

MICHAELS STORES INC  
Form 424B3  
December 07, 2012  
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Filed Pursuant to Rule 424(b)(3)

Registration No. 333-185020

**Michaels Stores, Inc.**

**Offer to Exchange**

**up to \$200,000,000 principal amount of our 7¾% Senior Notes due November 1, 2018, which has been registered under the Securities Act of 1933, as amended (the Securities Act), for any and all of our outstanding 7¾% Senior Notes due November 1, 2018 issued on September 27, 2012.**

**Exchange Offer**

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, our new 7¾% Senior Notes due November 1, 2018 (the exchange notes), for all of our outstanding 7¾% Senior Notes due November 1, 2018 that were issued on September 27, 2012 (the outstanding notes and, together with the exchange notes, the notes). The outstanding notes were issued under the indenture (the indenture or the indenture governing the senior notes) governing our 7¾% Senior Notes due 2018 that we issued on October 21, 2010 (the initial notes and, together with the notes, the senior notes). The outstanding notes are treated as a single series with the initial notes, vote as one class under the indenture and have the same terms as those of the initial notes, except that (i) the outstanding notes are subject to a separate registration rights agreement and (ii) the outstanding notes were issued under a CUSIP number different from the initial notes. We are conducting the exchange offer in order to provide you with an opportunity to exchange your unregistered outstanding notes for freely tradable exchange notes that have been registered under the Securities Act and that are expected to share a single CUSIP number and be fungible with the initial notes.

The principal features of the exchange offer are as follows:

- We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradable.

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- You may withdraw tenders of outstanding notes at any time prior to the expiration date of the exchange offer.
- The exchange offer expires at 5:00 p.m., New York City time, on January 15, 2013 (the 21st business day on which the exchange offer will be open), unless extended. We do not currently intend to extend the expiration date.
- The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes.
- The terms of the exchange notes to be issued in the exchange offer are substantially identical to the outstanding notes, except that the exchange notes will be freely tradable and the exchange notes will be free of any covenants regarding registration rights.
- We do not intend to apply for listing of the exchange notes on any securities exchange or to arrange for them to be quoted on any quotation system.
- Broker-dealers who receive new securities pursuant to the exchange offer acknowledge that they will deliver a prospectus in connection with any resale of new securities; and
- Broker-dealers who acquired the old securities as a result of market-making or other trading activities may use the prospectus for the exchange offer, as supplemented or amended, in connection with resales of the new securities. We have agreed that, for a period of 180 days after the consummation of the exchange offer, we will make this prospectus, as amended or supplemented, available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

### Results of the Exchange Offer

The exchange notes may be sold in the over-the-counter market, in negotiated transactions or through a combination of such methods. All untendered outstanding notes will continue to be subject to the restrictions on transfer set forth in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with the exchange offer, we do not currently anticipate that we will register the outstanding notes under the Securities Act.

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*You should consider carefully the risk factors beginning on page 14 of this prospectus before participating in the exchange offer.*

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**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The date of this prospectus is December 5, 2012.

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This prospectus contains summaries of the terms of several material documents. These summaries include the terms that we believe to be material, but we urge you to review these documents in their entirety. We will make copies of these documents available to you at your request.

This prospectus incorporates important business and financial information about the company that is not included or delivered with the document. All such business and financial information incorporated but not included in this prospectus is available without charge to security holders upon written or oral request directed to Navin Rao, Vice President and Assistant General Counsel, 8000 Bent Branch Drive, Irving, Texas 75063 (Telephone: (972) 409-1300). To obtain timely delivery, you must request this information no later than five business days before the date on which you expect to make your decision with respect to the exchange offer. In any event, you must request this information prior to January 8, 2013.



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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements within the meaning of the federal securities laws, which involve risks and uncertainties. You can identify forward-looking statements because they contain words such as believes, expects, may, will, should, could, seeks, approximately, intends, plans, estimates, or anticipates or similar expressions that concern our strategy, plans or intentions. All statements we make relating to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performances and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our 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 ( cautionary statements ) are disclosed under Risk Factors and elsewhere in this prospectus, including, without limitation, in conjunction with the forward-looking statements included in this prospectus. All subsequent 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. Some of the factors that we believe could affect our results include:

- risks related to our substantial indebtedness, as our 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 to the extent of our variable rate debt and prevent us from meeting our obligations under our outstanding debt;
- restrictions in our debt agreements that limit our flexibility in operating our business, as our Senior Secured Credit Facilities (as defined below) and the indentures governing our senior notes and outstanding Senior Subordinated Notes (as defined below) contain various covenants that limit our ability to engage in specified types of transactions and require that we maintain specified financial ratios upon the occurrence of certain events;
- risks related to general economic conditions; if recovery from the economic downturn continues to be slow or prolonged, it could continue to adversely affect consumer confidence and retail spending, decreasing demand for our merchandise and adversely impact our results of operations, cash flows and financial condition;
- our reliance on foreign suppliers increases our risk of obtaining adequate, timely, and cost-effective product supplies;
- our ability to open new stores and increase comparable store sales growth, as our growth depends on our strategy of increasing the number and productivity of our stores and if we are unable to continue this strategy, our ability to increase our sales, profitability, and cash flow could be impaired;

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- damage to the reputation of the Michaels brand or our private and exclusive brands could adversely affect our sales;
- our suppliers may fail us;
- risks associated with the vendors from whom our products are sourced could materially adversely affect our revenue and gross profit;
- product recalls and/or product liability, as well as changes in product safety and other consumer protection laws, may adversely impact our operations, merchandise offerings, reputation, results of operation, cash flow, and financial condition;
- significant increases in inflation or commodity prices such as petroleum, natural gas, electricity, steel and paper may adversely affect our costs, including cost of merchandise;

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- 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;
- improvements to our supply chain may not be fully successful;
- changes in customer demand could materially adversely affect our sales, results of operations, and cash flow;
- how well we manage our business;
- competition could negatively impact our business;
- failure to adequately maintain security and prevent unauthorized access to electronic and other confidential information and data breaches could materially adversely affect our financial condition and results of operations;
- our information systems may prove inadequate;
- we are dependent upon the services of our senior management team, and our inability to identify, hire and subsequently integrate a new Chief Executive Officer could adversely impact our business;
- a weak fourth quarter would materially adversely affect our results of operations;
- changes in newspaper subscription rates may result in reduced exposure to our circular advertisements;
- changes in regulations or enforcement may adversely impact our business;
- disruptions in the capital markets could increase our costs of doing business;

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- our real estate leases generally obligate us for long periods, which subjects us to various financial risks;
- 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 are exposed to fluctuations in exchange rates between the U.S. and Canadian dollar, which is the functional currency of our Canadian subsidiary;
- 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 results may be adversely affected by serious disruptions or catastrophic events, including geo-political events and weather; and
- the interests of our controlling stockholders may conflict with the interests of our creditors.

The foregoing factors are not exhaustive and new factors may emerge or changes to the foregoing factors may occur that could impact our business. In addition, there may be other factors not presently known to us or which we currently consider to be immaterial that may cause our actual results to differ materially from the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements whether as a result of new information, future events or otherwise. You should review carefully the section captioned "Risk Factors" in this prospectus for a more complete discussion of the risks of an investment in the exchange notes.



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**INDUSTRY AND MARKET DATA**

Industry and market data included in this prospectus were obtained from our own internal data, data from industry trade publications and groups, consumer research and marketing studies and, in some cases, are management estimates based on industry and other knowledge and experience in the markets in which we operate. Our estimates have been based on information obtained from our suppliers, customers, trade and business organizations and other contacts in the markets in which we operate, including the Craft & Hobby Association and Interbrand. We believe these estimates to be accurate as of the date of this prospectus.

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

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**PROSPECTUS SUMMARY**

*This summary contains basic information about Michaels Stores, Inc. and the exchange offer. This summary is not complete and does not contain all of the information that you should consider before investing in the exchange notes. You should carefully read the entire prospectus, including the financial data and related notes and the section entitled Risk Factors. Unless the context otherwise requires, references in this registration statement to Michaels Stores, Michaels, we, our, us and the Company refer to Michaels Stores, Inc. and its consolidated subsidiaries, references to Michaels stores refers to our arts and crafts retail chain using the Michaels name, and references to the Issuer refer to Michaels Stores, Inc.*

*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 2012 is the 53-week period ending February 2, 2013. Fiscal 2011 ended on January 28, 2012, fiscal 2010 ended on January 29, 2011, fiscal 2009 ended on January 30, 2010 and fiscal 2008 ended on January 31, 2009. Fiscal years 2011, 2010, 2009 and 2008 contained 52 weeks. References to the third quarter of fiscal 2012 relate to the 13 weeks ended October 27, 2012, and references to the third quarter of fiscal 2011 relate to the 13 weeks ended October 29, 2011. References to the nine months ended October 27, 2012 relate to the 39 weeks ended October 27, 2012, and the nine months ended October 29, 2011 relate to the 39 weeks ended October 29, 2011.*

**Our Company**

We believe Michaels is where creativity happens. With 1,226 stores (consisting of 1,099 Michaels stores and 127 Aaron Brothers stores) as of October 27, 2012 and \$4.2 billion in fiscal 2011 sales, Michaels is the largest arts and crafts specialty retailer in North America. We have approximately as many stores as our two largest direct competitors combined, who have 790 stores and 524 stores, respectively. Our mission is to inspire and enable customer creativity, create a fun and rewarding place to work, foster meaningful connections with our communities and lead the industry in growth and innovation. With crafting classes, store events, project sheets, store displays, mobile applications and proprietary online content, we believe we offer the most complete arts and crafts experience and are the preferred destination in the industry.

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

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

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- Enhancing our store experience
- Initiating a comprehensive digital marketing campaign
- Reinventing our approach to merchandising and sourcing to introduce on-trend products and improve margins
- Launching numerous high-quality private branded product lines
- Developing new store formats to facilitate expansion
- Building an online platform to strengthen customer engagement

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**Financial Performance**

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

- Our sales in fiscal 2011 reached \$4.2 billion, an increase of 4.4% over fiscal 2010, driven by comparable store sales growth of 3.2%. Our strong sales growth in fiscal 2011 followed positive trends in fiscal 2010, when sales increased 3.7% over fiscal 2009, including comparable store sales growth of 2.5%. Sales have grown at a 4.1% compound annual growth rate ( CAGR ) since fiscal 2009.
- Our resilient business model has generated positive year-over-year sales growth in 19 of the last 23 quarters.
- During fiscal 2011, we achieved operating income of \$569 million, an improvement of 16.6% from fiscal 2010, which was 22.9% higher than fiscal 2009. Operating income has grown at a 19.7% CAGR since fiscal 2009.
- Operating margin expanded by 140 basis points from fiscal 2010 to fiscal 2011. Since fiscal 2009, operating margin has improved by 340 basis points, driven by growth in private brand sales, strategic sourcing and pricing initiatives, improved inventory management and expense control.

**Our Industry and Our Customer**

We operate within the large, growing and fragmented arts and crafts industry. According to the Craft & Hobby Association s ( CHA ) 2011 Attitude & Usage Study, the arts and crafts industry generated approximately \$30.3 billion in sales for the twelve months ended June 30, 2011, up from \$27.3 billion in sales for the twelve months ended December 31, 2008, representing a CAGR of 4.3%. Separately, we estimate the total size of the U.S. framing industry in 2011 was approximately \$3.0 billion. According to CHA, our industry remains highly fragmented as craft chain and fabric stores ( multi-store chains ) only comprise approximately 39% of the market. The balance consists of discounters, independent operators and online retailers. According to data from CHA, these multi-store chains, of which Michaels is the largest, increased their market share by approximately 3% in 2011 compared to 2010.

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

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According to CHA, 56% to 57% of U.S. households participated in at least one crafting project during the years from 2006 to 2010, before increasing to 58% for the twelve months ended June 30, 2011, which represented over 66 million households. We believe the broad, multi-generational appeal, high personal attachment and the low-cost, project-based nature of crafting creates a loyal, resilient following.

### **Our Competitive Strengths**

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

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

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

The strength of the Michaels brand reflects, in part, our ability to offer unique merchandise at a compelling value. We believe products offered under our internally developed portfolio of 11 private brands are of equal or better quality than third party branded products and generate higher gross margins. In fiscal 2011, sales of our private brands exceeded \$1.8 billion, representing approximately 44% of total Net sales.

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

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

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

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

### **Our Business Strategy**

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

#### **Drive Comparable Store Sales Growth**

***Engaging with Our Customers.*** We will continue to enhance our customer engagement strategy to improve our brand positioning, increase traffic to our stores, build customer loyalty and generate sustainable long-term sales growth. For example, we analyze transaction information to develop tailored product offerings and communications to better serve our customers. We also develop multi-channel marketing solutions based on customer-specific behavior and capitalize on our growing database of customers to offer targeted e-mail and loyalty initiatives. This e-mail database has grown to more than 10 million customers at the end of fiscal 2011 from six million one year prior.

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

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***Providing Differentiated and Inspiring Merchandise.*** We will continue to leverage our 117-person internal product development and global sourcing team to consistently introduce new and on-trend products, drive customers to our stores and increase sales. This includes working with our vendor partners to introduce a significant amount of new product into our assortment on a consistent basis, with more than 50 major merchandise resets and approximately 20% new product each year.

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

**Expand Multi-Channel Business Platform**

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

During fiscal 2012, we anticipate opening 45 to 50 new Michaels stores, which includes 10 to 15 relocations, 5 to 10 new urban and small-market formats, as well as seven stores in Québec. We will continue to monitor the success of our new store formats and evaluate opportunities to further penetrate existing markets. We expect our future store openings will be funded primarily by our strong cash flow.

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

**Enhance Operating Margins and Cash Flow**

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



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

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

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**Summary Risk Factors**

The fragmented arts and crafts industry can be highly competitive, specifically in regards 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 the notes. 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, such as the impact of the economic factors on consumer discretionary income, which contributed to a decrease in our total Net sales from \$3,862 million in fiscal 2007 to \$3,817 million in fiscal 2008, despite adding a number of new stores;
- Our significant reliance on foreign suppliers, particularly those located in China, increases our risk of obtaining adequate, timely, and cost-effective product supplies;
- Our substantial debt, of which \$3,368 million was outstanding at October 27, 2012, 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 \$1,787 million in variable rate debt, prevent us from meeting our obligations under our outstanding debt and limit our flexibility in operating our business;
- One of our key business strategies is to expand our base of retail stores, and if we are unable to continue this strategy, our ability to increase our sales, profitability, and cash flow would depend significantly on our ability to reduce our costs as a percentage of our sales;
- We are controlled by the Sponsors, who currently indirectly own approximately 93% of our common stock in the aggregate, whose interests as an equity holder may conflict with yours as a creditor;
- Damage to the reputations (whether or not justified) of our brand names could arise from product failures, litigation or various forms of adverse publicity, especially in social media outlets, and may generate negative customer sentiment, potentially resulting in a reduction in our sales and earnings;
- If a supplier fails us, transitioning to other qualified vendors could affect our revenue and gross profit;
- Product recalls or product liability could adversely impact our financial condition;

- Our cost of merchandise could be adversely affected by significant increases in inflation or commodity prices; and
- Competition, including Internet-based competition, could negatively impact our business.

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.

### Recent Financing Transaction

**Redemption of Subordinated Discount Notes.** On November 1, 2012, we redeemed our outstanding 13% Subordinated Discount Notes due 2016 (the Subordinated Discount Notes), an aggregate principal amount of \$180 million of which was outstanding as of October 27, 2012, with borrowings made under our amended and restated senior secured asset-based revolving credit facility (the Restated Revolving Credit Facility) and, together with our senior secured term loan facility (the Senior Secured Term Loan Facility), the Senior Secured Credit Facilities) for an aggregate redemption price (including the applicable redemption premium and accrued and unpaid interest) of \$199 million.

### Our History

Michaels Stores, Inc. was incorporated in Delaware in 1983 and is headquartered in Irving, Texas. On October 31, 2006, substantially all of the common stock of Michaels Stores, Inc. was acquired through a merger transaction (the Merger) by affiliates of two investment firms, Bain Capital Partners, LLC and The Blackstone Group L.P. (collectively, together with their applicable affiliates, the Sponsors), with certain shares retained by affiliate investment funds managed by Highfields Capital Management LP (then-existing shareholders of Michaels Stores, Inc.). As a result of the Merger, Michaels Holdings LLC, an entity controlled by our Sponsors, currently owns approximately 93% of our outstanding common stock.

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**The Sponsors**

**Bain Capital**

Bain Capital, LLC ( Bain Capital ) ([www.baincapital.com](http://www.baincapital.com)) is a global private investment firm that, together with its affiliates (including Bain Capital Partners, LLC) manages several pools of capital including private equity, venture capital, public equity, credit products and absolute return with approximately \$66 billion in assets under management. Since its inception in 1984, Bain Capital has made private equity investments and add-on acquisitions in more than 350 companies in a variety of industries around the world. Bain Capital consumer and retail private equity investments have included such leading businesses as Toys R Us, Bright Horizons Family Solutions, Dollarama, Burlington Coat Factory, Dunkin Brands and Gymboree. Headquartered in Boston, Bain Capital has offices in New York, Chicago, London, Munich, Hong Kong, Palo Alto, Shanghai, Tokyo and Mumbai.

**The Blackstone Group**

The Blackstone Group L.P. ( The Blackstone Group ) is one of the world s leading investment and advisory firms. The Blackstone Group seeks to create positive economic impact and long-term value for its investors, the companies it invests in, the companies it advises and the broader global economy. The Blackstone Group does this through the commitment of its extraordinary people and flexible capital. The Blackstone Group s alternative asset management businesses, which collectively had total assets under management of \$204.6 billion as of September 30, 2012, include the management of private equity funds, real estate funds, hedge fund solutions, and credit businesses. Assets under management in The Blackstone Group private equity funds totaled \$53.5 billion as of September 30, 2012. The Blackstone Group also provides various financial advisory services, including financial and strategic advisory, restructuring and reorganization advisory and fund placement services. Further information is available at [www.blackstone.com](http://www.blackstone.com).

**Corporate Information**

Our principal executive offices are located at 8000 Bent Branch Drive, Irving, Texas 75603. Our telephone number is (972) 409-1300. We provide links to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), on our Internet website at [www.michaels.com](http://www.michaels.com) under the heading Investor Relations. These links are automatically updated so the filings are available immediately after they are made publicly available by the Securities and Exchange Commission ( SEC ). These filings are also available through the SEC s EDGAR system at [www.sec.gov](http://www.sec.gov). The information on our website does not constitute part of this registration statement, and you should rely only on the information contained in this registration statement when making a decision as to whether to invest in the exchange notes. All website addresses in this prospectus are intended to be inactive textual references only.

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**THE EXCHANGE OFFER**

On September 27, 2012, we issued \$200.0 million aggregate principal amount of 7¾% Senior Notes due November 1, 2018 (CUSIP Nos. 594087 AS7 and U59329 AD1; ISINs US594087AS71 and USU59329AD16) (the outstanding notes), which were exempt from registration under the Securities Act of 1933, as amended (the Securities Act). We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, our new 7¾% Senior Notes due November 1, 2018 (CUSIP No. 594087 AR9; ISIN US594087AR98) (the exchange notes and, together with the outstanding notes, the notes), for all of our outstanding notes. The outstanding notes were issued under the indenture (the indenture or the indenture governing the senior notes) governing our 7¾% Senior Notes due 2018 that we issued on October 21, 2010 (CUSIP No. 594087 AR9; ISIN US594087AR98) (the initial notes and, together with the notes, the senior notes). The outstanding notes are treated as a single series with the initial notes, vote as one class under the indenture and have the same terms as those of the initial notes, except that (i) the outstanding notes are subject to a separate registration rights agreement and (ii) the outstanding notes were issued under a CUSIP number different from the initial notes. We are conducting the exchange offer in order to provide you with an opportunity to exchange your unregistered outstanding notes for freely tradable exchange notes that have been registered under the Securities Act and that are expected to share a single CUSIP number and be fungible with the initial notes.

If we and the subsidiary guarantors are not able to effect the exchange offer contemplated by this prospectus, we and the subsidiary guarantors will use reasonable best efforts to file and cause to become effective a shelf registration statement relating to the resale of the outstanding notes. We may be required to pay additional interest on the notes in certain circumstances.

The following is a brief summary of the terms of the exchange offer. For a more complete description of the exchange offer, see The Exchange Offer.

General

In connection with the private offering, Michaels Stores, Inc. and the guarantors of the outstanding notes entered into a registration rights agreement with the initial purchasers in which we agreed, among other things, to deliver this prospectus to you and to complete the exchange offer within 360 days after the date of original issuance of the outstanding notes. You are entitled to exchange in the exchange offer your outstanding notes for exchange notes which are identical in all material respects to the outstanding notes except:

- the exchange notes have been registered under the Securities Act;
- the exchange notes are not entitled to registration rights which are applicable to the outstanding notes under the registration rights agreement; and
- the liquidated damages provisions of the registration rights agreement are no longer applicable.

Exchange Offer

Michaels is offering to exchange up to \$200.0 million aggregate principal amount of the exchange notes which have been registered under the Securities Act for any and all of its outstanding notes.