Michaels Companies, Inc.
Form S-1/A
June 16, 2014

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As filed with the Securities and Exchange Commission on June 16, 2014

Registration No. 333-193000

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

AMENDMENT No. 4
to

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

THE MICHAELS COMPANIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**5945**	**37-1737959**
(State or other jurisdiction of incorporation or organization)	(Primary standard industrial classification code number)	(I.R.S. employer identification number)

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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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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. o

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. o

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. o

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. o

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee(3)
Common Stock	31,944,445	$19.00	$606,944,455	$78,175

(1)

Includes 4,166,667 shares of common stock issuable upon exercise of the underwriters' option to purchase additional shares of common stock.

(2)

Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(a) of the Securities Act of 1933, as amended, based upon an estimate of the maximum offering price.

(3)

$64,400 was previously paid.

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 June 16, 2014

Prospectus

27,777,778 shares

The Michaels Companies, Inc.

Common Stock

This is an initial public offering of shares of Common Stock of The Michaels Companies, Inc. We are offering 27,777,778 shares of Common Stock.

Prior to this offering, there has been no public market for the Common Stock. We currently anticipate the initial public offering price of the Common Stock will be between $17.00 and $19.00 per share.

We intend to list our Common Stock on The Nasdaq Global Select Market, subject to notice of issuance, under the symbol "MIK".

	Per share	Total
Initial public offering price	$	$
Underwriting discounts and commissions(1)	$	$
Proceeds to us before expenses	$	$

(1) We have agreed to reimburse the underwriters for certain expenses in connection with this offering. See "Underwriting."

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 4,166,667 shares of our Common Stock. We will not receive any proceeds from the sale of shares by the selling stockholders.

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 16 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 , 2014.

J.P. Morgan **Goldman, Sachs & Co.**

Barclays **Deutsche Bank Securities**

BofA Merrill Lynch **Credit Suisse** **Morgan Stanley** **Wells Fargo Securities**

Guggenheim Securities
Macquarie Capital
Nomura
Piper Jaffray
Raymond James
Stephens Inc.
SunTrust Robinson Humphrey

Ramirez & Co., Inc. **Telsey Advisory Group** **The Williams Capital Group, L.P.**

, 2014.

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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 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. 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 ("CHA") and Interbrand. We believe these estimates to be accurate as of the date of this prospectus.

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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." As part of the reorganization described under "The Reorganization," in July 2013 Michaels Stores, Inc. ("MSI") became an indirect, wholly-owned subsidiary of The Michaels Companies, Inc. Unless the context otherwise requires, the terms "Michaels," "our company," "the Company," "we," "us," "our" and the like refer to The Michaels Companies, 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 1.476-for-one stock split effected on June 6, 2014.

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 2013 ended on February 1, 2014, fiscal 2012 ended on February 2, 2013, and fiscal 2011 ended on January 28, 2012. Fiscal 2013 and 2011 contain 52 weeks and fiscal 2012 contains 53 weeks. References to "the first quarter of fiscal 2014" relate to the 13 weeks ended May 3, 2014, and references to "the first quarter of fiscal 2013" relate to the 13 weeks ended May 4, 2013.

Please note that our discussion of financial information for fiscal 2013 includes data from the period preceding the Reorganization (February 3, 2013 to July 21, 2013) and data from the period following the Reorganization (July 22, 2013 to February 1, 2014) on a combined basis.

Our company

We believe Michaels is where creativity happens. With 1,263 stores (consisting of 1,145 Michaels stores and 118 Aaron Brothers stores) as of May 31, 2014 and approximately $4.6 billion in sales in fiscal 2013, Michaels is the largest arts and crafts specialty retailer in North America based on store count. We also operate a market-leading vertically-integrated custom framing business. 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 helpful store associates and a broad selection of merchandise combined with compelling in-store events and online content, we believe we offer the most complete arts and crafts experience and are the preferred destination in the industry.

Our stores are at the heart of our customer engagement strategy, showcasing our artistic and creative products while providing an opportunity for our store associates to interact with customers and help them develop creative ideas. We carry a broad and deep assortment of approximately 36,000 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. We have also developed a robust online platform which promotes social networking, and includes expert tips, project ideas, marketing content and information on upcoming store events. 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.

Our private branded products, which represented approximately 48% of total Net sales in fiscal 2013, are only available at Michaels and allow us to further differentiate our merchandise while enhancing product margins. We are also able to use our scale and market leadership to identify and secure exclusive third party products. We believe our compelling store experience and broad product offering distinguish us from our competitors and position Michaels as the leading brand that defines arts and crafts.

Our experienced management team has undertaken a series of key initiatives designed to enhance the strength of our market position and our potential for future growth. These initiatives include:

- making our stores more inviting to a broader set of customers, including those new to do-it-yourself ("DIY") projects and more experienced crafters;

- enhancing our in-store shopping experience by creating a more visually appealing environment through improved signage and open sightlines to make it easier for our customers to shop;

- becoming a true multi-channel retailer with our e-commerce platform launch in 2014 to complement our existing web and mobile platforms;

- strengthening our connections with existing customers and reaching new customers through an expanded marketing program including print, digital, direct mail, broadcast and community events;

- broadening our merchandising and sourcing capabilities to better identify and source new trends, merchandise and categories that enhance our portfolio of exclusive brands and products; and

- developing flexible store formats to address different markets and facilitate expansion.

Financial performance

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

- In fiscal 2013, Net sales increased to $4,570 million, a 3.7% improvement over the previous year, which included a 53rd week, driven by comparable store sales growth of 2.9% and the opening of 56 new Michaels and Aaron Brothers stores, including the relocation of 14 Michaels and 2 Aaron Brothers stores.

- During the third quarter of fiscal 2013, we introduced, and are the exclusive big-box retailer of, the Rainbow Loom. In an effort to drive sales of the Rainbow Loom, we dedicated significant advertising and marketing efforts to this on-trend children's craft product. Sales of the Rainbow Loom and replacement rubber bands contributed 2.9% to our comparable stores sales increase for fiscal 2013.

- In the first quarter of fiscal 2014, Net sales increased to $1,052 million, a 5.9% improvement over the first quarter of fiscal 2013. Comparable store sales for the first quarter of fiscal 2014 increased 3.8% over the first quarter of fiscal 2013.

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Our industry and our customer

We operate within the large, growing and fragmented arts and crafts industry. According to the CHA 2011 Attitude & Usage Study, which represents the most recent available third party estimate of industry size, 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. This represents a compounded annual growth rate of 4.3%, but excludes custom framing, which is one of our key categories. According to the CHA 2012 State of the Craft Industry report, our industry remains highly fragmented as craft and fabric chain stores ("multi store chains") comprise approximately 26% of the market. The balance consists of mass merchants, discounters, independent operators and online retailers.

Our core customer is an important driver of our success. Based on an internal study, we believe our typical customer is female (79%), spans a broad age range (68% are under 55, with 43% between the ages of 35 and 54), and has a median household income of approximately $81,000.

According to CHA, approximately 55% of U.S. households participated in at least one crafting project during 2012, which represented over 62 million households. Additionally, these households purchased crafting supplies, on average, 1.9 times per month and reported participating in approximately three crafting categories during the year. We believe the broad, multi-generational appeal, high personal attachment and the low-cost, project-based nature of crafting creates a loyal, resilient following. This is supported by CHA findings that nearly half of crafters report being a crafter for 10 or more years.

We further believe the rapid expansion and acceptance of digital social communities and societal trends towards DIY creative expression have expanded our potential customer base beyond the historical experienced crafter to include project-focused beginners. According to the CHA, nearly two-thirds of crafters use the internet to source ideas and information about crafting, with retail websites (31%) and social media websites (23%) being cited as the most frequently used internet sources.

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. Our scale allows us to invest in product sourcing and innovation as well as proprietary store and online content, which we believe differentiates us from local and regional arts and crafts retailers. The breadth and depth of our assortment, combined with a large share of private brand products, strengthen our competitive position relative to mass merchants, which devote only a small portion of shelf space to the category. Our category leadership attracts significant traffic to our websites, which include engaging online content and information on upcoming store events designed to be an extension of the Michaels brand.

Sophisticated global sourcing and innovation capabilities. Our infrastructure and our internal product development and global sourcing team position us to continue to deliver a differentiated level of innovation, quality and value to our customers. 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 and innovative 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 United States, ranking 33rd in April 2014.

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 11 private brands are of equal or better quality than third party branded products and generate higher gross margins. In fiscal 2013, sales of our private brands exceeded $2.2 billion.

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 a strategy using multiple forms of media, including digital, social media, direct marketing, broadcast and event-based promotions. Our nationally coordinated craft education program offers a broad curriculum of hands-on instruction in stores. We successfully grew total participation in this program to 799,000 in fiscal 2013 from 257,000 in fiscal 2009.

Our customer engagement strategy provides us with a deep understanding of customers' buying preferences, 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. It also allows us to better understand and cater to the needs of both our core expert crafters, as well as beginners. Further, we believe our new e-commerce platform launched in 2014 builds on our existing marketing-focused website and opens additional avenues to engage with our customers and increase sales.

Strong cash flow generation. Our ability to deliver strong financial performance, including the generation of net cash from operations of $2.0 billion from fiscal 2009 through fiscal 2013, 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 deep leadership experience across multiple retail operations and consumer product companies.

Our business strategy

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

Drive comparable store sales growth

Engaging with our customers. We believe we will capture additional market share from our existing customers and attract new customers by enhancing our customer engagement strategy. We expect to drive sustainable long-term sales growth by improving our brand positioning, expanding our marketing channels to include more direct mail, digital and broadcast efforts, and building customer loyalty by leveraging our large customer database. For example, we utilize our proprietary customer database, along with our email marketing database of more than 12 million customers, to offer increasingly personalized marketing communications to augment our already effective mass marketing vehicles.

Compelling store experience. We will further enhance our in-store shopping experience to broaden our customer base. Giving our stores a more consistent look and feel, including improved visual merchandising and more open sightlines, will make it easier for our customers to shop, as well as more efficient for us to operate our stores. We continue to refine our store operating model to increase efficiency and the amount of interaction our associates have with customers. Furthermore, our stores and community rooms have increasingly become a popular destination for a variety of events such as birthday parties and children's seasonal crafting programs. These initiatives strengthen our relationship with customers, create further opportunities to visit our stores and attract new customers to the Michaels experience.

Providing differentiated and inspiring merchandise. We will leverage our merchandising, global sourcing and trend teams to continually introduce new, exclusive and on-trend products and creative solutions. We plan to emphasize speed to market to capitalize on changing consumer demand that continues to accelerate with the success of social media sites like Pinterest and Facebook. We believe this will further differentiate us from our competitors, attract more customers, and increase the frequency of visits to our stores and websites.

Expanding our customer base. We will broaden our target customer base to include more beginners: consumers who are interested in customizing and personalizing creative projects, but who may be hesitant to try due to time constraints or limited experience. We expect to achieve this through changes to our product assortment, packaging, visual merchandising, and in-store and online education.

Expand multi-channel business platform

Driving store growth. Based on our detailed market-by-market analysis, we believe there is opportunity for continued new store growth, with the potential for approximately 1,500 Michaels stores in North America. Over the past five fiscal years we have opened 201 Michaels stores, including 57 relocations, and expanded our target geographic markets beyond the traditional suburban community to include urban and smaller markets that we had not previously targeted. Based on recent performance, we believe our new stores will continue to generate an attractive pre-tax cash-on-cash return of approximately 30% on our initial net investment by their fourth year after opening.

In fiscal 2014, we plan to open 40 to 45 new Michaels stores, including 10 to 15 relocations. We expect these and future openings will be funded by our strong operating cash flow.

e-commerce platform. Our e-commerce platform, launched in 2014, is designed to leverage our highly visited marketing and educational websites to sell a broad range of products directly to customers online. Over the last 12 months, we have had approximately 188 million visits to michaels.com; we also have approximately 1.8 million Facebook followers, more than 395,000 Pinterest followers and over 134,000 Twitter followers. We expect our new e-commerce platform will allow us to sell much of our current assortment while also expanding into e-commerce-only products. Although we expect this channel will produce a more limited sales penetration than more commoditized retail categories, we believe it will augment our multi-channel strategy to broaden our customer base and improve the shopping experience.

Enhance operating margins and cash flow

Exclusive brand and global sourcing initiatives. We plan to increase the penetration of our exclusive products, largely through private brands, and believe additional opportunities exist to expand our global sourcing and product design capabilities. We believe this will allow us to improve our selection and introduce new products tailored to our customers' tastes, while more effectively controlling costs and expanding our margins.

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

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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. From fiscal 2009 through fiscal 2013, we have been able to leverage our scale to reduce Selling, general, and administrative expense as a percentage of sales by 130 basis points.

Summary risk factors

The fragmented arts and crafts industry can be highly competitive, specifically in regard to comparable products sold online or by mass merchandisers, and we may face intense competition in the future that could impact our planned growth and results of operations as discussed in the "Risk Factors" section of this prospectus. 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 and could materially adversely affect our sales, results of operations and cash flow

- Our substantial debt, of which $3.7 billion was outstanding at May 3, 2014, 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 $1.6 billion in variable rate debt, prevent us from meeting our obligations under our notes and credit facilities and limit our flexibility in operating our business

- Our recent data breach or a failure to adequately maintain security and prevent unauthorized access to electronic and other confidential information, which could result in an additional data breach, could materially adversely affect our reputation, financial condition and operating results

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

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

- Even if we are able to substantially continue our strategy of expanding our store base, our success will depend on how well we manage our business

- Damage to the reputations of the Michaels brand or our private and exclusive brands could adversely affect our sales

- Our fourth quarter has historically been our highest quarter for sales and profitability, and a weak fourth quarter could have material adverse impacts on us

- If a supplier fails us, transitioning to other qualified vendors could affect our sales and profitability

- Our promotional and merchandising programs are dependent on consumer responses, which could be unfavorable or unexpected, adversely impacting our sales

- Our holding company structure makes us, and certain of our direct and indirect subsidiaries, dependent on the operations of our, and their, subsidiaries to meet our, and their, financial obligations

Investment funds affiliated with the Sponsors (as defined below) will have the ability to control the outcome of matters submitted for stockholder approval and they may have interests that differ from those of our other stockholders

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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 Reorganization

In July 2013, the Company's corporate structure was reorganized into a holding company structure (the "Reorganization"). The Michaels Companies, Michaels FinCo Holdings, LLC ("FinCo Holdings"), Michaels FinCo, Inc. ("FinCo Inc.") and Michaels Funding, Inc. ("Holdings") and Michaels Stores MergerCo, Inc. ("MergerCo") were formed in connection with the Reorganization and (i) MergerCo was merged with and into MSI with MSI being the surviving corporation; (ii) each share of MSI common stock was converted into the right to receive one share of Common Stock of the Company, subject to the same vesting conditions, if any, as applied to the share so converted, and each such share of MSI common stock was cancelled and retired and ceased to exist; and (iii) each option to purchase one or more shares of common stock of MSI was assumed by the Company and converted into an option to purchase an equivalent number of shares of Common Stock of the Company with the remaining terms of each such option remaining unchanged, except as was necessary to reflect the Reorganization. Approximately 174.8 million shares of MSI common stock were converted into an equivalent number of shares of Common Stock of the Company. The MSI shares were then cancelled and retired. MSI then issued 100 shares of stock with a $0.10 par value to Holdings. As a result of the Reorganization, FinCo Holdings is wholly owned by the Company, FinCo Inc. and Holdings are wholly owned by FinCo Holdings, and MSI is wholly owned by Holdings.

Our history

We were incorporated in Delaware in July 2013 in connection with the Reorganization of MSI into a holding company structure. MSI was incorporated in Delaware in 1983 and is headquartered in Irving, Texas. On October 31, 2006, substantially all of the common stock of MSI 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 investment funds managed by Highfields Capital Management LP ("Highfields") (then-existing shareholders of Michaels Stores, Inc.). As a result of the Merger and the Reorganization, Michaels Holdings LLC, an entity controlled by our Sponsors, currently owns approximately 93% of our outstanding Common Stock.

Subsequent to the Reorganization, on July 29, 2013, FinCo Holdings and FinCo Inc. issued $800 million aggregate principal amount of 7.50%/8.25% PIK Toggle Notes due 2018 (the "Holdco Notes") in a private transaction. The net proceeds from the debt issuance were approximately $783 million, after deducting the initial purchasers' discount and fees and expenses. FinCo Holdings distributed the net proceeds to the Company and the proceeds were used to fund a cash dividend to the Company's equity and equity-award holders and pay related fees and expenses. Amounts paid to our Sponsors and other non-management equity holders were approximately $714 million and $49 million, respectively. Amounts paid to current executive officers were approximately $3 million and amounts paid to other management equity holders (including former management) were approximately $14 million. In addition, approximately $2 million will be paid to management equity holders at the time restricted stock awards vest. No dividends were directly paid to directors of the Company. The dividend was paid to provide liquidity to our equity holders.

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Our Sponsors

Bain Capital, LLC ("Bain Capital") (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 investments with over $75 billion in assets under management. Since its inception in 1984, Bain Capital has made private equity, growth, and venture capital investments in over 400 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, Palo Alto, London, Luxembourg, Munich, Melbourne, Hong Kong, 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 asset management businesses include investment vehicles focused on private equity, real estate, hedge fund solutions, non-investment grade credit, secondary funds, and multi asset class exposures falling outside of other funds mandates. 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*.

Payments to the Sponsors and Highfields in connection with the offering

In connection with this offering, we plan to terminate our management services agreement with the Sponsors and Highfields, and pay Bain Capital, The Blackstone Group and Highfields termination fees in the amount of approximately $14 million, $14 million and $2 million, respectively.

Recent developments

Additional 2020 Senior Subordinated Notes. On June 16, 2014, MSI and certain of its subsidiaries, as guarantors, issued an additional $250,000,000 in aggregate principal amount of MSI's $5^7/_8$% senior subordinated notes due December 15, 2020 (the "Additional 2020 Senior Subordinated Notes") at a price of 102% of their aggregate principal amount, yielding gross proceeds of $255,000,000 before commissions and expenses. The Additional 2020 Senior Subordinated Notes were issued on June 16, 2014 as part of the same series as MSI's $5^7/_8$% senior subordinated notes due December 15, 2020 (together with the Additional 2020 Senior Subordinated Notes, the "2020 Senior Subordinated Notes") issued in December 2013. MSI intends to use the net proceeds from the Additional 2020 Senior Subordinated Notes to redeem a portion of its $7^3/_4$% Senior Notes due 2018 (the "2018 Senior Notes"), to pay the applicable make-whole premium and accrued and unpaid interest to, but not including, the applicable redemption date and to pay related fees and expenses.

Incremental Term Loans. On June 6, 2014, MSI also priced an additional $850 million in aggregate principal amount of additional term loan indebtedness (the "Incremental Term Loans") under its restated senior secured term loan facility (the "Restated Term Loan Credit Facility"). On June 10, 2014, MSI entered into an amendment to its Restated Term Loan Credit Facility to effect the Incremental Term Loans (the "First Amendment"). The closing of the First Amendment and funding of the Incremental Term Loans will be subject to, and simultaneous with, the closing of this offering. The Incremental Term Loans will be issued at a purchase price equal to 99.5% of the aggregate principal amount, and MSI intends to use the net proceeds of the Incremental Term Loans to redeem the remaining outstanding 2018 Senior Notes that are not redeemed with the net proceeds from the offering of the Additional 2020 Senior Subordinated Notes. Accordingly, MSI currently plans to redeem all of its outstanding 2018 Senior Notes with the net proceeds from the Additional 2020 Senior Subordinated Notes and the Incremental Term Loans.

On a *pro forma* basis as of May 3, 2014, after giving effect to the issuance of the Additional 2020 Senior Subordinated Notes and the incurrence of the Incremental Term Loans and the redemption of the 2018 Senior Notes, we would have had total indebtedness of $3,788 million and an additional approximately $589 million of additional borrowing capacity (after giving effect to then-outstanding letters of credit) under our Restated Revolving Credit Facility. If we redeem all of the 2018 Senior Notes, we estimate we would pay a make-whole premium of approximately $58 million plus accrued and unpaid interest thereon. We expect to incur fees and expenses in connection with the Incremental Term Loans of approximately $10 million.

The Incremental Term Loans will have an interest rate margin of 3.00%, for LIBOR rate loans, and 2.00%, for base rate loans. Incremental Term Loans bearing interest based on LIBOR will be subject to a floor of 1%. We anticipate that the Incremental Term Loans will accrue interest at approximately 4.00%, assuming effective LIBOR of 1.00%. After also giving effect to the issuance of the Additional 2020 Senior Subordinated Notes and the redemption of all of the 2018 Senior Notes, we expect that our annual interest expense going forward will decrease by approximately $29 million.

The estimates above are subject to change based on a number of variables, including the date and make-whole premium of the redemption of the 2018 Senior Notes.

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*. 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 The Michaels Companies, Inc.	27,777,778 shares
Common Stock to be outstanding after this offering	203,103,838.7 shares (after giving effect to the 1.476-for-one stock split effected on June 6, 2014)
Underwriters' option to purchase additional shares	The selling stockholders have granted the underwriters a 30-day option to purchase up to 4,166,667 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 $466 million, assuming the shares are offered at $18.00 per share, which is the mid-point of the estimated initial public offering price range set forth on the cover page of this prospectus. We intend to use the net proceeds from this offering to redeem $466 million of the Holdco Notes. We also intend to use cash on hand to pay the applicable redemption premium of $5 million (1% of the principal amount of the Holdco Notes being redeemed). 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.
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 rules of The NASDAQ Stock Market. 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 rules of The NASDAQ Stock Market and, as a result, expect to qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections as those afforded to stockholders of companies that are subject to such governance 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.

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Directed share program	At our request, the underwriters have reserved for sale, at the initial public offering price, up to 5% of the shares offered by this prospectus for sale to some of our directors, officers, employees and certain other persons who are otherwise associated with us through a directed share program. If these persons purchase reserved shares, this will reduce the number of shares available for sale to the general public. Any reserved shares that are not so purchased will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus.
NASDAQ symbol	"MIK"

The number of shares of our Common Stock to be outstanding after this offering is determined as of May 31, 2014 and is based on shares of our Common Stock outstanding as of such date, and: (1) assumes an offering price of $18.00 per share (the mid-point of the price range set forth on the cover of this prospectus); (2) gives effect to a 1.476-for-one stock split effected on June 6, 2014; and (3) excludes an aggregate of 6,642,000.0 shares of Common Stock reserved for issuance and not yet issued under our long-term equity incentive plan, as amended and restated (the "2014 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 "Equity Incentive Plan").

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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 February 1, 2014 and February 2, 2013, and our consolidated results of operations data and cash flow data for each of the three years ended February 1, 2014, February 2, 2013 and January 28, 2012, respectively, have been derived from our audited Consolidated Financial Statements, which are included elsewhere in this prospectus. Our summary consolidated balance sheet data as of January 28, 2012 has been derived from our historical audited financial statement for such year, which are not included in this prospectus. Other operating data and store counts included in the following table are unaudited for all periods presented. The summary consolidated results of operations, cash flow data and balance sheet data presented as of and for the quarters ended May 4, 2013 and May 3, 2014 are derived from our unaudited Consolidated Financial Statements appearing elsewhere in this prospectus. The results of operations for any period are not necessarily indicative of the results to be expected for any future period.

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 2013 is the 52-week period ended February 1, 2014, fiscal 2012 is the 53-week period ended February 2, 2013 and fiscal 2011 is the 52-week period ended January 28, 2012. References to "the first quarter of fiscal 2014" relate to the 13 weeks ended May 3, 2014, and references to "the first quarter of fiscal 2013" relate to the 13 weeks ended May 4, 2013.

Our discussion of financial information for fiscal 2013 includes data from the period preceding the Reorganization (February 3, 2013 to July 21, 2013) and data from the period following the Reorganization (July 22, 2013 to February 1, 2014) on a combined basis.

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", "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 earnings per common share, operating and store count data)	Fiscal Year(1) 2013	2012	2011	Quarters Ended May 3, 2014	May 4, 2013
Results of Operations Data:					
Net sales	$ 4,570	$ 4,408	$ 4,210	$ 1,052	$ 993
Operating income	610	592	538	139	128
Interest expense	215	245	254	57	47
Net income(1)	243	200	157	45	46
Earnings per Common share, basic	$ 1.39	$ 1.14	$ 0.90	$ 0.26	$ 0.26
Earnings per Common share, diluted	$ 1.36	$ 1.12	$ 0.89	$ 0.25	$ 0.26
Weighted average shares used in computing per share amounts, basic	174.8	174.7	174.6	175.1	174.8
Weighted average shares used in computing per share amounts, diluted	178.7	178.2	176.7	178.9	178.7
Balance Sheet Data:					
Cash and equivalents	$ 239	$ 56	$ 371	$ 115	$ 55
Merchandise inventories	901	862	845	930	843
Current portion of long-term debt	16	150	127	16	198
Long-term debt	3,678	2,891	3,363	3,673	2,887
Working capital	450	188	478	493	231
Cash flow data:					
Cash flows provided by (used in) operating activities	$ 449	$ 299	$ 409	$ (74)	$ 2
Cash flows used in investing activities	(112)	(124)	(109)	(31)	(22)
Cash flows (used in) provided by financing activities	(154)	(490)	(248)	(19)	19
Other Operating Data:					
Average net sales per selling square foot(2)	$ 218	$ 215	$ 212		
Comparable store sales increase (decrease)(3)	2.9%	1.5%	3.2%	3.8%	(0.7)%
Total selling square footage (in millions)	21.1	20.6	20.1	21.2	20.8
Adjusted EBITDA (in millions)(4)	$ 792	$ 747	$ 707	$ 179	$ 165
Stores Open at End of Period:					
Michaels	1,136	1,099	1,064	1,144	1,113
Aaron Brothers	121	125	134	118	122
Total stores open at end of period	1,257	1,224	1,198	1,262	1,235

(1) Fiscal 2013 refinancing costs and losses on early extinguishments of debt include $7 million ($4 million, net of tax) of refinancing costs associated with our 2020 Senior Subordinated Notes and a $7 million ($4 million, net of tax) loss related to the redemption of $137 million in aggregate principal amount of our 11$^3/_8$% Senior Subordinated Notes due November 1, 2016 ("2016 Senior Subordinated Notes"). Fiscal 2012 refinancing costs and losses on early extinguishments of debt include $12 million ($8 million, net of tax) of refinancing costs associated with our Restated Term Loan Credit Facility, an $8 million ($5 million, net of tax) loss related to our amended and restated senior secured term loan facility and prepayment of our B-1 Term Loans, an $11 million ($7 million, net of tax) loss related to the redemption of our remaining outstanding 13% Subordinated Discount Notes due November 1, 2016 ("Subordinated Discount Notes"), and a $2 million ($1 million, net of tax) loss related to the amendment and restatement of our senior secured asset-based Revolving Credit Facility. Fiscal 2011 refinancing costs and losses on early extinguishments of debt include an $18 million ($11 million, net of tax) loss related to the early extinguishment of $163 million face value, or $155 million accreted value, of our outstanding Subordinated Discount Notes and $7 million face value of our 2016 Senior Subordinated Notes.

(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

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were relocated or expanded during either period. A store is deemed to become comparable in its 14^{th} 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 14^{th} month of operation after its reopening.

(4) The table presents Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). The Company defines Adjusted EBITDA as Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA") (excluding refinancing costs and losses on early extinguishments of debt) adjusted for certain defined amounts that are added to, or subtracted from, EBITDA (excluding refinancing costs and losses on early extinguishments of debt) (collectively, the "Adjustments") in accordance with the Company's Restated Term Loan Credit Facility and Restated Revolving Credit Facility. The Adjustments are described in further detail in the table and the footnotes to the table below.

The Company has presented EBITDA (excluding refinancing costs and losses on early extinguishments of debt) and Adjusted EBITDA to provide investors with additional information to evaluate our operating performance and our ability to service our debt. Adjusted EBITDA is a required calculation under the Company's Restated Term Loan Credit Facility and Restated Revolving Credit Facility. As it relates to the Restated Term Loan Credit Facility, Adjusted EBITDA is used in the calculations of fixed charge coverage and leverage ratios, which, under certain circumstances may result in limitations on MSI's ability to make restricted payments as well as the determination of mandatory repayments of the loans. Under the Restated Revolving Credit Facility, Adjusted EBITDA is used in the calculation of fixed charge coverage ratios, which under certain circumstances, may restrict MSI's ability to make certain payments (characterized as restricted payments), investments (including acquisitions) and debt repayments, and which under certain circumstances will be used as a maintenance covenant.

As EBITDA (excluding refinancing costs and losses on early extinguishments of debt) 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 (excluding refinancing costs and losses on early extinguishments of debt) and Adjusted EBITDA may differ from similarly titled measures used by other companies. As EBITDA (excluding refinancing costs and losses on early extinguishments of debt) 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 (excluding refinancing costs and losses on early extinguishments of debt) and Adjusted EBITDA to Net income and Net cash provided by operating activities.

(in millions)	Fiscal Years 2013	Fiscal Years 2012	Fiscal Years 2011	Quarters Ended May 3, 2014	Quarters Ended May 4, 2013
Net cash provided by (used in) operating activities	$ 449	$ 299	$ 409	$ (74)	$ 2
Depreciation and amortization	(106)	(97)	(101)	(27)	(25)
Share-based compensation	(34)	(21)	(41)	(4)	(4)
Debt issuance costs amortization	(10)	(14)	(17)	(3)	(2)
Accretion of long-term debt	1		(35)		
Change in fair value of contingent consideration			4		
Change in fair value of interest rate cap			(5)		
Refinancing costs and losses on early extinguishments of debt	(14)	(33)	(18)		(7)
Impairment of intangible assets		(8)			
Changes in assets and liabilities	(43)	74	(39)	153	82
Net income	243	200	157	45	46
Interest expense	215	245	254	57	47
Refinancing costs and losses on early extinguishments of debt	14	33	18		7
Provision for income taxes	136	115	100	37	28
Depreciation and amortization	106	97	101	27	25
EBITDA (excluding refinancing costs and losses on early extinguishments of debt)	714	690	630	166	153
Adjustments:					
Share-based compensation and related taxes	35	21	41	4	4
Management fees to Sponsors and others	14	13	13	3	4
Impairment of intangible assets		8			
Termination expense	5	1	1		
Store pre-opening costs	5	5	4	1	2
Store remodel costs	7	2	2	3	
Foreign currency transaction losses (gains)	2	(1)	4		
Store closing costs	5	4	7	1	
Gain on contingent consideration			(4)		
Loss on interest rate cap			5		
Other(1)	5	4	4	1	2
Adjusted EBITDA	$ 792	$ 747	$ 707	$ 179	$ 165

(1) Other adjustments relate to items such as moving & relocation expenses, franchise taxes, foreign currency hedge, sign on bonuses and certain legal settlements.

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Risk factors

An investment in our Common Stock involves various risks. We are a holding company with no material assets other than our interest in our direct and indirect subsidiaries, including MSI. We do not have any independent operations and our only source of liquidity is from our subsidiaries. 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 and industry

We face risks related to the effect of economic uncertainty.

In the event of a prolonged economic downturn or slow recovery, our growth, prospects, 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 limit our ability to satisfy customer demand and potentially lose market share.

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 May 3, 2014, after giving effect to the application of proceeds from this offering as set forth under "Use of Proceeds", the issuance of Additional 2020 Senior Subordinated Notes, the expected incurrence of the Incremental Term Loans, and the anticipated use of such proceeds, as described in "Prospectus summary Recent developments", we would have had total outstanding debt of $3,322 million, of which approximately $2,473 million was subject to variable interest rates and $849 million was subject to fixed interest rates, and an additional approximately $589 million of additional borrowing capacity (after giving effect to $61 million of letters of credit then outstanding) under our Restated Revolving Credit Facility. Our substantial indebtedness could have important consequences to us, including:

- making it more difficult for us to satisfy our obligations with respect to our debt, and any failure to comply with the obligations under our debt instruments, including restrictive covenants, could result in an event of default under the agreements governing our indebtedness

- increasing our vulnerability to general economic and industry conditions

- requiring a substantial portion of our 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, selling and marketing efforts, product development, future business opportunities and other purposes

- exposing us to the risk of increased interest rates as certain of our borrowings, including under our Senior Secured Credit Facilities, which consist of the Restated Revolving Credit Facility and the Restated Term Loan Credit Facility (each, as defined below), 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 plan for, or adjust to, changing market conditions and placing us at a competitive disadvantage compared to our competitors who may be less highly leveraged

The occurrence of any one of these events could have an adverse effect on our business, financial condition, results of operations, and ability to satisfy our obligations under our indebtedness.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject, in the case of Holdings, MSI and FinCo Holdings and their subsidiaries, to the restrictions contained in our Senior Secured Credit Facilities and the indentures governing our notes. In addition, our Senior Secured Credit Facilities and indentures governing our notes do not restrict our owners from creating new holding companies that may be able to incur indebtedness without regard to the restrictions set forth in our Senior Secured Credit Facilities and indentures governing our notes. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

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 material adverse impacts on our sales and operating results.

Our recent results of operations have been significantly enhanced by sales of one product, the Rainbow Loom. Sales of the Rainbow Loom and replacement rubber bands were the primary driver of the increase in our Net sales in the fiscal year ended February 1, 2014 compared to the prior fiscal year. Based on our retail experience, we expect that the popularity of this product will diminish over time, and our results of operations could be affected by our inability to anticipate demand for this product and stock the appropriate level of inventory. Similarly, if we identify products in the future that have a significant effect on our results of operations, we could face similar challenges and risks that could affect our profitability.

We have recently experienced a data breach and such data breach and any future failure to adequately maintain security and prevent unauthorized access to electronic and other confidential information could result in an additional data breach which could materially adversely affect our reputation, financial condition and operating results.

The protection of our customer, associate and Company data is critically important to us. Our customers and associates have a high expectation that we will adequately safeguard and protect their sensitive personal information. We have become increasingly centralized and dependent upon automated information technology processes. In addition, a portion of our business operations is conducted electronically, increasing the risk of attack or interception that could cause loss or misuse of data, system failures or

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disruption of operations. This risk has increased with the recent launch of our e-commerce platform in 2014. Improper activities by third parties, exploitation of encryption technology, new data-hacking tools and discoveries and other events or developments may result in a future compromise or breach of our networks, payment card terminals or other payment systems. In particular, the techniques used by criminals to obtain unauthorized access to sensitive data change frequently and often are not recognized until launched against a target; accordingly, we may be unable to anticipate these techniques or implement adequate preventative measures. Any failure to maintain the security of our customers' sensitive information, or data belonging to ourselves or our suppliers, could put us at a competitive disadvantage, result in deterioration of 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. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses and would not remedy damage to our reputation.

In January 2014, we learned of possible fraudulent activity on some U.S. payment cards that had been used at Michaels, suggesting we may have experienced a data security attack. The Company retained two independent, expert security firms to conduct an extensive investigation. The Company also has been working closely with law enforcement authorities and coordinating with banks and payment processors to determine the facts.

After extensive analysis, we discovered evidence confirming that systems of Michaels stores in the United States and its subsidiary, Aaron Brothers, were attacked by criminals using highly sophisticated malware that had not been encountered previously by either of the security firms (the "Data Breach").

The Company believes it has now identified the malware and it no longer presents a threat while shopping at Michaels or Aaron Brothers. During the course of the investigation, we determined the following:

- The affected systems contained certain payment card information, such as payment card number and expiration date, about both Michaels and Aaron Brothers customers. There is no evidence that other customer personal information, such as name, address or PIN, was at risk in connection with this issue.

- Regarding Michaels stores, the attack potentially targeted a limited portion of the point-of-sale systems at a varying number of stores between May 8, 2013 and January 27, 2014. Only a small percentage of payment cards used in the affected stores during the times of exposure were impacted by this issue. The analysis conducted by the security firms and the Company shows that approximately 2.6 million cards may have been impacted, which represents about 7% of payment cards used at Michaels stores in the U.S. during the relevant time period.

- Regarding Aaron Brothers, we have confirmed that between June 26, 2013 and February 27, 2014, 54 Aaron Brothers stores were affected by this malware. We estimate that approximately 400,000 cards were potentially impacted during this period.

- We have received a limited number of reports from the payment card brands and banks of fraudulent use of payment cards potentially connected to Michaels or Aaron Brothers.

We are offering identity protection, credit monitoring and fraud assistance services to affected Michaels and Aaron Brothers customers in the U.S. for 12 months at no cost to them. In addition, the Data Breach has given rise to putative class action litigation on behalf of customers and regulatory investigations, as further described under "Business Legal Proceedings".

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There can be no assurance that we will not suffer a similar criminal attack in the future, that unauthorized parties will not gain access to personal information, or that any such incident will be discovered in a timely way. Regardless of the conclusion of the investigation, the Data Breach could adversely affect the Michaels and Aaron Brothers brands, has caused us to incur legal and other fees and may cause us to incur additional material fees, and could discourage customers from shopping in our stores.

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

The retail arts and crafts industry, including custom framing, is competitive, which could result in the pressure to reduce prices and losses in 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 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 Stores, Inc., A.C. Moore Arts & Crafts, Inc. and Jo-Ann Stores, Inc. Some of our competitors, particularly the mass merchants, are larger and have greater financial resources than we do. We also face competition from Internet-based retailers, such as Amazon.com, Inc., in addition to traditional store-based retailers, who may be larger, more experienced and able to offer products we cannot. This could result in increased price competition since our customers could more readily search and compare non-private brand products. Furthermore, we ultimately compete with alternative sources of entertainment and leisure for our customers.

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 for our merchandise, 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.

We are at a risk for 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.

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.

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

Even if we are able to 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

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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

our e-commerce platform may be unprofitable, cannibalize sales from our existing stores, or be uncompetitive against other Internet-based retailers who sell similar merchandise

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

failure to maintain stable relations with our labor force may impact our store operations and sales

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 to our new stores

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 improve gross margin. We may be unable to continue our store growth strategy if we cannot identify suitable sites for 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 brands amounted to approximately 48% of Net sales in fiscal 2013. Damage to the reputations (whether or not justified) of our brand names could arise from product failures, data privacy or security incidents, litigation or various forms of adverse publicity (including adverse publicity generated as a result of a vendor's or a supplier's failure to comply with general social accountability practices), especially in social media outlets, and may generate negative customer sentiment, potentially resulting in a reduction in our sales and earnings.

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

Our business is highly seasonal. Our inventories and short-term borrowings may grow in the third fiscal quarter 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.

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Suppliers from whom our products are sourced may fail us and transitioning to other qualified vendors 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.

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 may limit our ability to respond timely to shifts in demand.

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.

Our marketing programs, e-commerce initiatives and use of consumer information are governed by an evolving set of laws and enforcement trends, and unfavorable changes in those laws or trends, or our failure to comply with existing or future laws, could substantially harm our business and results of operations.

We collect, maintain and use data provided to us through our online activities and other customer interactions in our business. Our current and future marketing programs depend on our ability to collect, maintain and use this information, and our ability to do so is subject to certain contractual restrictions in third party contracts as well as evolving international, federal and state laws and enforcement trends. We strive to comply with all applicable laws and other legal obligations relating to privacy, data protection and consumer protection, including those relating to the use of data for marketing purposes. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another, may conflict with other rules or may conflict with our practices. If so, we may suffer damage to our reputation and be subject to proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts to defend our practices, distract our management, increase our costs of doing business and result in monetary liability.

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In addition, as data privacy and marketing laws change, we may incur additional costs to ensure we remain in compliance. If applicable data privacy and marketing laws become more restrictive at the federal or state level, our compliance costs may increase, our ability to effectively engage customers via personalized marketing may decrease, our investment in our e-commerce platform may not be fully realized, our opportunities for growth may be curtailed by our compliance capabilities or reputational harm and our potential liability for security breaches may increase.

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 2013, we purchased merchandise from approximately 600 vendors. Since a majority of our merchandise is 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 or regulators do not believe we are complying with current regulations applicable to us, 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, wood and paper may adversely affect our costs, including cost of merchandise.

Significant future increases in commodity prices or inflation could 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.

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. We continue to implement enhancements to our distribution systems and processes, which are designed to improve efficiency throughout the supply chain and at our stores. Significant changes to our supply chain could have a material adverse impact on our results of operations.

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We may be subject to information technology system failures or network disruptions, or our information systems may prove inadequate, resulting in damage to our reputation, business operations and financial condition.

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, analyze and record 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, denial-of-service attacks, 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 may be materially adversely affected if we are unable to improve, upgrade, maintain, and expand our systems.

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 that could adversely impact our business if they are enacted or enforced. 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 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. 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. For example, in fiscal 2012, we settled a pricing and promotion investigation by the New York State Attorney General's office through the payment of a fine and other consideration pursuant to an Assurance of Discontinuance, and could be subject to similar investigations, as well as lawsuits, in the future. We are currently subject to class action lawsuits alleging violations of wage and workforce laws and to a purported class action lawsuit alleging violations of Ohio state law in relation to our advertising and pricing practices (see "Business Legal Proceedings"). 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.

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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 the ability of the relevant borrowers, issuers, guarantors and their restricted subsidiaries to, among other things:

- incur or guarantee additional debt
- pay dividends or distributions on our capital stock or redeem, repurchase or retire our capital stock or indebtedness
- issue stock of subsidiaries
- make certain investments, loans, advances and acquisitions
- 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 the Restated Term Loan Credit Facility, MSI is required to meet specified financial ratios in order to undertake certain actions, and under our Restated Revolving Credit Facility, MSI is required to meet specified financial ratios in order to undertake certain actions, and under certain circumstances, MSI may be required to maintain a specified fixed charge coverage ratio. Our ability to meet those tests can be affected by events beyond our control, and we cannot assure you we will meet them. A breach of any of these covenants could result in a default under our Senior Secured Credit Facilities, which could also lead to an event of default under our notes if any of the Senior Secured Credit Facilities were accelerated. 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. Holdings, MSI and certain of MSI's subsidiaries have pledged substantially all of their assets, including the capital stock of MSI and certain of its subsidiaries, as collateral under our Senior Secured Credit Facilities. If the indebtedness under our Senior Secured Credit Facilities or our notes were to be accelerated, our assets may not be sufficient to repay such indebtedness in full. See "Description of Certain Indebtedness."

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 subject 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.

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If we decide to close stores, we are generally required to continue 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 third party providers 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. These functions are generally performed in offshore locations, 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 suppliers. 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. The success of our e-commerce platform, launched in 2014, is in part dependent on such co-sourced resources and therefore might impact these risks.

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 operating subsidiary purchases inventory in U.S. dollars, which is sold in Canadian dollars and exposes us to foreign exchange rate fluctuations. As well, our 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 Carl S. Rubin, our Chief Executive Officer, and Charles M. Sonsteby, our Chief Administrative Officer and Chief Financial Officer. The permanent 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.

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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, similar to 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 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. For example, 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. For example, during the fourth quarter of fiscal 2012, our Net sales were adversely affected by Hurricane Sandy.

Our holding company structure makes us, and certain of our direct and indirect subsidiaries, dependent on the operations of our, and their, subsidiaries to meet our financial obligations.

We, and certain of our direct and indirect subsidiaries, have no significant assets other than our, and their, interest in our, and their, direct and indirect subsidiaries, including MSI. As a result, we, and certain of our direct and indirect subsidiaries, rely exclusively upon payments, dividends and distributions from our, and their, direct and indirect subsidiaries for our, and their, cash flows. Our ability to pay dividends, if any are declared, to our shareholders is dependent on the ability of our subsidiaries to generate sufficient net income and cash flows to pay upstream dividends and make loans or loan repayments.

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 80% 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 rules of The NASDAQ Stock Market and, as a result, expect to qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections as those afforded to stockholders of companies that are subject to such governance 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 NASDAQ Stock Market. Under these rules, a company of which more than 50% of the voting power is held 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

Following this offering, we intend to utilize these exemptions. As a result, we will not have a majority of independent directors and our Compensation Committee will not consist entirely of independent directors. 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 NASDAQ Stock Market.

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 may decline 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
- 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 203,103,838.7 shares of Common Stock outstanding, after giving effect to a 1.476-for-one stock split effected on June 6, 2014. 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 (the "Securities Act"). Following completion of this offering, approximately 87% of our outstanding Common Stock will be held by investment funds affiliated with the Sponsors, Highfields 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 restricts 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".

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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 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
1,429,159.1	On the date of this offering (, 2014)
175,326,060.7	180 days after this offering (, 2014), 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 2014 Omnibus Plan (which will amend and restate our 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 1,388,888 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 harder for a third party to acquire us, even if doing so might be beneficial to our stockholders. These provisions include 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".

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our certificate of incorporation provides that, subject to limited exceptions, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the DGCL or our certificate of incorporation or the bylaws or (iv) any action asserting a claim against us governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

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 adjusted net tangible book deficit of your stock of $(32.11) per share as of May 3, 2014 based on an assumed initial public offering price of $18.00 per share (the mid-point of the offering range shown on the cover of this prospectus) and after giving effect to a 1.476-for-one stock split effected on June 6, 2014, 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 or may 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 May 3, 2014 (and after giving effect to the stock split effected on June 6, 2014), our executive officers hold, in the aggregate, 557,838.0 shares of restricted stock and options to purchase 2,729,622.9 shares that would automatically vest upon a change of control. See "Executive Compensation Potential Payments upon Termination or Change of 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

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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 who currently indirectly own approximately 93% of our Common Stock in the aggregate. Upon the completion of this offering, investment funds affiliated with the Sponsors will beneficially own approximately 80% of our outstanding Common Stock (approximately 77% 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 of Directors 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, 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 may 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 and could materially adversely affect our sales, results of operations and cash flow

- 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, prevent us from meeting our obligations under our notes and credit facilities and limit our flexibility in operating our business

- our recent data breach or a failure to adequately maintain security and prevent unauthorized access to electronic and other confidential information, which could result in an additional data breach, could materially adversely affect our reputation, financial condition and operating results

- competition, including Internet-based competition, could negatively impact our business

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

- even if we are able to substantially continue our strategy of expanding our store base, our success will depend on how well we manage our business

- damage to the reputations of the Michaels brand or our private and exclusive brands could adversely affect sales

- our fourth quarter has historically been our highest quarter for sales and profitability, and a weak fourth quarter could have material adverse impacts on us

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- our promotional and merchandising programs are dependent on consumer responses, which could be unfavorable or unexpected, adversely impacting our sales

- our holding company structure makes us, and certain of our direct and indirect subsidiaries, dependent on the operations of our, and their, subsidiaries to meet our, and their, financial obligations

- investment funds affiliated with the Sponsors will have the ability to control the outcome of matters submitted for stockholder approval and they may have interests that differ from those of our other stockholders

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 $466 million. This estimate assumes an initial public offering price of $18.00 per share, the mid-point 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 $71 million if such option is exercised in full. See "Principal and Selling Stockholders".

We intend to use the net proceeds from this offering to redeem $466 million of the Holdco Notes. We also intend to use cash on hand to pay the applicable make-whole premium of $5 million (1% of the principal amount of the Holdco Notes being redeemed). The Holdco Notes were issued in July 2013 and mature in August 2018. The interest rate on the Holdco Notes is 7.50% per annum with respect to cash interest and 8.25% per annum with respect to PIK Interest, which is the cash interest rate plus 75 basis points. Net proceeds of the Holdco Note issuance were used to pay a cash dividend, distribution and other payments to our equity and equity award holders and pay related fees and expenses.

A $1.00 increase (decrease) in the assumed initial public offering price of $18.00 per share would increase (decrease) the net proceeds to us from this offering by $26 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 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 our 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.

In July 2013, FinCo Holdings and FinCo Inc. issued the Holdco Notes. FinCo Holdings distributed the proceeds, net of expenses, to us. We used this cash to pay a cash dividend, distribution and other payments to our equity and equity award holders of approximately $781 million (excluding approximately $2 million currently held in escrow for the benefit of holders of restricted shares of the Company's Common Stock) and pay related fees and expenses.

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Capitalization

The following table sets forth our cash, cash equivalents and capitalization as of May 3, 2014;

- on an actual basis (after giving effect to the 1.476-for-one stock split effected on June 6, 2014);
- on an as adjusted basis to give effect to the issuance of the Additional 2020 Senior Subordinated Notes, the expected incurrence of Incremental Term Loans, and the redemption of the 2018 Senior Notes with the net proceeds from such issuance and incurrence as if each had occurred on May 3, 2014; and
- on an as further adjusted basis to also give effect to (1) this offering, (2) the application of net proceeds from this offering as described in "Use of Proceeds" and (3) the payment of approximately $30 million in the aggregate out of general funds in fees under the management agreements with the Sponsors and Highfields as if each had occurred on May 3, 2014. 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 Consolidated Financial and Operating Data".

	As of May 3, 2014		
(In millions)	**Actual**	**As adjusted(1)**	**As further adjusted(2)**
Cash and cash equivalents	$ 115	$ 153	$ 118
Restated Term Loan Credit Facility	$ 1,623	$ 2,473	$ 2,473
Restated Revolving Credit Facilty			
Holdco Notes due 2018	800	800	334
Senior Notes due 2018	1,006		
Senior Subordinated Notes due 2020	260	515	515
Total debt	3,689	3,788	3,322
Stockholders' deficit:			
Common Stock $0.06775 par value; 324,720,000.0 shares authorized and 175,326,060.7 shares issued and outstanding (after giving effect to the 1.476-for-one stock split effected on June 6, 2014) on an actual and as adjusted basis; 350,000,000.0 shares authorized and 203,103,838.7 shares issued and outstanding on an as further adjusted basis	12	12	14
Additional paid-in capital(3)	100	100	564
Accumulated deficit(4)	(2,845)	(2,877)	(2,898)
Accumulated other comprehensive (loss)	(1)	(1)	(1)
Total stockholders' deficit	$ (2,734)	$ (2,766)	$ (2,321)
Total capitalization	$ 955	$ 1,022	$ 1,001

(1) Following the issuance of the Additional 2020 Senior Subordinated Notes, we intend to issue an irrevocable redemption notice to the holders of the outstanding 2018 Senior Notes for a partial redemption of 2018 Senior Notes. A portion of the 2018 Senior Notes will be redeemed on the applicable redemption date set forth in the notice of

redemption. We currently intend to redeem $235 million of the 2018 Senior Notes with the net proceeds from the Additional 2020 Senior Subordinated Notes offering. We currently intend to redeem the remaining outstanding 2018 Senior Notes with the net proceeds of the Incremental Term Loans. We will also pay the applicable make-whole premium and accrued and unpaid interest to, but not including, the applicable redemption dates on such portion of the 2018 Senior Notes.

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(2) A $1.00 increase (decrease) in the assumed initial public offering price of $18 per share would increase (decrease) our Additional paid-in capital and (decrease) increase the Holdco Notes by $26 million, 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.

(3) The change in Additional paid-in capital relates to the proceeds from this offering less the amount in Common Stock above, and estimated fees of $34 million, which includes $28 million of underwriter fees and discounts and $6 million of additional expense. Such estimates are subject to change based on final expenses.

(4) The change in Accumulated deficit relates to the impact for certain costs, net of tax, which impact Net income. The estimated make-whole redemption premium for the full redemption of the 2018 Senior Notes would be approximately $58 million ($35 million, tax effected). In addition, the Company will recognize as a reduction of refinancing costs, the net $6 million ($4 million, tax effected) of unamortized premium and discount previously deferred for the 2018 Senior Notes. As Further Adjusted includes $30 million ($18 million, tax effected) of termination fees to our Sponsors and Highfields. Such estimates are subject to change based on final expenses, the final redemption dates, and final make-whole premiums.

The table set forth above is based on the number of shares of our Common Stock outstanding as of May 3, 2014. This table does not reflect:

- 11,540,894.2 shares of our Common Stock issuable upon the exercise of outstanding stock options and vesting of restricted stock awards under the Equity Incentive Plan at a weighted average exercise price of $8.98 per share as of May 3, 2014, 6,298,880.2 of which were then exercisable

- 3,117,413.8 shares of our Common Stock reserved for issuance in respect of future awards and not yet issued under our Equity Incentive Plan

- 6,642,000.0 shares of our Common Stock reserved as additional issuable shares under our 2014 Omnibus Plan, which will amend and restate our Equity Incentive Plan in connection with this offering

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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 May 3, 2014.

Our net tangible book value deficiency as of May 3, 2014 was $(2,878) million, or $(16.42) per share of our Common Stock, based on 175,326,060.7 shares of our Common Stock outstanding immediately prior to the closing of this offering after giving effect to a 1.476-for-one stock split effected on June 6, 2014. 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 (i) the issuance of the Additional 2020 Senior Subordinated Notes, the anticipated incurrence of the Incremental Term Loans and the expected use of proceeds from such offerings, as described in "Prospectus summary Recent developments", and (ii) the receipt of the estimated net proceeds from the sale by us of 27,777,778 shares, assuming an initial public offering price of $18.00 per share (the mid-point of the offering range shown on the cover of this prospectus) and after giving effect to a 1.476-for-one stock split effected on June 6, 2014 and to the application of the estimated net proceeds from this offering as described under "Use of Proceeds," our net tangible book value deficiency at May 3, 2014 would have been $(2,474) million, or $(14.11) per share of Common Stock. This represents an immediate increase in net tangible book value per share of $2.31 to existing stockholders and an immediate decrease in net tangible book value per share of $32.11 to you. The following table illustrates the dilution.

Assumed initial public offering price per share of Common Stock		$ 18.00
Net tangible book value (deficit) per share at May 3, 2014	$ (16.42)	
Increase per share attributable to the refinancing and this offering	$ 2.31	
As adjusted net tangible book value (deficit) per share of Common Stock after the refinancing and this offering		$ (14.11)
Dilution per share to new investors		$ (32.11)

A $1.00 increase (decrease) in the assumed initial public offering price of $18.00 per share of our Common Stock would increase (decrease) our net tangible book value after giving to the offering by $26 million, or by $0.15 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 an as adjusted basis as of May 3, 2014, 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 the 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		Average price per share of our Common Stock
	Number	Percent	Amount	Percent	
Existing Stockholders(1)	175,326,061	86%	$ 2,615,004,539	84%	$ 14.92
New investors	27,777,778	14%	$ 500,000,000	16%	$ 18.00
Total	203,103,839	100%	$ 3,115,004,539	100%	$ 15.34

(1) Total consideration excludes the return of cumulative dividends paid to existing stockholders of $782 million.

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 would be approximately 84%, and the percentage of shares of our Common Stock held by new investors would be approximately 16%.

The table above does not reflect (i) 6,306,499 vested options outstanding as of May 3, 2014 under our 2014 Omnibus Plan with a weighted-average exercise price of approximately $8.98 per share; (ii) 691,866 shares of common stock pursuant to outstanding and unvested restricted stock awards under our 2014 Omnibus Plan; and (iii) shares underlying awards granted after May 3, 2014 (if any) under our 2014 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 consolidated financial and operating data

The following table sets forth our selected historical consolidated financial and operating data as of the dates and for the periods indicated. Our selected historical consolidated balance sheet data as of February 1, 2014 and February 2, 2013, and our selected historical consolidated results of operations data and cash flow data for each of the three years ended February 1, 2014, February 2, 2013 and January 28, 2012, respectively, have been derived from our audited Consolidated Financial Statements, which are included elsewhere in this prospectus. Other operating data included in the table is unaudited for all periods presented. The selected historical consolidated results of operations, cash flow data and balance sheet data presented as of and for the quarters ended May 3, 2014 and May 4, 2013 are derived from our unaudited Consolidated Financial Statements appearing elsewhere in this prospectus. The results of operations for any period are not necessarily indicative of the results to be expected for any future period.

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 2013 is the 52-week period ended February 1, 2014, and fiscal 2012 is the 53-week period ended February 2, 2013. Fiscal 2011 ended on January 28, 2012, fiscal 2010 ended on January 29, 2011 and fiscal 2009 ended on January 30, 2010; all of which are 52-week periods. References to "the first quarter of fiscal 2014" relate to the 13 weeks ended May 3, 2014, and references to "the first quarter of fiscal 2013" relate to the 13 weeks ended May 4, 2013.

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", "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 earnings per common share, other operating and store count data)	Fiscal Year(1) 2013	2012	2011	2010	2009	Quarter Ended May 3, 2014	May 4, 2013
Results of Operations Data:							
Net sales	$ 4,570	$ 4,408	$ 4,210	$ 4,031	$ 3,888	$ 1,052	$ 993
Operating income	610	592	538	488	397	139	128
Interest expense	215	245	254	276	257	57	47
Refinancing costs and losses on early extinguishments of debt(2)	14	33	18	53			7
Net income	243	200	157	103	103	45	46
Comprehensive income	237	200	156	104	104	44	45
Earnings per Common Shares, basic	$ 1.39	$ 1.14	$ 0.90	$ 0.59	$ 0.59	$ 0.26	$ 0.26
Earnings per Common Share, diluted	$ 1.36	$ 1.12	$ 0.89	$ 0.58	$ 0.59	$ 0.25	$ 0.26
Weighted average shares used in computing per share amounts, basic	174.8	174.7	174.6	174.8	174.7	175.1	174.8
Weighted average shares used in computing per share amounts, diluted	178.7	178.2	176.7	176.1	174.8	178.9	178.7
Balance Sheet Data:							
Cash and equivalents	$ 239	$ 56	$ 371	$ 319	$ 217	$ 115	$ 55
Merchandise inventories	901	862	845	826	873	930	843
Total current assets	1,276	1,044	1,339	1,271	1,199	1,185	1,028
Total assets	1,811	1,555	1,838	1,780	1,722	1,716	1,535
Total current liabilities	826	856	861	685	719	692	797
Current portion of long-term debt	16	150	127	1	119	16	198
Long-term debt	3,678	2,891	3,363	3,667	3,684	3,673	2,887
Total liabilities	4,593	3,859	4,339	4,434	4,488	4,450	3,793
Stockholders' deficit	(2,782)	(2,304)	(2,501)	(2,654)	(2,766)	(2,734)	(2,258)
Cash Flow Data:							
Cash flows provided by (used in) operating activities	$ 449	$ 299	$ 409	$ 438	$ 405	$ (74)	$ 2
Cash flows used in investing activities	(112)	(124)	(109)	(83)	(43)	(31)	(22)
Cash flows (used in) provided by financing activities	(154)	(490)	(248)	(253)	(178)	(19)	19
Other Operating Data:							
Average net sales per selling square foot(3)	$ 218	$ 215	$ 212	$ 205	$ 201		
Comparable store sales increase (decrease)(4)	2.9%	1.5%	3.2%	2.5%	0.2%	3.8%	(0.7)%
Total selling square footage (in millions)	21.1	20.6	20.1	19.9	19.6	21.2	20.8
Stores Open at End of Period:							
Michaels	1,136	1,099	1,064	1,045	1,023	1,144	1,113
Aaron Brothers	121	125	134	137	152	118	122
Total stores open at end of period	1,257	1,224	1,198	1,182	1,175	1,262	1,235

(1) Fiscal 2012 consisted of 53 weeks while all other periods presented consisted of 52 weeks.

(2) Fiscal 2013 refinancing costs and losses on early extinguishments of debt include $7 million of refinancing costs associated with our 2020 Senior Subordinated Notes and a $7 million loss related to the redemption of $137 million in aggregate principal amount of our 2016 Senior Subordinated Notes. Fiscal 2012 refinancing costs and losses on early extinguishments of debt include $12 million of refinancing costs associated with our Restated Term Loan Credit Facility, an $8 million loss related to our amended and restated senior secured term loan facility and prepayment of our B-1 Term Loans, an $11 million loss related to the redemption of our remaining outstanding Subordinated Discount Notes and a $2 million loss related to our senior secured asset-based Revolving Credit Facility. Fiscal 2011 refinancing costs and losses on early extinguishments of debt include an $18 million loss related to the early extinguishment of $163 million face value, or $155 million accreted value, of our outstanding Subordinated Discount Notes and $7 million face value of our 2016 Senior Subordinated Notes. Fiscal 2010 refinancing costs and losses on early extinguishments of debt include a $53 million loss related to the early extinguishment of our 10% Senior Notes due November 1, 2014 ("2014 Senior Notes").

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(3) 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.

(4) 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 2013 ended February 1, 2014. Fiscal 2012 ended February 2, 2013 and Fiscal 2011 ended on January 28, 2012. Fiscal 2013 contained 52 weeks, while fiscal 2012 contained 53 weeks and fiscal 2011 contained 52 weeks. References to "the first quarter of fiscal 2014" relate to the 13 weeks ended May 3, 2014, and references to "the first quarter of fiscal 2013" relate to the 13 weeks ended May 4, 2013.

Our discussion of financial information for fiscal 2013 includes data from the period preceding the Reorganization (February 3, 2013 to July 21, 2013) and data from the period following the Reorganization (July 22, 2013 to February 1, 2014) on a combined basis.

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 14th 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 14th 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 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.

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.

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Selling, general, and administrative expense Included in our Selling, general, and administrative costs are store personnel costs, 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, Share-based compensation, Impairment of intangible assets, Related party expenses and Store pre-opening costs.

Executive overview

We believe Michaels is where creativity happens. With over $4.5 billion in sales in fiscal 2013, we are the largest arts and crafts specialty retailer in North America based on store count. Our primary business is the operation of 1,145 Michaels stores across the U.S. and Canada. We also operate 118 Aaron Brothers stores, offering ready-made frames, custom framing services and art supplies. All store counts are as of May 31, 2014.

Highlights for fiscal 2013 include the following:

- Net sales increased to $4,570 million, a 3.7% improvement over fiscal 2012, which included a 53rd week, driven by comparable store sales growth and the opening of 56 new Michaels and Aaron Brothers stores, including the relocation of 14 Michaels and 2 Aaron Brothers stores.

- In the first half of fiscal 2013, Net sales increased by $26 million or 1.4% compared to the first half of fiscal 2012; and in the second half of fiscal 2013, Net sales increased by $136 million, or 5.4% over the second half of fiscal 2012.

- Comparable store sales increased 2.9% for fiscal 2013. Comparable store sales for the first half of fiscal 2013 decreased 1.0% and for the second half, increased 5.9%.

- During the third quarter of fiscal 2013, we introduced, and are the exclusive big-box retailer of, the Rainbow Loom. In an effort to drive sales of the Rainbow Loom, we dedicated significant advertising and marketing efforts to this on-trend children's craft product. Sales of the Rainbow Loom and replacement rubber bands contributed 2.9% to our comparable stores sales increase for fiscal 2013.

- Our Michaels retail stores' private brand merchandise drove 48% of Net sales in fiscal 2013 compared to 49% of Net sales in fiscal 2012.

- We reported record operating income of $610 million, an increase of 3.0% from fiscal 2012.

- Net income increased by $43 million to $243 million. Adjusted EBITDA, a non-GAAP measure that is a required calculation in our debt agreements, improved by 6.0%, from $747 million in fiscal 2012 to $792 million in fiscal 2013 (see "Prospectus summary Summary consolidated financial and operating data").

- We refinanced our remaining outstanding $11^3/_8$% 2016 Subordinated Notes totaling $256 million with $260 million of $5^7/_8$% Senior Subordinated Notes due December 15, 2020.

- We continued to build our relationship with our customers through our marketing vehicles, internet site, mobile platform, in-store experience, and social media outlets.

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Highlights for the first quarter of fiscal 2014 include the following:

- Comparable store sales increased 3.8% for the first quarter of fiscal 2014.
- We launched our e-commerce platform to complement our existing web and mobile platforms.
- Net sales increased to $1,052 million, a 5.9% improvement over the first quarter of fiscal 2013, driven by $37 million of incremental revenue from our comparable store sales, and a $22 million increase in non-comparable store sales.
- We reported operating income of $139 million in the first quarter of fiscal 2014. Adjusted EBITDA, a non-GAAP measure that is a required calculation in our debt agreements, improved by 8.5%, from $165 million in the first quarter of fiscal 2013 to $179 million in the first quarter of fiscal 2014 (see "Prospectus summary Summary consolidated financial and operating data").

In the remainder of fiscal 2014, we intend to continue to lead industry growth and innovation through strategic initiatives such as:

- making our stores more inviting to a broader set of customers, including those new to do-it-yourself projects and more experienced crafters;
- enhancing our in-store shopping experience by creating a more visually appealing environment through improved signage and open sightlines to make it easier for our customers to shop;
- strengthening our connections with existing customers and reaching new customers through an expanded marketing program, including print, digital, direct mail, broadcast and community events;
- broadening our merchandising and sourcing capabilities to better identify and source new trends, merchandise and categories that enhance our portfolio of exclusive brands and products; and
- expanding our omni-channel offering of merchandise, promotional, and marketing events.

Critical accounting policies and estimates

We have prepared our financial statements in conformity with U.S. GAAP, and these financial statements necessarily include some amounts that are based on our informed judgments and estimates. Our senior management has discussed the development and selection of these critical accounting estimates, and the disclosure in this section of this prospectus regarding them, with the Audit Committee of our Board. Our significant accounting policies are discussed in Note 1 to our Consolidated Financial Statements for the year ended February 1, 2014. Our critical accounting policies represent those policies that are subject to judgments and uncertainties. As discussed below, our financial position and results of operations may be materially different when reported under different conditions or when using different assumptions in the application of these policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. Our critical accounting policies include:

Merchandise inventories Merchandise inventories are valued at the lower of cost or market, with cost determined using a weighted average method. Cost is calculated based upon the price paid for an item at the time it is received by us, and also includes the cost of warehousing, handling, purchasing, and importing the inventory, as well as inbound and outbound transportation, partially offset by vendor allowances. This net inventory cost is recognized through cost of sales when the inventory is sold. It is impractical for us to assign specific allocated overhead costs and vendor allowances to individual units of

inventory. As such, to match net inventory costs against the related revenues, we estimate the net inventory costs to be deferred and recognized each period as the inventory is sold.

Vendor allowances, which primarily represent volume rebates and cooperative advertising funds, are recorded as a reduction of the cost of the merchandise inventories and a subsequent reduction in cost of sales when the inventory is sold. We generally earn vendor allowances as a percentage of certain merchandise purchases with no minimum purchase requirements. Typically, our vendor allowance programs extend for a period of 12 months. We recognized vendor allowances of $102 million, or 2.2% of Net sales in fiscal 2013, $110 million, or 2.5% of Net sales in fiscal 2012, and $115 million, or 2.7% of Net sales in fiscal 2011. During the three fiscal years ended February 1, 2014, the number of vendors from which vendor allowances were received ranged from approximately 620 to 660. As a result of our increased direct import volume, vendor allowances, as a percentage of Net sales, have been declining and we expect this trend to continue in future years.

We utilize perpetual inventory records to value inventory in our stores. Physical inventory counts are performed in a significant number of stores during each fiscal quarter by a third party inventory counting service. Substantially all stores open longer than one year are subject to at least one count each fiscal year. We adjust our perpetual records based on the results of the physical counts. We maintain a provision for estimated shrinkage based on the actual historical results of our physical inventories. We compare our estimates to the actual results of the physical inventory counts as they are taken and adjust the shrink estimates accordingly. A 10% change in our estimated shrinkage reserve would have affected Net income by approximately $1 million for fiscal 2013. We also evaluate our merchandise to ensure that the expected net realizable value of the merchandise held at the end of a fiscal period exceeds cost. In the event that the expected net realizable value is less than cost, we reduce the value of that inventory accordingly. A 10% change in our inventory valuation reserve would have affected Net income by approximately $1 million for fiscal 2013.

Goodwill We review goodwill for impairment each year in the fourth quarter, or more frequently if required. Beginning in fiscal 2011, in conducting our impairment review, we elected to first perform a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) the fair value of our reporting units is less than its carrying value. Factors used in our qualitative assessment include, but are not limited to, macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, company and reporting unit specific events, and the margin between the fair value and carrying value in recent valuations.

If, after assessing the totality of events or circumstances such as those described above, we determine that it is more likely than not that the fair value of our reporting unit is greater than its carrying amount, no further action is required. If we determine that it is more likely than not that the fair value of our reporting unit is less than its carrying amount, we will compare the reporting unit's carrying value to its estimated fair value, determined through estimated discounted future cash flows and market-based methodologies. If the carrying value exceeds the estimated fair value, we determine the fair value of all assets and liabilities of the reporting unit, including the implied fair value of goodwill. If the carrying value of goodwill exceeds the implied fair value, we recognize an impairment charge equal to the difference.

Factors used in the valuation of goodwill include, but are not limited to, management's plans for future operations, recent operating results and discounted projected future cash flows. Material assumptions used in our impairment analysis include the weighted average cost of capital percentage, terminal growth rate and forecasted long-term sales growth. During fiscal 2012, we recognized a goodwill impairment charge of $1 million for our online scrapbooking business. See Note 10 to our Consolidated Financial Statements for the year ended February 1, 2014 for further information. During fiscal 2013 and fiscal 2011, there was no impairment charge taken on our goodwill.

Impairment of long-lived assets We evaluate long-lived assets, other than goodwill and assets with indefinite lives, for indicators of impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Additionally, for store assets, we evaluate the performance of individual stores for indicators of impairment and underperforming stores are selected for further evaluation of the recoverability of the carrying amounts. The evaluation of long-lived assets is performed at the lowest level of identifiable cash flows, which is at the individual store level.

Our evaluation requires consideration of a number of factors including changes in consumer demographics and uncertain future events. Accordingly, our accounting estimates may change from period to period. These factors could cause management to conclude impairment indicators exist and require that tests be performed, which could result in a determination that the value of long-lived assets is impaired, resulting in a writedown to fair value.

Our initial indicator that store assets are considered to be recoverable is that the estimated undiscounted cash flows for the remaining lease term, assuming zero growth over current year store performance, exceed the carrying value of the assets. This evaluation is performed on stores open longer than 36 months (unless significant impairment indicators exist), as we consider a store to become mature after that time period. Any stores that do not meet the initial criteria are further evaluated taking into consideration the estimated undiscounted store-specific cash flows for the remaining lease term compared to the carrying value of the assets. To estimate store-specific future cash flows, management must make assumptions about key store variables, including sales, growth rate, gross margin, payroll and other controllable expenses. Furthermore, management considers other factors when evaluating stores for impairment, including the individual store's execution of its operating plan and other local market conditions.

An impairment is recognized once all the factors noted above are taken into consideration and it is determined the carrying amount of the store's assets are not recoverable. The impairment is based on estimated fair value of the assets, excluding assets that can be redeployed. In fiscal 2013, we recorded an impairment charge, net of tax, of approximately $1 million. In fiscal 2012, we recorded an impairment charge, net of tax, of $4 million related to the write off of long-lived assets associated with our online scrapbooking business. We recorded an impairment charge, net of tax, of less than $1 million in fiscal 2011. In addition to recording impairment charges based on the previously discussed criteria, we maintain a list of stores we consider at risk and monitor those stores closely. As of February 1, 2014, we had one Michaels store which had been open longer than 36 months, which we considered at risk for impairment.

Reserve for closed facilities We maintain a reserve for future rental obligations, carrying costs, and other closing costs related to closed facilities, primarily closed and relocated stores. In accordance with Accounting Standards Codification ("ASC") 420, *Exit or Disposal Cost Obligations*, we recognize exit costs for any store closures at the time the store is closed. Such costs are recorded within the Cost of sales and occupancy expense line item on our Consolidated Statements of Comprehensive Income.

The cost of closing a store or facility is calculated as the lesser of the present value of future rental obligations remaining under the lease (less estimated sublease rental income) or the lease termination fee. The determination of the reserves is dependent on our ability to make reasonable estimates of costs to be incurred post-closure and of rental income to be received from subleases. In planning our store closures, we try to time our exits as close to the lease termination date as possible to minimize any remaining lease

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obligation. As of February 1, 2014 and February 2, 2013, our reserves for closed facilities were $5 million and $8 million, respectively. If our estimates only included rental income under actual subleases and not potential future subleases, the reserves would increase by approximately $4 million.

Self-insurance We have insurance coverage for losses in excess of self-insurance limits for medical liability, general liability and workers' compensation claims. Health care reserves are based on actual claims experience and an estimate of claims incurred but not reported. Reserves for general liability and workers' compensation are determined through the use of actuarial studies. Due to the significant judgments and estimates utilized in determining these reserves, they are subject to a high degree of variability. In the event our insurance carriers are unable to pay claims submitted to them, we would record a liability for such estimated payments we expect to incur. A 10% change in our self-insurance liability would have affected Net income by approximately $4 million for fiscal 2013.

Revenue recognition Revenue from sales of our merchandise is recognized when the customer takes possession of the merchandise. Revenue is presented net of sales taxes collected. Sales related to custom framing are deferred until the order is picked up by the customer, which we estimate based on historical customer behavior. We deferred 9 days of custom framing revenue at the end of fiscal 2013, 10 days at the end of fiscal 2012 and 13 days at the end of fiscal 2011. A one day change in our custom frame deferral would have had a minimal impact on our fiscal 2013 Net income. As of February 1, 2014 and February 2, 2013, our deferred framing revenue was approximately $9 million and $8 million, respectively.

We allow for merchandise to be returned under most circumstances within 60 days of purchase date and provide a reserve for estimated returns. We use historical customer return behavior to estimate our reserve requirements. As of February 1, 2014 and February 2, 2013, our sales returns reserve was approximately $3 million.

We record a gift card liability on the date we issue the gift card to the customer. We record revenue and reduce the gift card liability as the customer redeems the gift card. The deferred revenue associated with outstanding gift cards increased $3 million from $33 million at February 2, 2013 to $36 million as of February 1, 2014. We escheat the value of unredeemed gift cards where required by law. Any remaining liabilities not subject to escheatment are evaluated to determine whether the likelihood of the gift card being redeemed is remote (gift card breakage). We recognize gift card breakage as revenue, by applying our estimate of the rate of gift card breakage over the period of estimated performance. Our estimates of the gift card breakage rate are applied to the estimated amount of gift cards that are expected to go unused and that are not subject to escheatment, and such estimates are based on customers' historical redemption rates and patterns. We recognized revenue of approximately $3 million in fiscal 2013, $3 million in fiscal 2012 and $1 million in fiscal 2011 related to such gift card balances. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to recognize income related to unredeemed gift cards. However, if actual results are not consistent with our assumptions, we may record additional income or expense.

Cost of sales and occupancy expense Cost of sales and occupancy expense include the following which may not be comparable to other companies:

Cost of sales are included in merchandise inventories and expensed as the merchandise is sold. Included in our Cost of sales are the following:

- purchase price of merchandise, net of vendor allowances and rebates
- inbound freight, inspection costs, duties and import agent commissions

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- warehousing, handling, and transportation costs (including internal transfer costs such as distribution center-to-store freight costs) and purchasing and receiving costs
- share-based compensation costs for those employees involved in preparing inventory for sale

Included in our occupancy expenses are the following costs which are recognized as period costs as described below:

- 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 improvement reimbursements as a liability and ratably adjust the liability as a reduction to rent expense over the lease term beginning with the date we take possession of or control 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.

Share-based compensation expenses ASC 718, *Stock Compensation* ("ASC 718"), requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements. During the first two quarters of fiscal 2011 and the last quarter of fiscal 2013, the Company measured employee stock option expense for new awards using the grant date fair value accounting guidance of ASC 718. During the last two quarters of fiscal 2011, all of fiscal 2012, and the first three quarters of fiscal 2013, the Company determined its employee stock options should be recorded under the liability accounting guidance of ASC 718. As such, we measured share-based compensation based on either the grant date fair value of the equity awards, the fair value of our option awards at the end of the period, or at the fair value as most recently determined. Expense for unvested options and stock awards is recognized ratably over the requisite service period. We estimate the fair value of stock option awards using a Black-Scholes option value model.

All grants of our stock options have an exercise price equal to or greater than the fair market value of our Common Stock on the date of grant. Because we are privately held and there is no public market for our Common Stock, the fair value of our equity was estimated by our management, relying in part on an independent appraisal of our fair market value by a third party valuation firm and approved by our Board at the time option grants are awarded. Since the second quarter of 2011, our management has performed contemporaneous quarterly valuations of our Common Stock on the last day of each quarterly period; option grants or equity grants occurring between valuations are valued at the last Board approved fair value of our Common Stock. In estimating the fair value of our Common Stock, management and the Board consider factors it believes are material to the valuation process including the Company's actual and projected financial results, the principal amount of the Company's indebtedness and formal valuation ranges of the Company, prepared by a third party valuation firm. In fiscal 2013, fiscal 2012 and fiscal 2011, valuations completed relied on projections of our future performance, estimates of our weighted average cost of capital, and metrics based on the performance of a peer group of similar companies, including valuation multiples and stock price volatility.

From February 2, 2013 to February 1, 2014, the estimated fair value of common stock decreased from $18.25 to $16.03 per share. A cash dividend paid to all equity holders in July 2013 decreased the fair value of the common stock by the amount of the cash dividend of $4.38 per share. The fair value decrease from the dividend was partially offset due to recent market trends for guideline company transactions.

The following table details information on stock options granted by quarter for fiscal year 2013. The exercise price and the fair value of common stock at grant in the table below have been reduced by the cash dividend of $4.38 per share, if applicable.

Quarter end date	**# of options granted**	**Exercise price**	**Fair value of common stock at grant**	**Average fair value of option at February 1, 2014**
May 4, 2013	1,988,093.8	$ 13.80	$ 13.80	$ 4.49
August 3, 2013	944,418.6	$ 13.90	$ 13.90	$ 4.78
November 2, 2013	114,980.4	$ 14.76	$ 14.76	$ 5.11
February 1, 2014	168,633.0	$ 15.56	$ 15.56	$ 3.83

Other assumptions used in the option value models for estimating the fair value of stock option awards include expected volatility of our common stock share price, expected terms of the options, expected dividends, and historical risk-free rates. The expected volatility rate is based on both historical volatility as well as implied volatilities from the exchange-traded options on the common stock of a peer group of companies. We utilize historical exercise and post-vesting employment behavior to estimate the expected terms of the options and do not use a dividend rate assumption. The risk-free interest rate is based on the yields of U.S. Treasury instruments with approximately the same term as the expected life of the stock option award. Our forfeiture assumptions are estimated based on historical experience and anticipated events. We update our assumptions quarterly based on historical trends and current market observations.

As of February 1, 2014, compensation cost not yet recognized related to non-vested awards totaled $24 million and is expected to be recognized over a weighted average period of 2.9 years. In the event of a Change in Control (as defined in the Stockholders Agreement), all non-vested awards will vest and the $24 million would be immediately recognized.

Income taxes We record income tax expense using the liability method for taxes and are subject to income tax in many jurisdictions, including the U.S., various states and localities, and Canada. A current tax liability or asset is recognized for the estimated taxes payable or refundable on the tax returns for the current year and a deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. In evaluating our ability to realize our deferred tax asset, we considered the following sources of future taxable income:

- future reversals of existing taxable temporary differences
- future taxable income, exclusive of reversing temporary differences and carryforwards
- taxable income in prior carryback years
- tax-planning strategies

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Our evaluation regarding whether a valuation allowance is required or should be adjusted also considers, among other things, the nature, frequency, and severity of recent losses, forecasts of future profitability and the duration of statutory carryforward periods. Our forecast of future profitability represents our best estimate of these future events. After conducting this assessment, the valuation allowance recorded, net of federal benefit, against our deferred tax assets was $9 million and $10 million as of February 1, 2014 and February 2, 2013, respectively. If actual results differ from estimated results, or if we adjust these assumptions in the future, we may need to adjust our deferred tax assets or liabilities, which could impact our effective tax rate.

The amount of income taxes we pay is subject to ongoing audits in the taxing jurisdictions in which we operate. During these audits, the taxing authorities may challenge items on our tax returns. Because the tax matters challenged by tax authorities are typically complex, the ultimate outcome of these challenges is uncertain. We recognize tax benefits for uncertain positions only to the extent that we believe it is more likely than not that the tax position will be sustained. Our future results may include favorable or unfavorable adjustments to our unrecognized tax benefits due to closure of income tax audits, new regulatory or judicial pronouncements, or other relevant events. As a result, our effective tax rate may fluctuate significantly on a quarterly and annual basis.

Results of operations

The following table sets forth the percentage relationship to Net sales of line items of our Consolidated Statements of Comprehensive Income. This table should be read in conjunction with the following discussion and with our Consolidated Financial Statements, including the related notes.

	Fiscal Year			Quarters Ended	
	2013	**2012**	**2011**	**May 3, 2014**	**May 4, 2013**
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales and occupancy expense	60.1	60.0	60.1	59.2	58.8
Gross profit	39.9	40.0	39.9	40.8	41.2
Selling, general, and administrative expense	25.6	25.7	25.9	26.8	27.4
Share-based compensation	0.5	0.3	0.8	0.4	0.3
Impairment of intangible assets		0.2			
Related party expenses	0.3	0.3	0.3	0.3	0.4
Store pre-opening costs	0.1	0.1	0.1	0.1	0.2
Operating income	13.3	13.4	12.8	13.2	12.9
Interest expense	4.7	5.6	6.0	5.4	4.7
Refinancing costs and losses on early extinguishments of debt	0.3	0.7	0.4		0.7
Other (income) and expense, net			0.2		
Income before income taxes	8.3	7.1	6.2	7.8	7.5
Provision for income taxes	3.0	2.6	2.4	3.5	2.9
Net income	5.3%	4.5%	3.8%	4.3%	4.6%

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Quarter Ended May 3, 2014 Compared to the Quarter Ended May 4, 2013

Net Sales Net sales of $1,052 million for the first quarter of fiscal 2014 increased by $59 million, or 5.9%, over the first quarter of fiscal 2013 due primarily to $37 million of incremental revenue from our comparable store sales and a $22 million increase in non-comparable store sales. Comparable store sales increased 3.8% driven by a 1.3% increase in customer transactions, a 2.4% increase in the average ticket and a 0.1% increase in custom framing deferred revenue. The fluctuation in the exchange rates between the United States and Canadian dollars adversely impacted the average ticket by 80 basis points. Comparable store sales growth was strongest in our children's crafts category due primarily to sales of the Rainbow Loom and replacement rubber bands. The fine arts supplies category also had strong performance.

Cost of Sales and Occupancy Expense Cost of sales and occupancy expense increased $39 million to $623 million in the first quarter of fiscal 2014 from $584 million in the first quarter of fiscal 2013. Cost of sales increased by $32 million primarily driven by a $27 million increase from higher sales and $3 million from lower recognition of vendor allowances compared to prior year. Occupancy expense increased $7 million driven primarily by an incremental $3 million for new stores and $3 million higher store remodel expenses for the first quarter of fiscal 2014 compared to the first quarter of fiscal 2013.

Cost of sales and occupancy expenses increased by 40 basis points as a percentage of Net sales to 59.2% for the first quarter of fiscal 2014 from 58.8% for the first quarter of fiscal 2013. Cost of sales increased by 50 basis points due primarily to the Rainbow Loom and replacement rubber bands having lower than average margin rates, as well as the lower recognition of vendor allowances compared to prior year. Occupancy costs decreased 10 basis points due to a 40 basis point lift for increased rent leverage on higher store sales, partially offset by a 30 basis point increase for higher remodel costs.

Selling, General, and Administrative Expense Selling, general, and administrative expense was $282 million in the first quarter of fiscal 2014 compared to $272 million in the first quarter of fiscal 2013. Selling, general, and administrative expense increased $5 million due to incremental store costs related to operating 48 additional Michaels stores at the end of the first quarter of fiscal 2014 compared to the end of the first quarter of fiscal 2013. Additionally, Selling, general, and administrative expenses increased by $3 million for 2014 payroll and bonus-related costs. As a percentage of Net sales, Selling, general, and administrative expense decreased 60 basis points primarily due to a 70 basis point decrease in payroll and payroll-related costs and a 20 basis point decrease due to lower strategic consulting fees, partially offset by an increase of 40 basis points in new store costs.

Share-Based Compensation Share-based compensation expense increased to $4 million in the first quarter of fiscal 2014 from $3 million in the first quarter of fiscal 2013 primarily due to 2013 grants to certain company officers.

Related Party Expenses Related party expenses were $3 million and $4 million for the first quarters of fiscal 2014 and fiscal 2013, respectively, consisting of management fees and associated expenses paid to affiliates of our Sponsors and Highfields.

Interest Expense Interest expense increased $10 million to $57 million in the first quarter of fiscal 2014 from $47 million in the first quarter of fiscal 2013. The increase is attributable to a $604 million increase in our total debt outstanding, partially offset by a lower average interest rate associated with the refinancing of our 2016 Senior Subordinated Notes.

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Refinancing Costs and Losses on Early Extinguishment of Debt During the first quarter of fiscal 2013, we recorded a loss on the early extinguishment of debt of $7 million, consisting of a $5 million redemption premium and $2 million to write off debt issuance costs related to the redemption of $137 million in aggregate principal amount of our 2016 Senior Subordinated Notes.

Provision for Income Taxes The effective tax rate was 45.1% for the first quarter of fiscal 2014. The effective rate was 37.8% for the first quarter of fiscal 2013. The current rate is higher than the prior year due to certain discrete items required to be recognized as a result of a change in tax status of our Canadian subsidiary. On February 2, 2014, the Company changed the corporate structure of our Canadian operations from a branch of MSI for U.S. tax purposes to a branch of a controlled foreign corporation, an indirect foreign subsidiary of MSI. As a result of the change in tax status, the net deferred tax assets related to U.S. temporary differences for the branch were written off. In addition, the Company recognized as discrete events, a tax gain on the contribution of certain assets to the new entity as part of the transaction, as well as previously unrecognized currency losses. The effects of the write-off, the gain on the contribution, and the currency losses were discrete charges to the income tax provision of $6 million, $1 million, and ($1) million respectively, during the first quarter. We currently estimate our effective tax rate for fiscal 2014 to be 38.9%.

Fiscal 2013 compared to fiscal 2012

Net sales Net sales of $4,570 million increased for fiscal 2013 by $162 million, or 3.7%, over fiscal 2012 due to $102 million of incremental revenue from our non-comparable stores and a $126 million increase in comparable store sales, partially offset by $66 million related to the 53rd week of fiscal 2012. Comparable store sales increased 2.9% driven by an increase in the average ticket of 3.3%, partially offset by a decrease in transactions of 0.4%. Comparable store sales growth was strongest in our children's crafts categories due primarily to sales of the Rainbow Loom and replacement rubber bands.

Cost of sales and occupancy expense Cost of sales and occupancy expense increased $105 million to $2,748 million in fiscal 2013 from $2,643 million in fiscal 2012 due primarily to a $68 million increase in merchandise costs associated with higher sales, an $8 million increase in inventory reserve expense due to an increase in discontinued stock keeping units associated with planned merchandise resets and a slower sell-through of this merchandise and an $8 million reduction in the recognition of vendor allowances compared to the prior year, partially offset by a $6 million decrease in freight and distribution costs. In addition, we had a $6 million decrease from favorable shrink experience in fiscal 2013 compared to fiscal 2012. We also had a $32 million increase in occupancy expenses, including $20 million from opening new stores, a $5 million increase in store remodel expenses and a $9 million increase from higher maintenance costs in fiscal 2013 compared to fiscal 2012. These increases were partially offset by $2 million lower utilities expenses due to more favorable weather in fiscal 2013 compared to fiscal 2012.

Cost of sales and occupancy expense increased 10 basis points, as a percentage of Net sales, to 60.1% in fiscal 2013 from 60.0% in fiscal 2012. Occupancy costs increased 20 basis points in fiscal 2013 compared to fiscal 2012 due to higher remodel and maintenance costs. Cost of sales decreased 10 basis points in fiscal 2013 compared to fiscal 2012 primarily due to improved operational efficiencies at our vertically integrated framing operations.

Selling, general, and administrative expense Selling, general, and administrative expense was $1,170 million in fiscal 2013 compared to $1,132 million in fiscal 2012. Selling, general, and administrative expense increased $38 million driven by $26 million of incremental new store costs; Michaels retail store count increased by 37 stores in fiscal 2013 and 35 stores in fiscal 2012. Additionally, Selling, general, and

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administrative expense increased by $8 million for outside professional fees for strategic initiatives and by $27 million for higher store and corporate payroll, benefits and other personnel expenses. The higher payroll, benefits and other personnel expenses were partially offset by approximately $23 million from additional store and corporate payroll associated with the 53rd week of fiscal 2012. As a percentage of Net sales, Selling, general, and administrative expense decreased 10 basis points primarily due to increased leverage of payroll and benefits from higher comparable store sales.

Share-based compensation Share-based compensation expenses increased to $23 million for fiscal 2013 from $15 million in fiscal 2012 due to new option grants and changes in estimates for expected forfeitures.

Impairment of intangible assets Impairment of intangible assets for fiscal 2012 was related to an impairment charge of $7 million for long-lived assets and $1 million for goodwill, associated with our online scrapbooking business.

Related party expenses Related party expenses were $14 million for fiscal 2013 and $13 million for fiscal 2012, consisting of management fees and associated expenses paid to our Sponsors and Highfields.

Interest expense Interest expense decreased from $245 million in fiscal 2012 to $215 million in fiscal 2013, due to a reduction in the overall average interest rate on our higher outstanding debt balance.

Refinancing costs and losses on early extinguishments of debt During fiscal 2013, we recorded a $7 million loss related to the redemption of $137 million of our then outstanding 2016 Senior Subordinated Notes. The $7 million loss was comprised of a $5 million redemption premium and $2 million to write off related debt issuance costs. In addition, we recorded refinancing costs of $7 million related to subsequent refinancing of our remaining outstanding 2016 Senior Subordinated Notes. During fiscal 2012, we recorded refinancing costs of $12 million related to our Restated Term Loan Credit Facility. We also recorded a loss of $8 million to write off debt issuance costs related to our Senior Secured Term Loan Facility and prepayment of our B-1 Term Loans. In addition, we recorded an $11 million loss related to the redemption of our remaining outstanding Subordinated Discount Notes. The $11 million loss was comprised of an $8 million redemption premium and $3 million to write off related debt issuance costs. Finally we recorded a loss of $2 million to write off debt issuance costs related to our senior secured asset-based Revolving Credit Facility. See Note 5 to our Consolidated Financial Statements for the year ended February 1, 2014.

Other (income) and expense, net Other income for fiscal 2013 was primarily related to foreign exchange transaction losses. Other income for fiscal 2012 is primarily related to foreign exchange transaction gains.

Provision for income taxes Our effective tax rate for fiscal 2013 was 35.9%. Our effective tax rate was 36.5% for fiscal 2012. Our effective rate was higher than the statutory rate due primarily to the impact of state taxes.

Fiscal 2012 compared to fiscal 2011

Net sales Net sales of $4,408 million increased by $198 million, or 4.7%, over fiscal 2011 due to $70 million of incremental revenue from our non-comparable stores, $66 million from the 53rd week of fiscal 2012, and a $62 million increase in comparable store sales. Comparable store sales increased 1.5% driven by an increase in transactions of 0.8% and an increase in the average ticket of 0.7%. Comparable store sales dollar growth was strongest in custom framing within our framing department and percentage growth was the strongest in home accents within our seasonal and home décor department.

Cost of sales and occupancy expense Cost of sales and occupancy expense increased $111 million to $2,643 million in fiscal 2012 from $2,532 million in fiscal 2011 due primarily to a $95 million increase in

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merchandise costs associated with higher sales, including $66 million of sales from the 53rd week of fiscal 2012. The increase was partially offset by a $14 million decrease in merchandise costs related to our increased direct import volume, private brand initiative, and improved pricing and promotion management. These initiatives allowed us to reduce design, sourcing and intermediary product costs. In addition, we had a $7 million increase from favorable shrink experience in fiscal 2011 compared to more normal levels in fiscal 2012, and a $5 million increase from lower recognition of vendor allowances compared to prior year. Finally, rent and related expenses increased $15 million due mainly to $10 million of new store rent and a $3 million increase in occupancy insurance premiums.

Cost of sales and occupancy expense decreased 10 basis points, as a percentage of Net sales, to 60.0% in fiscal 2012 from 60.1% in fiscal 2011. Merchandise cost decreased 30 basis points driven by our increased direct import volume, private brand initiative, and improved pricing and promotion management, while occupancy decreased 30 basis points due to increased leverage on higher store sales. These improvements were partially offset by a 20 basis point increase from the recognition of vendor allowances compared to prior year.

Selling, general, and administrative expense Selling, general, and administrative expense was $1,132 million in fiscal 2012 compared to $1,090 million in fiscal 2011. Selling, general, and administrative expense increased $42 million driven by $23 million of incremental store costs for operating 35 additional Michaels stores and a $17 million increase in store payroll from additional payroll associated with the 53rd week of fiscal 2012, as well as a higher average hourly wage rate. In addition, we had a $6 million increase in corporate payroll due primarily to the 53rd week of fiscal 2012, an increase in wage rate and an increased headcount. Finally, we had a $4 million increase in group insurance claims and payroll tax increased $4 million mainly due to an increase in unemployment insurance rates compared to last year. These amounts were partially offset by an $18 million decrease in bonus expense from a lower bonus payout recognized in fiscal 2012 compared to fiscal 2011.

As a percentage of Net sales, Selling, general, and administrative expense decreased 20 basis points primarily due to a 50 basis point decrease in bonus expense compared to fiscal 2011.

Share-based compensation expense Share-based compensation expense decreased to $15 million for fiscal 2012 from $33 million in fiscal 2011 due to the change in fair value of option awards under liability accounting.

Impairment of intangible assets Impairment of intangible assets for fiscal 2012 is related to an impairment charge of $7 million for long-lived assets associated with our online scrapbooking business and a goodwill impairment charge of $1 million, which represents the carrying amount of the goodwill of our online scrapbooking business.

Related party expenses Related party expenses were $13 million for each of fiscal 2012 and fiscal 2011, consisting of management fees and associated expenses paid to our Sponsors and Highfields.

Interest expense Interest expense decreased from $254 million in fiscal 2011 to $245 million in fiscal 2012, as a result of a $449 million reduction in our total debt outstanding, partially offset by a higher average interest rate on our outstanding debt.

Refinancing costs and losses on early extinguishments of debt During fiscal 2012, we recorded refinancing costs of $12 million related to our Restated Term Loan Credit Facility. We also recorded a loss of $8 million to write off debt issuance costs related to our Senior Secured Term Loan Facility and prepayment of our B-1 Term Loans. In addition, we recorded an $11 million loss related to the redemption of our remaining

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outstanding Subordinated Discount Notes. The $11 million loss was comprised of an $8 million redemption premium and $3 million to write off related debt issuance costs. Finally, we recorded a loss of $2 million to write off debt issuance costs related to our senior secured asset-based Revolving Credit Facility. During fiscal 2011, we recorded a loss of $18 million related to the early extinguishment of $163 million face value, or $155 million accreted value, of our Subordinated Discount Notes and $7 million face value of our 2016 Senior Subordinated Notes. The $18 million loss was comprised of $11 million to recognize the unrealized interest accretion and the write off of related debt issuance costs, as well as $7 million of purchase premiums. See Note 5 to our Consolidated Financial Statements for the year ended February 1, 2014.

Other (income) and expense, net Other income for fiscal 2012 is primarily related to foreign exchange transaction gains. Other expense for fiscal 2011 is related to a $5 million unfavorable change in the fair value of the interest rate derivative (the "interest rate cap"), as more fully described in Note 9 to our Consolidated Financial Statements for the year ended February 1, 2014, and $4 million in foreign exchange transaction losses.

Provision for income taxes Our effective tax rate for fiscal 2012 was 36.5%. Our effective tax rate for fiscal 2011 was 38.9%. Our rate was lower than the prior year rate due primarily to the reversal of accruals for uncertain tax positions as a result of the closure of tax audits and the expiration of the statute of limitations on previously open tax years.

Liquidity and capital resources

We require cash principally for day-to-day operations, to finance capital investments, to purchase inventory, to service our outstanding debt, and for seasonal working capital needs. We expect that our available cash, cash flow generated from operating activities, and funds available under our Restated Revolving Credit Facility will be sufficient to fund planned capital expenditures, working capital requirements, debt repayments, debt service requirements and anticipated growth for the foreseeable future. Our ability to satisfy our liquidity needs and continue to refinance or reduce debt could be adversely affected by the occurrence of any of the events described under "Risk Factors" or our failure to meet our debt covenants as described in " Cash Flow from Financing Activities." Our Restated Revolving Credit Facility provides senior secured financing of up to $650 million. As of May 3, 2014, the borrowing base was $650 million, of which we had no outstanding borrowings, $61 million of outstanding letters of credit and $589 million of unused borrowing capacity. Our cash and cash equivalents increased $60 million from $55 million at May 4, 2013 to $115 million at May 3, 2014.

On October 31, 2006, substantially all of the common stock of MSI was acquired by the Sponsors through a merger transaction. To finance the Merger, MSI issued the 2014 Senior Notes, 2016 Senior Subordinated Notes and Subordinated Discount Notes and executed a Senior Secured Term Loan Facility and a senior secured asset-based Revolving Credit Facility which in the aggregate was approximately $4.0 billion. Since October 31, 2006, MSI has retired or purchased some of this debt through redemptions, repurchases or exchanges and has issued new debt or amended existing debt facilities.

In July 2013, FinCo Holdings and FinCo Inc. issued the Holdco Notes. FinCo Holdings distributed the proceeds, net of expenses, to The Michaels Companies, Inc. We used this cash to pay a cash dividend, distribution and other payments to our equity and equity award holders and pay related fees and expenses.

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Our substantial indebtedness could adversely affect our ability to raise additional capital, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk, and prevent us from meeting our obligations. Management reacts strategically to changes in economic conditions and monitors compliance with debt covenants to seek to mitigate any potential material impacts to our financial condition and flexibility.

We intend to use excess operating cash flows to repay portions of our indebtedness and to invest in growth opportunities, depending on market conditions. If we use our excess cash flows to repay our debt, it will reduce the amount of excess cash available for additional capital expenditures.

As of February 2, 2013, we had an aggregate principal amount of $393 million of our 2016 Senior Subordinated Notes scheduled to mature in November 2016. On February 27, 2013, we redeemed $137 million in aggregate principal amount of the outstanding 2016 Senior Subordinated Notes with cash on hand and borrowings made under the Restated Term Loan Credit Facility for an aggregate redemption price (including the applicable redemption premium and accrued and unpaid interest) of $147 million. On December 19, 2013, we issued an irrevocable notice of redemption to the holders of our remaining outstanding 2016 Senior Subordinated Notes, deposited the proceeds of the offering of our $5^{7}/_{8}$% Senior Subordinated Notes due 2020 ("2020 Senior Subordinated Notes") and additional cash with the trustee under the indenture governing the 2016 Senior Subordinated Notes ("2016 Senior Subordinated Notes Indenture") and instructed the trustee to (a) redeem the 2016 Senior Subordinated Notes on January 21, 2014 and (b) discharge our obligations under the 2016 Senior Subordinated Notes Indenture. Accordingly, our obligations under the 2016 Senior Subordinated Notes Indenture were discharged. The 2018 Senior Notes mature in 2018, the 2020 Senior Subordinated Notes mature in 2020, the Holdco Notes mature in 2018 and the Restated Term Loan Credit Facility matures in or after 2018. Although no assurance can be given, depending on market conditions and other factors, we plan to repay or refinance such indebtedness prior to maturity.

The Indenture for the Senior Notes contains covenants limiting, among other things, MSI's ability and the ability of MSI's restricted subsidiaries to:

- incur additional debt

- pay dividends or distributions on MSI's capital stock or repurchase MSI's capital stock, subject to certain exceptions, including dividends, distributions and repurchases up to an amount in excess of (i) $75 million plus (ii) a basket that builds based on 50% of MSI's Consolidated Net Income (as defined in the Senior Indenture) and certain other amounts, in each case, to the extent such payment capacity is not applied as otherwise permitted under the Senior Indenture and subject to certain conditions. As of May 3, 2014, the permitted restricted payment amount was approximately $328 million.

We had $3,689 million of indebtedness outstanding at May 3, 2014, of which $1,623 million was subject to variable interest rates and $2,060 million was subject to fixed interest rates. On a *pro forma* basis as of May 3, 2014, after giving effect to the application of the proceeds from this offering set forth under "Use of Proceeds", the issuance of the Additional 2020 Senior Subordinated Notes, the incurrence of Incremental Term Loans and the redemption of the 2018 Senior Notes, we would have had total indebtedness of $3,322 million, of which approximately $2,473 million was subject to variable interest rates and $849 million was subject to fixed interest rates, and approximately $589 million of additional borrowing capacity (after giving effect to then-outstanding letters of credit) under the Restated Revolving Credit Facility. See "Prospectus summary Recent developments."

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We and our subsidiaries, affiliates, and significant shareholders may from time to time seek to retire or purchase our outstanding debt (including publicly issued debt) through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions, by tender offer or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors.

Cash flow from operating activities

Cash flow used in operating activities during the first three months of fiscal 2014 was $74 million compared to cash flow provided by operating activities of $2 million during the first three months of fiscal 2013. The $76 million change was primarily due to a $48 million decrease due to the timing of inventory purchases and a $31 million decrease due to the timing of vendor payments. Average inventory per Michaels store (including e-commerce and supporting distribution centers) increased 8.3% to $783,000 at May 3, 2014, from $723,000 at May 4, 2013, primarily due to timing of inventory receipts.

Cash flow provided by operating activities in fiscal 2013 was $449 million compared to $299 million in fiscal 2012. The $150 million change was due in part to a $137 million increase from the timing of accounts payable, a $43 million increase in net income and a $33 million increase in interest accruals. This increase was partially offset by a $25 million decrease from the timing of income tax payments, a $19 million decrease in refinancing costs and losses on early extinguishments of debt and a $17 million decrease due to higher merchandise inventories. Average inventory per Michaels store (including supporting distribution centers) was $764,000, up from last year's average inventory balance of $754,000.

Cash flow from investing activities

Cash flow used in investing activities represents the following capital expenditures:

	Fiscal year			Quarters Ended	
(In millions)	**2013**	**2012**	**2011**	**May 3, 2014**	**May 4, 2013**
New and relocated stores and stores not yet opened(1)	$ 39	$ 42	$ 28	$ 9	$ 9
Existing stores	26	30	25	5	4
Information systems(2)	28	36	45	12	6
Corporate and other	19	16	11	5	3
	$ 112	$ 124	$ 109	$ 31	$ 22

(1) In fiscal 2013, we incurred capital expenditures related to the opening of 54 Michaels stores, including the relocation of 14 Michaels stores. In fiscal 2012, we incurred capital expenditures related to the opening of 51 Michaels stores, including the relocation of 13 Michaels stores. In fiscal 2011, we incurred capital expenditures related to the opening of 40 Michaels stores, including the relocation of 15 Michaels stores. The average capital expenditure per store for fiscal 2013 was comparable to fiscal 2011. The increase in capital expenditures per store in fiscal 2012 is due mainly to an increase in leasehold improvements for three unique locations. Excluding those locations, the average per store is comparable for the three years presented. In the first three months of fiscal 2014, we incurred capital expenditures related to the opening of 13 Michaels stores, including the relocation of 5 Michaels stores.

(2) Our fiscal 2013 information systems capital expenditures decreased from fiscal 2012 primarily due to 2012 projects not recurring in 2013, for systems to enhance manufacturing capabilities and for system infrastructure for Québec.

We capitalize and depreciate significant renewals or betterments that substantially extend the life of the asset. We also capitalize certain costs related to the acquisition and development of internal use software that is expected to benefit future periods. In fiscal 2013, fiscal 2012 and fiscal 2011, we capitalized payroll and consulting costs of approximately $39 million, $30 million and $34 million, respectively, related to our capital expenditures.

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We currently estimate that our capital expenditures will be increased to approximately $150 million in fiscal 2014 as we plan to invest in the infrastructure necessary to support the further development of our business and continued growth. In fiscal 2014, we plan to open 40 to 45 stores, including 10 to 15 relocations. We expect our capital expenditures will be financed with cash from operating activities.

Cash flow from financing activities

Cash flow used in financing activities during the first quarter of fiscal 2014 was $19 million compared to cash flow provided by financing activities of $19 million during the first quarter of fiscal 2013. Cash flow used in financing activities for the first quarter of fiscal 2014 was impacted by $4 million of debt repayments, the repurchase of shares of Common Stock of the Company and changes in cash overdrafts. Cash flow provided by financing activities for the first three months of fiscal 2013 was impacted by the redemption of the $137 million of the 2016 Senior Subordinated Notes at a redemption price of 103.792%, or a total of $142 million, and net borrowings of $181 million under our Restated Revolving Credit Facility.

Cash used in financing activities was $154 million during fiscal 2013. Cash flow used in financing activities during fiscal 2012 was $490 million. Cash flow used in financing activities for fiscal 2013 was impacted by the repurchase of $137 million of the 2016 Senior Subordinated Notes at a redemption price of 103.792%, or a total of $142 million, and the repurchase of $256 million of the 2016 Senior Subordinated Notes at a redemption price of 101.896%, or a total of $261 million. MSI also made payments of $12 million under the Restated Term Loan Credit Facility. In addition, MSI issued $260 million of the 2020 Senior Subordinated Notes.

Additionally, on July 29, 2013, FinCo Holdings and FinCo Inc. issued the Holdco Notes. The Holdco Notes were issued in a private transaction, at 100.00% of face value, resulting in net proceeds of approximately $783 million. FinCo Holdings distributed the net proceeds to The Michaels Companies, Inc. and the proceeds were used to fund a one-time cash dividend, distribution and other payments to the Company's equity and equity-award holders and pay related fees and expenses.

Cash flow used in financing activities for fiscal 2012 was impacted by the $1,996 million prepayment of the Senior Secured Term Loan Facility and borrowings under our Restated Term Loan Credit Facility of $1,640 million. In addition, we issued $200 million of additional 2018 Senior Notes at a premium, for which we received $213 million. Finally, we made the $127 million applicable high yield discount obligation ("AHYDO") payment on the Subordinated Discount Notes (as defined below) during fiscal 2012 and redeemed the remaining $180 million of outstanding Subordinated Discount Notes, for which we paid an $8 million premium.

Cash flow used in financing activities for fiscal 2011 was impacted by the repurchases of $163 million face value, or $155 million accreted value, of the Subordinated Discount Notes and $7 million face value of the 2016 Senior Subordinated Notes, for which we paid $7 million in purchase premiums. We also made a voluntary prepayment of $50 million on the Senior Secured Term Loan Facility during the first quarter of fiscal 2011.

Debt

We currently have outstanding indebtedness consisting of 2018 Senior Notes, 2020 Senior Subordinated Notes and Holdco Notes, as well as the Restated Term Loan Credit Facility and the Restated Revolving Credit Facility. The borrowings under the Restated Revolving Credit Facility are influenced by a number of factors as more fully described below.

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On June 16, 2014, MSI and its subsidiaries that are guarantors under the indenture governing the 2020 Senior Subordinated Notes issued an additional $250,000,000 in aggregate principal amount of Additional 2020 Senior Subordinated Notes. We intend to use the net proceeds of the Additional 2020 Senior Subordinated Notes to redeem a portion of the outstanding 2018 Senior Notes, to pay the applicable make-whole premium and accrued and unpaid interest thereon to, but not including, the applicable redemption date and to pay related fees and expenses.

In addition, on June 6, 2014, MSI priced an additional $850 million in aggregate principal amount of the Incremental Term Loans that mature in January 2020. On June 10, 2014, MSI entered into an amendment to its Amended Credit Agreement to effect the Incremental Term Loans (the "First Amendment"). The closing of the First Amendment and funding of the Incremental Term Loans will be subject to, and concurrent with, the closing of this offering. We intend to use the net proceeds of the Incremental Term Loans to redeem the remaining outstanding 2018 Senior Notes that are not redeemed with the net proceeds of the Additional 2020 Senior Subordinated Notes.

For further discussion, see "Prospectus summary Recent developments."

Notes

On October 31, 2006, we issued (i) $750 million in principal amount of 2014 Senior Notes; (ii) $400 million in principal amount of 2016 Senior Subordinated Notes; and (iii) $469 million in principal amount at maturity of Subordinated Discount Notes. During the third quarter of fiscal 2010, we retired the 2014 Senior Notes and issued $800 million of 2018 Senior Notes at a discounted price of 99.262% of face value, resulting in an effective interest rate of $7^7/_8$%. On September 27, 2012, we issued an additional $200 million principal amount of 2018 Senior Notes (the "Additional Senior Notes"), at a premium of 106.25% of face value, resulting in an effective interest rate of $6^1/_2$%. On February 27, 2013, we redeemed $137 million in aggregate principal amount of our 2016 Senior Subordinated Notes at a redemption price equal to 103.792%. On July 29, 2013, we issued $800 million in principal amount of 7.50%/8.25% Senior PIK Toggle Notes that mature August 1, 2018. On December 19, 2013, we issued $260 million in principal amount of $5^7/_8$% Senior Subordinated Notes that mature December 15, 2020. We used the net proceeds of these notes to redeem the outstanding 2016 Senior Subordinated Notes, to pay the applicable redemption premium and accrued and unpaid interest to, but not including, the applicable redemption date and to pay related fees and expenses. As of December 19, 2013, an aggregate principal amount of approximately $255 million of 2016 Senior Subordinated Notes remained outstanding. The 2016 Senior Subordinated Notes were redeemed on January 21, 2014, and our obligations under the 2016 Senior Subordinated Notes Indenture were discharged.

The Holdco Notes are not guaranteed by us or any of our subsidiaries, but the indenture governing the Holdco Notes contains restrictive covenants that apply to FinCo Holdings and its restricted subsidiaries, including Holdings, MSI and their subsidiaries.

Interest on the 2018 Senior Notes is payable semi-annually in arrears on each May 1 and November 1. Interest on the 2020 Senior Subordinated Notes is payable semi-annually in arrears on each June 15 and December 15, commencing on June 15, 2014, with respect to the 2020 Senior Subordinated Notes issued on December 19, 2013, and December 15, 2014, with respect to the Additional 2020 Senior Subordinated Notes. Interest on the Holdco Notes is payable semi-annually in arrears on each February 1 and August 1. If interest on the Holdco Notes is paid in cash, annual interest payments will total $60 million, at a rate of 7.50% per annum, or a total of approximately $300 million from July 29, 2013 until August 1, 2018, the maturity date. If interest on the Holdco Notes is paid in-kind by increasing the principal amount of the

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Holdco Notes, or by issuing new Holdco Notes, the interest rate is 8.25% per annum, which is the cash interest rate plus 75 basis points.

Beginning on November 1, 2011, cash interest began accruing on the Subordinated Discount Notes and was payable semi-annually in arrears on each May 1 and November 1 (the first cash interest payment was May 1, 2012). On May 1, 2012, as required pursuant to the indenture ("Subordinated Discount Notes Indenture") governing its Subordinated Discount Notes, MSI redeemed that portion of each Subordinated Discount Note outstanding on such date equal to the amount sufficient, but not in excess of the amount necessary, to ensure that such Subordinated Discount Note would not be an AHYDO instrument within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986, as amended (the "Code") (the "AHYDO Amount"). These redemptions were at a price equal to 100% of the Accreted Value (as defined in the Subordinated Discount Notes Indenture) of such portion as of the date of redemption. The aggregate payment of $127 million made on May 1, 2012, was required to ensure the Subordinated Discount Notes would not be AHYDO instruments. On October 1, 2012, MSI delivered to the holders of its outstanding Subordinated Discount Notes an irrevocable notice of redemption relating to the redemption of all of its outstanding Subordinated Discount Notes. On November 1, 2012, MSI redeemed a portion of the Subordinated Discount Notes equal to the AHYDO Amount at a redemption price equal to 100% and the remaining Subordinated Discount Notes at a redemption price equal to 104.333%.

The 2018 Senior Notes are guaranteed, jointly and severally, fully and unconditionally, on an unsecured senior basis, and the 2020 Senior Subordinated Notes are guaranteed, jointly and severally, fully and unconditionally, on an unsecured senior subordinated basis, in each case, by each of MSI's subsidiaries (each of which is directly or indirectly owned 100% by MSI) that guarantees indebtedness under MSI's Senior Secured Credit Facilities.

The indentures governing the 2018 Senior Notes and 2020 Senior Subordinated Notes contain covenants limiting, among other things, MSI's ability, and the ability of MSI's restricted subsidiaries, to:

- incur or guarantee additional debt
- pay dividends or distributions on MSI's capital stock or repurchase MSI's capital stock or prepay debt that is subordinated to the 2018 Senior Notes and 2020 Senior Subordinated Notes, respectively
- issue stock of subsidiaries
- make certain investments, loans, advances and acquisitions
- create liens on MSI's and such subsidiaries' assets to secure debt
- enter into transactions with affiliates
- merge or consolidate with another company
- sell or otherwise transfer assets

The indenture governing the Holdco Notes contains restrictive covenants and events of default substantially similar to, but less restrictive than, those of the 2018 Senior Notes and 2020 Senior Subordinated Notes described above, which restrict FinCo Holdings and its restricted subsidiaries, including Holdings, MSI and their subsidiaries.

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Restated Revolving Credit Facility

On February 18, 2010, MSI entered into an agreement to amend and restate various terms of the then existing asset-based Revolving Credit Facility, dated as of October 31, 2006 (as so amended and restated, the "senior secured asset-based Revolving Credit Facility"). On September 17, 2012, MSI entered into a second amended and restated credit agreement (the "Restated Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo") and other lenders to amend various terms of its senior secured asset-based Revolving Credit Facility. On June 6, 2014, MSI amended its Restated Credit Agreement to, among other things, permit the incurrence of the Incremental Term Loans and refinancing of the 2018 Senior Notes with the net proceeds of the Additional 2020 Senior Subordinated Notes and the Incremental Term Loans. The Restated Credit Agreement, as amended, together with related security, guarantee and other agreements, is referred to as the "Restated Revolving Credit Facility".

The Restated Revolving Credit Facility provides for senior secured financing of up to $650 million, subject to a borrowing base, maturing on September 17, 2017 (the "ABL Maturity Date"). The borrowing base under the Restated Revolving Credit Facility equals the sum of (i) 90% of eligible credit card receivables and debit card receivables, plus (ii) 90% of the appraised net orderly liquidation value of eligible inventory, plus (iii) the lesser of (x) 90% of the appraised net orderly liquidation value of inventory supported by eligible letters of credit and (y) 90% of the face amount of eligible letters of credit, minus (iv) certain reserves.

The Restated Revolving Credit Facility provides MSI with the right to request up to $200 million of additional commitments under the Restated Revolving Credit Facility. The lenders under the Restated Revolving Credit Facility will not be under any obligation to provide any such additional commitments, and any increase in commitments is subject to customary conditions precedent. If MSI were to request any such additional commitments, and the existing lenders or new lenders were to agree to provide such commitments, the facility size could be increased to up to $850 million, but MSI's ability to borrow under the Restated Revolving Credit Facility would still be limited by the borrowing base.

Borrowings under the Restated Revolving Credit Facility bear interest at a rate per annum equal to, at MSI's option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Wells Fargo, (2) the federal funds effective rate plus 0.50% and (3) LIBOR subject to certain adjustments plus 1.00% or (b) a LIBOR subject to certain adjustments, in each case plus an applicable margin. The initial applicable margin is (a) 0.75% for prime rate borrowings and 1.75% for LIBOR borrowings. The applicable margin is subject to adjustment each fiscal quarter based on the excess availability under the Restated Revolving Credit Facility. Same-day borrowings bear interest at the base rate plus the applicable margin.

MSI is required to pay a commitment fee on the unutilized commitments under the Restated Revolving Credit Facility, which initially is 0.375% per annum. The commitment fee is subject to adjustment each fiscal quarter. If average daily excess availability is less than or equal to 50% of the total commitments, the commitment fee will be 0.25% per annum, and if average daily excess availability is greater than 50% of the total commitments, the commitment fee will be 0.375%. In addition, MSI must pay customary letter of credit fees and agency fees.

All obligations under the Restated Revolving Credit Facility are unconditionally guaranteed jointly and severally by Holdings and all of MSI's existing domestic material subsidiaries and are required to be guaranteed by certain of MSI's future domestic wholly-owned material subsidiaries (the "Subsidiary Guarantors"). All obligations under the Restated Revolving Credit Facility, and the guarantees of those

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obligations, are secured, subject to certain exceptions, by substantially all of the assets of Holdings, MSI and the Subsidiary Guarantors, including:

- first-priority security interest in personal property consisting of inventory and related accounts, cash, deposit accounts, all payments received by Holdings, MSI or the Subsidiary Guarantors from credit card clearinghouses and processors or otherwise in respect of all credit card charges and debit card charges for sales of inventory by Holdings, MSI and the Subsidiary Guarantors, and certain related assets and proceeds of the foregoing;

- second-priority pledge of all of MSI's capital stock and the capital stock held directly by MSI and the Subsidiary Guarantors (which pledge, in the case of the capital stock of any foreign subsidiary, is limited to 65% of the voting stock of such foreign subsidiary and 100% of the non-voting stock of such subsidiary); and

- second-priority security interest in, and mortgages on, substantially all other tangible and intangible assets of Holdings, MSI and each Subsidiary Guarantor, including substantially all of MSI's and its subsidiaries' owned real property and equipment.

If, at any time, the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the Restated Revolving Credit Facility exceeds the lesser of (i) the commitment amount and (ii) the borrowing base (the "Loan Cap"), MSI will be required to repay outstanding loans and cash collateralize letters of credit in an aggregate amount equal to such excess, with no reduction of the commitment amount. If excess availability under the Restated Revolving Credit Facility is less than (i) 12.5% of the Loan Cap for five consecutive business days, or (ii) $65 million at any time, or if certain events of default have occurred, MSI will be required to repay outstanding loans and cash collateralize letters of credit with the cash it is required to deposit daily in a collection account maintained with the agent under the Restated Revolving Credit Facility. Excess availability under the Restated Revolving Credit Facility means the Loan Cap minus the outstanding credit extensions. MSI may voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans at any time without premium or penalty other than customary breakage costs with respect to London Interbank Offered Rate ("LIBOR") loans. There is no scheduled amortization under the Restated Revolving Credit Facility; the principal amount of the loans outstanding is due and payable in full on the ABL Maturity Date.

From the time when MSI has excess availability less than the greater of (a) 10% of the Loan Cap and (b) $50 million, until the time when we have excess availability greater than the greater of (a) 10% of the Loan Cap and (b) $50 million for 30 consecutive days, the Restated Revolving Credit Facility will require MSI to maintain a consolidated fixed charge coverage ratio of at least 1.0 to 1.0. The Restated Revolving Credit Facility also contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default (including change of control and cross-default to material indebtedness).

As of May 3, 2014, the borrowing base was $650 million, of which we had no outstanding borrowings, $61 million of outstanding standby letters of credit and $589 million of unused borrowing capacity.

Restated Term Loan Credit Facility

On October 31, 2006, MSI executed a $2.4 billion senior secured term loan facility (the "Senior Secured Term Loan Facility") with Deutsche Bank AG New York Branch ("Deutsche Bank") and other lenders. The full amount was borrowed on October 31, 2006, with the balance payable on October 31, 2013. On November 5, 2009, and December 15, 2011, MSI amended the Senior Secured Term Loan Facility to extend

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$1.0 billion and $619 million, respectively, of existing term loans (the "B-2 Term Loans" and "B-3 Term Loans", respectively) to July 31, 2016, with the remaining $501 million of existing term loans (the "B-1 Term Loans") keeping the original maturity date of October 31, 2013. During fiscal 2012, MSI prepaid the $501 million of outstanding B-1 Term Loans.

On January 28, 2013, MSI entered into an amended and restated credit agreement (the "Amended Credit Agreement") with Deutsche Bank and other lenders to amend various terms of the Senior Secured Term Loan Facility, as amended. On June 10, 2014, MSI entered into an amendment to its Amended Credit Agreement to effect the Incremental Term Loans (the "First Amendment"). The Amended Credit Agreement (as amended by the First Amendment), together with related security, guarantee and other agreements, is referred to as the "Restated Term Loan Credit Facility."

The Restated Term Loan Credit Facility provides for senior secured financing of $1,640 million. MSI has the right under the Restated Term Loan Credit Facility to request additional term loans in an aggregate amount of up to (a) $500 million and (b) at MSI's option, an amount of term loans so long as MSI's Consolidated Secured Debt Ratio (as defined in the Amended Credit Agreement) is no more than 3.25 to 1.00 on a pro forma basis as of the last day of the most recently-ended four fiscal quarter-period for which internal financial statements are available. The lenders under the Restated Term Loan Credit Facility will not be under any obligation to provide any such additional term loans, and the incurrence of any additional term loans is subject to customary conditions precedent. On June 6, 2014, MSI priced an additional $850 million in aggregate principal amount of the Incremental Term Loans. The closing of the First Amendment and the funding of the Incremental Term Loans will be subject to, and concurrent with, the closing of this offering.

Borrowings under the Restated Term Loan Credit Facility bear interest at a rate per annum equal to, at MSI's option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Deutsche Bank, (2) the federal funds effective rate plus $^1/_2$ of 1% and (3) LIBOR, subject to certain adjustments and a 1% floor, plus 1%, or (b) LIBOR, subject to certain adjustments and a 1% floor, in each case plus an applicable margin. The applicable margin is 1.75% (and will be 2.00%, with respect to the Incremental Term Loans) with respect to base rate borrowings and 2.75% (and will be 3.00%, with respect to Incremental Term Loans) with respect to LIBOR borrowings. In addition, the applicable margin is subject to a 0.25% decrease based on MSI's Consolidated Secured Debt Ratio, but such decrease will not apply to the Incremental Term Loans.

The Restated Term Loan Credit Facility requires MSI to prepay outstanding term loans with (x) 100% of the net proceeds of any debt issued by MSI or its subsidiaries (with exceptions for certain debt permitted to be incurred under the Restated Term Loan Credit Facility) and (y) 50% (which percentage will be reduced to 25% if MSI's Consolidated Total Leverage Ratio (as defined in the Amended Credit Agreement) is less than 6.00:1.00 and will be reduced to 0% if MSI's Consolidated Total Leverage Ratio is less than 5.00:1.00) of MSI's annual Excess Cash Flow (as defined in the Amended Credit Agreement).

MSI must offer to prepay outstanding term loans at 100% of the principal amount to be prepaid, plus accrued and unpaid interest, with the proceeds of certain asset sales or casualty events under certain circumstances.

MSI may voluntarily prepay outstanding loans under the Restated Term Loan Credit Facility at any time without premium or penalty other than customary "breakage" costs with respect to LIBOR loans.

MSI is required to make scheduled quarterly payments, each equal to 0.25% of the original principal amount of the term loans, subject to adjustments relating to the incurrence of additional term loans under

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the Restated Term Loan Credit Facility, for the first six years and three quarters, with the balance paid on January 28, 2020 (the "Maturity Date"); provided, however, that the Maturity Date of the term loans will automatically become July 28, 2018, if as of July 28, 2018, (i) the Consolidated Secured Debt Ratio is greater than 3.25:1.00 and (ii) the then aggregate outstanding principal amount of MSI's 2018 Senior Notes (and certain refinancings thereof requiring principal payments prior to April 28, 2020) exceeds $250 million. Upon the redemption in full of the 2018 Senior Notes with the net proceeds of the issuance of the Additional 2020 Senior Subordinated Notes and the incurrence of the Incremental Term Loans, we expect that the Maturity Date will remain January 28, 2020.

All obligations under the Restated Term Loan Credit Facility are unconditionally guaranteed by Holdings, and each of MSI's wholly-owned domestic subsidiaries that guarantees obligations under the Restated Revolving Credit Facility. All obligations under the Restated Term Loan Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the assets of Holdings, MSI and the Subsidiary Guarantors, including:

- a first-priority pledge of MSI's capital stock and all of the capital stock held directly by MSI and the Subsidiary Guarantors (which pledge, in the case of any foreign subsidiary, is limited to 65% of the voting stock of such foreign subsidiary and 100% of the non-voting stock of such subsidiary);

- a first-priority security interest in, and mortgages on, substantially all other tangible and intangible assets of Holdings, MSI and each Subsidiary Guarantor, including substantially all of MSI's and MSI's subsidiaries' owned real property and equipment, but excluding, among other things, the collateral described in the following bullet point; and

- a second-priority security interest in personal property consisting of inventory and related accounts, cash, deposit accounts, all payments received by Holdings, MSI or the Subsidiary Guarantors from credit card clearinghouses and processors or otherwise in respect of all credit card charges and debit card charges for sales of inventory by Holdings, MSI and the Subsidiary Guarantors, and certain related assets and proceeds of the foregoing.

The Restated Term Loan Credit Facility contains a number of negative covenants that are substantially similar to, but more restrictive in certain respects than, those governing the 2018 Senior Notes and the 2020 Senior Subordinated Notes, as well as certain other customary representations and warranties, affirmative and negative covenants and events of default.

The proceeds of the Restated Term Loan Credit Facility were used, among other things, to (i) prepay an aggregate principal amount of $876 million of the Company's B-2 Term Loans and $619 million of the Company's B-3 Term Loans under the Senior Secured Term Loan Facility and (ii) fund the redemption and related fees, on February 27, 2013, of an aggregate principal amount of $137 million of the 2016 Senior Subordinated Notes pursuant to a notice of redemption issued to the holders of such notes on January 28, 2013. We intend to use the net proceeds of the Incremental Term Loans to redeem the remaining outstanding 2018 Senior Notes that are not redeemed with the net proceeds of the Additional 2020 Senior Subordinated Notes.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject, in the case of Holdings, MSI and FinCo Holdings and their subsidiaries, to the restrictions contained in our Senior Secured Credit Facilities and the indentures governing our notes. In addition, our Senior Secured Credit Facilities and indentures governing our notes do not restrict our owners from creating new holding companies that may be able to incur indebtedness without regard to the restrictions set forth in our Senior

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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.

Off-balance sheet arrangements

We have no off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K. We do not typically enter into off-balance sheet arrangements, except for arrangements related to operating lease commitments, service contract commitments and trade letters of credit, as disclosed in the contractual obligations table below. Neither we nor our subsidiaries typically guarantee the obligations of unrelated parties.

Contractual obligations

All of our significant contractual obligations are recorded on our Consolidated Balance Sheets or disclosed in our Notes to our Consolidated Financial Statements for the year ended February 1, 2014.

As of February 1, 2014, our contractual obligations were as follows:

		Payments Due By Fiscal Year			
(In millions)	**Total**	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
The Michaels Companies, Inc.					
Operating lease commitments(1)	$ 1,794	$ 390	$ 637	$ 417	$ 350
Other commitments(2)	95	59	36		
Total debt(3)	3,688	16	33	3,379	260
Interest payments(4)	1,072	216	430	395	31
	$ 6,649	$ 681	$ 1,136	$ 4,191	$ 641
Michaels Stores, Inc.					
Operating lease commitments(1)	$ 1,794	$ 390	$ 637	$ 417	$ 350
Other commitments(2)	95	59	36		
Total debt(3)	2,888	16	33	2,579	260
Interest payments(4)	772	156	310	275	31
	$ 5,549	$ 621	$ 1,016	$ 3,271	$ 641

(1) Our operating lease commitments generally include non-cancelable leases for property and equipment used in our operations. Excluded from our operating lease commitments are amounts related to insurance, taxes, and common area maintenance associated with property and equipment. Such amounts historically represented approximately 31% of the total lease obligation over the previous three fiscal years.

(2) Other commitments include trade letters of credit and service contract obligations. Our service contract obligations were calculated based on the time period remaining in the contract or to the earliest possible date of termination, if permitted to be terminated by us upon notice, whichever is shorter.

(3) Included in Total debt is $9 million of unamortized premium and $3 million of unamortized discount on the 2018 Senior Notes, which has not been recognized as of February 1, 2014. See Note 5 to our Consolidated Financial Statements for the year ended February 1, 2014.

(4) Debt associated with our Restated Term Loan Credit Facility was $1,628 million at February 1, 2014, and is subject to variable interest rates. The amounts included in interest payments in the table for the Restated Term Loan Credit Facility were based on the indexed interest rate in effect at February 1, 2014. Approximately $2,060 million of debt was subject to fixed interest rates. We had no outstanding borrowings under our Restated Revolving Credit Facility at February 1, 2014 or at May 3, 2014. Under our Restated Revolving Credit Facility, we are required to pay a commitment fee of 0.375% per year on the

unutilized commitments, subject to an adjustment each fiscal quarter. The amounts included in interest payments for the Restated Revolving Credit Facility were based on these annual commitment fees.

Additional information regarding our long term debt and commitments and contingencies is provided in Notes 5 and 12 to our Consolidated Financial Statements for the year ended February 1, 2014 and Notes 3 and 7 to our Consolidated Financial Statements for the quarter ended May 3, 2014.

Recent accounting pronouncement

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, *"Revenue from Contracts with Customers"* ("ASU 2014-09"). ASU 2014-09 supersedes the revenue recognition requirements in "*Revenue Recognition (Topic 605)*," and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. We are evaluating the new standard, but do not, at this time, anticipate a material impact to the financial statements once implemented.

Quantitative and qualitative disclosures about market risk

We are exposed to fluctuations in exchange rates between the U.S. and Canadian dollar, which is the functional currency of our Canadian subsidiaries. Our sales, costs and expenses of our Canadian subsidiaries, when translated into U.S. dollars, can fluctuate due to exchange rate movement. As of May 3, 2014, a 10% increase or decrease in the exchange rate of the U.S. and Canadian dollar would increase or decrease quarterly Net income for the quarter ended May 3, 2014 by approximately $1 million.

We do not believe inflation and changing commodity prices have had a material impact on our Net sales, income from continuing operations, plans for expansion or other capital expenditures for any year during the three-year period ended February 1, 2014 or the quarter ended May 3, 2014. However, we cannot be sure inflation and changing commodity prices will not have an adverse impact on our operating results, financial condition, plans for expansion or other capital expenditures in future periods.

We have market risk exposure arising from changes in interest rates on our Senior Secured Credit Facilities. See "Liquidity and Capital Resources" for further detail. The interest rates on our Senior Secured Credit Facilities will reprice periodically, which will impact our earnings and cash flow. The interest rates on our 2018 Senior Notes, 2020 Senior Subordinated Notes and Holdco Notes are fixed. Based on our overall interest rate exposure to variable rate debt outstanding as of May 3, 2014, a 1% increase or decrease in interest rates would increase or decrease Income before income taxes by approximately $16 million. A 1% increase or decrease in interest rates would impact the fair value of our long-term fixed rate debt by approximately $14 million. A change in interest rates would not materially affect the fair value of our variable rate debt as the debt reprices periodically.

We invest cash balances in excess of operating requirements primarily in money market mutual funds and short-term interest-bearing securities, generally with maturities of 90 days or less. Due to the short-term nature of our investments, the fair value of our cash and equivalents at May 3, 2014, approximated carrying value.

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Business

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", and other similar expressions) that are not statements of historical fact should be considered forward-looking statements. 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", "Cautionary Note Regarding Forward-Looking Statements", and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

General

With over $4.5 billion in sales in fiscal 2013, the Company, together with its subsidiaries, is the largest arts and crafts specialty retailer in North America (based on store count) providing materials, project ideas and education for creative activities. 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 online videos, we offer a shopping experience that can inspire creativity and confidence in our customers' artistic abilities.

As of May 31, 2014, we operate 1,145 Michaels retail stores in 49 states, as well as in Canada, with approximately 18,000 average square feet of selling space per store. We also operate 118 Aaron Brothers stores in nine states, with approximately 5,600 average square feet of selling space per store, offering photo frames, a full line of ready-made frames, custom framing services, and a wide selection of art supplies.

We were incorporated in Delaware in July 2013 in connection with the Reorganization of MSI into a holding company structure. MSI was incorporated in Delaware in 1983 and is headquartered in Irving, Texas. On October 31, 2006, substantially all of the common stock of MSI was acquired through the Merger by the Sponsors, with certain shares retained by investment funds managed by Highfields (then-existing shareholders of MSI). As a result of the Merger and the Reorganization, Michaels Holdings LLC, an entity controlled by the Sponsors, currently owns approximately 93% of our outstanding Common Stock.

Merchandising

Each Michaels store offers approximately 36,000 basic SKUs in a number of product categories. The following table shows a breakdown of sales for Michaels stores by department as a percentage of total Net sales:

	Fiscal year		
	2013	**2012**	**2011**
General crafts	53%	51%	52%
Home décor and seasonal	20	21	20
Framing	17	17	17
Scrapbooking	10	11	11
	100%	100%	100%

We have a product design team focused on quality, innovation and cost mitigation. 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. 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.

We continue to search for ways to leverage our position as a market leader by establishing strategic partnerships and exclusive product relationships to provide our customers with exciting merchandise. During fiscal 2013, we partnered with popular celebrities and brands such as Cake Boss, Craftsy, Disney, Crayola, Martha Stewart Crafts and Rainbow Loom. For the remainder of fiscal 2014, we will explore opportunities to form future partnerships and exclusive product associations.

We routinely identify merchandise that requires some price reduction to accelerate sales of the product. The need for this reduction is generally attributable to clearance of seasonal merchandise or product to be displaced from its assigned location in the store to make room for new merchandise. Additional SKUs considered for repricing are identified using our perpetual inventory data. In each case, the appropriate repricing is determined at our corporate support center office. Price changes are transmitted electronically to the store and instructions are provided to our stores regarding product placement, signage and display to ensure the product is effectively cleared.

Our Aaron Brothers stores offer on average approximately 6,900 SKUs, including photo frames, a full line of ready-made frames, art prints, framed art, art supplies and custom framing services. The merchandising strategy for our Aaron Brothers stores is to provide a unique, upscale framing assortment in an appealing environment with attentive customer service.

Seasonality

Our business is highly seasonal, with higher sales in the third and fourth fiscal quarters. Our fourth quarter, which includes the Christmas selling season, has on average accounted for approximately 34% of our Net sales and approximately 46% of our Operating income.

Purchasing and inventory management

We purchase merchandise from approximately 600 vendors through our wholly-owned subsidiary, Michaels Stores Procurement Company. We believe our buying power and ability to make centralized purchases enable us to acquire products on favorable terms. Centralized merchandising management teams negotiate with vendors in an attempt to obtain the lowest net merchandise costs and to improve product mix and inventory levels. In fiscal 2013, one sourcing agent supplied approximately 13% of our purchases, with no other vendor or sourcing agent accounting for more than 10% of total purchases.

In addition to purchasing from outside vendors, our Michaels and Aaron Brothers stores purchase custom frames, framing supplies and mats from our framing operation, Artistree, which consists of a manufacturing facility and four regional processing centers to support our retail stores. These intercompany transactions are eliminated in consolidation.

Substantially all of the products sold in Michaels stores are manufactured in Asia and North America. Goods manufactured in Asia generally require long lead times and are ordered four to six months in advance of delivery. Those products are either imported directly by us or acquired from distributors based in the U.S., and purchase prices are denominated in U.S. dollars.

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Our automated replenishment system uses perpetual inventory records to analyze individual store/SKU on-hand quantities, as well as other pertinent information such as sales forecasts, seasonal selling patterns, promotional events, and vendor lead times, to generate recommended merchandise reorder information. These recommended orders are reviewed daily and purchase orders are delivered electronically to our vendors and our distribution centers. In addition to improving our store in-stock position, these systems enable us to better forecast merchandise ordering quantities for our vendors and give us the ability to identify, order and replenish the stores' merchandise using less store associate labor. These systems also allow us to react more quickly to selling trends and allow our store associates to devote more time to customer service, thereby improving inventory productivity and sales opportunities.

Artistree

We currently operate a vertically integrated framing operation leveraging Artistree, our wholly-owned manufacturing subsidiary, across our Michaels and Aaron Brothers store networks. Artistree supplies precut mats and high quality custom framing merchandise. We believe Artistree provides a competitive advantage to our Michaels and Aaron Brothers stores and gives us quality control over the entire process.

Our moulding manufacturing plant, located in Kernersville, North Carolina, converts lumber into finished frame moulding and supplies the finished frame moulding to our regional processing centers for custom framing orders for our stores. We manufacture approximately 35% of the moulding we process, import approximately 40% from quality manufacturers in Indonesia, Malaysia, China, and Italy, and purchase the balance from distributors. We directly source metal moulding for processing in our regional centers. The custom framing orders are processed (frames cut and joined, along with cutting mats and foamboard backing) and shipped to our stores where the custom frame order is completed for customer pick-up.

During fiscal 2013, we operated four regional processing centers in City of Industry, California; Coppell, Texas; Kernersville, North Carolina; and Mississauga, Ontario. Our precut mats and custom frame supplies are packaged and distributed out of our Coppell regional processing center. Combined, these facilities occupy approximately 538,000 square feet and, in fiscal 2013, processed approximately 30 million linear feet of frame moulding and approximately 5 million individually custom cut mats for our Michaels and Aaron Brothers stores.

In July 2012, we completed the implementation of a modified pricing and promotion cadence for our custom framing business. The program establishes a rotational collection cadence to limit the percentage of days that custom framing SKUs are on promotion, to more fully comply with regulatory requirements in various jurisdictions. The program is generally the same as that approved for the Company by the Attorney General for the State of New York. Based on results of this implementation in New York and other jurisdictions, we do not believe that this pricing and promotion cadence has had a material impact on our results of operations.

Distribution

We currently operate a distribution network through our wholly-owned subsidiary, Michaels Stores Procurement Company, to supply our stores with merchandise. Approximately 90% of Michaels stores' merchandise receipts are shipped through the distribution network with the remainder shipped directly from vendors to stores. Approximately 55% of Aaron Brothers stores' merchandise is shipped through the distribution network with the remainder shipped directly from vendors. Our seven distribution centers are located in California, Florida, Illinois, Pennsylvania, Texas, and Washington. In addition, we utilize a third party warehouse to store and supply our seasonal merchandise in preparation for the holiday season, as well as a third party fulfillment center for our e-commerce merchandise.

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Michaels stores generally receive deliveries from the distribution centers weekly through a transportation network using a dedicated fleet of trucks and contract carriers. Aaron Brothers stores generally receive merchandise on a biweekly basis from a dedicated 174,000 square foot distribution center located in the Los Angeles, California area.

Store expansion and relocation

The following table shows our total store growth for the last five years and the first quarter of 2014:

	Quarter Ended			Fiscal Year		
	May 3, 2014	2013	2012	2011	2010	2009
Michaels stores:						
Retail stores open at beginning of period	1,136	1,099	1,064	1,045	1,023	1,009
Retail stores opened during the period	8	40	38	25	23	18
Retail stores opened relocations during the period	5	14	13	15	10	5
Retail stores closed during the period		(3)	(3)	(6)	(1)	(4)
Retail stores closed relocations during the period	(5)	(14)	(13)	(15)	(10)	(5)
Retail stores open at end of period	1,144	1,136	1,099	1,064	1,045	1,023
Aaron Brothers stores:						
Retail stores open at beginning of period	121	125	134	137	152	161
Retail stores opened during the period						
Retail stores opened relocations during the period		2				
Retail stores closed during the period	(3)	(5)	(8)	(3)	(15)	(9)
Retail stores closed relocations during the period		(1)	(1)			
Retail stores open at end of period	118	121	125	134	137	152
Total store count at end of period	1,262	1,257	1,224	1,198	1,182	1,175

We believe, based on an internal real estate and market penetration study of Michaels stores, that the combined U.S. and Canadian markets can support approximately 1,500 Michaels stores. We plan to open 40 to 45 Michaels stores in fiscal 2014. Included in these openings are relocations of 10 to 15 Michaels stores. We continue to pursue a store relocation program to improve the real estate location quality and performance of our store base. During fiscal 2014, we anticipate opening up to 5 Aaron Brothers stores. During 2014, we also plan to close up to 5 Michaels stores and up to 10 Aaron Brothers stores. Many of our store closings are stores that have reached the end of their lease term. We believe our ongoing store evaluation process results in strong performance across our store base.

We have developed a standardized procedure to allow for the efficient opening of new stores and their integration into our information and distribution systems. We develop the floor plan and merchandise layout and organize the advertising and promotions in connection with the opening of each new store. In addition, we maintain qualified store opening teams to provide new store associates with store training.

Our new store operating model, which is based on historical store performance, assumes a target store size of approximately 18,000 selling square feet. Our fiscal 2013 average initial net investment, which varies by site and specific store characteristics, is approximately $1.2 million per store and consists of store build-out costs (net of tenant improvement allowances), pre-opening expenses and average first year inventory (net of payables).

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Competition

We are the largest arts and crafts specialty retailer in North America based on store count. The market we compete in is highly fragmented, including stores across the nation operated primarily by small, independent retailers along with a few regional and national chains. We believe customers choose where to shop based upon store location, breadth of selection, price, quality of merchandise, availability of product, and customer service. We compete with many different types of retailers and classify our competition within the following categories:

Mass merchandisers. This category includes companies such as Wal-Mart Stores, Inc., Target Corporation, and other mass merchandisers. These retailers typically dedicate only a small portion of their selling space to a limited selection of home décor, arts and crafts supplies, and seasonal merchandise, but they do seek to capitalize on the latest trends by stocking products that are complimentary to those trends and their current merchandise offerings. These mass merchandisers generally have limited customer service staffs with minimal amounts of experience in crafting projects.

Multi-store chains. This category includes several multi-store chains, each operating more than 100 stores, and comprises: Hobby Lobby Stores, Inc., which operates approximately 620 stores in 47 states; Jo-Ann Stores, Inc., which operates approximately 790 stores in 49 states; and A.C. Moore Arts & Crafts, Inc., which operates approximately 140 stores primarily in the Eastern United States. We believe all of these chains are significantly smaller than Michaels with respect to Net sales.

Small, local specialty retailers. This category includes local independent arts and crafts retailers and custom framing shops. Typically, these are single-store operations managed by the owner. These stores generally have limited resources for advertising, purchasing, and distribution. Many of these stores have established a loyal customer base within a given community and compete based on relationships and customer service.

Internet. This category includes all internet-based retailers that sell arts and crafts merchandise, completed projects and custom framing online. Our Internet competition is inclusive of those companies discussed in the categories above, as well as others that may only sell products online. These retailers provide consumers with the ability to more easily search and compare products and prices compared to visiting a physical store. These sellers generally offer a wide variety of products but do not offer product expertise or project advice.

Foreign sales

All of our current international business is in Canada, which accounted for approximately 10% of total sales in both fiscal 2013 and fiscal 2012 and 9% of total sales in fiscal 2011. During the last three years, less than 8% of our assets have been located outside of the U.S. See Note 14 and Note 8 to our Consolidated Financial Statements for the periods ended February 1, 2014 and May 3, 2014, respectively, for Net sales and assets by country.

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 "Aaron Brothers," "Artistree," "Michaels," "Michaels the Arts and Crafts Store," "Recollections," "Where Creativity Happens," and the stylized Michaels logo. We have registered our primary private brands including Artist's Loft, ArtMinds, Celebrate It, Creatology, Craft Smart, imagin8, Recollections, Loops & Threads, MiDesign@Michaels, Studio Décor, Bead Landing and

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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.

Employees

As of May 3, 2014, we employed approximately 50,200 associates, approximately 38,900 of whom were employed on a part-time basis. The number of part-time associates substantially increases during the Christmas selling season. Of our full-time associates, approximately 3,200 are engaged in various executive, operating, training, distribution, and administrative functions in our support center and division offices and distribution centers, and the remainder are engaged in store operations. None of our associates are subject to a collective bargaining agreement.

Legal proceedings

Employee claims

Rea claim

On September 15, 2011, MSI was served with a lawsuit filed in the California Superior Court in and for the County of Orange ("Superior Court") by four former store managers as a class action proceeding on behalf of themselves and certain former and current store managers employed by MSI in California. The lawsuit alleges that MSI improperly classified store managers as exempt employees and as such failed to pay all wages, overtime, waiting time penalties and failed to provide accurate wage statements. The lawsuit also alleges that the foregoing conduct was in breach of various laws, including California's unfair competition law. On December 3, 2013, the Superior Court entered an Order certifying a class of approximately 200 members. The Company subsequently successfully removed the case to the United States District Court for the Central District of California and on May 8, 2014, the class was de-certified. We believe we have meritorious defenses and intend to defend the lawsuits vigorously. We do not believe the resolution of the lawsuits will have a material effect on our Consolidated Financial Statements.

Consumer class action claims

Data security incident

Five putative class actions were filed against MSI relating to the recent Data Breach. The plaintiffs generally allege that MSI failed to secure and safeguard customers' private information including credit and debit card information and as such, breached an implied contract, violated the Illinois Consumer Fraud Act (and other states' similar laws) and are seeking damages including declaratory relief, actual damages, punitive damages, statutory damages, attorneys' fees, litigation costs, remedial action, pre and post judgment interest, and other relief as available. The cases are as follows: Christina Moyer v. Michaels Stores, Inc., was filed on January 27, 2014; Michael and Jessica Gouwens v. Michaels Stores, Inc. , was filed on January 29, 2014; Nancy Maize and Jessica Gordon v. Michaels Stores, Inc., was filed on February 21, 2014; and Daniel Ripes v. Michaels Stores, Inc., was filed on March 14, 2014. All four of these cases were filed in the United States District Court-Northern District of Illinois, Eastern Division. A case, Mary Jane Whalen v. Michaels Stores, Inc., was filed in the United States District Court for the Eastern District of New York on March 18, 2014, but was voluntarily dismissed by the plaintiff on April 11, 2014, without prejudice to her right to re-file a complaint. On April 16, 2014, an order was entered consolidating the current actions. We believe we have meritorious defenses and intend to defend these lawsuits vigorously.

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In addition, payment card companies and associations may require us to reimburse them for unauthorized card charges and costs to replace cards and may also impose fines or penalties in connection with the Data Breach, and enforcement authorities may also impose fines or other remedies against us. We have also incurred other costs associated with the Data Breach, including legal fees, investigative fees, costs of communications with customers and credit monitoring services provided to our customers. In addition, state and federal agencies, including the State Attorneys General and the Federal Trade Commission may investigate events related to the Data Breach, including how it occurred, its consequences and our responses. Although we intend to cooperate in these investigations, we may be subject to fines or other obligations, which may have an adverse effect on how we operate our business and our results of operations.

While a loss from these matters is reasonably possible, we cannot reasonably estimate a range of possible losses because our investigation into the matter is ongoing, the proceedings remain in the early stages, alleged damages have not been specified, there is uncertainty as to the likelihood of a class or classes being certified or the ultimate size of any class if certified, and there are significant factual and legal issues to be resolved.

California zip code claims

On August 15, 2008, Linda Carson, a consumer, filed a purported class action proceeding against MSI in the Superior Court of California, County of San Diego ("San Diego Superior Court"), on behalf of herself and all similarly-situated California consumers. The Carson lawsuit alleges that MSI unlawfully requested and recorded personally identifiable information (i.e., her zip code) as part of a credit card transaction. The plaintiff seeks statutory penalties, costs, interest, and attorneys' fees. On February 10, 2011, the California Supreme Court ruled, in a similar matter, Williams-Sonoma v. Pineda, that zip codes are personally identifiable information and therefore the Song-Beverly Credit Card Act of 1971, as amended ("Song Act"), prohibits businesses from requesting or requiring zip codes in connection with a credit card transaction.

Subsequent to the California Supreme Court decision, three additional purported class action lawsuits seeking similar relief have been filed against MSI: Carolyn Austin v. Michaels Stores, Inc. and Tiffany Heon v. Michaels Stores, Inc., both in the San Diego Superior Court and Sandra A. Rubinstein v. Michaels Stores, Inc. in the Superior Court of California, County of Los Angeles, Central Division. An order coordinating the cases has been entered and plaintiffs filed a Consolidated Complaint on April 24, 2012. The parties settled the lawsuit for an amount that will not have a material effect on our Consolidated Financial Statements. On February 14, 2014, the Court granted preliminary approval of the settlement agreement and a final Fairness Hearing is set for July 11, 2014.

Massachusetts zip code claims

Relying in part on the California Supreme Court decision, a purported class action lawsuit was filed on May 20, 2011, against MSI, Melissa Tyler v. Michaels Stores, Inc., in the U.S. District Court-District of Massachusetts, alleging violation of a Massachusetts statute regarding the collection of personally identifiable information in connection with a credit card transaction. An additional purported class action lawsuit asserting the same allegations was filed in the U.S. District Court-District of Massachusetts by Susan D'Esposito, and the two cases were consolidated. On August 12, 2013, a settlement was reached for an amount that will not have a material effect on our Consolidated Financial Statements. On June 2, 2014, the Court granted final approval of the settlement.

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Pricing and promotion

On April 30, 2012, William J. Henry, a consumer, filed a purported class action proceeding against MSI in the Court of Common Pleas, Lake County, Ohio, on behalf of himself and all similarly-situated Ohio consumers who purchased framing products and/or services from MSI during weeks where MSI was advertising a discount for framing products and/or services. The lawsuit alleges that MSI advertised discounts on its framing products and/or services without actually providing a discount to its customers. The plaintiff is claiming violation of Ohio law ORC 1345.01 et seq., unjust enrichment and fraud. The plaintiff has alleged damages, penalties and fees not to exceed $5 million, exclusive of interest and costs. We believe we have meritorious defenses and intend to defend the lawsuit vigorously. We do not believe the resolution of this lawsuit will have a material effect on our Consolidated Financial Statements.

General

In addition to the litigation discussed above, we are now, and may be in the future, involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources.

ASC 450, *Contingencies*, ("ASC 450") governs the disclosure and recognition of loss contingencies, including potential losses from litigation and regulatory matters. It imposes different requirements for the recognition and disclosure of loss contingencies based on the likelihood of occurrence of the contingent future event or events. It distinguishes among degrees of likelihood using the following three terms: "probable", meaning that "the future event or events are likely to occur"; "remote", meaning that "the chance of the future event or events occurring is slight"; and "reasonably possible", meaning that "the chance of the future event or events occurring is more than remote but less than likely". In accordance with ASC 450, the Company accrues for a loss contingency when we conclude that the likelihood of a loss is probable and the amount of the loss can be reasonably estimated. When the loss cannot be reasonably estimated, we estimate the range of amounts, and if no amount in the range constitutes a better estimate than any other amount, we accrue for the amount at the low end of the range. We adjust our accruals from time to time as we receive additional information, but the loss we incur may be significantly greater than or less than the amount we have accrued. We disclose loss contingencies if there is at least a reasonable possibility that a material loss has been incurred. No accrual or disclosure is required for losses that are remote.

For some of the matters disclosed above, the Company is currently able to estimate a reasonably possible loss or range of loss in excess of amounts accrued (if any). For some of the matters included within this estimation, an accrual has been made because a loss is believed to be both probable and reasonably estimable, but an exposure to loss exists in excess of the amount accrued; in these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, although estimable, is believed to be reasonably possible, but not probable; in these cases the estimate reflects the reasonably possible loss or range of loss within the ranges identified. For the various ranges identified, the aggregate of these estimated amounts is approximately $9 million as of May 3, 2014, which is also inclusive of amounts accrued by the Company.

For other matters disclosed above, the Company is not currently able to estimate the reasonably possible loss or range of loss, and has indicated such. Many of these matters remain in preliminary stages (even in

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some cases where a substantial period of time has passed since the commencement of the matter), with few or no substantive legal decisions by the court defining the scope of the claims, the class (if any), or the potentially available damages, and fact discovery is still in progress or has not yet begun. For all these reasons, the Company cannot at this time estimate the reasonably possible loss or range of loss, if any, for these matters.

It is the opinion of the Company's management, based on current knowledge and after taking into account its current legal accruals, the eventual outcome of all matters described in this prospectus would not be likely to have a material impact on the consolidated financial condition of the Company. Nonetheless, given the substantial or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of such matters, an adverse outcome in certain of these matters could, from time to time, have a material effect on the Company's consolidated results of operations or cash flows in particular quarterly or annual periods.

Properties

We lease substantially all of the sites for our Michaels and Aaron Brothers stores, with the majority of our stores having initial lease terms of approximately 10 years. The leases are generally renewable, with increases in lease rental rates. Lessors have made leasehold improvements to prepare our stores for opening under a majority of our existing leases. As of May 31, 2014, in connection with stores that we plan to open or relocate in future fiscal years, we had signed approximately 56 leases for Michaels stores.

As of May 31, 2014, we lease the following non-store facilities:

	Square footage
Distribution centers:	
Hazleton, Pennsylvania	692,000
Jacksonville, Florida	506,000
Lancaster, California	763,000
Centralia, Washington	718,000
New Lenox, Illinois	693,000
Tarrant County, Texas	433,000
City of Commerce, California (Aaron Brothers)	174,000
	3,979,000
Artistree:	
Coppell, Texas (regional processing and fulfillment operations center)	230,000
Kernersville, North Carolina (manufacturing plant and regional processing center)	156,000
City of Industry, California (regional processing center)	90,000
Mississauga, Ontario (regional processing center)	62,000
	538,000
Office space:	
Irving, Texas (corporate headquarters)	296,000
Coppell, Texas (corporate satellite office)	67,000
Mississauga, Ontario (Canadian regional office)	3,000
	366,000
Coppell, Texas (new store staging warehouse)	82,000
	4,965,000

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The following table indicates the number of our retail stores located in each state or province as of May 31, 2014:

	Number of stores		
State/province	Michaels	Aaron Brothers	Total
Alabama	12		12
Alaska	3		3
Alberta	17		17
Arizona	27	5	32
Arkansas	4		4
British Columbia	17		17
California	131	79	210
Colorado	22	3	25
Connecticut	17		17
Delaware	4		4
Florida	79		79
Georgia	34	1	35
Idaho	6	1	7
Illinois	38		38
Indiana	17		17
Iowa	7		7
Kansas	8		8
Kentucky	11		11
Louisiana	13		13
Maine	3		3
Manitoba	3		3
Maryland	24		24
Massachusetts	30		30
Michigan	35		35
Minnesota	23		23
Mississippi	6		6
Missouri	21		21
Montana	4		4
Nebraska	4		4
Nevada	10	5	15
New Brunswick	3		3
New Hampshire	8		8
New Jersey	30		30
New Mexico	3		3
New York	54		54
Newfoundland and Labrador	1		1
North Carolina	35		35
North Dakota	2		2
Nova Scotia	4		4
Ohio	31		31
Oklahoma	7		7

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State/province	Number of stores Michaels	Aaron Brothers	Total
Ontario	51		51
Oregon	15	2	17
Pennsylvania	48		48
Prince Edward Island	1		1
Quebec	11		11
Rhode Island	4		4
Saskatchewan	3		3
South Carolina	13		13
South Dakota	2		2
Tennessee	15		15
Texas	78	14	92
Utah	13		13
Vermont	2		