

MICHAELS STORES INC  
Form S-1  
March 30, 2012

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**As filed with the Securities and Exchange Commission on March 30, 2012**

**Registration No. 333-**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM S-1  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**MICHAELS STORES, INC.**

(Exact name of registrant as specified in its charter)

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

**5945**  
(Primary standard industrial  
classification code number)

**75-1943604**  
(I.R.S. employer  
identification number)

**8000 Bent Branch Drive  
Irving, Texas 75063  
Telephone: (972) 409-1300**  
(Address, including zip code, and telephone number, including area code, of registrant's principal executive  
offices)

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**Charles M. Sonsteby  
Chief Administrative Officer and Chief Financial Officer  
8000 Bent Branch Drive  
Irving, Texas 75063  
Telephone: (972) 409-1300**  
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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New York, New York 10017  
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**Approximate date of commencement of proposed sale to the public:**

As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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

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

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Proposed Maximum Aggregate Offering Price(1)(2)</b>	<b>Amount of Registration Fee</b>
Common Stock, par value \$0.10 per share	\$500,000,000	\$57,300

(1)

Includes shares to be sold upon exercise of the underwriters' option to purchase additional shares of Common Stock. See "Underwriting".

(2)

Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(o) of the Securities Act of 1933, as amended.

**The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and we are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject to Completion, Dated March 30, 2012**

**Prospectus**

## **Shares**

### **Michaels Stores, Inc.**

### **Common Stock**

This is an initial public offering of shares of Common Stock of Michaels Stores, Inc. We are offering \_\_\_\_\_ shares of Common Stock. We currently anticipate the initial public offering price will be between \$ \_\_\_\_\_ and \$ \_\_\_\_\_ per share. Since November 2006 and prior to this offering, there has been no public market for our Common Stock.

We intend to list our Common Stock on the New York Stock Exchange, subject to notice of issuance, under the symbol "MIK".

	<b>Per share</b>	<b>Total</b>
Initial public offering price	\$ _____	\$ _____
Underwriting discounts and commissions	\$ _____	\$ _____
Proceeds to us before expenses	\$ _____	\$ _____

Delivery of the shares of Common Stock is expected to be made on or about \_\_\_\_\_, 2012. The selling stockholders identified in this prospectus have granted the underwriters an option for a period of 30 days to purchase, on the same terms and conditions as set forth above, up to an additional \_\_\_\_\_ shares of our Common Stock.

**Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.**

**Investing in our Common Stock involves risks. See "Risk Factors" beginning on page 14 to read about factors you should consider before buying shares of our Common Stock.**

The underwriters expect to deliver the shares of Common Stock on or about \_\_\_\_\_, 2012.

**J.P. Morgan**

**Goldman, Sachs & Co.**

**Barclays**

**Deutsche Bank Securities**

**BofA Merrill Lynch**

**Credit Suisse**

**Morgan Stanley**

**Wells Fargo Securities**

, 2012.

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You should rely only on the information contained in this prospectus or in any free writing prospectus that we authorize be distributed to you. We have not, and the underwriters have not, authorized anyone to provide you with additional or different information. This document may only be used where it is legal to sell these securities. You should assume that the information contained in this prospectus is accurate only as of the date of this prospectus.

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## **Note Regarding Trademarks and Service Marks**

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business, including, without limitation, "Aaron Brothers", "Aaron Brothers Art & Framing", "Artistree", "Michaels", "Michaels the Arts and Crafts Store", "Recollections", the stylized "Timeframe" logo, "Where Creativity Happens", and the stylized Michaels logos. We are registering or have registered our primary private brands including Artist's Loft, ArtMinds, Celebrate It, Creatology, Craft Smart, Recollections, Loops & Threads, Studio Décor, Bead Landing, Imagin8, MiDesign@Michaels, and Ashland, and various sub-brands associated with these primary marks. Solely for convenience, some of the trademarks, service marks and trade names referred to in this prospectus are listed without the ©, ® and symbols, but we will assert, to the fullest extent under applicable law, our rights to our copyrights, trademarks, service marks, trade names and domain names. The trademarks, service marks and trade names of other companies appearing in this prospectus are, to our knowledge, the property of their respective owners.

## **Note Regarding Market and Industry Data**

Industry and market data included in this prospectus were obtained from our own internal data, data from industry trade publications and groups, consumer research and marketing studies and, in some cases, are management estimates based on industry and other knowledge and experience in the markets in which we operate. Our estimates have been based on information obtained from our suppliers, customers, trade and business organizations and other contacts in the markets in which we operate, including the Craft & Hobby Association and Interbrand. We believe these estimates to be accurate as of the date of this prospectus. However, we cannot always verify this information with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in a survey of market size.

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## Prospectus Summary

*This summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our Common Stock. You should read the entire prospectus, including the more detailed information and the financial statements appearing elsewhere in this prospectus and the section entitled "Risk Factors". Unless the context otherwise requires, the terms "Michaels", "our company", "the Company", "we", "us", "our" and the like refer to Michaels Stores, Inc. and its consolidated subsidiaries. Unless otherwise indicated, (i) the information provided in this prospectus assumes the underwriters' option to purchase additional shares is not exercised and (ii) references to our Common Stock contained in this prospectus give effect to a \_\_\_\_\_-for-one stock split effected on \_\_\_\_\_, 2012.*

*We report on the basis of a 52- or 53-week fiscal year, which ends on the Saturday closest to January 31. References to fiscal year mean the year in which that fiscal year began. Fiscal 2011 ended on January 28, 2012, fiscal 2010 ended on January 29, 2011 and fiscal 2009 ended on January 30, 2010. Each of these three fiscal years contained 52 weeks.*

## Our Company

We believe Michaels is where creativity happens. With 1,196 stores (consisting of 1,066 Michaels stores and 130 Aaron Brothers stores) and \$4.2 billion in sales in fiscal 2011, Michaels is the largest arts and crafts specialty retailer in North America. We have approximately as many stores as our two largest direct competitors combined. Our mission is to inspire and enable customer creativity, create a fun and rewarding place to work, foster meaningful connections with our communities and lead the industry in growth and innovation. With crafting classes, store events, project sheets, store displays, mobile applications and proprietary online content, we believe we offer the most complete arts and crafts experience and are the preferred destination in the industry.

We focus on building strong customer relationships through our innovative merchandise offering, engaging store experience and multi-channel marketing. Our stores are at the heart of our customer engagement strategy, showcasing our artistic and creative products and providing an opportunity for our knowledgeable store associates to interact with customers and help them develop creative ideas. We carry a broad and deep assortment of approximately 35,000 stock-keeping units ("SKUs") in arts, crafts, scrapbooking, floral, framing, home décor, seasonal offerings and children's hobbies that enable us to satisfy the diverse needs of our customers. In recent years, we have capitalized on our market-leading scale to create a team and infrastructure dedicated to designing, sourcing and delivering high quality, on-trend merchandise, including a growing number of products under our portfolio of private brands. These private branded products, which represented approximately 44% of total Net sales in fiscal 2011, are only available at Michaels and allow us to further differentiate our merchandise while enhancing product margins. We believe our compelling store experience and broad product offering distinguish us from our competitors, drive customer loyalty, increase the frequency of customer visits and position Michaels as the brand that defines arts and crafts.



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In recent years, our experienced management team has undertaken a series of transformative initiatives designed to enhance the strength of our business and our potential for future growth. Our primary initiatives include:

Enhancing our store experience

Initiating a comprehensive digital marketing campaign

Reinventing our approach to merchandising and sourcing to introduce on-trend products and improve margins

Launching several high-quality private branded product lines

Developing new store formats to facilitate expansion

Building an online platform to strengthen customer engagement

## **Financial Performance**

We believe the strength of our business model and the impact of our initiatives have delivered accelerating sales growth and operating margin improvement. We believe these strong results place us among the best performers in the specialty retail sector and create a foundation for future growth.

Our sales in fiscal 2011 reached \$4.2 billion, an increase of 4.4% over fiscal 2010, driven by comparable store sales growth of 3.2%. Our strong sales growth in fiscal 2011 followed positive trends in fiscal 2010, when sales increased 3.7% over fiscal 2009, including comparable store sales growth of 2.5%. Sales have grown at a 4.1% compound annual growth rate ("CAGR") since fiscal 2009

Our resilient business model has generated positive year-over-year sales growth in 17 of the last 20 quarters and 10 consecutive quarters of positive comparable store sales growth

During fiscal 2011, we achieved operating income of \$569 million, an improvement of 16.6% from fiscal 2010, which was 22.9% higher than fiscal 2009. Operating income has grown at a 19.7% CAGR since fiscal 2009

Operating margin expanded by 140 basis points from fiscal 2010 to fiscal 2011. Since fiscal 2009, operating margin has improved by 340 basis points, driven by growth in our private brand sales, strategic sourcing and pricing initiatives, improved inventory management and expense control

## **Our Industry and Our Customer**

We operate within the large, growing and fragmented arts and crafts industry. According to the Craft & Hobby Association's ("CHA") 2011 Attitude & Usage Study, the arts and crafts industry generated approximately \$30.3 billion in sales for the twelve months ended June 30, 2011, up from \$27.3 billion in sales for the twelve months ended December 31, 2008, representing a CAGR of 4.3%. Separately, we estimate the total size of the U.S. framing industry in 2011 was approximately \$3.0 billion. According to CHA, our industry remains highly fragmented as multi-store chains only comprise approximately 39% of the market. The balance



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consists of mass merchants, discounters, independent operators and online retailers. According to data from CHA, multi-store chains, of which Michaels is the largest, increased their market share by approximately 3% in 2011 compared to 2010.

Our core customer is an important driver of our success. Based on an internal study, we believe our typical customer is female (77% are women), spans a broad age range (69% are under 56, with 50% between the ages of 36 and 55), and has a median household income of approximately \$75,000.

According to CHA, arts and crafts participation rates among U.S. households remained consistently between 56% and 57% from 2006 to 2010, before increasing to 58% for the twelve months ended June 30, 2011, which represented over 66 million households. We believe the broad, multi-generational appeal, high personal attachment and the low-cost, project-based nature of crafting creates a loyal, resilient following.

## **Our Competitive Strengths**

### **Leading Market Position in an Attractive Industry**

We believe our leading market position provides us with a number of advantages relative to our competitors and positions us to continue to capture market share. First, our scale allows us to invest in product sourcing and innovation as well as proprietary store and online content, which we believe differentiate us from local and regional arts and crafts retailers. Second, the breadth and depth of our assortment, combined with a large share of private branded products, strengthens our competitive position relative to mass merchants, which devote only a small portion of shelf space to the category. Third, the desire of arts and crafts customers to view and handle our products before purchase while engaging with our store associates provides us with an advantage over e-commerce competitors.

### **Sophisticated Global Sourcing and Innovation Capabilities**

Our infrastructure and internal product development and global sourcing team position us to continue delivering a differentiated level of innovation, quality and value to our customers. Through constant interaction with our customers, we are able to anticipate and respond to their needs by introducing fresh and inspirational products in a timely manner. Our global sourcing network allows us to control new product introductions, maintain quality standards, monitor delivery times, and manage product costs and inventory levels in order to enhance profitability. Further, through our wholly-owned subsidiary Artistree, we operate a vertically integrated custom frame design and manufacturing business, which delivers high-quality framing products at competitive prices while capturing both manufacturing and retail margins.

### **Industry Defining Brands**

We believe Michaels is the leading brand in the arts and crafts category. We are the only arts and crafts retailer named on Interbrand's list of Best Retail Brands in the U.S., ranking 27<sup>th</sup> in 2012.

The strength of the Michaels brand reflects, in part, our ability to offer unique merchandise at a compelling value. We believe products offered under our internally developed portfolio of 10 private brands are of equal or better quality than third party branded products and generate higher gross margins. In fiscal 2011, sales of our private brands exceeded \$1.8 billion, representing approximately 44% of total Net sales.

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**Highly Effective Customer Engagement Strategy**

We engage with our customers through a data-driven, multi-channel communication strategy. Our marketing approach has expanded beyond the primary use of newspaper circulars to an integrated strategy using multiple forms of media, including digital display, search, social media, direct marketing and high profile television tie-ins. Our nationally coordinated store classroom program offers a broad curriculum of hands-on instruction. We successfully grew total classroom participation to 355,000 in fiscal 2011 from 257,000 in fiscal 2009. We enhanced our sales associate training program to improve their product knowledge and customer engagement skills, and we re-engineered the store labor model to increase time spent with customers. We also launched new business initiatives that provide additional outlets to purchase our products, including BuyTheBunch, a special order platform designed to accommodate large quantity orders, and MiDesign@Michaels, which includes our online Photo Creations and Custom Invites applications.

Our customer engagement strategy provides us with a deep understanding of customers' buying criteria, including assortment, brand and price. This strategy enables us to be a source of ideas and creativity, which ultimately increases loyalty and comparable store sales growth. Further, we believe our use of the Internet as both a targeted marketing tool and design platform complements our store experience and opens up additional avenues to engage with our customers. The initial success of these strategies is reflected in improved customer satisfaction scores as measured through our internal customer satisfaction surveys.

**Strong Cash Flow Generation**

Our ability to deliver consistent financial performance, including the generation of annual net cash from operations in excess of \$400 million in each of the last three fiscal years, allows us to take advantage of the opportunities listed above, as well as invest in new initiatives to drive continued growth.

**Experienced Management Team**

Our current management team has developed and led the execution of recent strategic and operating initiatives that have driven our strong performance. This team has a unique combination of leadership and experience across multiple retail operations and consumer product companies.

**Our Business Strategy**

We intend to strengthen our position in the marketplace by executing store, marketing and merchandising initiatives through the following strategies:

**Drive Comparable Store Sales Growth**

*Engaging with Our Customers*

We will continue to enhance our customer engagement strategy to improve our brand positioning, increase traffic to our stores, build customer loyalty and generate sustainable long-term sales growth. For example, we analyze transaction information to develop tailored product offerings and communications to better serve our customers. We also develop multi-channel marketing solutions based on customer-specific behavior and capitalize on our growing database of customers to offer targeted emails and loyalty initiatives. This email database has

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grown to more than 10 million customers at the end of fiscal 2011 from six million one year prior.

*Compelling Store Experience*

We will further enhance our store experience in order to drive increases in store visits and units per transaction, as well as expand our customer base. Our new store labor model realigns tasks to create dedicated customer service teams without adding ongoing labor hours. These teams are able to engage with customers more directly to deliver value-added services, project ideas and product-based solutions. Furthermore, our stores and classrooms have increasingly become a popular destination for a variety of events such as birthday parties, children's seasonal crafting programs and school field trips. These initiatives strengthen our relationship with customers, create new opportunities to visit our stores and attract new customers to the Michaels experience.

*Providing Differentiated and Inspiring Merchandise*

We will continue to leverage our 115-person internal product development and global sourcing team to consistently introduce new and on-trend products, drive customers to our stores and increase sales. This includes working with our vendor partners to introduce a significant amount of new product into our assortment on a consistent basis, with more than 50 major merchandise resets and approximately 20% new product each year.

*Expanding Connections with Growing and Attractive Customer Segments*

We will expand our business by engaging with growing and attractive customer segments by building connections with the Michaels brand through tailored products and marketing initiatives. For example, we are expanding our offering to the growing Hispanic customer base with culturally relevant products, multilingual packaging, classes in Spanish and celebrating key events such as Quinceañeras. We are also increasing our focus on customers between the ages of eight and 18 ("Tweens" and "Teens") by introducing products in categories that appeal to this age group such as jewelry, apparel and scrapbooking, while hosting store events catering to this segment.

**Expand Multi-Channel Business Platform**

*Driving Store Growth*

Based on our detailed market-by-market analysis, we believe there is a significant opportunity for continued new store growth, with the potential for at least 1,500 Michaels stores in our existing formats in North America. Over the past five years we have opened 214 stores, including 52 relocations, and expanded our store format beyond the traditional suburban box to include two new store prototypes focused on urban and smaller markets. These new prototypes allow us to open locations in markets we had not previously targeted. Based on the performance of recently opened stores, we believe our new traditional-format stores will produce attractive returns on our investment with a pre-tax payback period of approximately three years.

During fiscal 2012, we anticipate opening 45 to 50 new Michaels stores, which includes 10 to 15 relocations, 10 to 15 new urban and small-market formats, as well as seven stores in Québec. We will continue to monitor the success of our new store formats and evaluate opportunities to further penetrate existing markets. Our management team has extensive

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experience operating international retail concepts, and we believe that our model would translate well to other international markets. We expect our fiscal 2012 and future store openings will be funded primarily by our strong cash flow.

*Building New Businesses*

We continue to create new business lines to enhance our offering, create new opportunities to engage customers and generate incremental sales. For example, in fiscal 2011, we launched two new multi-channel business offerings: BuyTheBunch and MiDesign@Michaels. BuyTheBunch is our new special order platform that offers customers the opportunity to place large quantity orders at their local store. MiDesign@Michaels is a multi-channel complement to our stores featuring Photo Creations, which includes our digital scrapbooking application, and Custom Invites, which offers creative invitations and custom accessories. These offerings represent initial steps toward building a transaction-based e-commerce presence to capitalize on the strength of the Michaels brand.

**Enhance Operating Margins and Cash Flow**

*Private Brand and Global Sourcing Initiatives*

We plan to increase the penetration of our private branded products assortment and believe additional opportunities exist through global sourcing and product design to reduce costs and balance value, selection and new product introductions. We will continue to replace third party offerings with our private branded products to enhance our gross margin. In addition to capitalizing on our direct sourcing capabilities, increasing our private brand offerings will allow us to more effectively tailor our products to customer tastes, control costs and manage our supply chain.

*Pricing and Promotional Strategies*

We will continue to leverage our sophisticated understanding of customer demands and improve our merchandising systems to deliver promotions that enhance customer value and improve margin. Our refined promotional models can be customized at the store level to better capture the price elasticity of our products and target promotional messages to customers. Our analytically-based promotional strategy allows us to optimize offer types to our mass and targeted marketing channels.

*Operating Leverage*

As we continue to grow, we will seek to further benefit from our scale and the infrastructure and capabilities we have developed to support our store network. Since fiscal 2009, we have been able to leverage our scale to reduce Selling, general and administrative expenses as a percentage of sales by 100 basis points.

**Our History**

Michaels Stores, Inc. was incorporated in Delaware in 1983 and is headquartered in Irving, Texas. On October 31, 2006, substantially all of the Common Stock of Michaels Stores, Inc. was acquired through a merger transaction (the "Merger") by affiliates of two investment firms, Bain Capital Partners, LLC and The Blackstone Group L.P. (collectively, together with their applicable affiliates, the "Sponsors"), with certain shares retained by affiliate investment funds managed by Highfields Capital Management LP (then-existing shareholders of Michaels

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Stores, Inc.). As a result of the Merger, Michaels Holdings LLC, an entity controlled by our Sponsors, currently owns approximately 93% of our outstanding Common Stock.

**Summary Risk Factors**

While we believe our company benefits from the competitive strengths and market opportunities described above, our ability to successfully operate our business and execute our business strategy is subject to numerous risks. You should carefully consider all of the information set forth in this prospectus and, in particular, you should evaluate the risk factors in the "Risk Factors" section of this prospectus before deciding whether to invest in our Common Stock. Among the important risks relating to our business and our ability to successfully execute our business strategy are the following:

General economic factors and changes in consumer preference may adversely affect our performance

Our significant reliance on foreign suppliers, particularly those located in China, increases our risk of obtaining adequate, timely, and cost-effective product supplies

Our substantial debt could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk associated with our variable rate debt, prevent us from meeting our obligations under our notes and credit facilities and limit our flexibility in operating our business

If we are unable to continue expanding our store base, our ability to increase our sales, profitability, and cash flow could be impaired

Damage to the reputations (whether or not justified) of our brand names could arise from product failures, litigation or various forms of adverse publicity, especially in social media outlets, and may generate negative customer sentiment, potentially resulting in a reduction in our sales and earnings

If a supplier fails us, transitioning to other qualified vendors could affect our revenue and gross profit

Product recalls or product liability could adversely impact our financial condition

Our cost of merchandise could be adversely affected by significant increases in inflation or commodity prices

The risks described above and other risks we face are described in further detail under the "Risk Factors" section of this prospectus, which you should carefully review.

**The Sponsors**

Bain Capital, LLC ("Bain Capital") ([www.baincapital.com](http://www.baincapital.com)) is a global private investment firm that, together with its affiliates (including Bain Capital Partners, LLC) manages several pools of capital including private equity, venture capital, public equity, credit products and absolute return with approximately \$60 billion in assets under management. Since its inception in 1984, Bain Capital has made private equity investments and add-on acquisitions in more than 300





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companies in a variety of industries around the world. Bain Capital consumer and retail private equity investments have included such leading businesses as Toys "R" Us, Bright Horizons Family Solutions, Dollarama, Burlington Coat Factory, Dunkin' Brands and Gymboree. Headquartered in Boston, Bain Capital has offices in New York, Chicago, London, Munich, Hong Kong, Palo Alto, Shanghai, Tokyo and Mumbai.

The Blackstone Group L.P. ("The Blackstone Group") is one of the world's leading investment and advisory firms. The Blackstone Group seeks to create positive economic impact and long-term value for its investors, the companies it invests in, the companies it advises and the broader global economy. The Blackstone Group does this through the commitment of its extraordinary people and flexible capital. The Blackstone Group's alternative asset management businesses, which collectively had total assets under management of \$166 billion as of December 31, 2011, include the management of private equity funds, real estate funds, hedge fund solutions, and credit businesses. Assets under management in The Blackstone Group private equity funds totaled \$46 billion as of December 31, 2011. The Blackstone Group also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. Further information is available at [www.blackstone.com](http://www.blackstone.com).

**Company Information**

Our principal executive offices are located at 8000 Bent Branch Drive, Irving, Texas 75063, our telephone number at that address is (972) 409-1300 and our Internet address is [www.michaels.com](http://www.michaels.com). Our website, and the information contained on our website, are not part of this prospectus.

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**The Offering**

**Common Stock offered by Michaels Stores, Inc.**

shares

**Common Stock to be outstanding after this offering**

on shares (after giving effect to the -for-one stock split effected  
, 2012)

**Underwriters' option to purchase additional shares**

The selling stockholders have granted the underwriters a 30-day option to purchase up to additional shares of Common Stock.

**Use of proceeds**

We estimate the net proceeds to us from this offering, after deducting estimated offering expenses and underwriting discounts, will be approximately \$ million, assuming the shares are offered at \$ per share, which is the midpoint of the estimated initial public offering price range set forth on the cover page of this prospectus.

We intend to use the anticipated net proceeds to:

repurchase or redeem all outstanding indebtedness under our 13% Subordinated Discount Notes due November 1, 2016 (the "Subordinated Discount Notes") (an aggregate amount of \$306 million of which was outstanding as of January 28, 2012) ;

repurchase or redeem all, or a portion, of our 11<sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes due November 1, 2016 (the "Senior Subordinated Notes") (an aggregate amount of \$393 million of which was outstanding as of January 28, 2012), with any remainder to be repaid with our cash on hand; and

use the remainder (if any) for working capital and other general corporate purposes.

We will not receive any of the net proceeds from any sale of shares of Common Stock by the selling stockholders.

See "Use of Proceeds".

**Dividend policy**

We have no current plans to pay dividends on our Common Stock in the foreseeable future.

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**Principal stockholders**

Upon completion of this offering, investment funds affiliated with the Sponsors will indirectly beneficially own a controlling interest in us. As a result, we currently intend to avail ourselves of the controlled company exemption under the New York Stock Exchange Rules. For more information, see "Risk Factors Risk Factors Relating to This Offering and Ownership of Our Common Stock We are a "controlled company" within the meaning of the New York Stock Exchange Rules and, as a result, we will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements" and "Management Corporate Governance Board Committees".

**Risk factors**

You should carefully read and consider the information set forth in the "Risk Factors" section of this prospectus and all other information set forth in this prospectus before investing in our Common Stock.

**New York Stock Exchange symbol**

"MIK"

The number of shares of our Common Stock to be outstanding after this offering is determined as of January 28, 2012, is based on shares of our Common Stock outstanding as of such date, and: (1) assumes an offering price of \$ per share (the mid-point of the price range set forth on the cover of this prospectus); (2) gives effect to a -for-one stock split effected on , 2012; and (3) excludes an aggregate of shares of Common Stock reserved for issuance and not yet issued under our long-term equity incentive plan, as amended and restated (the "2012 Omnibus Plan"), including shares reserved for issuance but not yet issued pursuant to awards granted prior to the plan's amendment and restatement as then in effect (the "2006 Equity Incentive Plan" or "2006 Plan").

Table of Contents**Summary Consolidated Financial and Operating Data**

The following table sets forth our summary consolidated financial and operating data as of the dates and for the periods indicated. Our summary consolidated balance sheet data as of January 28, 2012 and January 29, 2011, and our consolidated results of operations data and cash flow data for each of the three years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively, have been derived from our audited Consolidated Financial Statements, which are included elsewhere in this prospectus. The consolidated balance sheet data as of January 30, 2010 has been derived from our historical unaudited financial statements for such year, which is not included in this prospectus. These financial statements are unaudited because certain amounts have been restated, as further discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement Accounting for Income Taxes". Other Operating data included in the following table is unaudited for all periods presented.

We operate on a fiscal calendar, which in a given fiscal year consists of a 52- or 53-week period ending on the Saturday closest to January 31. Fiscal 2011 ended on January 28, 2012, fiscal 2010 ended on January 29, 2011, and fiscal 2009 ended on January 30, 2010. Each of these fiscal years contained 52 weeks.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The following summaries of our consolidated financial and operating data for the periods presented should be read in conjunction with "Risk Factors", "Capitalization", "Selected Historical Financial and Operating Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the related notes, which are included elsewhere in this prospectus.

(In millions, except operating, share, and store count data)	Fiscal Year		
	2011	2010	2009
		(Restated)	(Restated)
<b>Results of Operations Data:</b>			
Net sales	\$ 4,210	\$ 4,031	\$ 3,888
Operating income	569	488	397
Interest expense	254	276	257
Net income <sup>(1)</sup>	176	103	103
Earnings per common share, basic			
Earnings per common share, diluted			
Weighted average shares used in computing per share amounts, basic			
Weighted average shares used in computing per share amounts, diluted			
<b>Balance Sheet Data:</b>			
Cash and equivalents	\$ 371	\$ 319	\$ 217
Merchandise inventories	840	826	873
Current debt	127	1	119
Long-term debt	3,363	3,667	3,684
Working capital	497	586	480

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(In millions, except operating, share, and store count data)	Fiscal Year		
	2011	2010	2009
<b>Cash Flow Data:</b>			
Cash flow provided by operating activities	\$ 413	\$ 438	\$ 405
Cash flow used in investing activities	(109)	(83)	(43)
Cash flow used in financing activities	(252)	(253)	(178)
<b>Other Operating Data:</b>			
Comparable store sales increase <sup>(2)</sup>	3.2%	2.5%	0.2%
Average net sales per selling square foot <sup>(3)</sup>	\$ 212	\$ 205	\$ 201
Total selling square footage (in millions)	20.1	19.9	19.6
Adjusted EBITDA <sup>(4)</sup>	\$ 706	\$ 622	\$ 544
<b>Stores Open at End of Year:</b>			
Michaels	1,064	1,045	1,023
Aaron Brothers	134	137	152
Total stores open at end of year	1,198	1,182	1,175

(1) Fiscal 2011 Net income includes an \$18 million loss related to the early extinguishment of \$163 million face value, or \$155 million accreted value, of our outstanding 13% Subordinated Discount Notes due 2016 and \$7 million face value of our 113/8% Senior Subordinated Notes due 2016. Fiscal 2010 Net income includes a \$53 million loss related to the early extinguishment of our 10% Senior Notes due in 2014.

(2) Comparable store sales increase represents the increase in net sales for stores open the same number of months in the indicated and comparable period of the previous year, including stores that were relocated or expanded during either period. A store is deemed to become comparable in its 14th month of operation in order to eliminate grand opening sales distortions. A store temporarily closed more than two weeks is not considered comparable during the month it is closed. If a store is closed longer than two weeks but less than two months, it becomes comparable in the month in which it reopens, subject to a mid-month convention. A store closed longer than two months becomes comparable in its 14th month of operation after its reopening.

(3) The calculation of average net sales per selling square foot includes only Michaels comparable stores, as described above. Aaron Brothers, which is a smaller store model, is excluded from the calculation.

(4) The table presents Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). The Company defines Adjusted EBITDA and Adjustments in accordance with the agreements governing the Company's Senior Secured Term Loan Facility and senior secured asset-based Revolving Credit Facility. The Adjustments are described in further detail in the table and the footnotes to the table below. The Company defines EBITDA as Net income before interest, income taxes, discontinued operations, depreciation and amortization.

The Company has presented EBITDA and Adjusted EBITDA to provide investors with additional information to evaluate our operating performance and our ability to service our debt. The Company uses EBITDA, among other metrics, to evaluate operating performance, to plan and forecast future periods' operating performance and as an element of its incentive compensation targets. Adjusted EBITDA is a required calculation under the Company's Senior Secured Term Loan Facility and its senior secured asset-based Revolving Credit Facility. As it relates to the Senior Secured Term Loan Facility, Adjusted EBITDA is used in the calculations of fixed charge coverage and leverage ratios, which under certain circumstances may result in limitations on the Company's ability to make restricted payments as well as the determination of mandatory repayments of the loans. Under the senior secured asset-based Revolving Credit Facility, Adjusted EBITDA is used in the calculation of fixed charge coverage ratios, which under certain circumstances may restrict the Company's ability to make certain payments (characterized as restricted

payments), investments (including acquisitions) and debt repayments.

As EBITDA and Adjusted EBITDA are not measures of operating performance or liquidity calculated in accordance with U.S. generally accepted accounting principles ("GAAP"), these measures should not be considered in isolation of, or as a substitute for, Net income, as an indicator of operating performance, or Net cash provided by operating activities, as an indicator of liquidity. Our computation of EBITDA and Adjusted EBITDA may differ from similarly titled measures used by other companies. As EBITDA and Adjusted EBITDA exclude certain financial information compared with net income and net cash provided by operating activities, the most directly comparable GAAP financial measures, users of this financial information should consider the types of events and transactions which are excluded.

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The table below shows a reconciliation of EBITDA and Adjusted EBITDA to Net income and Net cash provided by operating activities.

(In millions)	Fiscal Year		
	2011	2010	2009
		(Restated) <sup>(b)</sup>	(Restated) <sup>(b)</sup>
Net cash provided by operating activities	\$ 413	\$ 438	\$ 405
Depreciation and amortization	(101)	(103)	(116)
Share-based compensation	(9)	(8)	(8)
Debt issuance costs amortization	(17)	(20)	(17)
Accretion of long-term debt	(35)	(50)	(45)
Change in fair value of contingent consideration	4		
Change in fair value of interest rate cap	(5)	(12)	10
Loss on early extinguishment of debt	(18)	(53)	
Changes in assets and liabilities	(56)	(89)	(126)
Net income	176	103	103
Interest expense	254	276	257
Loss on early extinguishment of debt	18	53	
Provision for income taxes	112	46	54
Depreciation and amortization	101	103	116
EBITDA	661	581	530
Adjustments:			
Share-based compensation	9	8	8
Sponsor fees	13	14	14
Termination expense	1	1	4
Pre-opening costs	4	3	2
Store remodel costs	2		
Foreign currency translation losses (gains)	4	(2)	(5)
Store closing costs	7	2	5
Gain on contingent consideration	(4)		
Loss (gain) on interest rate cap	5	12	(10)
Other(a)	4	3	(4)
Adjusted EBITDA	\$ 706	\$ 622	\$ 544

(a) Other adjustments relate to items such as moving and relocation expenses, franchise taxes, foreign currency hedge and certain legal expenses.

(b) Net income and Provision for income taxes have been restated as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement for Income Taxes".

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## **Risk Factors**

*An investment in our Common Stock involves various risks. You should carefully consider the following risks and all of the other information contained in this prospectus before investing in our Common Stock. The risks described below are those which we believe are the material risks we face. Any of the risk factors described could significantly and adversely affect our business, prospects, sales, revenues, gross profit, cash flows, financial condition, and results of operations. In any such case, the trading price of our Common Stock could decline, and you may lose all or part of your investment in our Common Stock.*

### **Risks Relating to Our Business**

#### **We face risks related to the effect of economic uncertainty.**

If recovery from the economic downturn continues to be slow or prolonged, our growth, prospects, and results of operations, cash flows and financial condition could be adversely impacted. Our stores offer arts and crafts supplies and products for the crafter, and custom framing for the do-it-yourself home decorator, which some customers may perceive as discretionary. Pressure on discretionary income brought on by economic downturns and slow recoveries, including housing market declines, rising energy prices and weak labor markets, may cause consumers to reduce the amount they spend on discretionary items. For example, as a result of the recession during fiscal 2007 and fiscal 2008, despite adding a number of new stores, our total Net sales decreased from \$3,862 million to \$3,817 million. The current economic environment may continue to adversely affect consumer confidence and retail spending, decreasing demand for our merchandise. Current economic conditions also make it difficult for us to accurately forecast future demand trends, which could cause us to purchase excess inventories, resulting in increases in our inventory carrying cost, or insufficient inventories, resulting in our inability to satisfy our customer demand and potentially lose market share.

#### **Our reliance on foreign suppliers increases our risk of obtaining adequate, timely, and cost-effective product supplies.**

We rely to a significant extent on foreign manufacturers of various products that we sell, particularly manufacturers located in China. In addition, many of our domestic suppliers purchase a portion of their products from foreign sources. This reliance increases the risk that we will not have adequate and timely supplies of various products due to local political, economic, social, or environmental conditions (including acts of terrorism, the outbreak of war, or the occurrence of natural disaster), transportation delays (including dock strikes and other work stoppages), restrictive actions by foreign governments, or changes in U.S. laws and regulations affecting imports or domestic distribution. Reliance on foreign manufacturers also increases our exposure to trade infringement claims and reduces our ability to return product for various reasons.

Additionally, the cost of labor and wage taxes have increased in China, which means we are at risk of higher costs associated with goods manufactured in China. Significant increases in wages or wage taxes paid by contract facilities may increase the cost of goods manufactured, which could have a material adverse effect on our profit margins and profitability.



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All of our products manufactured overseas and imported into the U.S. are subject to duties collected by the U.S. Customs Service. We may be subjected to additional duties, significant monetary penalties, the seizure and forfeiture of the products we are attempting to import, or the loss of import privileges if we or our suppliers are found to be in violation of U.S. laws and regulations applicable to the importation of our products.

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

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk associated with our variable rate debt and prevent us from meeting our obligations under our notes and credit facilities. As of January 28, 2012, after giving effect to the application of proceeds from this offering as set forth under "Use of Proceeds", we would have had outstanding debt of \$            million and had an additional \$            million of availability under our senior secured asset-based Revolving Credit Facility. Our high degree of leverage could have important consequences to us, including:

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

increasing our vulnerability to general economic and industry conditions

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

exposing us to the risk of increased interest rates as certain of our borrowings under our senior secured credit facilities are at variable rates

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

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

limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who may be less highly leveraged

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in our senior secured credit facilities and the indentures governing our notes. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

**Our growth depends on our ability to open new stores and increase comparable store sales.**

One of our key business strategies is to expand our base of retail stores. If we are unable to continue this strategy, our ability to increase our sales, profitability and cash flow could be impaired. To the extent we are unable to open new stores as we anticipate, our sales growth would come only from increases in comparable store sales. Growth in profitability in that case would depend significantly on our ability to reduce our costs as a percentage of our sales. We may be unable to continue our store growth strategy if we cannot identify suitable sites for

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additional stores, negotiate acceptable leases, access sufficient capital to support store growth, or hire and train a sufficient number of qualified associates.

**Damage to the reputation of the Michaels brand or our private and exclusive brands could adversely affect our sales.**

We believe the Michaels brand name and many of our private and exclusive brand names are powerful sales and marketing tools and we devote significant resources to promoting and protecting them. To be successful in the future, we must continue to preserve, grow and utilize the value of Michaels' reputation. Reputational value is based in large part on perceptions of subjective qualities, and even isolated incidents may erode trust and confidence. In addition, we develop and promote private and exclusive brands, which we believe have generated national recognition. Our private label brands amounted to approximately 44% total Net sales in fiscal 2011, and represent a growing portion of our overall sales. Damage to the reputations (whether or not justified) of our brand names, could arise from product failures, litigation or various forms of adverse publicity, especially in social media outlets, and may generate negative customer sentiment, potentially resulting in a reduction in our sales and earnings.

**Our suppliers may fail us.**

Many of our suppliers are small firms that produce a limited number of items. Given their limited resources, these firms are susceptible to cash flow issues, access to capital, production difficulties, quality control issues and problems in delivering agreed-upon quantities on schedule. We may not be able, if necessary, to return products to these suppliers and obtain refunds of our purchase price or obtain reimbursement or indemnification from them if their products prove defective. These suppliers may also be unable to withstand a downturn in economic conditions. Significant failures on the part of our key suppliers could have a material adverse effect on our results of operations.

In addition, many of these suppliers require extensive advance notice of our requirements in order to supply products in the quantities we desire. This long lead time requires us to place orders far in advance of the time when certain products will be offered for sale, exposing us to risk of shifts in demand.

**Risks associated with the vendors from whom our products are sourced could materially adversely affect our revenue and gross profit.**

The products we sell are sourced from a wide variety of domestic and international vendors. Global sourcing has become an increasingly important part of our business, as we have undertaken efforts to increase the amount of product we source directly from overseas manufacturers. Our ability to find qualified vendors who meet our standards and supply products in a timely and efficient manner is a significant challenge, especially with respect to goods sourced from outside the U.S. Any issues related to transitioning vendors could adversely affect our revenue and gross profit.

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

We are subject to regulations by a variety of federal, state and international regulatory authorities, including the Consumer Product Safety Commission. In fiscal 2011, we purchased merchandise from approximately 600 vendors. Since a majority of our merchandise is

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manufactured in foreign countries, one or more of our vendors might not adhere to product safety requirements or our quality control standards, and we might not identify the deficiency before merchandise ships to our stores. Any issues of product safety, including but not limited to those manufactured in foreign countries, could cause us to recall some of those products. If our vendors fail to manufacture or import merchandise that adheres to our quality control standards, our reputation and brands could be damaged, potentially leading to increases in customer litigation against us. Furthermore, to the extent we are unable to replace any recalled products, we may have to reduce our merchandise offerings, resulting in a decrease in sales, especially if a recall occurs near or during a seasonal period. If our vendors are unable or unwilling to recall products failing to meet our quality standards, we may be required to recall those products at a substantial cost to us. Moreover, changes in product safety or other consumer protection laws could lead to increased costs to us for certain merchandise, or additional labor costs associated with readying merchandise for sale. Long lead times on merchandise ordering cycles increase the difficulty for us to plan and prepare for potential changes to applicable laws. The Consumer Product Safety Improvement Act of 2008 imposes significant requirements on manufacturing, importing, testing and labeling requirements for our products. In the event that we are unable to timely comply with regulatory changes, significant fines or penalties could result, and could adversely affect our reputation, results of operations, cash flow and financial condition.

**Significant increases in inflation or commodity prices such as petroleum, natural gas, electricity, steel and paper may adversely affect our costs, including cost of merchandise.**

Any future increases in commodity prices or inflation may adversely affect our costs, including cost of merchandise and distribution costs. Furthermore, the transportation industry may experience a shortage or reduction of capacity, which could be exacerbated by higher fuel prices. Our results of operations may be adversely affected if we are unable to secure, or are able to secure only at significantly higher costs, adequate transportation resources to fulfill our receipt of goods or delivery schedules to the stores.

**Unexpected or unfavorable consumer responses to our promotional or merchandising programs could materially adversely affect our sales, results of operations, cash flow and financial condition.**

Brand recognition, quality and price have a significant influence on consumers' choices among competing products and brands. Advertising, promotion, merchandising and the cadence of new product introductions also have a significant impact on consumers' buying decisions. If we misjudge consumer responses to our existing or future promotional activities, this could have a material adverse impact on our sales, results of operations, cash flow and financial condition.

We believe improvements in our merchandise offering help drive sales at our stores. We could be materially adversely affected by poor execution of changes to our merchandise offering or by unexpected consumer responses to changes in our merchandise offering.

**Improvements to our supply chain may not be fully successful.**

An important part of our efforts to achieve efficiencies, cost reductions, and sales and cash flow growth is the identification and implementation of improvements to our supply chain, including merchandise ordering, transportation, and receipt processing. During fiscal 2012, we plan to continue to implement enhancements to our distribution systems and processes, which

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are designed to improve efficiency through the supply chain and at our stores. Significant changes to our supply chain could have a material adverse impact on our results of operations.

**Changes in customer demands could materially adversely affect our sales, results of operations and cash flow.**

Our success depends on our ability to anticipate and respond in a timely manner to changing customer demands and preferences for products and supplies used in creative activities. If we misjudge the market, we may significantly overstock unpopular products and be forced to take significant inventory markdowns, or experience shortages of key items, either of which could have a material adverse impact on our operating results and cash flow. In addition, adverse weather conditions, economic instability, and consumer confidence volatility could have a material adverse impact on our sales and operating results.

**Our success will depend on how well we manage our business.**

Even if we are able to substantially continue our strategy of expanding our store base, or additionally, to expand our business through acquisitions or vertical integration opportunities, we may experience problems, which may adversely impact profitability or cash flow. For example:

the costs of opening and operating new stores may offset the increased sales generated by the additional stores

the closure of unsuccessful stores may result in the retention of liability for expensive leases

a significant portion of our management's time and energy may be consumed with issues unrelated to advancing our core business strategies

the implementation of future operational efficiency initiatives, which may include the consolidation of certain operations and/or the possible co-sourcing of additional selected functions, may not produce the desired reduction in costs and may result in disruptions arising from such actions

we may be unable to hire, train and retain qualified employees, including management and senior executives, and significant turnover could be disruptive to our business strategies and operations

failure to maintain stable relations with our labor force

our suppliers may be unable to meet the increased demand of additional stores in a timely manner

we may be unable to expand our existing distribution centers or use third party distribution centers on a cost-effective basis to provide merchandise for sale by our new stores

**Competition, including Internet-based competition, could negatively impact our business.**

The retail arts and crafts industry is competitive, which could result in the reduction of our prices and loss of our market share. We must remain competitive in the areas of quality, price, breadth of selection, customer service, and convenience. We compete with mass merchants (*e.g.*, Wal-Mart Stores, Inc. and Target Corporation), which dedicate a portion of their selling

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space to a limited selection of craft supplies and seasonal and holiday merchandise, along with national and regional chains and local merchants. We also compete with specialty retailers, which include Hobby Lobby, A.C. Moore Arts & Crafts, Inc., Jo-Ann Stores, Inc., and Garden Ridge Corporation. Some of our competitors, particularly the mass merchants, are larger and have greater financial resources than we do. The Company also faces competition from Internet-based retailers, in addition to traditional store-based retailers. This could result in increased price competition since our customers could more readily search and compare non-private brand products. This could also lead to additional competitors, who may exploit a convenience advantage in the event we cannot offer a similar line of products online in the future. Furthermore, we ultimately compete with alternative sources of entertainment and leisure for our customers.

**Failure to adequately maintain security and prevent unauthorized access to electronic and other confidential information and data breaches could materially adversely affect our financial condition and operating results.**

We have become increasingly centralized and dependent upon automated information technology processes. In addition, a portion of our business operations is conducted over the Internet, increasing the risk of viruses that could cause system failures and disruptions of operations. Any failure to maintain the security of our customers' confidential information, or data belonging to ourselves or our suppliers, could put us at a competitive disadvantage, result in deterioration in our customers' confidence in us, and subject us to potential litigation, liability, fines and penalties, resulting in a possible material adverse impact on our financial condition and results of operations.

On May 3, 2011, we were advised by the U.S. Secret Service that they were investigating certain fraudulent debit card transactions that occurred on accounts that had been used for legitimate purchases in selected Michaels stores. A subsequent internal investigation revealed that approximately 90 payment card terminals in certain Michaels stores had been physically tampered with, potentially resulting in the compromise of customer debit and credit card information. The Company fully cooperated with various governmental entities and law enforcement authorities in investigating the payment card terminal tampering, and we believe we have taken appropriate steps to stop the use of the stolen information. Multiple consumer class action lawsuits were filed against the Company as a result of the tampering and additional litigation may be filed (see "Business Legal Proceedings Data Breach Claims"). Various other claims may be otherwise asserted against us for which we may be responsible, on behalf of customers, banks, payment card companies and others seeking damages allegedly arising out of the payment card terminal tampering and other related relief. In addition, the major card brands may seek to impose assessments and fines by reason of the tampering. To date, MasterCard has assessed approximately \$400,000 of reissuance fees and alleged fraud losses, which the Company is appealing. We do not have sufficient information to reasonably estimate other losses we may incur arising from the payment card terminal tampering. Such losses could be material to our results of operations and financial condition.

Improper activities by third parties, advances in technical capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a further compromise or breach of our payment card terminals or other payment systems. Any such further compromises or breaches could cause interruptions in our operations, damage to our reputation and customers' willingness to shop in our stores, and subject us to additional

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costs and potential litigation, liability, fines and penalties, resulting in a possible material adverse impact on our financial condition and results of operations.

**The Company may be subject to information technology system failures or network disruptions, or our information systems may prove inadequate, resulting in damage to the Company's reputation, business operations and financial conditions.**

We depend on our management information systems for many aspects of our business, including our perpetual inventory, automated replenishment, and weighted average cost stock ledger systems which are necessary to properly forecast, manage, and analyze our inventory. The Company may be subject to information technology system failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or similar events or disruptions. System redundancy may be ineffective or inadequate, and the Company's disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could prevent access to the Company's online services and preclude store transactions. System failures and disruptions could also impede the manufacturing and shipping of products, transactions processing and financial reporting. Additionally, we will be materially adversely affected if we are unable to improve, upgrade, maintain, and expand our systems.

**A weak fourth quarter would materially adversely affect our result of operations.**

Our business is highly seasonal. Our inventories and short-term borrowings may grow in the second and third fiscal quarters as we prepare for our peak selling season in the third and fourth fiscal quarters. Our most important quarter in terms of sales, profitability, and cash flow historically has been the fourth fiscal quarter. If for any reason our fourth fiscal quarter results were substantially below expectations, our operating results for the full year would be materially adversely affected, and we could have substantial excess inventory, especially in seasonal merchandise, that is difficult to liquidate.

**Changes in newspaper subscription rates may result in reduced exposure to our circular advertisements.**

A substantial portion of our promotional activities utilize circular advertisements in local newspapers. A continued decline in consumer subscriptions of these newspapers could reduce the frequency with which consumers receive our circular advertisements, thereby negatively affecting sales, results of operations and cash flow.

**Changes in regulations or enforcement, or our failure to comply with existing or future regulations, may adversely impact our business.**

We are subject to federal, state, provincial and local regulations with respect to our operations in the U.S. and Canada. There are a number of legislative and regulatory initiatives, which the enactment or enforcement of, could adversely impact our business. Those initiatives include wage or workforce issues (such as minimum-wage requirements, overtime and other working conditions and citizenship requirements), collective bargaining matters, environmental regulation, price and promotion regulation, trade regulations and others. We are currently subject to multiple class action lawsuits alleging violations of wage and workforce laws (see "Business Legal Proceedings Employee Claims").

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In addition, we expect that the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, will increase our annual associate health care costs, with the most significant increases coming in 2014. Proposed changes in tax regulations may also change our effective tax rate as our business is subject to a combination of applicable tax rates in the various countries, states and other jurisdictions in which we operate. New accounting pronouncements and interpretations of existing accounting rules and practices have occurred and may occur in the future. A change in accounting standards or practices can have a significant effect on our reported results of operations. Failure to comply with legal requirements could result in, among other things, increased litigation risk that could affect us adversely by subjecting us to significant monetary damages and other remedies or by increasing our litigation expenses, administrative enforcement actions, fines and civil and criminal liability. If such issues become more expensive to address, or if new issues arise, they could increase our expenses, generate negative publicity, or otherwise adversely affect us.

**Our debt agreements contain restrictions that limit our flexibility in operating our business.**

Our senior secured credit facilities and the indentures governing our notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability and the ability of our restricted subsidiaries to, among other things:

incur additional debt

pay dividends or distributions on our capital stock or repurchase our capital stock

issue stock of subsidiaries

make certain investments

create liens on our assets to secure debt

enter into transactions with affiliates

merge or consolidate with another company

sell or otherwise transfer assets

In addition, under our Senior Secured Term Loan Facility, we are required to meet specified financial ratios in order to undertake certain actions and, under our senior secured asset-based Revolving Credit Facility, we are required to meet an availability condition described below. Our ability to meet those tests can be affected by events beyond our control, and we cannot assure you that we will meet them. A breach of any of these covenants could result in a default under our senior secured credit facilities. Upon the occurrence of an event of default under our senior secured credit facilities, the lenders could elect to declare all amounts outstanding under our senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under our senior secured credit facilities could proceed against the collateral granted to them to secure such indebtedness. We have pledged substantially all of our assets as collateral under our senior secured credit facilities. If the lenders under our senior secured credit facilities accelerate the repayment of borrowings, we cannot assure you that we will have sufficient assets to repay our senior secured credit facilities, as well as our unsecured indebtedness, including the notes.

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Our senior secured asset-based Revolving Credit Facility permits us to borrow up to \$850 million; however, our ability to borrow thereunder is limited by a borrowing base, which at any time equals the sum of 90% of eligible credit card receivables and debit card receivables plus between 85% and 87.5% of the appraised net orderly liquidation value of eligible inventory and of eligible letters of credit plus a percentage of eligible in-transit inventory, less certain reserves. We must not permit excess availability at any time to be less than the greater of (a) \$75 million and (b) 10% of the lesser of (1) the then borrowing base under the senior secured asset-based Revolving Credit Facility or (2) a revolving credit ceiling of \$850 million (as reduced or increased in accordance with the terms of the senior secured asset-based Revolving Credit Facility, the "Revolving Credit Ceiling"). Excess availability under the senior secured asset-based Revolving Credit Facility means the lesser of (a) the Revolving Credit Ceiling minus the outstanding credit extensions and (b) the then borrowing base minus the outstanding credit extensions. As of January 28, 2012, the borrowing base was \$670 million, and we had no outstanding borrowings, \$55 million of outstanding standby letters of credit and \$615 million of excess availability thereunder.

**Disruptions in the capital markets could increase our costs of doing business.**

Any disruption in the capital markets could make it difficult for us to raise additional capital when needed, or to eventually refinance our existing indebtedness on acceptable terms or at all. Similarly, if our suppliers face challenges in obtaining credit when needed, or otherwise face difficult business conditions, they may become unable to offer us the merchandise we use in our business thereby causing reductions in our revenues, or they may demand more favorable payment terms, all of which could adversely affect our results of operations, cash flows and financial condition.

**Our real estate leases generally obligate us for long periods, which subjects us to various financial risks.**

We lease virtually all of our store, distribution center, and administrative locations, generally for long terms. While we have the right to terminate some of our leases under specified conditions by making specified payments, we may not be able to terminate a particular lease if or when we would like to do so. If we decide to close stores, we are generally required to continue to perform obligations under the applicable leases, which generally includes, among other things, paying rent and operating expenses for the balance of the lease term, or paying to exercise rights to terminate, and the performance of any of these obligations may be expensive. When we assign or sublease vacated locations, we may remain liable on the lease obligations if the assignee or sublessee does not perform. In addition, when leases for the stores in our ongoing operations expire, we may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, we are subject to the risks associated with leasing real estate, which can have a material adverse effect on our results.

**We have co-sourced certain of our information technology, accounts payable, payroll, accounting and human resources functions and may co-source other administrative functions, which makes us more dependent upon third parties.**

We place significant reliance on a third party provider for the co-sourcing of certain of our information technology (IT), accounts payable, payroll, accounting, and human resources functions. This co-sourcing initiative is a component of our ongoing strategy to increase efficiencies, increase our IT capabilities, monitor our costs and seek additional cost savings.



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These functions are generally performed in an offshore location, with Michaels oversight. As a result, we are relying on third parties to ensure that certain functional needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over these processes, changes in pricing that may affect our operating results, and potentially, termination of provision of these services by our supplier. If our service providers fail to perform, we may have difficulty arranging for an alternate supplier or rebuilding our own internal resources, and we could incur significant costs, all of which may have a significant adverse effect on our business. We may co-source other administrative functions in the future, which would further increase our reliance on third parties. Further, the use of offshore service providers may expose us to risks related to local political, economic, social or environmental conditions (including acts of terrorism, the outbreak of war, or the occurrence of natural disaster), restrictive actions by foreign governments or changes in U.S. laws and regulations.

**We are exposed to fluctuations in exchange rates between the U.S. and Canadian dollar, which is the functional currency of our Canadian subsidiary.**

Our Canadian subsidiary purchases inventory in U.S. dollars, which is sold in Canadian dollars and exposes us to foreign exchange rate fluctuations. As well, our stores' customers at border locations can be sensitive to cross-border price differences. Substantial foreign currency fluctuations could adversely affect our business.

**We are dependent upon the services of our senior management team.**

We are dependent on the services, abilities and experience of our executive officers, including John B. Menzer, our Chief Executive Officer, and Charles M. Sonstebj, our Chief Administrative and Chief Financial Officer. The loss of the services of any of these senior executives and any change in the composition of our senior management team could have a negative impact on our ability to execute on our business and operating strategies.

**Failure to attract and retain quality sales, distribution center and other associates in appropriate numbers as well as experienced buying and management personnel could adversely affect our performance.**

Our performance depends on recruiting, developing, training and retaining quality sales, distribution center and other associates in large numbers as well as experienced buying and management personnel. Many of our store level associates are in entry level or part-time positions with historically high rates of turnover. Our ability to meet our labor needs while controlling labor costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation, changing demographics, health and other insurance costs and governmental labor and employment requirements. In the event of increasing wage rates, if we fail to increase our wages competitively, the quality of our workforce could decline, causing our customer service to suffer, while increasing our wages could cause our earnings to decrease. The market for retail management is highly competitive and, in common with other retailers, we face challenges in securing sufficient management talent. If we do not continue to attract, train and retain quality associates and management personnel, our performance could be adversely affected.

**Our results may be adversely affected by serious disruptions or catastrophic events, including geo-political events and weather.**

Unforeseen public health issues, such as pandemics and epidemics, and geo-political events, such as civil unrest in a country in which our suppliers are located or terrorist or military

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activities disrupting transportation, communication or utility systems, as well as natural disasters such as hurricanes, tornadoes, floods, earthquakes and other adverse weather and climate conditions, whether occurring in the U.S. or abroad, particularly during peak seasonal periods, could disrupt our operations or the operations of one or more of our vendors or could severely damage or destroy one or more of our stores or distribution facilities located in the affected areas. Day to day operations, particularly our ability to receive products from our vendors or transport products to our stores could be adversely affected, or we could be required to close stores or distribution centers in the affected areas or in areas served by the affected distribution center. These factors could also cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and global financial markets and economy. Such occurrences could significantly impact our operating results and financial performance. As a result, our business could be adversely affected.

**We are controlled by the Sponsors, whose interests may conflict with yours and those of our Company.**

We are controlled by the Sponsors, who currently indirectly own approximately 93% of our Common Stock in the aggregate and will own approximately % after the completion of this offering. For as long as the Sponsors continue to beneficially own a majority of the outstanding shares of our Common Stock, they will be able to direct the election of all of the members of our Board of Directors ("Board") and could exercise a controlling influence over our business and affairs, including any determinations with respect to mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional Common Stock or other equity securities, the repurchase or redemption of Common Stock and the payment of dividends. Similarly, the Sponsors will have the power to determine matters submitted to a vote of our stockholders without the consent of our other stockholders, will have the power to prevent a change in our control and could take other actions that might be favorable to them. Even if their ownership falls below a majority, so long as the Sponsors continue to hold a significant portion of our outstanding Common Stock, the Sponsors may continue to be able to strongly influence or effectively control our decisions. Additionally, the Sponsors are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. One or more of the Sponsors may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

**Risk Factors Relating to This Offering and Ownership of Our Common Stock**

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

After completion of this offering, the Sponsors will continue to control a majority of the voting power of our outstanding Common Stock. As a result, we will be a "controlled company" within the meaning of the corporate governance standards of the New York Stock Exchange. Under these rules, a company of which more than 50% of the voting power is held

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by an individual, group or another company is a "controlled company" and may elect not to comply with certain corporate governance requirements, including:

the requirement that a majority of our Board consist of independent directors

the requirement that we have a Nominating/Corporate Governance Committee that is composed entirely of independent directors with a written charter addressing the Committee's purpose and responsibilities

the requirement that we have a Compensation Committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities

the requirement for an annual performance evaluation of the Nominating/Corporate Governance and Compensation Committee

Following this offering, we intend to utilize these exemptions. As a result, we will not have a majority of independent directors, our Compensation Committee will not consist entirely of independent directors and the Board committees will not be subject to annual performance evaluations. In addition, we will not have a Nominating/Corporate Governance Committee. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

The Sponsors are not subject to any contractual obligation to retain their controlling interest, except that they have agreed, subject to certain exceptions, not to sell or otherwise dispose of any shares of our Common Stock or other securities exercisable or convertible into our Common Stock for a period of at least 180 days after the date of this prospectus without the prior written consent of J.P. Morgan Securities LLC and Goldman, Sachs & Co. There can be no assurance as to the period of time during which any of the Sponsors will in fact maintain its ownership of our Common Stock following the offering.

**Our stock price could be extremely volatile and, as a result, you may not be able to resell your shares at or above the price you paid for them.**

There currently is no public market for our Common Stock, and an active public market for our Common Stock may not develop or be sustained after this offering. In addition, the stock market in general has been highly volatile. As a result, the market price of our Common Stock is likely to be similarly volatile, and investors in our Common Stock may experience a decrease, which could be substantial, in the value of their stock, including decreases unrelated to our operating performance or prospects, and could lose part or all of their investment. The price of our Common Stock could be subject to wide fluctuations in response to a number of factors, including those described elsewhere in this prospectus and others such as:

variations in our operating performance and the performance of our competitors

actual or anticipated fluctuations in our quarterly or annual operating results

publication of research reports by securities analysts about us or our competitors or our industry

our failure or the failure of our competitors to meet analysts' projections or guidance that we or our competitors may give to the market

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additions and departures of key personnel

strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy

the passage of legislation or other regulatory developments affecting us or our industry

speculation in the press or investment community

changes in accounting principles

terrorist acts, acts of war or periods of widespread civil unrest

natural disasters and other calamities

changes in general market and economic conditions

In the past, securities class action litigation has often been initiated against companies following periods of volatility in their stock price. This type of litigation could result in substantial costs and divert our management's attention and resources, and could also require us to make substantial payments to satisfy judgments or to settle litigation.

**Your percentage ownership in us may be diluted by future issuances of capital stock, which could reduce your influence over matters on which stockholders vote.**

Following the closing of this offering, our Board has the authority, without action or vote of our stockholders, to issue all or any part of our authorized but unissued shares of Common Stock, including shares issuable upon the exercise of options, or shares of our authorized but unissued preferred stock. Issuances of Common Stock or voting preferred stock would reduce your influence over matters on which our stockholders vote, and, in the case of issuances of preferred stock, would likely result in your interest in us being subject to the prior rights of holders of that preferred stock.

**There may be sales of a substantial amount of our Common Stock after this offering by our current stockholders, and these sales could cause the price of our Common Stock to fall.**

After this offering, there will be \_\_\_\_\_ shares of Common Stock outstanding, after giving effect to a \_\_\_\_\_-for-one stock split effected on \_\_\_\_\_, 2012. Of our issued and outstanding shares, all the Common Stock sold in this offering will be freely transferable, except for any shares held by our "affiliates", as that term is defined in Rule 144 under the Securities Act of 1933, as amended, or the "Securities Act". Following completion of this offering, approximately \_\_\_\_\_ % of our outstanding Common Stock will be held by investment funds affiliated with the Sponsors and members of our management and employees.

Each of our directors, executive officers and significant equity holders (including affiliates of the Sponsors) have entered into a lock-up agreement with J.P. Morgan Securities LLC and Goldman, Sachs & Co. on behalf of the underwriters which regulates their sales of our Common Stock for a period of 180 days after the date of this prospectus, subject to certain exceptions and automatic extensions in certain circumstances. See "Shares Eligible For Future Sale Lock-Up Agreements".

Sales of substantial amounts of our Common Stock in the public market after this offering, or the perception that such sales will occur, could adversely affect the market price of our



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Common Stock and make it difficult for us to raise funds through securities offerings in the future. Of the shares to be outstanding after the offering, the shares offered by this prospectus will be eligible for immediate sale in the public market without restriction by persons other than our affiliates. Our remaining outstanding shares will become available for resale in the public market as shown in the chart below, subject to the provisions of Rule 144 and Rule 701.

**Number of Shares**

**Date Available for Resale**

On the date of this offering ( , 2012)

180 days after this offering ( , 2012), subject to certain exceptions and automatic extensions in certain circumstances

Beginning 180 days after this offering, subject to certain exceptions and automatic extensions in certain circumstances, holders of shares of our Common Stock may require us to register their shares for resale under the federal securities laws, and holders of additional shares of our Common Stock would be entitled to have their shares included in any such registration statement, all subject to reduction upon the request of the underwriter of the offering, if any. Registration of those shares would allow the holders to immediately resell their shares in the public market. Any such sales or anticipation thereof could cause the market price of our Common Stock to decline.

In addition, after this offering, we intend to register shares of Common Stock that will be reserved for issuance under our 2012 Omnibus Plan (which will amend and restate our 2006 Equity Incentive Plan in connection with this offering). For more information, see "Shares Eligible For Future Sale Registrations on Form S-8".

**Certain participants in our directed share program must hold their shares for a minimum of 180 days following the date of the final prospectus related to this offering and accordingly will be subject to market risks not imposed on other investors in the offering.**

At our request, the underwriters have reserved up to shares of the Common Stock offered hereby for sale to our employees and certain other participants. Purchasers of these shares who have entered into a lock-up agreement with the underwriters in connection with this offering, which generally includes our officers, directors and significant stockholders, will be required to agree that they will not, subject to exceptions, offer, sell, contract to sell or otherwise dispose of or hedge any such shares for a period of 180 days after the date of the final prospectus relating to this offering, subject to certain specified extensions. As a result of such restriction, such purchasers may face risks not faced by other investors who have the right to sell their shares at any time following the offering. These risks include the market risk of holding our shares during the period that such restrictions are in effect. In addition, the price of our Common Stock may be adversely affected following expiration of the lock-up period if there is an increase in the number of shares for sale in the market.

**Provisions in our charter documents and Delaware law may deter takeover efforts that may be beneficial to stockholder value.**

In addition to the Sponsors' beneficial ownership of a controlling percentage of our Common Stock, Delaware law and provisions we expect to be included in our certificate of incorporation and bylaws as in effect upon the completion of this offering could make it

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harder for a third party to acquire us, even if doing so might be beneficial to our stockholders. These provisions include a classified Board and limitations on actions by our stockholders. In addition, our Board has the right to issue preferred stock without stockholder approval that could be used to dilute a potential hostile acquiror. Our certificate of incorporation to be in effect after this offering will also impose some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding Common Stock other than the Sponsors. As a result, you may lose your ability to sell your stock for a price in excess of the prevailing market price due to these protective measures and efforts by stockholders to change the direction or management of the company may be unsuccessful. See "Description of Capital Stock".

**If you purchase shares in this offering, you will suffer immediate and substantial dilution.**

If you purchase shares of our Common Stock in this offering, you will incur immediate and substantial dilution in the pro forma book value of your stock of \$( ) per share as of , 2012 based on an assumed initial public offering price of \$ per share (the mid-point of the offering range shown on the cover of this prospectus) and after giving effect to a -for-one stock split effected on , 2012, because the price that you pay will be substantially greater than the net tangible book value per share of the shares you acquire. You will experience additional dilution upon the exercise of options to purchase our Common Stock, including those options currently outstanding and those granted in the future, and the issuance of restricted stock or other equity awards under our stock incentive plans. To the extent we raise additional capital by issuing equity securities, our stockholders will experience substantial additional dilution. See "Dilution".

**Because our executive officers hold restricted stock or option awards that will vest upon a change of control, these officers may have interests in us that conflict with yours.**

As of March 19, 2012 (and after giving effect to the stock split effected on , 2012) , our executive officers hold, in the aggregate, shares of restricted stock and options to purchase shares that would automatically vest upon a change of control. See "Executive Compensation Potential Payments upon Termination or Change in Control" for additional information. As a result, these officers may view certain change of control transactions more favorably than an investor in this offering due to the vesting opportunities available to them and, as a result, may have an economic incentive to support a transaction that you may not believe to be favorable to stockholders who purchased shares in this offering. This offering will not constitute a change of control for purposes of the relevant awards and agreements.

**The Sponsors will continue to have significant influence over us after this offering, including control over decisions that require the approval of stockholders, which could limit your ability to influence the outcome of key transactions, including a change of control.**

We are currently controlled, and after this offering is completed will continue to be controlled, by the Sponsors. Upon the completion of this offering, investment funds affiliated with the Sponsors will beneficially own approximately % of our outstanding Common Stock (approximately % if the underwriters exercise in full the option to purchase additional shares from the selling stockholders). For as long as the Sponsors continue to beneficially own shares of Common Stock representing more than 50% of the voting power of our Common Stock, they will be able to direct the election of all of the members of our Board and could exercise a controlling influence over our business and affairs, including any

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determinations with respect to mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional Common Stock or other equity securities, the repurchase or redemption of Common Stock and the payment of dividends. Similarly, these entities will have the power to determine matters submitted to a vote of our stockholders without the consent of our other stockholders, will have the power to prevent a change in our control and could take other actions that might be favorable to them. Even if their ownership falls below 50%, the Sponsors will continue to be able to strongly influence or effectively control our decisions so long as they continue to hold a significant portion of our Common Stock. In addition, each of the Sponsors will have a contractual right to nominate three directors to our Board for as long as such Sponsor owns at least 25% of our outstanding Common Stock, two directors for so long as such Sponsor owns at least 10% of our outstanding Common Stock and one director for so long as such Sponsor owns at least 3% of our outstanding Common Stock.

Additionally, the Sponsors are in the business of making investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. One or more of the Sponsors may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

**Because we have no current plans to pay cash dividends on our Common Stock for the foreseeable future, you may not receive any return on investment unless you sell your Common Stock for a price greater than you paid.**

We may retain future earnings, if any, for future operation, expansion and debt repayment and have no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our Board and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our Board may deem relevant. In addition, our ability to pay dividends may be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur, including our senior credit facility. As a result, you may not receive any return on an investment in our Common Stock unless you sell our Common Stock for a price greater than you paid.



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## Cautionary Note Regarding Forward-looking Statements

This prospectus contains forward-looking statements within the meaning of federal securities laws that relate to future events or our future financial performance. In many cases, you can identify forward-looking statements by terminology such as "aim", "anticipate", "assume", "believe", "can have", "continue", "could", "due", "estimate", "expect", "forecast", "goal", "intend", "likely", "may", "objective", "outlook", "plan", "potential", "positioned", "predict", "pro forma", "project", "should", "target", "will", "would" or the negative of these terms or other comparable terminology. These forward-looking statements are made based on our management's expectations and beliefs concerning future events affecting us and are subject to uncertainties and factors relating to our operations and business environment, all of which are difficult to predict and many of which are beyond our control. These uncertainties and other factors could cause our actual results to differ materially from those matters expressed or implied by these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Important factors that may cause actual results to differ materially from the results expressed or implied by these forward-looking statements are set forth under "Risk Factors". All forward-looking statements in this prospectus are based on information available to us on the date of this prospectus. We undertake no obligation, except as may be required by law, to publicly update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise.

Some of the important factors that could cause our actual results, performance or financial condition to differ materially from expectations are:

general economic factors and changes in consumer preference may adversely affect our performance

our significant reliance on foreign suppliers, particularly those located in China, increases our risk of obtaining adequate, timely, and cost-effective product supplies

our substantial debt could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk associated with our variable rate debt, prevent us from meeting our obligations under our notes and credit facilities and limit our flexibility in operating our business

if we are unable to continue expanding our store base, our ability to increase our sales, profitability, and cash flow could be impaired

damage to the reputations (whether or not justified) of our brand names could arise from product failures, litigation or various forms of adverse publicity, especially in social media outlets, and may generate negative customer sentiment, potentially resulting in a reduction in our sales and earnings

if a supplier fails us, transitioning to other qualified vendors could affect our revenue and gross profit

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product recalls or product liability could adversely impact our financial condition

our cost of merchandise could be adversely affected by significant increases in inflation or commodity prices

The above is not a complete list of factors or events that could cause actual results to differ from our expectations, and it is not possible for us to predict all of them. We derive many of our forward-looking statements from our own operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are disclosed under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this prospectus. All written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements contained in this prospectus as well as other cautionary statements that are made from time to time in our other Securities and Exchange Commission ("SEC") filings and public communications. You should evaluate all forward-looking statements made in this prospectus in the context of these risks and uncertainties.

Potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on the forward-looking statements. These forward-looking statements speak only as of the date of this prospectus. Except as required by law, we undertake no obligation to update or revise any forward-looking statements publicly whether as a result of new information, future developments or otherwise.

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## Use of Proceeds

We estimate that the net proceeds we will receive from the sale of the shares of our Common Stock in this offering, after deducting underwriter discounts and commissions and estimated expenses payable by us, will be approximately \$            million. This estimate assumes an initial public offering price of \$            per share, the midpoint of the range set forth on the cover page of this prospectus. We will not receive any of the net proceeds from the sale of shares of Common Stock by the selling stockholders if the underwriters exercise their option to purchase additional shares, which are estimated to be approximately \$            million if such option is exercised in full. See "Principal and Selling Stockholders".

We intend to use the net proceeds of this offering to repurchase or redeem all of our outstanding indebtedness under our Subordinated Discount Notes (an aggregate amount of \$306 million of which was outstanding as of January 28, 2012), and to repurchase or redeem all, or a portion, of the Senior Subordinated Notes (an aggregate amount of \$393 million of which was outstanding as of January 28, 2012). We will repay any remainder of the Senior Subordinated Notes with our cash on hand. To the extent there are any excess proceeds, we will apply them toward working capital and other general corporate purposes. The interest rate applicable to the Subordinated Discount Notes and the Senior Subordinated Notes is 13% and 11<sup>3</sup>/<sub>8</sub>% per year, respectively, and they mature on November 1, 2016.

A \$1.00 increase (decrease) in the assumed initial public offering price of \$            per share would increase (decrease) the net proceeds to us from this offering by \$            million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

Until the proceeds from this offering are used as described above, we intend to invest them in short-term, investment-grade securities.

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## **Dividend Policy**

The Company has not declared or paid any cash dividends on its Common Stock in fiscal 2011, 2010 or 2009. The Company does not anticipate paying any cash dividends in the near future. Instead, we anticipate that all of our earnings for the foreseeable future will be used to repay debt, for working capital, to support our operations, and to finance the growth and development of the business. Any future determination to pay dividends will be at the discretion of our Board, subject to compliance with applicable law and any contractual provisions, including under agreements for indebtedness, that restrict or limit our ability to pay dividends, and will depend upon, among other factors, our results of operations, financial condition, earnings, capital requirements and other factors that our Board may deem relevant.

Table of Contents**Capitalization**

The following table sets forth our cash, cash equivalents and capitalization as of January 28, 2012;

on an actual basis (after giving effect to the \_\_\_\_\_ -for-one stock split effected on \_\_\_\_\_, 2012); and

on an adjusted basis to give effect to (1) this offering, (2) the application of net proceeds from this offering as described in "Use of Proceeds" as if each had occurred on January 28, 2012 and (3) the payment of \$ \_\_\_\_\_ million in the aggregate out of general funds in fees under the management agreements with the Sponsors and Highfields Capital Management L.P. See "Certain Relationships and Related Party Transactions Management Agreements with the Sponsors and Others".

You should read the following table together with our Consolidated Financial Statements and the related notes appearing elsewhere in this prospectus and the sections of this prospectus titled "Use of Proceeds", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Selected Historical Financial and Operating Data".

(In millions)	As of January 28, 2012	
	Actual	As Adjusted <sup>(1)</sup>
Cash and cash equivalents	\$ 371	\$
Senior secured term loan	1,996	\$
Asset-based revolving credit facility		
Senior Notes due 2018	795	
Senior Subordinated Notes due 2016	393	
Subordinated Discount Notes due 2016	306	
Total debt	3,490	
Accrued interest and management fees		
Total debt and accrued interest and management fees		
Stockholders' deficit:		
Common Stock \$0.10 par value; 220,000,000 million shares authorized and _____ shares issued and outstanding (after giving effect to the _____ -for-one stock split effected on _____, 2012) on an actual basis; _____ shares authorized and _____ shares issued and outstanding on an as adjusted basis		
Additional paid-in capital	48	
Accumulated deficit	(2,540)	
Accumulated other comprehensive income	6	
Total stockholders' deficit		
Total capitalization	\$	\$

(1) A \$1.00 increase (decrease) in the assumed initial public offering price of \$ \_\_\_\_\_ per share would (decrease) increase our Senior Subordinated Notes and increase (decrease) equity by \$ \_\_\_\_\_, \$ \_\_\_\_\_ and \$ \_\_\_\_\_, respectively, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

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The table set forth above is based on the number of shares of our Common Stock outstanding as of January 28, 2012. This table does not reflect:

shares of our Common Stock issuable upon the exercise of outstanding stock options under the 2006 Plan at a weighted average exercise price of \$                      per share as of January 28, 2012,                      of which were then exercisable

shares of our Common Stock reserved for issuance in respect of future awards and not yet issued under our 2012 Omnibus Plan.

Table of Contents**Dilution**

If you invest in our Common Stock, your ownership interest will be immediately diluted to the extent of the difference between the initial public offering price per share of our Common Stock and the net tangible book value per share of our Common Stock after this offering. Dilution results from the fact that the initial public offering price per share of Common Stock is substantially in excess of the net tangible book value per share of our Common Stock attributable to the existing stockholders for our presently outstanding shares of Common Stock. Net tangible book value deficiency per share before the offering has been determined by dividing net tangible book value (total book value of tangible assets, which excludes goodwill, net intangible assets and debt issue costs, less total liabilities) by the number of shares of Common Stock outstanding at January 28, 2012.

Our net tangible book value as of January 28, 2012 was a deficit of \$2,628 million, or \$( ) per share of our Common Stock, based on shares of our Common Stock outstanding immediately prior to the closing of this offering after giving effect to a -for-one stock split effected on , 2012. Dilution in net tangible book value per share represents the difference between the amount per share that you pay in this offering and the net tangible book value per share immediately after this offering.

After giving effect to the receipt of the estimated net proceeds from the sale by us of shares, assuming an initial public offering price of \$ per share (the mid-point of the offering range shown on the cover of this prospectus) and after giving effect to a -for-one stock split effected on , 2012 and to the application of the estimated net proceeds from this offering as described under "Use of Proceeds" and the other adjustments set forth in the audited Consolidated Financial Statements appearing elsewhere in this prospectus, our net tangible book value deficiency at January 28, 2012 would have been \$ million, or \$ per share of Common Stock. This represents an immediate increase in net tangible book value per share of \$ to existing stockholders and an immediate decrease in net tangible book value per share of \$ to you. The following table illustrates the dilution.

Assumed initial public offering price per share of Common Stock	\$
Pro forma net tangible book value (deficit) per share at January 28, 2012	\$
Increase per share attributable to new investors in this offering	
Pro forma net tangible book value (deficit) per share of Common Stock after this offering	\$
Dilution per share to new investors	\$

A \$1.00 increase (decrease) in the assumed initial public offering price of \$ per share of our Common Stock would increase (decrease) our net tangible book value after giving to the offering by \$ million, or by \$ per share of our Common Stock, assuming no change to the number of shares of our Common Stock offered by us as set forth on the cover page of this prospectus, and after deducting the estimated underwriting discounts and estimated expenses payable by us.

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The following table summarizes, on a pro forma basis as of January 28, 2012, the total number of shares of our Common Stock purchased from us, the total cash consideration paid to us and the average price per share of our Common Stock paid by (i) our existing stockholders, (ii) shares issuable upon exercise of options and (iii) the new investors purchasing shares of our Common Stock in this offering.

	Shares of our Common Stock purchased		Total Consideration Amount (in millions)	Average Price Percent	Per Share of our Common Stock
	Number (in millions)	Percent			
Existing Stockholders		%	\$	%	\$
Shares issuable upon exercise of options		%	\$	%	\$
New investors		%	\$	%	\$
Total		%	\$	%	\$

If the underwriters were to fully exercise the underwriters' option to purchase additional shares of our Common Stock from the selling stockholders, the percentage of shares of our Common Stock held by existing stockholders who are directors, officers or affiliated persons would be %, and the percentage of shares of our Common Stock held by new investors would be %.

The table above does not reflect shares underlying awards under our 2012 Omnibus Plan. To the extent that we grant options or other equity awards to our employees or directors in the future, and those options or other equity awards are exercised or become vested or other issuances of shares of our Common Stock are made, there will be further dilution to new investors.



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## **Selected Historical Financial and Operating Data**

The following table sets forth our summary consolidated financial and operating data as of the dates and for the periods indicated. Our summary consolidated balance sheet data as of January 28, 2012 and January 29, 2011, and our consolidated results of operations data and cash flow data for each of the three years ended January 28, 2012, January 29, 2011 and January 30, 2010, respectively, have been derived from our audited Consolidated Financial Statements, which are included elsewhere in this prospectus. The consolidated results of operations data and cash flow data for each of the years ended January 31, 2009 and February 2, 2008 and the consolidated balance sheet data as of January 30, 2010, January 31, 2009, and February 2, 2008 have been derived from our historical unaudited financial statements for such years, which are not included in this prospectus. These financial statements are unaudited because certain amounts have been restated, as further discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement Accounting for Income Taxes". Other Operating data included in the following table is unaudited for all periods presented.

We operate on a fiscal calendar, which in a given fiscal year consists of a 52- or 53-week period ending on the Saturday closest to January 31st. Fiscal 2011 ended on January 28, 2012, fiscal 2010 ended on January 29, 2011, fiscal 2009 ended on January 30, 2010, fiscal 2008 ended on January 31, 2009, and fiscal 2007 ended on February 2, 2008. Each of these fiscal years contained 52 weeks.

The historical results presented below are not necessarily indicative of the results to be expected for any future period. The following summaries of our consolidated financial and operating data for the periods presented should be read in conjunction with "Risk Factors", "Capitalization", "Selected Consolidated Financial and Operating Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the related notes, which are included elsewhere in this prospectus.

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(In millions, except operating, share, and store count data)

	Fiscal Year				
	2011	2010	2009	2008	2007
		(Restated)	(Restated)	(Restated)	(Restated)
<b>Results of Operations Data:</b>					
Net sales	\$ 4,210	\$ 4,031	\$ 3,888	\$ 3,817	\$ 3,862
Operating income	569	488	397	304	354
Interest expense	254	276	257	302	378
Loss on early extinguishment of debt	18	53			
Income (loss) before discontinued operations	176	103	103	(7)	(19)
Discontinued operations loss, net of income tax					(10)
Net income (loss)(1)	176	103	103	(7)	(29)
Earnings per common share, basic					
Earnings per common share, diluted					
Weighted average shares used in computing per share amounts, basic					
Weighted average shares used in computing per share amounts, diluted					
<b>Balance Sheet Data:</b>					
Cash and equivalents	\$ 371	\$ 319	\$ 217	\$ 33	\$ 29
Merchandise inventories	840	826	873	900	845
Total current assets	1,334	1,271	1,199	1,047	982
Total assets	1,822	1,780	1,722	1,639	1,634
Total current liabilities	837	685	719	683	683
Current debt	127	1	119	173	122
Long-term debt	3,363	3,667	3,684	3,756	3,741
Total liabilities	4,296	4,434	4,488	4,517	4,515
Stockholders' deficit	(2,474)	(2,654)	(2,766)	(2,878)	(2,881)
<b>Cash Flow Data:</b>					
Cash flows provided by operating activities	\$ 413	\$ 438	\$ 405	\$ 59	\$ 268
Cash flows used in investing activities	(109)	(83)	(43)	(85)	(100)
Cash flow (used in) provided by financing activities	(252)	(253)	(178)	30	(169)
<b>Other Operating Data:</b>					
Average net sales per selling square foot(2)	\$ 212	\$ 205	\$ 201	\$ 202	\$ 213
Comparable store sales increase (decrease)(3)	3.2%	2.5%	0.2%	(4.6)%	(0.7)%
Total selling square footage (in millions)	20.1	19.9	19.6	19.4	18.6
<b>Stores Open at End of Year:</b>					
Michaels	1,064	1,045	1,023	1,009	963
Aaron Brothers	134	137	152	161	166
Total stores open at end of year	1,198	1,182	1,175	1,170	1,129

(1) Fiscal 2011 Net income includes an \$18 million loss related to the early extinguishment of \$163 million face value, or \$155 million accreted value, of our outstanding 13% Subordinated Discount Notes due 2016 and \$7 million face value of our 113/8% Senior Subordinated Notes due 2016. Fiscal 2010 Net income includes a \$53 million loss related to the early extinguishment of our 10% Senior Notes due in 2014.

(2) The calculation of average net sales per selling square foot includes only Michaels comparable stores, as defined below. Aaron Brothers, which is a smaller store model, is excluded from the calculation.

(3) Comparable store sales increase (decrease) represents the increase (decrease) in net sales for stores open the same number of months in the indicated and comparable period of the previous year, including stores that were relocated or expanded during either period. A store is deemed to become comparable in its 14th month of operation in order to eliminate grand opening sales distortions. A store temporarily closed more than two weeks is not considered comparable during the month it is closed. If a store is closed longer than two weeks but less than two months, it becomes comparable in the month in which it reopens, subject to a mid-month convention. A store closed longer than two months becomes comparable in its 14th month of operation after its reopening.

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## **Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion should be read in conjunction with our Consolidated Financial Statements and the related notes included elsewhere in this prospectus. The following discussion, as well as other portions of this prospectus, contains forward-looking statements that reflect our plans, estimates, and beliefs. Any statements contained herein (including, but not limited to, statements to the effect that Michaels or its management "anticipates", "plans", "estimates", "expects", "believes", "intends", and other similar expressions) that are not statements of historical fact should be considered forward-looking statements and should be read in conjunction with our Consolidated Financial Statements and related notes contained elsewhere in this prospectus. Specific examples of forward-looking statements include, but are not limited to, statements regarding our forecasts of financial performance, capital expenditures, working capital requirements, and forecasts of effective tax rate. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this prospectus, and particularly in "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements".*

*We report on the basis of a 52- or 53-week fiscal year, which ends on the Saturday closest to January 31. References to fiscal year mean the year in which that fiscal year began. Fiscal 2011 ended on January 28, 2012, fiscal 2010 ended on January 29, 2011 and fiscal 2009 ended on January 30, 2010. Each of these three fiscal years contained 52 weeks.*

### **How We Assess the Performance of our Business**

In assessing our performance, we consider a variety of performance and financial measures. The key measures we assess to evaluate the performance of our business are set forth below:

*Net Sales* Our Net sales are comprised of gross sales, net of merchandise returns, coupons and discounts.

*Comparable Store Sales* A store is included in comparable store sales in its 14<sup>th</sup> month of operation, which is when we believe comparability is achieved. When a store that is included in comparable store sales is relocated or remodeled, we continue to consider sales from that store to be comparable store sales at the time of opening. A store temporarily closed more than two weeks is not considered comparable during the month it is closed. If a store is closed longer than two weeks but less than two months, it becomes comparable in the month in which it reopens, subject to mid-month convention. A store closed longer than two months becomes comparable in its 14<sup>th</sup> month of operation after its reopening. There may be variations in the way that our competitors calculate comparable or "same store" sales. As a result, data in this prospectus regarding our comparable store sales may not be comparable to similar data made available by other retailers.

Various factors may affect comparable store sales, including:

the number of customer transactions

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changes in our merchandise mix

changes in product pricing including promotional activities

the level of customer service that we provide in our stores

our store events

our ability to source and receive products accurately and efficiently

our opening of new stores in the vicinity of our existing stores

the number of stores we open, remodel or relocate in any period

consumer preferences and buying trends

our competitors' opening or closing stores near our stores

overall economic trends and conditions

As we continue to pursue our growth strategy, we expect a portion of our Net sales will continue to come from new stores not included in comparable store sales. Accordingly, comparable store sales is only one measure we use to assess our performance.

*Gross Profit* Gross profit is equal to our Net sales less our Cost of sales and occupancy expense. Gross margin measures gross profit as a percentage of Net sales.

The following Cost of sales is included in merchandise inventories and expensed as the merchandise is sold:

purchase price of merchandise, net of shrink, damages, vendor allowances and rebates

inbound freight, inspection costs, duties and import agent commissions

warehousing, handling and transportation costs (including internal transfer costs and related systems such as distribution center-to-store freight costs) and purchasing and receiving costs

internal costs of sourcing and design (including technology)

share-based compensation costs for those employees involved in preparing inventory for sale

Included in our occupancy expense is the following:

store expenses such as rent, insurance, taxes, common area maintenance, utilities, repairs and maintenance

amortization of store buildings and leasehold improvements

store closure costs

store remodel costs

We record rent expense ratably over the term of the lease beginning with the date we take possession of or control the physical access to the premises. We record leasehold

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improvement reimbursements as a liability and ratably adjust the liability as a reduction to rent expense over the lease term beginning with either the date we take possession, or control of, the physical access to the premises. At times, we receive landlord reimbursements for leasehold improvements made during the lease term, which we record as a liability and ratably adjust as a reduction to rent expense over the remaining lease term.

The components of our Cost of sales and occupancy expense may not be comparable to our competitors. As a result, data in this prospectus regarding our gross profit and gross margin may not be comparable to similar data made available by our competitors.

*Selling, General and Administrative Expense* Included in our Selling, general, and administrative costs are store personnel costs (including share-based compensation), store operating expenses, advertising expenses, store depreciation expense and corporate overhead costs. As a result of this offering, any public company costs incurred will be reflected on this line item.

*Operating Income* Operating income consists of Gross profit less Selling, general and administrative expense, Related party expenses and Store pre-opening costs.

## Executive Overview

We believe Michaels is where creativity happens. With over \$4.2 billion in sales, we are the largest arts and crafts specialty retailer in North America. Our primary business is the operation of 1,066 Michaels stores across the U.S. and Canada. We also operate 130 Aaron Brothers stores, a custom frame, framing, and art supply chain (all store counts are as of March 19, 2012).

Highlights for fiscal 2011 include the following:

sales increased to \$4.210 billion, a 4.4% improvement over last year, driven by a 3.2% increase in comparable store sales as well as the opening of 25 new stores. Our new store growth included one urban market format store as well as four small market format stores. In addition, we completed 15 store relocations during the year

our private brand merchandise represented 44% of total Net sales, up from 32% in fiscal 2010

direct imports, as a percent of total receipts, increased to 26% compared to 23% in fiscal 2010

gross margin improved by 120 basis points to 40.0% for fiscal 2011

we reported record Operating income of \$569 million, an increase of 16.6% from prior year

net cash provided by operating activities decreased \$25 million, or 5.7%, and Net income increased by \$73 million to \$176 million. Adjusted EBITDA, a non-GAAP measure that is a required calculation in our debt agreements, improved by 13.5%, from \$622 million in fiscal 2010 to \$706 million fiscal 2011 (see note 4 to "Prospectus Summary Summary Consolidated Financial and Operating Data")

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we reduced our outstanding indebtedness by \$178 million, including open market repurchases of our 13% Subordinated Discount Notes due November 1, 2016 (the "Subordinated Discount Notes"), totaling \$163 million face value, or \$155 million accreted value, and \$7 million of outstanding 11<sup>3</sup>/<sub>8</sub>% Senior Subordinated Notes due November 1, 2016 (the "Senior Subordinated Notes")

we amended our Senior Secured Term Loan Facility to extend \$619 million of term loans, due to mature on October 31, 2013, to now mature on July 31, 2016. We also prepaid \$50 million on our Senior Secured Term Loan Facility

we launched two new multi-channel business offerings: BuyTheBunch, our customer special order program, which provides our U.S. stores a systematic way to fulfill large quantity and special orders; and MiDesign@Michaels, an e-commerce complement to our stores, which allows customers to design digital scrapbooks, custom invitations and other custom accessories online

we continued to build our relationship with our customers through our marketing vehicles, Internet site, mobile platform, store experience and social media outlets

In fiscal 2012, we will continue to lead industry growth and innovation through strategic initiatives such as:

deepening our customer relationship through store experiences and multi-channel marketing

offering inspirational new products through frequent merchandise resets

capitalizing on customization and new business channels

opening 45 to 50 new stores, including seven new stores in Québec

growing private brand penetration

continuing to improve pricing and promotional strategies

continuously improving processes to achieve cost savings and cash flow increases

**Restatement Accounting for Income Taxes**

During fiscal 2009, we recorded a \$5 million adjustment to a state deferred tax liability pool. In fiscal 2010, we identified that the 2009 adjustment was made in error, and we reversed the adjustment and disclosed the correction in our Consolidated Financial Statements. As result of this adjustment, the Provision for income taxes in the Consolidated Statements of Operations was understated in fiscal 2009 and overstated in fiscal 2010 by \$5 million, which we concluded was not material to the Consolidated Financial Statements.

In response to this error, we performed a detailed re-examination of our deferred income tax pools. The re-examination of the deferred pool for property and equipment was completed during the fourth quarter of fiscal 2011. In connection with these procedures, we performed detailed reconciliations of the deferred tax pool for property and equipment for each of the last five years and identified errors in the manner in which we were tracking deferred taxes for property and equipment and the underlying differences between book and tax basis.





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Consequently, we concluded that the ending deferred tax liability for property and equipment was overstated by \$8 million in each period since at least February 3, 2007 through January 29, 2011. We also identified an error in the calculation of our deferred taxes related to foreign currency translation for fiscal 2007, fiscal 2008, and fiscal 2009 which we are correcting as part of this restatement. We have corrected these errors by restating our Consolidated Financial Statements for each respective period. Our restatement also includes the correction of the \$5 million state deferred tax liability error identified in fiscal 2010, the effects of which were previously considered immaterial to each respective period. The effect of the restatement had no impact on reported net cash flows or income before taxes in any periods. We have also recorded reclassifications to properly adjust the noncurrent portion of our deferred taxes from current Deferred tax assets to noncurrent Deferred tax assets.

The tables below provide a reconciliation of certain line items affected within our Consolidated Statements of Operations, Consolidated Balance Sheets, and Consolidated Statements of Cash Flows for fiscal 2007 through fiscal 2010, from amounts previously reported to the restated amounts:

Statement of Operations Fiscal 2010				
(In millions)	As Reported	State Deferred Tax Adjustment	As Restated	
Provision for income taxes	\$ 51	\$ (5)	\$ 46	
Net income	98	5	103	

Statement of Operations Fiscal 2009				
(In millions)	As Reported	State Deferred Tax Adjustment	Currency Translation Deferred Tax Adjustment	As Restated
Provision for income taxes	\$ 50	\$ 5	(1)	\$ 54
Net income	107	(5)	1	103

Statement of Operations Fiscal 2008				
(In millions)	As Reported	Currency Translation Deferred Tax Adjustment	As Restated	
Provision for income taxes	\$ 3	\$ 2	\$ 5	
Net loss	(5)	(2)	(7)	

Table of Contents**Statement of Operations****Fiscal 2007****Currency****Translation****Deferred Tax**

(In millions)	As Reported	Adjustment	As Restated
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Provision for income taxes	\$ 5	\$ (3)	\$ 2
Loss before discontinued operations	(22)	3	(19)
Net loss	(32)	3	(29)

**Balance Sheet****For the year ended January 29, 2011****Fixed****Currency****Asset****Translation****Deferred****Deferred**

(In millions)	As Reported	Tax Adjustment	Tax Adjustment	Reclassification Adjustments	As Restated
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Deferred income taxes asset (current)	\$ 56	\$	\$ 4	\$ (8)	\$ 52
Total current assets	1,275		4	(8)	1,271
Deferred income taxes asset (noncurrent)	18	8	(2)	8	32
Total assets	1,770	8	2		1,780
Accumulated deficit	(2,726)	8	2		(2,716)
Total stockholders' deficit	(2,664)	8	2		(2,654)

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<b>Balance Sheet</b> <b>For the year ended January 30, 2010</b> <b>(In millions)</b>						
	<b>As</b>	<b>Fixed</b>	<b>State</b>	<b>Currency</b>		<b>As</b>
	<b>Reported</b>	<b>Asset</b>	<b>Deferred</b>	<b>Translation</b>	<b>Reclassification</b>	<b>Restated</b>
		<b>Tax</b>	<b>Tax</b>	<b>Tax</b>	<b>Adjustments</b>	
Deferred income taxes asset (current)	\$ 45	\$	\$ (5)	3	\$ (6)	\$ 37
Total current assets	1,207		(5)	3	(6)	1,199
Deferred income taxes asset (noncurrent)	1	8			12	21
Total assets	1,710	8	(5)	3	6	1,722
Deferred income taxes liability (current)					2	2
Total current liabilities	717				2	719
Deferred income taxes liability (noncurrent)				1	4	5
Total liabilities	4,481			1	6	4,488
Accumulated deficit	(2,824)	8	(5)	2		(2,819)
Total stockholders' deficit	(2,771)	8	(5)	2		(2,766)

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Balance Sheet					
For the year ended January 31, 2009					
(In millions)					
	As	Fixed	Currency		As
	Reported	Asset	Translation		Restated
		Deferred	Deferred	Reclassification	
		Tax	Tax	Adjustments	
Deferred income taxes asset (current)	\$ 41	\$	\$ 1	\$ (3)	\$ 39
Total current assets	1,049		1	(3)	1,047
Deferred income taxes asset (noncurrent)	12	8		8	28
Total assets	1,625	8	1	5	1,639
Deferred income taxes liability (current)			0	2	2
Total current liabilities	681			2	683
Deferred income taxes liability (noncurrent)				3	3
Total liabilities	4,512			5	4,517
Accumulated deficit	(2,931)	8	1		(2,922)
Total stockholders' deficit	(2,887)	8	1		(2,878)

Balance Sheet					
For the year ended February 2, 2008					
(In millions)					
	As	Fixed	Currency		As
	Reported	Asset	Translation		Restated
		Deferred	Deferred	Reclassification	
		Tax	Tax	Adjustments	
Deferred income taxes asset (current)	\$ 31	\$	\$ 2	\$	\$ 33
Total current assets	980		2		982
Deferred income taxes asset (noncurrent)		8		10	18
Total assets	1,614	8	2	10	1,634
Deferred income taxes liability (current)				4	4
Total current liabilities	679			4	683
Deferred income taxes liability (noncurrent)	4		(1)	6	9
Total liabilities	4,506		(1)	10	4,515
Accumulated deficit	(2,926)	8	3		(2,915)
Total stockholders' deficit	(2,892)	8	3		(2,881)

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**Cash Flow Data Fiscal 2010**

(In millions)

**Fixed Asset**

	<b>As Reported</b>	<b>Deferred Tax Adjustment</b>	<b>As Restated</b>
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Operating Activities:

Net income	\$	98	\$	5	\$	103
Deferred income taxes		(23)		(5)		(28)

**Cash Flow Data Fiscal 2009**

(In millions)

**As  
Reported**