 31, 2025 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 **1.25% plus SOFR. Adjusted Term SOFR +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.

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 Company and certain 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 **December 30, 2023** June 29, 2024, we had \$56,000 borrowings outstanding and we were in compliance with all covenants under the Revolving Credit Facility and no Event of Default (as such term is defined in the Revolving Credit Facility) had occurred.

[Table of Contents](#)

2019 Elfa Senior Secured Credit Facilities

On April 1, 2014, Elfa entered into a master credit agreement with Nordea Bank AbpAB, filial i Sverige, which consisted of a term loan facility (the "2014 Elfa Term Loan Facility") and a revolving credit facility (the "2014 Elfa Revolving Credit Facility," and together with the 2014 Elfa Term Loan Facility, the "2014 Elfa Facilities"). On March 18, 2019, Elfa refinanced its master credit agreement with Nordea Bank AB entered into on April 1, 2014 and the senior secured credit facilities thereunder, and entered into a new master credit agreement with Nordea Bank Abp, filial i Sverige ("Nordea Bank"), which consists of (i) an SEK 110.0 million (approximately \$10,945, \$10,378, as of December 30, 2023 June 29, 2024) revolving credit facility (the "2019 Original Revolving Facility"), (ii) upon Elfa's request, an additional SEK 115.0 million (approximately \$11,436 \$10,849 as of December 30, 2023 June 29, 2024) revolving credit facility (the "2019 Additional Revolving Facility" and together with the 2019 Original Revolving Facility, the "2019 Elfa Revolving Facilities"), and (iii) an

uncommitted term loan
facility in the amount of
SEK 25.0 million
(approximately
\$2,487 \$2,359 as of

35

December 30, 2023), June 29, 2024), which is subject to receipt of Nordea Bank's commitment and satisfaction of specified conditions (the "Incremental Term Facility", together with the 2019 Elfa Revolving Facilities, the "2019 Elfa Senior Secured Credit Facilities"). The term for the 2019 Elfa Senior Secured Credit Facilities began on April 1, 2019 and, pursuant to an amendment entered into in April 2023, matures on March 31, 2025. Loans borrowed under the 2019 Elfa Revolving Facilities bear interest at Nordea Bank's base rate +1.40%. Any loan borrowed under the Incremental Term Facility would bear interest at the Stockholm Interbank Offered Rate (Stibor) +1.70%.

The 2019 Elfa Senior Secured Credit Facilities are secured by the majority of assets of Elfa. The 2019 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 Group Equity Ratio (as defined in the 2019 Elfa Senior Secured Credit

Facilities) of not less than 32.5% and (ii) a consolidated ratio of net debt to EBITDA (as defined in the 2019 Elfa Senior Secured Credit Facilities) of less than 3.20. As of **December 30, 2023** **June 29, 2024**, Elfa was in compliance with all covenants under the 2019 Elfa Senior Secured Credit Facilities and no Event of Default (as defined in the 2019 Elfa Senior Secured Credit Facilities) had occurred.

Critical accounting estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions about future events that affect amounts reported in our consolidated financial statements and related notes, as well as the related disclosure of contingent assets and liabilities at the date of the financial statements. A summary of our significant accounting policies is included in Note 1 to our annual consolidated financial statements in our **2022** **2023** Annual Report on Form 10-K.

Certain of our accounting policies and estimates are considered critical, as these policies and estimates are the most important to the depiction of our consolidated financial statements and require significant, difficult, or complex judgments, often about the effect of matters that are inherently uncertain. Such policies are summarized in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our **2022** **2023** Annual Report

on Form 10-K. As of
December 30, 2023 **June**
29, 2024, there were no
significant changes to any
of our critical accounting
policies and estimates.

Contractual obligations

There were no material
changes to our contractual
obligations from those
disclosed in our **2022** **2023**
Annual Report on Form **10-**
K, except with respect to
the lease amendment
described in Note 11 to our
unaudited consolidated
financial statements
included in Part I, Item I of
this Form 10-Q.

10-K.

***Recent Accounting
Pronouncements***

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

[Table of](#)

**ITEM 3. QUANTITATIVE
AND QUALITATIVE
DISCLOSURES ABOUT
MARKET RISK**

Not applicable.

**ITEM 4. CONTROLS AND
PROCEDURES**

***Limitations on
Effectiveness of Controls
and Procedures***

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are

36

resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of **December 30, 2023** **June 29, 2024**.

Changes in Internal Control

There were no changes in our internal control over

financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the quarter ended **December 30, 2023** **June 29, 2024** that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to various legal proceedings and claims, including employment claims, wage and hour claims, intellectual property claims, contractual and commercial disputes and other matters that arise in the ordinary course of business. While the outcome of these and other claims cannot be predicted with certainty, management does not believe that the outcome of these matters will have a material adverse effect on our business, results of operations or financial condition on an individual basis or in the aggregate.

For information about our legal proceedings, see Note **7** **6** of our unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

There have been no material changes to our risk factors as previously disclosed in Item 1A of Part

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

None.

**ITEM 3. DEFAULT UPON
SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY
DISCLOSURES**

Not applicable.

**ITEM 5.
OTHERINFORMATION**

During the thirteen weeks ended on December 30, 2023 June 29, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	File No.	Exhibit Date Herewith

3.1	Amended and Restated Certificate of Incorporation of The Container Store Group, Inc.	10-Q	001-36161	3.1	01/10/14	
3.2	Amended and Restated Bylaws of The Container Store Group, Inc.	8-K	001-36161	3.1	09/07/22	
10.1	The Seventh Amendment to Lease to the Office, Warehouse and Distribution Center Lease Agreement dated February 1, 2024.	8-K	001-36161	10.1	02/06/24	
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a).					
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a).					*
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350					*
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350					**

101.INS	Inline XBRL	
	Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	
101.SCH	Inline XBRL	**
	Taxonomy Extension Schema Document	*
101.CAL	Inline XBRL	*
	Taxonomy Calculation Linkbase Document	
101.DEF	Inline XBRL	*
	Taxonomy Extension Definition Linkbase Document	
101.LAB	Inline XBRL	*
	Taxonomy Extension Label Linkbase Document	
101.PRE	Inline XBRL	*
	Taxonomy Extension Presentation	
104	Cover Page Interactive Data File – formatted as Inline XBRL and contained in Exhibit 101	*

Incorporated by Reference

Exhibit Number	Exhibit Description	Filed/				Furnished Herewith
		File Form	No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of The Container Store Group. Inc.	10- Q	001- 36161	3.1	01/10/14	
3.2	Amended and Restated Bylaws of The Container Store Group. Inc.	8-K	001- 36161	3.1	09/07/22	
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)					
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)					*
32.1	Certification of the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350					*
32.2	Certification of the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350					**

101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document	**
101.SCH	Inline XBRL Taxonomy Extension Schema Document	*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document	*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document	*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document	*
101.PRE	Inline XBRL Taxonomy Extension Presentation	*
104	Cover Page Interactive Data File – formatted as Inline XBRL and contained in Exhibit 101	*

* Filed herewith.

** Furnished
herewith.

[Table of Contents](#)

SIGNATURES

Pursuant to the
requirements of the
Securities Exchange
Act of 1934, the
registrant has duly
caused this report to be
signed on its behalf by
the undersigned
thereunto duly
authorized.

The Container Store
Group, Inc.

(Registrant)

Date: /s/ Jeffrey
February A. Miller
7, 2024

August 7,
2024 _____
Jeffrey
A.
Miller

Chief Financial
Officer (duly
authorized officer
and Principal
Financial Officer)

Date: \s\ Kristin
February Schwertner
7, 2024

August
7, 2024

Kristin
Schwertner
Chief Accounting
Officer (Principal
Accounting Officer)

39
33

Exhibit 31.1

CERTIFICATIONS

I, Satish Malhotra, certify
that:

1. I have reviewed
this Quarterly
Report on Form 10-
Q of The Container
Store Group, Inc.;

2. Based on my
knowledge, this
report does not
contain any untrue
statement of a
material fact or omit
to state a material
fact necessary to
make the
statements made,
in light of the
circumstances
under which such
statements were
made, not
misleading with
respect to the
period covered by
this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to

ensure
that
material
information
relating
to the
Registrant,
including
its
consolidated
subsidiaries,
is
made
known
to us
by
others
within
those
entities,
particularly
during
the
period
in
which
this
report
is
being
prepared;

- b) Designed
such
internal
control
over
financial
reporting,
or
caused
such
internal
control
over
financial
reporting
to be
designed
under
our
supervision,
to
provide
reasonable
assurance
regarding
the
reliability
of
financial
reporting
and
the

preparation
of
financial
statements
for
external
purposes
in
accordance
with
generally
accepted
accounting
principles;

c) Evaluated
the
effectiveness
of the
registrant's
disclosure
controls
and
procedures
and
presented
in this
report
our
conclusions
about
the
effectiveness
of the
disclosure
controls
and
procedures,
as of
the
end of
the
period
covered
by this
report
based
on
such
evaluation;
and

d) Disclosed
in this
report
any
change
in the
registrant's
internal

control
over
financial
reporting
that
occurred
during
the
registrant's
most
recent
fiscal
quarter
(the
registrant's
fourth
fiscal
quarter
in the
case
of an
annual
report)
that
has
materially
affected,
or is
reasonably
likely
to
materially
affect,
the
registrant's
internal
control
over
financial
reporting;
and

5. The registrant's
other certifying
officer and I have
disclosed, based on
our most recent
evaluation of
internal control over
financial reporting,
to the registrant's
auditors and the
audit committee of
the registrant's
board of directors
(or persons
performing the
equivalent
functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **February** /s/ Satish
7, 2024 Malhotra
August 7, 2024 _____
Satish
Malhotra
*President
and Chief
Executive
Officer*

Exhibit 31.2

CERTIFICATIONS

I, Jeffrey A. Miller, certify
that:

1. I have reviewed
this Quarterly
Report on Form 10-
Q of The Container
Store Group, Inc.;

2. Based on my
knowledge, this
report does not
contain any untrue
statement of a
material fact or omit
to state a material
fact necessary to
make the
statements made,
in light of the
circumstances
under which such
statements were
made, not
misleading with
respect to the
period covered by
this report;

3. Based on my
knowledge, the

financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information

relating
to the
Registrant,
including
its
consolidated
subsidiaries,
is
made
known
to us
by
others
within
those
entities,
particularly
during
the
period
in
which
this
report
is
being
prepared;

- b) Designed
such
internal
control
over
financial
reporting,
or
caused
such
internal
control
over
financial
reporting
to be
designed
under
our
supervision,
to
provide
reasonable
assurance
regarding
the
reliability
of
financial
reporting
and
the
preparation
of
financial
statements

for
external
purposes
in
accordance
with
generally
accepted
accounting
principles;

c) Evaluated
the
effectiveness
of the
registrant's
disclosure
controls
and
procedures
and
presented
in this
report
our
conclusions
about
the
effectiveness
of the
disclosure
controls
and
procedures,
as of
the
end of
the
period
covered
by this
report
based
on
such
evaluation;
and

d) Disclosed
in this
report
any
change
in the
registrant's
internal
control
over
financial
reporting

that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and

material
weaknesses
in the
design
or
operation
of
internal
control
over
financial
reporting
which
are
reasonably
likely
to
adversely
affect
the
registrant's
ability
to
record,
process,
summarize
and
report
financial
information;
and

b) Any
fraud,
whether
or not
material,
that
involves
management
or
other
employees
who
have a
significant
role in
the
registrant's
internal
control
over
financial
reporting.

Date: /s/ Jeffrey A.
February 7, Miller
2024
August 7,
2024

Jeffrey A.
Miller
Chief
Financial
Officer

Exhibit 32.1

**CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT
TO
SECTION 906 OF THE
SARBANES-OXLEY ACT
OF 2002**

I, Satish Malhotra, Chief Executive Officer of The Container Store Group, Inc. (the "Company"), hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

(1) The Quarterly Report on Form 10-Q of the Company for the period ended December 30, 2023 June 29, 2024 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act

of 1934, as
amended; and

(2) The
information
contained in
the Report
fairly presents,
in all material
respects, the
financial
condition and
results of
operations of
the Company.

February/August /s/ Satish

7, 2024 Malhotra

Satish

Malhotra

*President
and Chief
Executive
Officer*

Exhibit 32.2

**CERTIFICATION
PURSUANT TO**

18 U.S.C. SECTION 1350,

**AS ADOPTED PURSUANT
TO**

**SECTION 906 OF THE
SARBANES-OXLEY ACT
OF 2002**

I, Jeffrey A. Miller, Chief
Financial Officer of The
Container Store Group, Inc.
(the "Company"), hereby
certify, pursuant to 18
U.S.C. §1350, as adopted
pursuant to §906 of the
Sarbanes-Oxley Act of
2002, that, to the best of my
knowledge:

(1) The Quarterly Report on Form 10-Q of the Company for the period ended **December 30, 2023** **June 29, 2024** (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

February **August** /s/ Jeffrey

7, 2024

A. Miller

Jeffrey A.

Miller

*Chief
Financial
Officer*

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ACTUAL
SEC
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BEFORE
MAKING
ANY
INVESTMENT
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