Michaels Companies, Inc.
Form S-1
December 20, 2013

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As filed with the Securities and Exchange Commission on December 20, 2013

Registration No. 333-

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

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)

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

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

Copies to:

David A. Fine	**Michael J. Veitenheimer**	**D. Rhett Brandon**
Ropes & Gray LLP	The Michaels Companies, Inc.	Simpson Thacher & Bartlett LLP
Prudential Tower	Senior Vice President General Counsel and	425 Lexington Avenue
800 Boylston Street	Secretary	New York, New York 10017

Boston, Massachusetts 02199 Telephone: (617) 951-7000	8000 Bent Branch Drive Irving, Texas 75063 Telephone: (972) 409-1300	Telephone: (212) 455-2000

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	Proposed maximum aggregate offering price(1)(2)	Amount of registration fee(3)
Common Stock	$500,000,000	$64,400

(1) Includes shares to be sold upon exercise of the underwriters' over-allotment option to purchase additional shares of common stock. See "Underwriting."

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

(3) Pursuant to Rule 457(p) of the Securities Act of 1933, as amended, $57,300 of the fee is being offset by the fee previously paid in connection with the registration statement initially filed on March 30, 2012 (File No. 333-180473) by Michaels Stores, Inc., the Registrant's indirect, wholly-owned subsidiary.

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 December 20, 2013

Prospectus

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 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 $ and $ per share.

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

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

Delivery of the shares of Common Stock is expected to be made on or about , 2014. The selling stockholders identified in this prospectus have granted the underwriters an option for a period of 30 days to purchase, on the same terms and conditions as set forth above, up to an additional shares of our Common Stock.

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

Investing in our Common Stock involves risks. See "Risk Factors" beginning on page 15 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**

Credit Suisse **Morgan Stanley** **Wells Fargo Securities**

BofA Merrill Lynch

, 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 -for-one stock split effected on , 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 ends on February 1, 2014, fiscal 2012 ended on 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. Fiscal 2013, 2011, 2010 and 2009 contain 52 weeks and fiscal 2012 contains 53 weeks.

Please note that our discussion of certain financial information for the three and nine months ended November 2, 2013 include 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 November 2, 2013) on a combined basis.

Our company

We believe Michaels is where creativity happens. With 1,259 stores (consisting of 1,137 Michaels stores and 122 Aaron Brothers stores) as of November 2, 2013 and $4.4 billion in sales in fiscal 2012, Michaels is the largest arts and crafts specialty retailer in North America. 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 49% of total Net sales in fiscal 2012, are only available at Michaels and allow us to further differentiate our merchandise while enhancing product

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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 by launching an e-commerce platform 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.

- Net sales in fiscal 2012 reached $4.4 billion, an increase of 4.7% over fiscal 2011, driven by comparable store sales growth of 1.5%. Our Net sales growth in fiscal 2012 followed positive trends in fiscal 2011, when Net sales increased 4.4% over fiscal 2010, including comparable store sales growth of 3.2%. During fiscal 2012, Net income increased $43 million, an improvement of 27.4% from fiscal 2011, which was 52.4% higher than fiscal 2010.

- Net sales increased for the first nine months of fiscal 2013 by $131 million, or 4.5%, over the first nine months of fiscal 2012, which includes a comparable store sales increase of 2.1%. Net income increased for the first nine months of fiscal 2013 by $15 million, or 15.8%, over the first nine months of fiscal 2012.

- Net sales increased for the quarter ended November 2, 2013 by $104 million, or 10.3%, over the third quarter of fiscal 2012, which includes a comparable store sales increase of 7.9%. Approximately two-thirds of the increase of comparable store sales in the third quarter of fiscal 2013 was due to an on-trend product introduced during the quarter, the Rainbow Loom and replacement rubber bands. Net income for the third quarter of fiscal 2013 increased $12 million, or 34.3%, over the third quarter of fiscal 2012.

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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"), of which we are the largest, 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 the 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.

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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 United States, ranking 28th in 2013.

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 2012, sales of our private brands exceeded $2.1 billion, representing approximately 49% 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 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 564,000 in fiscal 2012 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 the planned 2014 launch of our new e-commerce platform 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 over $1.5 billion from fiscal 2009 to fiscal 2012, 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 11 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

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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 on-line 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 209 Michaels stores, including 54 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 50 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 planned 2014 e-commerce platform launch 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 180 million visits to michaels.com; we also have over 1.5 million Facebook followers, more than 300,000 Pinterest followers and over 100,000 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. Since fiscal 2009, we have been able to leverage our scale to reduce Selling, general, and administrative expense as a percentage of sales by 120 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

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

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

- Our substantial debt, of which $3.9 billion was outstanding at November 2, 2013, 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 $1.8 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

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

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

- Product recalls or product liability could adversely impact our financial condition and reputation

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

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

- 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

- 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

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.

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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 118 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 and an amount equal to the par value of the original shares was transferred from the common stock account to paid-in capital. 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 affiliate 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.

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 with approximately $70 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, 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 alternative asset management businesses include the management of private equity funds, real

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estate funds, hedge fund solutions, credit-oriented funds, and closed end funds. 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*.

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.	shares
Common Stock to be outstanding after this offering	shares (after giving effect to the -for-one stock split effected on , 2014)
Underwriters' option to purchase additional shares	The selling stockholders have granted the underwriters a 30-day option to purchase up to additional shares of Common Stock.
Use of proceeds	We estimate the net proceeds to us from this offering, after deducting estimated offering expenses and underwriting discounts, will be approximately $ million, assuming the shares are offered at $ per share, which is the midpoint of the estimated initial public offering price range set forth on the cover page of this prospectus. We intend to use the anticipated net proceeds to redeem a portion of the FinCo Holdings and FinCo Inc. $800 million principal amount of 7.50%/8.25% PIK Toggle Notes due 2018 ("Holdco 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. 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 . 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 and, as a result, we will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such governance requirements" and "Management Corporate Governance Board Committees".

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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.
symbol	" "

The number of shares of our Common Stock to be outstanding after this offering is determined as of , 2014, is based on shares of our Common Stock outstanding as of such date, and: (1) assumes an offering price of $ per share (the mid-point of the price range set forth on the cover of this prospectus); (2) gives effect to a -for-one stock split effected on , 2014; and (3) excludes an aggregate of shares of Common Stock reserved for issuance and not yet issued under our long term equity incentive plan, as amended and restated (the "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 2, 2013 and January 28, 2012, and our consolidated results of operations data and cash flow data for each of the three years ended February 2, 2013, January 28, 2012 and January 29, 2011, respectively, have been derived from our audited Consolidated Financial Statements, which are included elsewhere in this prospectus. Other operating data included in the following table is unaudited for all periods presented. The summary consolidated results of operations, cash flow data and balance sheet data presented as of and for the nine months ended November 2, 2013 and October 27, 2012 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 31st. Fiscal 2013 is the 52-week period ending February 1, 2014, fiscal 2012 is the 53-week period ended February 2, 2013, fiscal 2011 is the 52-week period ended January 28, 2012, and fiscal 2010 is the 52-week period ended January 29, 2011. References to "the third quarter of fiscal 2013" relate to the 13 weeks ended November 2, 2013, and references to "the third quarter of fiscal 2012" relate to the 13 weeks ended October 27, 2012.

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 other operating and store count data)	Fiscal year 2012 (Restated)(1)	Fiscal year 2011 (Restated)(1)	Fiscal year 2010	Nine months ended November 2, 2013	Nine months ended October 27, 2012 (Restated)(2)
Results of operations data:					
Net sales	$ 4,408	$ 4,210	$ 4,031	$ 3,015	$ 2,884
Operating income	592	538	488	334	337
Interest expense	245	254	276	154	187
Net income(3)(4)	200	157	103	110	95
Earnings per Common Share, basic					
Earnings per Common Share, diluted					
Weighted average shares used in computing per share amounts, basic					
Weighted average shares used in computing per share amounts, diluted					
Balance sheet data:					
Cash and equivalents	$ 56	$ 371	$ 319	$ 73	$ 161
Merchandise inventories	862	845	826	1,119	1,078
Current portion of long term debt	150	127	1	203	180
Long term debt	2,891	3,363	3,667	3,678	3,188
Working Capital	188	478	586	293	374
Cash flow data:					
Cash flows provided by operating activities	$ 299	$ 409	$ 438	$ 69	$ 13
Cash flows used in investing activities	(124)	(109)	(83)	(82)	(85)
Cash flow (used in) provided by financing activities	(490)	(248)	(253)	30	(138)
Other operating data:					
Average net sales per selling square foot(5)	$ 215	$ 212	$ 205		
Comparable store sales increase(6)	1.5%	3.2%	2.5%	2.1%	1.4%
Total selling square footage (in millions)	20.6	20.1	19.9	21.1	20.6
Adjusted EBITDA (in millions)(7)	$ 747	$ 707	$ 622	$ 459	$ 444
Stores open at end of period:					
Michaels	1,099	1,064	1,045	1,137	1,099
Aaron Brothers	125	134	137	122	127
Total stores open at end of period	1,224	1,198	1,182	1,259	1,226

(1) As Restated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the fiscal year ended February 2, 2013.

(2) As Restated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the quarterly period ended November 2, 2013.

(3) Fiscal 2012 Net income includes $12 million ($8 million, net of tax) of refinancing costs associated with our $1,632 million restated senior secured term loan facility (the "Restated Term Loan Credit Facility"), an $8 million ($5 million, net of tax) loss related to the amendment and restatement of our Senior Secured Term Loan Facility and prepayment of term loans under our Senior Secured Term Loan Facility with a maturity date of October 31, 2013 ("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 ("Restated Revolving Credit Facility" and, together with our Restated Term Loan Credit Facility, our "Secured Second Credit Facilities"). Fiscal 2011 Net income includes 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 113/8% Senior Subordinated Notes due November 1, 2016 ("2016 Senior Subordinated Notes"). Fiscal 2010 Net income includes a $53 million ($37 million, net of tax) loss related to the early extinguishment of our 10% Senior Notes due November 1, 2014 (the "2014 Senior Notes"). Refinancing costs and losses on early extinguishments of debt for the nine months ended November 2, 2013 were $7 million ($4 million, net of tax), 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.

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(4) In the third quarter of fiscal 2011, the Company commenced accounting for share-based compensation costs under the liability accounting rules. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement-Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the fiscal year ended February 2, 2013 and our Consolidated Financial Statements for the quarterly period ended November 2, 2013. Fiscal 2012 Net income includes $21 million ($13 million, net of tax) of share-based compensation costs, which are included in Cost of sales and occupancy expense and Share-based compensation in our Consolidated Statements of Comprehensive Income. Fiscal 2011 Net income includes $41 million ($25 million, net of tax) of share-based compensation costs. Fiscal 2010 includes $8 million ($6 million, net of tax) of share-based compensation costs. The nine months ended November 2, 2013 and October 27, 2012 include $19 million ($12 million, net of tax) and $15 million ($10 million, net of tax), respectively, of share-based compensation costs.

(5) 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.

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

(7) 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 extinguishment of debt) adjusted for certain defined amounts that are added to, or subtracted from, EBITDA (excluding refinancing costs and losses on early extinguishment 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 extinguishment of debt) and Adjusted EBITDA to provide investors with additional information to evaluate our operating performance and our ability to service our debt. The Company uses EBITDA (excluding refinancing costs and losses on early extinguishment of debt), among other metrics, to evaluate operating performance, to plan and forecast future periods' operating performance and as an element of its incentive compensation targets. Adjusted EBITDA is a required calculation under the Company's 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 extinguishment 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 extinguishment of debt) and Adjusted EBITDA may differ from similarly titled measures used by other companies. As EBITDA (excluding refinancing costs and losses on early extinguishment 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 extinguishment of debt) and Adjusted EBITDA to Net income and Net cash provided by operating activities.

	Fiscal year			Nine months ended	
(In millions)	2012 (Restated)(1)	2011 (Restated)(1)	2010	November 2, 2013	October 27, 2012 (Restated)(2)
Net cash provided by operating activities	$ 299	$ 409	$ 438	$ 69	$ 13
Depreciation and amortization	(97)	(101)	(103)	(74)	(71)
Share-based compensation	(21)	(41)	(8)	(19)	(15)
Debt issuance costs amortization	(14)	(17)	(20)	(7)	(12)
Accretion of long term debt		(35)	(50)	1	
Change in fair value of contingent consideration		4			
Change in fair value of interest rate cap		(5)	(12)		
Refinancing costs and losses on early extinguishments of debt	(33)	(18)	(53)	(7)	(3)
Impairment of intangible assets	(8)				
Changes in assets and liabilities	74	(39)	(89)	147	183
Net income	200	157	103	110	95
Interest expense	245	254	276	154	187
Refinancing costs and losses on early extinguishment of debt	33	18	53	7	3
Provision for income taxes	115	100	46	62	53
Depreciation and amortization	97	101	103	74	71
EBITDA (excluding refinancing costs and losses on early extinguishment of debt)	690	630	581	407	409
Adjustments:					
Share-based compensation	21	41	8	19	15
Sponsor fees	13	13	14	10	10
Impairment of intangible assets	8				
Termination expense	1	1	1	2	1
Store pre-opening costs	5	4	3	5	5
Store remodel costs	2	2		6	1
Foreign currency transaction (gains) losses	(1)	4	(2)	1	(1)
Store closing costs	4	7	2	4	2
Gain on contingent consideration		(4)			
Loss on interest rate cap		5	12		
Other(3)	4	4	3	5	2
Adjusted EBITDA	$ 747	$ 707	$ 622	$ 459	$ 444

(1) As Restated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the fiscal year ended February 2, 2013.

(2) As Restated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the quarterly period ended November 2, 2013.

(3) Other adjustments relate to items such as moving and relocation expenses, franchise taxes, foreign currency hedges, certain legal settlements and certain signing bonuses.

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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.

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

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

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

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

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

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and forfeiture of the products we are attempting to import, or the loss of import privileges if we or our suppliers are found to be in violation of U.S. laws and regulations applicable to the importation of our products.

We face risks related to our substantial indebtedness.

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk associated with our variable rate debt and prevent us from meeting our obligations under our notes and credit facilities. As of February 1, 2014, after giving effect to the application of proceeds from this offering as set forth under "Use of Proceeds", we would have had total outstanding debt of $ million, of which approximately $ million was subject to variable interest rates and $ million was subject to fixed interest rates, and an additional approximately $ million of additional borrowing capacity (after giving effect to $ 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 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.

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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 49% of total Net sales in fiscal 2012, and represent a growing portion of our overall sales. Damage to the reputations (whether or not justified) of our brand names, could arise from product failures, 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.

Our suppliers may fail us and transitioning to other qualified vendors could 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.

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

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

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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 2012, 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.

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

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

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

Improvements to our supply chain may not be fully successful.

An important part of our efforts to achieve efficiencies, cost reductions, and sales and cash flow growth is the identification and implementation of improvements to our supply chain, including merchandise ordering, transportation, and receipt processing. During fiscal 2013, we continued to implement

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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.

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 nine months ended November 2, 2013 compared to the prior year period. 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 ability 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.

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

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

- the costs of opening and operating new stores may offset the increased sales generated by the additional stores
- the closure of unsuccessful stores may result in the retention of liability for expensive leases
- a significant portion of our management's time and energy may be consumed with issues unrelated to advancing our core business strategies
- the proposed launch of our e-commerce platform may be unsuccessful
- 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 for sale by our new 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 reduction of our prices and loss of our market share. We must remain competitive in the areas of quality, price, breadth of selection, customer service, and convenience. We compete with mass merchants (*e.g.*,

Wal-Mart Stores, Inc. and Target Corporation), which dedicate a portion of their selling 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. The Company also faces competition from Internet-based retailers, such as Amazon.com, Inc., in addition to traditional store-based retailers. This could result in increased price competition since our customers could more readily search and compare non-private brand products. This could also lead to additional competitors, who may exploit a convenience advantage in the event we cannot offer a similar line of products online in the future. Furthermore, we ultimately compete with alternative sources of entertainment and leisure for our customers. In addition, the proposed launch of our e-commerce platform will cause us to face new competition from internet retailers, including retailers that are larger and more experienced than us.

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

The protection of our customer, employee and company data is critically important to us. We utilize customer data captured through our online activities and other interactions with our customers. Our customers 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 over the Internet, increasing the risk of attack or interception that could cause loss or misuse of data, system failures or disruption of operations. 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.

Improper activities by third parties, advances in technical capabilities and encryption technology, new tools and discoveries and other events or developments may facilitate or result in a further compromise or breach of our on-line properties, payment card terminals or other payment systems. Any such further compromises or breaches could cause interruptions in our operations, damage to our reputation and customers' willingness to shop in our stores, and subject us to additional costs and potential litigation, liability, fines and penalties, resulting in a possible material adverse impact on our financial condition and results of operations.

The Company may be subject to information technology system failures or network disruptions, or our information systems may prove inadequate, resulting in damage to the Company's reputation, business operations and financial 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 will be materially adversely affected if we are unable to improve, upgrade, maintain, and expand our systems.

Our marketing programs, e-commerce initiatives and use of consumer information is 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 sensitive personal information about individuals in our business, including information about our customers. 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.

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 in 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.

We have disclosed a material weakness in our internal control over financial reporting related to our accounting for share-based compensation expense that could adversely affect our ability to report our financial results of operations or cash flows accurately and on a timely basis.

In connection with our assessment of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, we identified a material weakness in our internal control over financial reporting related to the accounting for share-based compensation expense. For a discussion of the internal control over financial reporting and a description of the identified material weakness, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement Share-based Compensation." If additional conditions relating to our internal control over financial reporting were to arise in the future, our operating results could be adversely affected. Although we strive to prevent such material weaknesses, we cannot guarantee that other such material weaknesses will not arise.

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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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.

In addition, we expect that the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, will increase our annual associate health care costs. 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.

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

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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, 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 that 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 are 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, 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 subjects us to various financial risks.

We lease virtually all of our store, distribution center, and administrative locations, generally for long terms. While we have the right to terminate some of our leases under specified conditions by making specified payments, we may not be able to terminate a particular lease if or when we would like to do so. If we decide to close stores, we are generally required to continue 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 proposed launch of our e-commerce platform 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 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. 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

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facilities located in the affected areas. Day to day operations, particularly our ability to receive products from our vendors or transport products to our stores could be adversely affected, or we could be required to close stores or distribution centers in the affected areas or in areas served by the affected distribution center. These factors could also cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and global financial markets and economy. Such occurrences could significantly impact our operating results and financial performance.

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.

Risk factors relating to this offering and ownership of our Common Stock

We are a "controlled company" within the meaning of the rules of 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 . 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
- the requirement for an annual performance evaluation of the Nominating/Corporate Governance and Compensation Committee

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

The 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 days after the date of this prospectus without the prior written consent of J.P. Morgan

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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.

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

After this offering, there will be shares of Common Stock outstanding, after giving effect to a -for-one stock split effected on , 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 % of our outstanding Common Stock will be held by investment funds affiliated with the Sponsors and members of our management and employees.

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

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

Number of shares	Date available for resale
	On the date of this offering (, 2014)
	days after this offering (, 2014), subject to certain exceptions and automatic extensions in certain circumstances

Beginning 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 days following the date of the final prospectus related to this offering and accordingly will be subject to market risks not imposed on other investors in the offering.

At our request, the underwriters have reserved up to shares of the Common Stock offered hereby for sale to our employees and certain other participants. Purchasers of these shares who have entered into a lock-up agreement with the underwriters in connection with this offering, which generally includes our

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

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

If you purchase shares of our Common Stock in this offering, you will incur immediate and substantial dilution in the adjusted net tangible book deficit of your stock of $( ) per share as of , 2014 based on an assumed initial public offering price of $ per share (the mid-point of the offering range shown on the cover of this prospectus) and after giving effect to a -for-one stock split effected on , 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 , 2014 (and after giving effect to the stock split effected on , 2014) , our executive officers hold, in the aggregate, shares of restricted stock and options to purchase shares that would automatically vest upon a change of control. See "Executive Compensation Potential Payments upon Termination or Change in Control" for additional information. As a result, these officers may view certain change of control transactions more favorably than an investor in this offering due to the vesting opportunities available to them and, as a result, may have an economic incentive to support a transaction that you may not believe to be favorable to stockholders who purchased shares in this offering. This offering will not constitute a change of control for purposes of the relevant awards and agreements.

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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 % of our outstanding Common Stock (approximately % if the underwriters exercise in full the option to purchase additional shares from the selling stockholders). For as long as the Sponsors continue to beneficially own shares of Common Stock representing more than 50% of the voting power of our Common Stock, they will be able to direct the election of all of the members of our Board 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, 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
- our significant reliance on foreign suppliers, particularly those located in China, increases our risk of obtaining adequate, timely, and cost-effective product supplies
- if a supplier fails us, transitioning to other qualified vendors could affect our revenue and gross profit
- our substantial debt, of which $3.9 billion was outstanding at November 2, 2013, 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 $1.8 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
- if we are unable to continue expanding our store base, our ability to increase our sales, profitability, and cash flow could be impaired
- damage to the reputations of the Michaels brand or our private and exclusive brands could adversely affect asset sales
- product recalls or product liability could adversely impact our financial condition and reputation
- our cost of merchandise could be adversely affected by significant increases in inflation or commodity prices
- competition, including Internet-based competition, could negatively impact our business

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- 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

- 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

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

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

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Use of proceeds

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

We intend to use the net proceeds from this offering to redeem a portion of the Holdco 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.

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

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

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Dividend policy

The Company 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 one-time cash dividend, distribution and other payments to our equity and equity award holders and pay related fees and expenses. The total amount of the dividend was approximately $780 million (which excludes approximately $3 million currently held in escrow for the benefit of holders of restricted shares of the Company's Common Stock).

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Capitalization

The following table sets forth our cash, cash equivalents and capitalization as of November 2, 2013;

on an actual basis (after giving effect to the -for-one stock split effected on , 2014);

on an adjusted basis to give effect to the issuance of our Senior Subordinated Notes due 2020 and the redemption of our Senior Subordinated Notes due 2016; and

on a further adjusted basis to give effect to (1) this offering, (2) the application of net proceeds from this offering as described in "Use of Proceeds" as if each had occurred on November 2, 2013 and (3) the payment of $ million in the aggregate out of general funds in fees under the management agreements with the Sponsors and Highfields. See "Certain Relationships and Related Party Transactions Management Agreements with the Sponsors and Others".

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

	As of November 2, 2013		
(In millions)	**Actual**	**As adjusted**	**As further adjusted(1)**
Cash and cash equivalents	$ 73	$ 68	$
Restated Term Loan Credit Facility	$ 1,632	$ 1,632	$
Restated Revolving Credit Facility	187	187	
Holdco Notes due 2018	800	800	
Senior Notes due 2018	1,007	1,007	
Senior Subordinated Notes due 2020(2)		260	
Senior Subordinated Notes due 2016	255		
Total debt	3,881	3,886	
Accrued interest and management fees			
Total debt and accrued interest and management fees			
Stockholders' deficit:			
Common Stock $0.10 par value; 220,000,000 million shares authorized and shares issued and outstanding (after giving effect to the -for-one stock split effected on , 2014) on an actual basis; shares authorized and shares issued and outstanding on an as adjusted basis	12	12	
Additional paid-in capital	32	32	
Accumulated deficit	(3,018)	(3,018)	
Accumulated other comprehensive income	4	4	
Total stockholders' deficit	$ (2,970)	$ (2,970)	
Total capitalization	$ 911	$ 916	

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would (decrease)

increase our Holdco Notes and increase (decrease) equity by $ and $, respectively, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

(2) Represents the aggregate principal amount of the Senior Subordinated Notes due 2020.

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The table set forth above is based on the number of shares of our Common Stock outstanding as of November 2, 2013. This table does not reflect:

- shares of our Common Stock issuable upon the exercise of outstanding stock options under the Equity Incentive Plan at a weighted average exercise price of $ per share as of November 2, 2013, of which were then exercisable

- shares of our Common Stock reserved for issuance in respect of future awards and not yet issued under our 2014 Omnibus Plan

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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 November 2, 2013.

Our net tangible book value as of November 2, 2013 was a deficit of $3,117 million, or $(26.32) per share of our Common Stock, based on 118,423,209 shares of our Common Stock outstanding immediately prior to the closing of this offering after giving effect to a -for-one stock split effected on , 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 the receipt of the estimated net proceeds from the sale by us of shares, assuming an initial public offering price of $ per share (the mid-point of the offering range shown on the cover of this prospectus) and after giving effect to a -for-one stock split effected on , 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 November 2, 2013 would have been $ million, or $ per share of Common Stock. This represents an immediate increase in net tangible book value per share of $ to existing stockholders and an immediate decrease in net tangible book value per share of $ to you. The following table illustrates the dilution.

Assumed initial public offering price per share of Common Stock		$
Net tangible book value (deficit) per share at November 2, 2013	$ ( )	
Increase per share attributable to new investors in this offering		
As adjusted net tangible book value (deficit) per share of Common Stock after this offering		$ ( )
Dilution per share to new investors		$

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

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The following table summarizes, on an as adjusted basis as of November 2, 2013, 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				
	Number (in millions)	Percent	Total consideration amount (in millions)	Average price percent	Per share of our Common Stock
Existing Stockholders		%	$	%	$
Shares issuable upon exercise of options		%	$	%	$
New investors		%	$	%	$
Total		%	$	%	$

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

The table above does not reflect shares underlying awards granted after February 1, 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 2, 2013 and January 28, 2012, and our selected historical consolidated results of operations data and cash flow data for each of the three years ended February 2, 2013, January 28, 2012 and January 29, 2011, respectively, have been derived from our audited Consolidated Financial Statements, which are included elsewhere in this prospectus. Other operating data included in the following 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 nine months ended November 2, 2013 and October 27, 2012 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 31st. Fiscal 2013 is the 52-week period ending 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, fiscal 2009 ended on January 30, 2010, and fiscal 2008 ended on January 31, 2009; all of which are 52-week periods. References to "the nine months ended November 2, 2013" relate to the 39 weeks ended November 2, 2013, and references to "the nine months ended October 27, 2012" relate to the 39 weeks ended October 27, 2012.

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

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(In millions, except other operating and store count data)	Fiscal year 2012 Restated(1)	2011 Restated(1)	2010	2009	2008	Nine months ended November 2, 2013	October 27, 2012 Restated(2)
Results of operations data:							
Net sales	$ 4,408	$ 4,210	$ 4,031	$ 3,888	$ 3,817	$ 3,015	$ 2,884
Operating income	592	538	488	397	304	334	337
Interest expense	245	254	276	257	302	154	187
Refinancing costs and losses on early extinguishment of debt(3)	33	18	53			7	3
Net income (loss)(4)	200	157	103	103	(7)	110	95
Comprehensive income (loss)	200	156	104	104	(12)	108	95
Earnings per Common Share, basic							
Earnings per Common Share, diluted							
Weighted average shares used in computing per share amounts, basic							
Weighted average shares used in computing per share amounts, diluted							
Balance sheet data:							
Cash and cash equivalents	$ 56	$ 371	$ 319	$ 217	$ 33	$ 73	$ 161
Merchandise inventories	862	845	826	873	900	1,119	1,078
Total current assets	1,044	1,339	1,271	1,199	1,047	1,349	1,389
Total assets	1,555	1,838	1,780	1,722	1,639	1,880	1,917
Total current liabilities	856	861	685	719	683	1,056	1,015
Current portion of long term debt	150	127	1	119	173	203	180
Long term debt	2,891	3,363	3,667	3,684	3,756	3,678	3,188
Total liabilities	3,859	4,339	4,434	4,488	4,517	4,850	4,324
Stockholders' deficit	(2,304)	(2,501)	(2,654)	(2,766)	(2,878)	(2,970)	(2,407)
Cash flow data:							
Cash flows provided by operating activities	$ 299	$ 409	$ 438	$ 405	$ 59	$ 69	$ 13
Cash flows used in investing activities	(124)	(109)	(83)	(43)	(85)	(82)	(85)
Cash flow (used in) provided by financing activities	(490)	(248)	(253)	(178)	30	30	(138)
Other operating data:							
Average net sales per selling square foot(5)	$ 215	$ 212	$ 205	$ 201	$ 202		
Comparable store sales increase (decrease)(6)	1.5%	3.2%	2.5%	0.2%	(4.6)%	2.1%	1.4%
Total selling square footage (in millions)	20.6	20.1	19.9	19.6	19.4	21.1	20.6
Stores open at end of period:							
Michaels	1,099	1,064	1,045	1,023	1,009	1,137	1,099
Aaron Brothers	125	134	137	152	161	122	127
Total stores open at end of period	1,224	1,198	1,182	1,175	1,170	1,259	1,226

(1) As Restated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the fiscal year ended February 2, 2013.

(2) As Restated. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the quarterly period ended November 2, 2013.

(3) Fiscal 2012 refinancing costs and losses on early extinguishments of debt includes $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 the amendment and restatement of

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our 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 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 extinguishment of debt includes 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. Fiscal 2010 refinancing costs and losses on early extinguishment of debt includes a $53 million ($37 million, net of tax) loss related to the early extinguishment of our 2014 Senior Notes. Refinancing costs and losses on early extinguishments of debt for the nine months ended November 2, 2013 were $7 million ($4 million, net of tax), 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.

(4) In the third quarter of fiscal 2011, the Company commenced accounting for share-based compensation costs under the liability accounting rules. See "Management's Discussion and Analysis of Financial Condition and Results of Operations Restatement-Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the fiscal year ended February 2, 2013 and for the quarterly period ended November 2, 2013. Fiscal 2012 Net income includes $21 million ($13 million, net of tax) of share-based compensation costs, which are included in Cost of sales and occupancy expense and Share-based compensation in our Consolidated Statements of Comprehensive Income. Fiscal 2011 Net income includes $41 million ($25 million, net of tax) of share-based compensation costs. Fiscal 2010 includes $8 million ($6 million, net of tax) of share-based compensation costs. The nine months ended November 2, 2013 and October 27, 2012 include $19 million ($12 million, net of tax) and $15 million ($10 million, net of tax), respectively, of share-based compensation costs.

(5) 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.

(6) 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 2012 is the 53-week period ended February 2, 2013. Fiscal 2011 ended on January 28, 2012 and fiscal 2010 ended on January 29, 2011. Each of these two fiscal years contained 52 weeks. All references to "the third quarter of fiscal 2013" relate to the 13 weeks ended November 2, 2013, and all references to "the third quarter of fiscal 2012" relate to the 13 weeks ended October 27, 2012. All references to the "the first nine months of fiscal 2013" relate to the 39 weeks ended November 2, 2013, and "the first nine months of fiscal 2012" relate to the 39 weeks ended October 27, 2012.

Please note that our discussion of certain financial information for the three and nine months ended November 2, 2013 include 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 November 2, 2013) 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 14^{th} month of operation, which is when we believe comparability is achieved. When a store that is included in comparable store sales is relocated or remodeled, we continue to consider sales from that store to be comparable store sales at the time of opening. A store temporarily closed more than two weeks is not considered comparable during the month it is closed. If a store is closed longer than two weeks but less than two months, it becomes comparable in the month in which it reopens, subject to mid-month convention. A store closed longer than two months becomes comparable in its 14^{th} 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.

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Various factors may affect comparable store sales, including:

- the number of customer transactions
- 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.

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

Selling, general and administrative expense Included in our Selling, general, and administrative costs are store personnel costs, 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 $4.4 billion in fiscal 2012 sales, we are the largest arts and crafts specialty retailer in North America. Our primary business is the operation of 1,137 Michaels stores across the U.S. and Canada. We also operate 122 Aaron Brothers stores, a custom frame, framing, and art supply chain (all store counts are as of November 2, 2013).

In fiscal 2013, we continued to lead industry growth and innovation through strategic initiatives such as:

- deepening our customer relationship through in-store experiences and multi-channel marketing
- offering inspirational new products through frequent merchandise resets
- continuously improving processes to achieve cost savings and cash flow increases
- growing private brand penetration
- continuing to improve pricing and promotional strategies
- opening 54 new stores, including 14 relocations

Restatement share-based compensation

The Company determined its previously issued unaudited interim consolidated financial statements for the three and nine months ended October 27, 2012 and audited consolidated financial statements for the fiscal years ended February 2, 2013 and January 28, 2012 contained an error with respect to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 718, *Compensation Stock Compensation.* The accounting error was material to fiscal 2011 and fiscal 2012 financial statements and those financial statements required restatement. As a result, the Company restated its financial statements for the three and nine months ended October 27, 2012. Specifically, former participants in the Equity Incentive Plan, exercised stock options upon their termination of employment from MSI, and the Company repurchased the shares before they were held at least six months by the participants ("immature shares"). The Company consistently repurchased shares in this manner and therefore, under accounting rules, established a pattern of repurchasing immature shares during the third quarter of 2011. The Company determined all stock options should have been treated as liability awards in accordance with the rules of ASC 718-10-25-9. Under liability accounting, the Company re-measures the fair value of stock compensation each period and recognizes changes in fair value as awards vest and until the award is settled. The Company originally recognized expense ratably over the vesting period based on the grant date fair value of the option in accordance with the fixed method of accounting. The non-cash impact to share-based compensation expense for the three and nine months ended October 27, 2012, was $2 million ($1 million, net of tax) and $12 million ($7 million, net of tax), respectively, and was $18 million ($11 million, net of

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tax) and $32 million ($20 million, net of tax) for the fiscal years ended February 2, 2013 and January 28, 2012, respectively. In this prospectus, where reference is made to covenant compliance as of November 2, 2013, compliance has been determined based on the filing, on December 9, 2013, of the restated consolidated financial statements described above.

The following tables illustrate the correction as it is associated with certain line items in the financial statements (amounts in millions):

	Consolidated balance sheet as of October 27, 2012 (unaudited)		
	As reported	Share-based compensation adjustment	As restated
Merchandise inventories	$ 1,076	$ 2	$ 1,078
Total current assets	1,387	2	1,389
Deferred income taxes	18	14	32
Total non-current assets	170	14	184
Share-based compensation		30	30
Income taxes payable	8	(2)	6
Total current liabilities	987	28	1,015
Share-based compensation		24	24
Total long term liabilities	3,285	24	3,309
Additional paid-in capital	61	(10)	51
Accumulated deficit	(2,438)	(26)	(2,464)
Total stockholders' deficit	(2,371)	(36)	(2,407)

	Consolidated statements of comprehensive income quarter ended October 27, 2012 (unaudited)		
	As reported	Share-based compensation adjustment	As restated
Cost of sales and occupancy expense	$ 611	$ 1	$ 612
Gross Profit	403	(1)	402
Selling, general and administrative expense	278	(1)	277
Share-based compensation expense		2	2
Operating income	119	(2)	117
Income before income taxes	56	(2)	54
Provision for income taxes	20	(1)	19
Net income	36	(1)	35
Comprehensive income	36	(1)	35

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	Consolidated statements of comprehensive income nine months ended October 27, 2012 (unaudited)		
	As reported	Share-based compensation adjustment	As restated
Cost of sales and occupancy expense	$ 1,730	$ 6	$ 1,736
Gross Profit	1,154	(6)	1,148
Selling, general and administrative expense	790	(3)	787
Share-based compensation expense		9	9
Operating income	349	(12)	337
Income before income taxes	160	(12)	148
Provision for income taxes	58	(5)	53
Net income	102	(7)	95
Comprehensive income	102	(7)	95

	Cash flow data nine months ended October 27, 2012 (unaudited)		
	As reported	Share-based compensation adjustment	As restated
Operating Activities:			
Net income	$ 102	(7)	$ 95
Share-based compensation	4	11	15
Merchandise inventories	(236)	3	(233)
Accrued liabilities and other	(11)	(4)	(15)
Income taxes	(27)	(6)	(33)
Net cash provided by operating activities	16	(3)	13
Repurchase of Common Stock	(10)	10	
Proceeds from stock options exercised	7	(7)	
Net cash used in financing activities	(141)	3	(138)

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	Consolidated statements of comprehensive income fiscal 2012			
	As reported	Share-based compensation adjustment	Other adjustments	As restated
Cost of sales and occupancy expense	$ 2,632	$ 6	$ 5	$ 2,643
Gross Profit	1,776	(6)	(5)	1,765
Selling, general and administrative expense	1,135	(3)		1,132
Share-based compensation		15		15
Operating income	615	(18)	(5)	592
Income before income taxes	338	(18)	(5)	315
Provision for income taxes	124	(7)	(2)	115
Net income	214	(11)	(3)	200
Comprehensive income	214	(11)	(3)	200

	Consolidated statements of comprehensive income fiscal 2011			
	As reported	Share-based compensation adjustment	Other adjustments	As restated
Cost of sales and occupancy expense	$ 2,526	$ 7	$ (1)	$ 2,532
Gross Profit	1,684	(7)	1	1,678
Selling, general and administrative expense	1,098	(8)		1,090
Share-based compensation		33		33
Operating income	569	(32)	1	538
Income before income taxes	288	(32)	1	257
Provision for income taxes	112	(12)		100
Net income	176	(20)	1	157
Comprehensive income	175	(20)	1	156

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	Consolidated balance sheet as of February 2, 2013			
	As reported	Share-based compensation adjustment	Other adjustments	As restated
Merchandise inventories	$ 865	$ 1	$ (4)	$ 862
Total current assets	1,047	1	(4)	1,044
Deferred income taxes	13	17		30
Total non-current assets	156	17		173
Share-based compensation liability		35		35
Income taxes payable	40	(1)	(2)	37
Total current liabilities	824	34	(2)	856
Share-based compensation liability		27		27
Total long term liabilities	2,976	27		3,003
Additional paid-in capital	49	(12)		37
Accumulated deficit	(2,326)	(31)	(2)	(2,359)
Total stockholders' deficit	(2,259)	(43)	(2)	(2,304)

	Consolidated balance sheet as of January 28, 2012			
	As reported	Share-based compensation adjustment	Other adjustments	As restated
Merchandise inventories	$ 840	$ 4	$ 1	$ 845
Total current assets	1,334	4	1	1,339
Deferred income taxes	18	11		29
Total non-current assets	176	11		187
Share-based compensation liability		25		25
Income taxes payable	19	(1)		18
Total current liabilities	837	24		861
Share-based compensation liability		19		19
Total long term liabilities	3,459	19		3,478
Additional paid-in capital	48	(8)		40
Accumulated deficit	(2,540)	(20)	1	(2,559)
Total stockholders' deficit	(2,474)	(28)	1	(2,501)

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	Cash flow data fiscal 2012			
	As reported	Share-based compensation adjustment	Other adjustments	As restated
Operating Activities:				
Net income	$ 214	(11)	(3)	$ 200
Share-based compensation	5	16		21
Merchandise inventories	(25)	5	(1)	(21)
Deferred income taxes	2	(4)		(2)
Accrued liabilities and other	(12)	(4)		(16)
Income taxes	19	(1)		18
Net cash provided by operating activities	302	1	(4)	299
Net cash used in financing activities	(493)	3		(490)

	Cash flow data fiscal 2011			
	As reported	Share-based compensation adjustment	Other adjustments	As restated
Operating Activities:				
Net income	$ 176	(20)	1	$ 157
Share-based compensation	9	32		41
Merchandise inventories	(14)	(4)	(1)	(19)
Deferred income taxes	32	(11)		21
Income taxes	(8)	(1)		(9)
Net cash provided by operating activities	413	(4)		409
Net cash used in financing activities	(252)	4		(248)

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act").

Based on the evaluation discussed above, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were not effective due to the material weakness identified in the Company's internal control over financial reporting described below.

We did not maintain effective controls related to the administration of our share repurchases. Specifically, the Company established a pattern of repurchasing Common Stock shares at the time option awards were exercised following termination of employment of participants in the Equity Incentive Plan. Since the repurchased shares were not owned for a period of more than six months, the holders of the shares were, according to accounting rules, not subject to the risk and rewards of ownership. The pattern of repurchasing immature shares demonstrates an administrative practice that results in all stock options being treated as liability awards under the accounting rules of ASC 718-10-25-9, *Compensation Stock*

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Compensation (ASC 718). The control deficiency resulted in an adjustment to share-based compensation costs (which are classified in cost of sales and share-based compensation expense), merchandise inventories, income tax expense, additional paid-in capital, and deferred taxes. Under liability accounting, the Company re-measures the fair value of stock compensation each period and recognizes changes in fair value as awards vest and until the award is settled. The Company originally recognized expense ratably over the vesting period based on the grant date fair value of the option in accordance with the fixed method of accounting. As a result of this material error, management concluded a material weakness exists in the Company's internal controls related to the administration of share repurchases and controls were ineffective at timely detecting and correcting errors related to share-based compensation in accordance with U.S. generally accepted accounting principles.

As the material weakness was not remediated as of November 2, 2013, the material weakness could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to our annual or interim consolidated financial statements that would not be prevented or detected. Management will implement the following procedures related to this material weakness and expects testing of the operating effectiveness to be successfully completed during the fourth quarter of fiscal 2013.

- Establish and monitor additional internal control procedures related to share repurchases to ensure all required approvals are received prior to repurchase, including our Board, CEO, and CFO. In addition, the accounting department will review repurchases for appropriate accounting under ASC 718 prior to a commitment to repurchase.

- Perform a formal review with the Company officers and Board members responsible for the administration of stock repurchases regarding the terms of the Equity Incentive Plan and the Stockholders Agreement with recurring training when responsibilities change.

- Provide enhanced education of the Company's financial reporting staff on ASC 718 and ensure the Company complies with all aspects of the accounting standard.

Additionally, the Company will distribute formal communication to all option holders and stockholders emphasizing the exercise terms under the Equity Incentive Plan and related option agreements, and the call feature repurchase restrictions contained in the Stockholders Agreement. Consequently, the Company expects to account for share-based compensation under the equity method beginning in the fourth quarter of fiscal 2013.

Critical accounting policies and estimates

We have prepared our financial statements in conformity with U.S. generally accepted accounting principles, 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 fiscal year ended February 2, 2013. 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

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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 $110 million, or 2.5% of Net sales in fiscal 2012, $115 million, or 2.7% of Net sales, in fiscal 2011 and $112 million, or 2.8% of Net sales, in fiscal 2010. During the three fiscal years ended February 2, 2013, the number of vendors (including manufacturers represented by agents) from which vendor allowances were received ranged from approximately 650 to 670. As a result of our increased direct import penetration, 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 would have affected Net income by $2 million for fiscal 2012. 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 $1 million for fiscal 2012.

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 of each reporting unit 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 units 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

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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 9 to our Consolidated Financial Statements for the fiscal year ended February 2, 2013 for further information. During fiscal 2011 and fiscal 2010, 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 that 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 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 each of fiscal 2011 and fiscal 2010. In addition to recording impairment charges on certain stores based on the previously discussed criteria, we maintain a list of stores we consider at risk and monitor those stores closely. As of February 2, 2013, we had three stores we considered at risk for impairment with a minimal carrying value of assets.

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 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 obligation. As of February 2, 2013 and January 28, 2012, our reserves for closed facilities were $8 million and $9 million, respectively. The reserves could differ materially if market conditions were to vary significantly from our assumptions.

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 2012.

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 10 days of custom framing revenue at the end of fiscal 2012, and 13 days at the end of each of fiscal 2011 and 2010. A one day change in our custom frame deferral would have had a minimal impact on our fiscal 2012 Net income. As of February 2, 2013 and January 28, 2012, our deferred framing revenue was approximately $8 million and $10 million, respectively.

We allow for merchandise to be returned under most circumstances and provide a reserve for estimated returns. We use historical customer return behavior to estimate our reserve requirements. As of February 2, 2013 and January 28, 2012, 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 $30 million at January 28, 2012 to $33 million as of February 2, 2013. 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 2012, $1 million in fiscal 2011, and $3 million in fiscal 2010 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

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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 expenses include the following which may not be comparable to other companies:

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
- 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

Cost of sales are included in merchandise inventories and expensed as the merchandise is sold.

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 expense ASC 718, *Compensation Stock Compensation,* requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements. We determined our employee stock options should be recorded under the liability accounting guidance of ASC 718, beginning in the third quarter of 2011. As such, we recognized share-based compensation based on the fair value of our option awards at the end of each period. MSI recently restated its financial statements for the fiscal years ended February 2, 2013 and January 28, 2012 and for the three months ended October 27, 2012 to reflect this determination. See " Restatement Share-based Compensation." Expense for unvested options 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 is estimated by a third party valuation firm and approved by our Board at the time option grants are awarded. In estimating the fair value of our Common Stock, the Board considers factors it believes are material to the valuation process including the Company's actual

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and projected financial results, the principal amount of the Company's indebtedness and formal valuations of the Company. In fiscal 2012, fiscal 2011 and fiscal 2010, 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 January 28, 2012 to February 2, 2013, the estimated fair value of Common Stock increased from $24.09 to $26.93 per share. The price per share increased over the period primarily due to the reduction in the amount of our outstanding debt and an increase in our baseline operating results.

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, forfeitures, 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. Our forfeitures assumption is estimated based on historical experience and anticipated events. 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. We update our assumptions regularly based on historical trends and current market observations.

As of February 2, 2013, compensation cost not yet recognized related to nonvested awards totaled $25 million and is expected to be recognized over a weighted average period of 2.2 years. In the event of a Change in Control (as defined in the Stockholders Agreement), all nonvested awards will vest and the $25 million would be immediately recognized. A 10% change in the fair value of stock option awards granted in fiscal 2012 would have had a $1 million impact on our fiscal 2012 Net income and compensation cost not yet 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

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 against our deferred tax assets was $10 million and $14 million as of February 2, 2013 and January 28, 2012,

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

	Quarter ended		**Nine months ended**	
	November 2, 2013	**October 27, 2012 (Restated)(1)**	**November 2, 2013**	**October 27, 2012 (Restated)(1)**
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales and occupancy expense	59.5	60.4	60.2	60.2
Gross profit	40.5	39.6	39.8	39.8
Selling, general, and administrative expense	27.6	27.3	27.7	27.3
Share-based compensation expense	0.4	0.2	0.5	0.3
Related party expenses	0.3	0.3	0.3	0.3
Store pre-opening costs	0.2	0.3	0.2	0.2
Operating income	12.1	11.5	11.1	11.7
Interest expense	5.5	5.9	5.1	6.5
Refinancing costs and losses on early extinguishment of debt		0.3	0.2	0.1
Other (income) and expense, net				
Income before income taxes	6.5	5.4	5.7	5.1
Provision for income taxes	2.3	1.9	2.1	1.8
Net income	4.2%	3.5%	3.6%	3.3%

(1) As Restated. See " Restatement Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the quarterly period ended November 2, 2013.

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	Fiscal year		
	2012 (Restated)(1)	2011 (Restated)(1)	2010
Net sales	100.0%	100.0%	100.0%
Cost of sales and occupancy expense	60.0	60.1	61.2
Gross profit	40.0	39.9	38.8
Selling, general, and administrative expense	25.7	25.9	26.1
Share-based compensation	0.3	0.8	0.2
Impairment of intangible assets	0.2		
Related party expenses	0.3	0.3	0.3
Store pre-opening costs	0.1	0.1	0.1
Operating income	13.4	12.8	12.1
Interest expense	5.6	6.0	6.8
Refinancing costs and losses on early extinguishments of debt	0.7	0.4	1.3
Other (income) and expense, net		0.2	0.2
Income before income taxes	7.1	6.2	3.8
Provision for income taxes	2.6	2.4	1.2
Net income	4.5%	3.8%	2.6%

(1) As Restated. See " Restatement Share-based Compensation" and Note 2 "Restatement Share-based Compensation" in the Notes to our Consolidated Financial Statements for the fiscal year ended February 2, 2013.

Quarter ended November 2, 2013 compared to the quarter ended October 27, 2012

Net sales Net sales increased for the third quarter of fiscal 2013 by $104 million, or 10.3%, over the third quarter of fiscal 2012 due primarily to a $79 million increase in comparable store sales and $25 million of incremental revenue from our non-comparable store sales. Comparable store sales increased 7.9% due to a 3.9% increase in customer transactions, a 3.8% increase in the average ticket and a positive impact of 0.2% from deferred custom framing revenue. The fluctuation in the exchange rates between the U.S. and Canadian dollars adversely impacted the average ticket by 50 basis points. Two of our strongest categories were kids' crafts and custom framing. The increase in kids' crafts was primarily due to sales of the Rainbow Loom and replacement rubber bands. The increase in custom framing was driven by improved product mix and visualization capabilities in our stores.

Cost of sales and occupancy expense Cost of sales and occupancy expense increased $53 million to $665 million in the third quarter of fiscal 2013 from $612 million in the third quarter of fiscal 2012. Cost of sales increased primarily due to increased merchandise costs of $49 million from higher sales compared to the prior year, $5 million from increased freight and distribution costs (primarily for the Rainbow Loom), and $5 million for inventory markdowns due to an increase in discontinued stock keeping units associated with planned merchandise resets and a slower sell-through of this merchandise. This was partially offset by a $4 million decrease attributable to improved efficiencies and new product offerings in our vertically integrated framing operations and a $6 million decrease due to our direct import penetration and private brand initiatives in the current year compared to the prior year. In addition, we had a $4 million increase in rent and related expenses primarily related to opening new stores.

Cost of sales and occupancy expense decreased 90 basis points as a percentage of Net sales to 59.5% for the third quarter of fiscal 2013 from 60.4% for the third quarter of fiscal 2012. Occupancy costs decreased 100 basis points due to lower common area maintenance, insurance and property tax expenses, lower utility expenses and increased leverage of rent expenses on higher comparable stores sales this quarter

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compared to the same quarter last year. Cost of sales increased 10 basis points due to a 50 basis point increase in freight and distribution costs, which was offset by a 20 basis point decrease in merchandise costs due to our direct import and private brand initiatives, as well as improved pricing and promotion management, and a 20 basis point improvement in efficiencies and new product offerings in our vertically integrated framing operation.

Selling, general and administrative expense Selling, general and administrative expense was $309 million in the third quarter of fiscal 2013 compared to $277 million in the third quarter of fiscal 2012. Selling, general and administrative expense increased by $9 million due to incremental store costs related to operating 38 additional Michaels stores at the end of the third quarter of fiscal 2013 compared to the end of the third quarter of fiscal 2012. Additionally, Selling, general and administrative expense increased by $20 million for higher accrued bonus expense, $3 million for higher outside professional fees and $2 million for higher credit card fees due to higher sales. As a percentage of Net sales, Selling, general and administrative expense increased 30 basis points due primarily to a 160 basis point increase in bonus expense and an 80 basis point increase for new stores costs. These costs were partially offset by 100 basis points improvement from increased leverage on store payroll and benefits and 70 basis points of leverage for advertising expenses.

Share-based compensation expense Share-based compensation expense was $4 million for the third quarter of fiscal 2013 compared to $2 million for the third quarter of fiscal 2012.

Related party expenses Related party expenses were $3 million in each of the third quarters of fiscal 2013 and fiscal 2012, respectively, consisting of management fees and associated expenses paid to the Sponsors and Highfields.

Interest expense Interest expense increased $2 million to $62 million in the third quarter of fiscal 2013 from $60 million in the third quarter of fiscal 2012. The increase is attributable to the $800 million issuance of the Holdco Notes offset by a lower average interest rate on our borrowings.

Provision for income taxes Our effective tax rate was 35.6% for the third quarter of fiscal 2013. Our effective tax rate was 35.2% for the third quarter of fiscal 2012. Our current year tax rate is higher than the prior year tax rate due primarily to the reduced rate impact of our permanent adjustments as a result of our greater profit before tax. We currently estimate our annualized effective tax rate for fiscal 2013 to be 37.0%.

Nine months ended November 2, 2013 compared to the nine months ended October 27, 2012

Net sales Net sales increased for the first nine months of fiscal 2013 by $131 million, or 4.5%, over the first nine months of fiscal 2012 due primarily to $70 million of incremental revenue from our non-comparable store sales and a $61 million increase in comparable store sales. Comparable store sales increased 2.1% driven by a 2.9% increase in the average ticket, partially offset by a 0.8% decrease in customer transactions. The fluctuation in the exchange rates between the United States and Canadian dollars adversely impacted the average ticket by 30 basis points. Two of our strongest categories were kids' crafts and custom framing. The increase in kids' crafts was primarily due to sales of the Rainbow Loom and replacement rubber bands. The increase in custom framing was driven by improved product mix and visualization capabilities in our stores.

Cost of sales and occupancy expense Cost of sales and occupancy expense increased $80 million to $1,816 million for the first nine months of fiscal 2013 from $1,736 million for the first nine months of fiscal 2012. Cost of sales increased $51 million due primarily to a $61 million increase in merchandise costs associated with higher sales, a $10 million increase in inventory markdowns due to an increase in

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discontinued stock keeping units associated with planned merchandise resets and a slower sell-through of this merchandise, a $3 million reduction in the recognition of vendor allowances compared to the prior year and a $4 million increase in freight and distribution costs (primarily for the Rainbow Loom). This was partially offset by a $9 million decrease due to improved efficiencies and new product offerings in our vertically integrated framing operations and an $11 million decrease due to our direct import penetration and private brand initiatives in the current year compared to the prior year. In addition, we had a $29 million increase in rent and related expenses, including $15 million from opening new stores, a $7 million increase in store remodel and improvement expenses and a $6 million increase due to higher maintenance costs.

Cost of sales and occupancy expense was flat as a percentage of Net sales at 60.2%. Occupancy costs increased 30 basis points due to increased remodeling expenses and lease expenses on new stores, as well as increased spending on repairs and maintenance expenses compared to the prior year. As a percentage of Net sales, cost of sales for the first nine months of fiscal 2013 was 30 basis points lower than the first nine months of 2012 for the reasons indicated above.

Selling, general, and administrative expense Selling, general, and administrative expense was $835 million for the first nine months of fiscal 2013 compared to $787 million for the first nine months of fiscal 2012. The $48 million increase was driven primarily by $19 million of incremental costs related to operating 73 additional Michaels stores. Additionally, Selling, general, and administrative expense increased by $12 million for higher bonus expense and other benefits expense, $8 million for outside professional fees, and $7 million for store and corporate payroll and benefits.

As a percentage of Net sales, Selling, general and administrative expense increased 40 basis points due to a 60 basis point increase in new store costs and a 30 basis point increase in bonus expense. These costs were partially offset by improved leverage on corporate and store payroll costs of 50 basis points.

Share-based compensation expense Share-based compensation expense increased to $15 million for the first nine month of fiscal 2013 from $9 million for the first nine months of fiscal 2012. During the nine months ended November 2, 2013, the Company recognized share-based compensation costs under the liability accounting rules of ASC 718-10-25-9, *Compensation Stock Compensation* which resulted in an increase in expense due to an increased fair value of options and vesting.

Related party expenses Related party expenses were $10 million for the first nine months of each of fiscal 2013 and fiscal 2012, consisting of management fees and associated expenses paid to our Sponsors and Highfields.

Interest expense Interest expense decreased $33 million to $154 million in the first nine months of fiscal 2013 from $187 million in the first nine months of fiscal 2012. The decrease is attributable to the lower average interest rate and the redemption of $142 million of our 2016 Senior Subordinated Notes, the $8 million repayment on our Senior Secured Term Loan Facility, and the $203 million payment on our senior secured asset-based Revolving Credit Facility. These decreases were offset by the $389 million in borrowings on the senior secured asset-based Revolving Credit Facility and the $800 million issuance of the Holdco Notes that occured in 2013.

Refinancing costs and losses on early extinguishment of debt We recorded a loss on the early extinguishment of debt of $7 million during the first nine months of fiscal 2013, 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 the 2016 Senior Subordinated Notes. See Note 3 to our Consolidated Financial Statements for the quarterly period ended November 2, 2013 for further discussion.

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During the first nine months of fiscal 2012, we recorded a loss on the early extinguishment of debt of $3 million, consisting of $2 million to write off debt issuance costs related to the Restated Revolving Credit Facility and $1 million to write off debt issuance costs associated with the partial prepayment of our existing term loans under the Senior Secured Term Loan Facility.

Other (income) and expense, net Other (income) and expense was related primarily to a $1 million foreign exchange rate loss for the first nine months of fiscal 2013 and a $1 million foreign exchange rate gain for the first nine months of fiscal 2012.

Provision for income taxes Our effective tax rate was 36.0% for the first nine months of fiscal 2013. Our effective tax rate was 35.8% for the first nine months of fiscal 2012. Our current nine month tax rate was higher than the prior year nine month tax rate due primarily to the reduced rate impact of our permanent adjustments as a result of our greater profit before tax. We currently estimate our annualized effective tax rate for fiscal 2013 to be 37.0%.

Fiscal 2012 compared to fiscal 2011

Net sales Net sales increased for fiscal 2012 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 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 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 direct import penetration, private brand initiative, and improved pricing and promotion management. 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 direct import penetration, 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

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amounts were partially offset by a $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 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 4 to our Consolidated Financial Statements for the fiscal year ended February 2, 2013 for further discussion.

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 fiscal year ended February 2, 2013, 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 statutory 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.

Fiscal 2011 compared to fiscal 2010

Net sales Net sales increased for fiscal 2011 by $179 million, or 4.4%, over fiscal 2010 due primarily to a $128 million increase in comparable store sales. Comparable store sales increased 3.2% driven by an increase in transactions of 2.0% and an increase in the average ticket of 1.2%. The fluctuation in the

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exchange rates between the U.S. and Canadian dollars positively impacted the average ticket by 20 basis points. Comparable store sales growth was strongest in bakeware within our general and children's crafts department. In addition, sales from our non-comparable new stores provided incremental revenue of $51 million.

Cost of sales and occupancy expense Cost of sales and occupancy expense increased $65 million to $2,532 million in fiscal 2011 from $2,467 million in fiscal 2010 due primarily to a $50 million increase in merchandise costs associated with higher sales and an $11 million increase in freight and distribution costs. In addition, occupancy costs increased $24 million, including $7 million from new stores opened in fiscal 2011. These amounts were partially offset by a $16 million reduction from improved inventory management and $8 million from improved efficiencies in our vertically integrated framing operation.

Cost of sales and occupancy expense decreased 110 basis points, as a percentage of Net sales, to 60.1% in fiscal 2011 from 61.2% in fiscal 2010. Merchandise cost decreased 90 basis points driven by our direct import penetration, private brand initiative, and improved pricing and promotion management, while increased focus on inventory management contributed an additional 50 basis points to the reduction in cost of sales; these initiatives more than offset the impact of increases in inflation during the period. These improvements were partially offset by a 30 basis point increase from the recognition of freight and distribution costs.

Selling, general, and administrative expense Selling, general, and administrative expense was $1,090 million in fiscal 2011 compared to $1,051 million in fiscal 2010. Selling, general, and administrative expense increased $39 million driven by an $11 million increase in payroll from existing stores, including $3 million of one-time training cost related to our new store labor model. In addition, we had $9 million in costs for new stores opened in fiscal 2011 and a $6 million increase from a full year of expense for stores opened in fiscal 2010. Finally, advertising increased $11 million from digital and targeted marketing campaigns that did not occur last year. As a percentage of Net sales, Selling, general, and administrative expense decreased 20 basis points due to increased leverage of payroll and benefits from higher comparable store sales.

Share-based compensation expense Share-based compensation expense increased to $33 million for fiscal 2011 from $8 million for fiscal 2010 due to the change in our method of accounting for stock option awards that occurred in 2011.

Related party expenses Related party expenses were $13 million and $14 million for fiscal 2011 and fiscal 2010, respectively, consisting of management fees and associated expenses paid to our Sponsors and Highfields.

Interest expense Interest expense decreased from $276 million in fiscal 2010 to $254 million in fiscal 2011, as a result of a lower average interest rate and a $178 million reduction in our total debt outstanding.

Refinancing costs and losses on early extinguishments of debt 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 during fiscal 2011 and $7 million face value of our 2016 Senior Subordinated Notes. The $18 million loss is 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 4 to our Consolidated Financial Statements for the fiscal year ended February 2, 2013 for further discussion. During fiscal 2010, we recorded a loss of $53 million related to the early extinguishment of the 2014 Senior Notes. The $53 million loss was comprised of $41 million of tender and call premiums and $12 million to write off the remaining unamortized debt issuance costs.

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Other (income) and expense, net Other expense for fiscal 2011 is related to a $5 million unfavorable change in the fair value of the interest rate derivative, as more fully described in Note 9 to our Consolidated Financial Statements for the fiscal year ended February 2, 2013, and $4 million in foreign exchange rate losses. Other expense for fiscal 2010 related to a $12 million loss in the fair value of the interest rate cap, partially offset by $2 million of foreign exchange rate gains.

Provision for income taxes Our effective tax rate for fiscal 2011 was 38.9%. Our effective tax rate for fiscal 2010 was 30.9%. Our fiscal 2011 rate was lower than the statutory rate due primarily to impacts of 2.8% from audit settlements with taxing authorities, 1.1% from federal manufacturing deductions and 1.1% from our ability to utilize federal tax credits.

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 " Liquidity and Capital Resources Cash Flow from Financing Activities." Our Restated Revolving Credit Facility provides senior secured financing of up to $650 million. As of November 2, 2013, the borrowing base was $650 million, of which we had $187 million in outstanding borrowings, $62 million of outstanding letters of credit and $401 million of unused borrowing capacity. Our cash and cash equivalents increased $17 million from $56 million at February 2, 2013 to $73 million at November 2, 2013.

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 fund 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 (the "2020 Senior Subordinated Notes") and additional cash with the trustee under the indenture governing the 2016 Senior Subordinated Notes (the "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. Our $7^{3}/_{4}$% Senior

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Notes ("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.

We and our subsidiaries, affiliates, and significant shareholders may continue from time to time to seek to retire or purchase our outstanding 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 provided by operating activities during the first nine months of fiscal 2013 was $69 million compared to cash flow provided by operating activities of $13 million during the first nine months of fiscal 2012. The $56 million change was primarily due to a $139 million increase in cash due to the timing of vendor payments and higher Net income of $15 million. These amounts were partially offset by a $48 million decrease due to the timing of interest payments, a $21 million decrease due to the timing of inventory purchases and a $22 million decrease due to the timing of income tax payments.

Average inventory per Michaels store (including supporting distribution centers) increased 0.5% from $946,000 at October 27, 2012 to $951,000 at November 2, 2013.

Cash flow provided by operating activities in fiscal 2012 was $299 million compared to $409 million in fiscal 2011. The $110 million change was due in part to a $73 million decrease from the timing of accounts payable, $23 million decrease in deferred income taxes, and a $29 million decrease from lower bonuses accrued in fiscal 2012. These decreases were partially offset by a $27 million increase from the timing of tax payments. Average inventory per Michaels store (including supporting distribution centers) was $752,000, down from fiscal 2011's balance of $762,000.

Cash flow from investing activities

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

	Fiscal year			Nine months ended	
(In millions)	**2012**	**2011**	**2010**	**November 2, 2013**	**October 27, 2012**
New and relocated stores and stores not yet opened(1)	$ 42	$ 28	$ 23	$ 32	$ 31
Existing stores	30	25	24	17	19
Information systems(2)	36	45	27	19	24
Corporate and other	16	11	7	14	11
	$ 124	$ 109	$ 81	$ 82	$ 85

(1) In the first nine months of fiscal 2013, we incurred capital expenditures related to the opening of 40 Michaels stores in addition to the relocation of 14 Michaels stores. In the first nine months of fiscal 2012, we incurred capital expenditures related to the opening of 36 Michaels stores in addition to the relocation of 13 Michaels stores. In fiscal 2012, we incurred capital expenditures related to the opening of 38 Michaels stores in addition to the relocation of 13 Michaels stores. In fiscal 2011, we incurred capital expenditures related to the opening of 25 Michaels stores and the relocation of 15 Michaels stores. In fiscal 2010, we incurred capital expenditures related to the opening of 23 Michaels stores and the relocation of 10 Michaels stores. 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 was comparable to fiscal 2011 and fiscal 2010.

(2) Our fiscal 2012 information systems capital expenditures decreased from fiscal 2011 mainly due to the launch of MiDesign@Michaels and the replacement of approximately 7,200 payment card terminals in fiscal 2011. The increase

from fiscal 2010 to fiscal 2011 is primarily due to

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the launch of MiDesign@Michaels and the payment card terminal replacement, as well as other infrastructure projects to support future growth.

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 2012 and fiscal 2011, we capitalized payroll costs of approximately $35 million and $51 million, respectively, related to our capital expenditures.

We currently estimate our capital expenditures will increase to between $125 million and $135 million in fiscal 2013, primarily due to investments in the infrastructure necessary to support the further development of our business and continued growth. In addition, we expect to have opened 54 Michaels stores, including 14 relocations in fiscal 2013. We expect our capital expenditures will be financed with cash from operations.

Cash flow from financing activities

Cash flow provided by financing activities during the first nine months of fiscal 2013 was $30 million compared to cash used in financing activities of $138 million during the first nine months of fiscal 2012. Cash flow provided by financing activities for the first nine 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%, for a total of $142 million, and borrowings of $186 million under the Restated Revolving Credit Facility.

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 during fiscal 2012 was $490 million, compared to $248 million during fiscal 2011. 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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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 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 2020 Senior Subordinated Notes with the trustee under the 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 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. Interest on the Holdco Notes is payable semi-annually in arrears on each February 1 and August 1, commencing on February 1, 2014. 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 $301 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 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.

No cash interest was payable on the Subordinated Discount Notes prior to November 1, 2011. 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

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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 guarantee indebtedness under MSI's Restated Revolving Credit Facility and Restated Term Loan Credit Facility.

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 MSI and its subsidiaries.

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. The Restated Credit Agreement, 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

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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.

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.

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) 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.

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 November 2, 2013, the borrowing base was $650 million, of which we had $187 million in borrowings, $62 million of outstanding letters of credit and the unused borrowing capacity was $401 million.

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. The Amended Credit Agreement, 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.

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, plus 1%, or (b) LIBOR, subject to certain adjustments, in each case plus an applicable margin. The applicable margin is 1.75% with respect to base rate borrowings and 2.75% 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.

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 in the case of a Repricing Transaction (as defined in the Amended Credit Agreement) occurring prior to January 28, 2014, in which case a 1% prepayment fee would apply, and 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 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

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(and certain refinancings thereof requiring principal payments prior to April 28, 2020) exceeds $250 million.

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.

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 guaranty 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 fiscal year ended February 2, 2013.

As of February 2, 2013, 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**
Operating lease commitments(1)	$ 1,731	$ 377	$ 602	$ 386	$ 366
Other commitments(2)	78	59	19		
Total debt(3)	3,033	150	33	288	2,562
Interest payments(4)	985	186	370	323	106
	$ 5,827	$ 772	$ 1,024	$ 997	$ 3,034

(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 32% 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 $12 million of unamortized premium and $4 million of unamortized discount on the 2018 Senior Notes, which has not been recognized as of February 2, 2013. See Note 4 to our Consolidated Financial Statements for the fiscal year ended February 2, 2013.

(4) Debt associated with our Restated Term Loan Credit Facility was $1,640 million at February 2, 2013, 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 2, 2013. Approximately $1,400 million of debt was subject to fixed interest rates. We had $1 million in outstanding borrowings under our Restated Revolving

Credit Facility at February 2, 2013. 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 4 and 11 to our Consolidated Financial Statements for the fiscal year ended February 2, 2013 and Notes 3 and 7 to our Consolidated Financial Statements for the quarterly period ended November 2, 2013.

Recent accounting pronouncements

In February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*, an amendment to ASC 220, *Comprehensive Income.* ASU No. 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other items not reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This standard, which is prospective, is effective for reporting periods beginning after December 15, 2012, with earlier adoption permitted. We adopted all requirements of this standard on February 3, 2013, the beginning of fiscal 2013.

In July 2013, FASB issued ASU No. 2013-11, "Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists." ASU 2013-11 requires unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. ASU 2013-11, which is prospective, is effective for reporting periods beginning after December 15, 2013, with earlier adoption permitted. Retrospective application is also permitted. We are still evaluating the standard to determine when we will adopt the standard but we do not believe the implementation of this standard will result in a material impact to our financial statements.

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 November 2, 2013, a 10% increase or decrease in the exchange rate of the U.S. and Canadian dollar would impact our Net income by approximately $1 million.

We have market risk exposure arising from changes in interest rates on our Senior Secured Credit Facilities. 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, 2016 Senior Subordinated Notes and Holdco Notes are fixed. Based on our overall interest rate exposure to variable rate debt outstanding as of November 2, 2013, a 1% increase or decrease in interest rates would increase or decrease income before income taxes by $18 million. A 1% increase or decrease in interest rates would change 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 February 2, 2013 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 $4.4 billion in sales in fiscal 2012, the Company, together with its subsidiaries, is the largest arts and crafts specialty retailer in North America 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 November 2, 2013, we operate 1,137 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 122 Aaron Brothers stores as of November 2, 2013, 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 affiliate 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 sales:

	Fiscal year		
	2012	**2011**	**2010**
General and children's crafts	48%	47%	46%
Home décor and seasonal	21	20	20
Framing	17	17	18
Scrapbooking	14	16	16
	100%	100%	100%

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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 that will provide our customers with exciting merchandise. During fiscal 2012, we partnered with popular celebrities and brands such as Chef Duff Goldman, Tori Spelling, Craftsy, Disney, Crayola, American Girl Crafts and Martha Stewart Crafts. We are continually exploring 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 that is being displaced from its assigned location in the store to make room for new merchandise. Additional SKUs that are candidates for repricing are identified using our perpetual inventory data. In each case, the appropriate repricing is determined at our corporate 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 7,400 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 holiday selling season, over the last ten years, 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 enables 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 improve product mix and inventory levels. In fiscal 2012, one vendor and one sourcing agent each supplied approximately 11% of our purchases, with no other vendor or sourcing agent accounting for more than 5% 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 inter-company transactions are eliminated in consolidation.

Substantially all of the products sold in Michaels stores are manufactured in Asia, Canada, Mexico and the U.S. 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. We continue to upgrade our replenishment and allocation systems and have implemented a demand forecasting system in fiscal 2013.

Artistree

We currently operate a vertically integrated framing operation that leverages 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. Based on the benefits we have received from this vertically integrated solution, we continue to evaluate opportunities to further leverage our strong custom offerings.

Our moulding manufacturing plant, located in Kernersville, North Carolina, converts lumber into finished frame moulding that is supplied to our regional processing centers for custom framing orders for our stores. We manufacture approximately 20% of the moulding we process, import another 50% 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 2012, we operated four regional processing centers in City of Industry, California; Coppell, Texas; Kernersville, North Carolina; and Mississauga, Ontario. Our pre-cut 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 2012, processed over 28 million linear feet of frame moulding and over 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 will have a material impact on our results of operations.

Distribution

We currently operate a distribution network, through our wholly-owned subsidiary, Michaels Stores Procurement Company, for supplying our stores with merchandise. Approximately 87% of Michaels stores' merchandise receipts are shipped through the distribution network with the remainder shipped directly

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from vendors to stores. Approximately 54% 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.

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 fiscal years:

	Fiscal year				
	2012	**2011**	**2010**	**2009**	**2008**
Michaels stores:					
Retail stores open at beginning of period	1,064	1,045	1,023	1,009	963
Retail stores opened during the period	38	25	23	18	51
Retail stores opened relocations during the period	13	15	10	5	11
Retail stores closed during the period	(3)	(6)	(1)	(4)	(5)
Retail stores closed relocations during the period	(13)	(15)	(10)	(5)	(11)
Retail stores open at end of period	1,099	1,064	1,045	1,023	1,009
Aaron Brothers stores:					
Retail stores open at beginning of period	134	137	152	161	166
Retail stores opened during the period					
Retail stores opened relocations during the period					1
Retail stores closed during the period	(8)	(3)	(15)	(9)	(5)
Retail stores closed relocations during the period	(1)				(1)
Retail stores open at end of period	125	134	137	152	161
Total store count at end of period	1,224	1,198	1,182	1,175	1,170

We believe, based on an internal real estate and penetration study of Michaels stores, that the combined U.S. and Canadian markets can support approximately 1,500 Michaels stores. We opened 54 Michaels stores in the first nine months of fiscal 2013 including relocations of 14 Michaels stores. We continue to pursue a store relocation program to improve the real estate location quality and performance of our store base. During the fourth quarter of fiscal 2013, we anticipate closing one additional Michaels store and one additional Aaron Brothers store. We have relocated two Aaron Brothers stores in the first nine months of fiscal 2013. 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 that allows 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 personnel with store training.

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Our new store operating model, which is based on historical store performance, assumes a target store size of approximately 19,000 selling square feet. Our fiscal 2012 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).

Competition

We are the largest arts and crafts specialty retailer in North America. 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 30 stores, and comprises: Hobby Lobby Stores, Inc., which operates approximately 580 stores in 46 states, primarily in the Midwestern and Southern U.S.; Jo-Ann Stores, Inc., which operates approximately 800 stores in 49 states; and A.C. Moore Arts & Crafts, Inc., which operates approximately 140 stores primarily in the mid-Atlantic and Northeast regions. 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 fiscal 2012 and 9% of total sales in fiscal 2011 and fiscal 2010. During the last three years, less than 8% of our assets have been located outside of the United States. See Note 13 to our Consolidated Financial Statements for the fiscal year ended February 2, 2013 for Net sales and assets by country.

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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 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 November 2, 2013, we employed approximately 56,600 associates, approximately 45,400 of whom were employed on a part-time basis. The number of part-time associates substantially increases during the holiday selling season. Of our full-time associates, approximately 4,000 are engaged in various executive, operating, training, distribution, and administrative functions in our corporate 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, the Company 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 purported class action proceeding on behalf of themselves and certain former and current store managers employed by MSI in California. The lawsuit alleges that the Company stores improperly classified its 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. The plaintiffs have pled less than $5 million in damages, penalties, costs of suit and attorneys' fees, exclusive of interest. On December 3, 2013, the Superior Court entered an Order certifying a class of approximately 200 members and the Company is considering its options with respect to the ruling. We believe we have meritorious defenses and intend to defend the lawsuit vigorously. We do not believe the resolution of the lawsuit will have a material effect on our Consolidated Financial Statements.

Barreras claim

On July 24, 2012, Irene Barreras, a former employee, filed a purported class action proceeding against MSI in the Superior Court of the State of California for the County of Alameda ("Alameda Superior Court"), alleging unfair business competition and unjust enrichment, wrongful termination, disability discrimination, failure to prevent discrimination, failure to engage in the interactive process, and failure to accommodate mental or physical disabilities. The suit is brought on Ms. Barreras' behalf and on behalf of a class of all retail store employees who were terminated from July 24, 2008 to the present, allegedly due to MSI's refusal to engage in the interactive process with, or provide accommodations to, the terminated employees who did not meet the qualifications for medical leaves. The plaintiff seeks injunctive relief, compensatory damages, punitive damages, consequential damages, general damages, interest, attorneys' fees and costs.

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On August 24, 2012, we removed the case to the United States District Court, Northern District of California. Plaintiffs' deadline to file its Motion for Class Certification is July 15, 2014. We believe we have meritorious defenses and intend to defend the lawsuit vigorously. We do not believe the resolution of the lawsuit will have a material effect on our Consolidated Financial Statements.

Consumer class action claims

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 sought statutory penalties, costs, interest, and attorneys' fees. We contested certification of this claim as a class action and filed a motion to dismiss the claim. On March 9, 2009, the Court dismissed the case with prejudice. The plaintiff appealed this decision to the California Court of Appeals for the Fourth District, San Diego. On July 22, 2010, the Court of Appeals upheld the dismissal of the case. The plaintiff appealed this decision to the Supreme Court of California ("California Supreme Court"). On September 29, 2010, the California Supreme Court granted the plaintiff's petition for review; however, it stayed any further proceedings in the case until another similar zip code case pending before the court, Pineda v. Williams-Sonoma, was decided. On February 10, 2011, the California Supreme Court ruled, in the Williams-Sonoma case, 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. On or about April 6, 2011, the Supreme Court transferred the Carson case back to the Court of Appeals with directions to the Court to reconsider its decision in light of the Pineda decision. Upon reconsideration, the Court of Appeals remanded the case back to the San Diego Superior Court on May 31, 2011.

Additionally, since the California Supreme Court decision on February 10, 2011, three additional purported class action lawsuits alleging violations of the Song Act 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. The Rubinstein case was transferred to the San Diego Superior Court. An order coordinating the cases has been entered and plaintiffs filed a Consolidated Complaint on April 24, 2012. Plaintiffs seek damages, civil penalties, common settlement fund recovery, attorney fees, costs of suit and prejudgment interest. The parties mediated the matter in March and a tentative settlement was reached for an amount that will not have a material effect on our Consolidated Financial Statements. On December 6, 2013, the Court advised that it was granting preliminary approval of the settlement agreement.

Massachusetts zip code claims

Relying in part on the California Supreme Court decision, an additional 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 identification information in connection with a credit card transaction. On March 11, 2013, the Massachusetts Supreme Judicial Court ruled on certified questions on the interpretation of the statute and remanded the case to the U.S. District Court for further proceedings. Following the Judicial Court's decision, an additional purported class action lawsuit asserting the same allegations in Tyler was filed in the U.S. District Court-District of Massachusetts by Susan D'Esposito, and the two cases have been

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consolidated. On August 12, 2013, a tentative settlement that is subject to Court approval was reached for an amount that will not have a material effect on our Consolidated Financial Statements.

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, and in the future, may be involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business.

ASC 450, *Contingencies,* 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 $6 million as of November 2, 2013, 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 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

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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.

Description of property

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, generally with the option to extend. 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 November 2, 2013, in connection with stores that we plan to open or relocate in future fiscal years, we had signed 34 leases for Michaels stores.

As of November 2, 2013, we lease the following non-store facilities:

	Square footage
Distribution centers:	
Hazleton, Pennsylvania	692,000
Jacksonville, Florida	776,000
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
	4,249,000
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
	5,235,000

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The following table indicates the number of our retail stores located in each state or province as of November 2, 2013:

	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	130	82	212
Colorado	22	3	25
Connecticut	16		16
Delaware	4		4
Florida	78		78
Georgia	33	1	34
Idaho	6	1	7
Illinois	38		38
Indiana	17		17
Iowa	7		7
Kansas	8		8
Kentucky	11		11
Louisiana	12		12
Maine	3		3
Manitoba	3		3
Maryland	24		24
Massachusetts	29		29
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
Newfoundland and Labrador	1		1
New Hampshire	8		8
New Jersey	30		30
New Mexico	3		3
New York	54		54
North Carolina	35		35
North Dakota	2		2
Nova Scotia	4		4
Ohio	32		32
Oklahoma	7		7

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	Number of stores		
State/province	Michaels	Aaron Brothers	Total
Ontario	49		49
Oregon	15	2	17
Pennsylvania	48		48
Prince Edward Island	1		1
Quebec	11		11
Rhode Island	4		4
Saskatchewan	3		3
South Carolina	12		12
South Dakota	2		2
Tennessee	15		15
Texas	78	15	93
Utah	13		13
Vermont	2		2
Virginia	35		35
Washington	23	8	31
West Virginia	5		5
Wisconsin	17		17
Wyoming	1		1
Total	1,137	122	1,259

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Management

Directors

Set forth below is information concerning each of our directors, including their ages as of December 16, 2013, present principal occupations, other business experiences during at least the last five years, membership on committees of the Board, public company directorships held during the last five years and certain other directorships. Except for Mr. Mahoney, each of the directors listed below has served on our Board since July 17, 2013, the inception of the Company. The stockholders of the Company elected Mr. Mahoney to the Board, effective September 18, 2013, to fill a vacancy on the Board. Except for Messrs. Wallace, Rubin and Mahoney and Ms. Greenthal, each of the directors listed below has also served on MSI's board of directors since October 31, 2006. MSI's stockholders elected Mr. Wallace to MSI's board of directors on March 11, 2009, elected Mr. Rubin to MSI's board of directors effective March 18, 2013, elected Mr. Mahoney to MSI's board of directors effective September 18, 2013 and elected Ms. Greenthal to MSI's board of directors on May 18, 2011, in each case to fill a vacancy on MSI's board of directors.

Name	Age	Position	Committee membership
Joshua Bekenstein	55	Director	
Todd M. Cook	42	Director	Audit Committee
Jill A. Greenthal	57	Director	Audit Committee
Lewis S. Klessel	46	Director	Audit Committee
Matthew S. Levin	47	Director	Compensation Committee
John J. Mahoney	62	Director	Audit Committee
James A. Quella	63	Director	Audit Committee
Carl S. Rubin	54	Chief Executive Officer and Director	
Peter F. Wallace	38	Director	Compensation Committee

Currently Ms. Greenthal and Messrs. Mahoney and Quella qualify as independent directors as defined under rules of . We anticipate at least one additional director who is not affiliated with us or any of our stockholders will be appointed to the Board within twelve months of the consummation of this offering, resulting in a Board that includes at least four independent directors.

Mr. Bekenstein is a managing director at Bain. Prior to joining Bain in 1984, Mr. Bekenstein spent several years at Bain & Company, where he was involved with companies in a variety of industries. Mr. Bekenstein received an M.B.A. from Harvard Business School and a B.A. from Yale University. Mr. Bekenstein serves as a director of Bombardier Recreational Products Inc., Dollarama Capital Corporation, Toys "R" Us, Inc., Burlington Coat Factory Warehouse Corporation, Bright Horizons Family Solutions Inc., The Gymboree Corporation and Waters Corporation. Mr. Bekenstein's many years of experience both as a senior executive of a large investment firm and as a director of companies in various business sectors make him highly qualified to serve on our Board.

Mr. Cook is a managing director at Bain. Prior to becoming a managing director in December 2008, Mr. Cook served in various capacities, most recently as a principal at Bain from 2003 to 2008. Prior to joining Bain in 1996, Mr. Cook was a consultant at Bain & Company. Mr. Cook received an M.B.A. from Stanford University Graduate School of Business where he was an Arjay Miller Scholar. He also holds a B.E. in electrical engineering and a B.A. in economics from Dartmouth College. Mr. Cook was formerly a director of Dollarama Capital Corporation and a director of Dunkin' Brands, Inc. Mr. Cook's strong financial

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background combined with his experiences at Bain and as director of other companies put him in a position to provide important contributions to our Board.

Ms. Greenthal has been a senior advisor at The Blackstone Group in the private equity group since 2007. From 2003 until 2007, Ms. Greenthal was a senior managing director in Blackstone's advisory group. Prior to joining The Blackstone Group, Ms. Greenthal was Co-Head of the Global Media Investment Banking Group, a member of the Executive Board of Investment Banking, and Co-Head of the Boston office of Credit Suisse First Boston. Ms. Greenthal graduated as a member of The Academy from Simmons College and received an M.B.A. from Harvard Business School. Ms. Greenthal currently serves on the board of directors of Akamai Technologies, Inc., Houghton-Mifflin Harcourt Company and The Weather Channel Companies. Ms. Greenthal was formerly a director of Martha Stewart Omnimedia, Orbitz Worldwide, Inc., Universal Orlando and Freedom Communications. Ms. Greenthal's background and understanding of capital markets and financial matters as well as her experiences described above enable her to provide valuable counsel to our management and Board.

Mr. Klessel is a managing director at Bain. Prior to becoming a managing director in December 2011, Mr. Klessel served in various capacities, most recently as an operating partner at Bain from December 2007 to December 2011. Prior to joining Bain in October 2005, Mr. Klessel held a variety of operating and strategy leadership positions from 1997 to 2005 at The Home Depot, Inc., including President of HD Supply's Facilities Maintenance business, Divisional Merchandise Manager and head of Home Depot's Strategic Business Development function. Prior to 1997, Mr. Klessel was a strategy consultant with McKinsey & Company and a senior auditor with Ernst & Young. Mr. Klessel received an M.B.A. from Harvard Business School and a B.S. from the Wharton School at the University of Pennsylvania. Mr. Klessel serves as a director of HD Supply, Inc. and Guitar Center, Inc. As a result of these and other professional experiences, Mr. Klessel brings to our Board extensive experience in operating and managing complex organizations, particularly in the retail industry, which strengthen the collective qualifications, skills and experience of our Board.

Mr. Levin is a managing director at Bain. Mr. Levin joined Bain Capital in 1992 and was promoted to managing director in 2000. Prior to joining Bain, Mr. Levin was a consultant at Bain & Company in the consumer products and manufacturing industries. Mr. Levin received an M.B.A. from Harvard Business School where he was a Baker Scholar. He received a B.S. from the University of California at Berkeley. Mr. Levin serves as a board member of Bombardier Recreational Products Inc., Dollarama Capital Corporation, Edcon Holdings Pty. Ltd., Guitar Center, Inc., Lilliput Kidswear Ltd., Jupiter Shop Chanel Co., Ltd., Toys "R" Us, Inc. and Unisource Worldwide, Inc. Mr. Levin's significant experience in and knowledge of corporate finance and managing companies put him in a position to provide important contributions to our Board.

Mr. Mahoney has been a director since September 2013 and retired as Vice Chairman of Staples, Inc. in July 2012, having served as Vice Chairman since January 2006. Mr. Mahoney also served as Chief Financial Officer for Staples, Inc. from 1996 through January 2012. Prior to 1996, Mr. Mahoney was a partner at Ernst & Young, LLP. He currently serves on the Board of Directors of Bloomin' Brands, Inc. and Chico's FAS, Inc. Previously, Mr. Mahoney served on the Boards of Directors of Advo, Inc. from 2001 to 2007, Tweeter Home Entertainment Group, Inc. from 2004 to 2007 and Zipcar, Inc. from 2010 to 2012. Mr. Mahoney holds an MBA from Northeastern University, as well as an undergraduate degree from the College of the Holy Cross. Mr. Mahoney's strong financial background and experience as a Vice Chairman and former Chief Financial Officer of a Fortune 500 retail company, enables him to provide valuable counsel to our management and Board.

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Mr. Quella has been a Senior Advisor at The Blackstone Group in the Private Equity Group since July 2013. Prior to his role as Senior Advisor, Mr. Quella was a Senior Managing Director, Operating Partner and co-head of the Portfolio Operations Group at Blackstone in the Private Equity Group from 2004 to 2013. Prior to joining Blackstone, Mr. Quella was a managing director and senior operating partner with DLJ Merchant Banking Partners CSFB Private Equity from 2000 to 2004. Prior to that, Mr. Quella worked at Mercer Management Consulting and Strategic Planning Associates and served as Vice-Chairman and co-head of the firm. Mr. Quella received a B.A. in International Studies from the University of Chicago/University of Wisconsin-Madison and an M.B.A. with Dean's Honors from the University of Chicago Graduate School of Business. Mr. Quella serves as a director of Catalent Pharma Solutions, Inc., DJO Global, Inc., and Freescale Semiconductor, Inc. Mr. Quella was formerly a director of Allied Waste, Columbia House, Celanese Corporation, Graham Packaging Company, L.P. , Houghton-Mifflin Harcourt Company, Intelenet Global Services, The Nielsen Company and Vanguard Health Systems, Inc. Due to contributions that Mr. Quella can provide to our Board resulting from his financial expertise, as well as his significant experience in working with companies controlled by private equity sponsors, he is qualified to be on and is an asset to our Board.

Mr. Rubin was named our Chief Executive Officer in March 2013. Prior to joining us, Mr. Rubin served as President and Chief Executive Officer of Ulta Salon, Cosmetics & Fragrance, Inc. since September 2010, and served as Chief Operating Officer from April 2010 to September 2010. Prior to joining Ulta, he served as President of the North American Retail division of Office Depot, Inc. beginning in January 2006 and as Executive Vice President, Chief Marketing Officer and Chief Merchandising Officer of Office Depot from 2004 to January 2006. Prior to joining Office Depot, Mr. Rubin spent six years at Accenture Consulting in senior leadership roles including Partner, where he advised clients and led engagements across retail formats and e-commerce businesses. Prior to that, Mr. Rubin held a number of senior merchandising and general management positions in the specialty retail and department store industry including with Federated Department Stores. He was a member of the executive committee of the board of directors of The National Retail Federation from January 2007 to April 2010. Mr. Rubin holds a B.A. degree from Brandeis University. As a result of these experiences, along with Mr. Rubin's service as our current Chief Executive Officer, he is in position to provide invaluable insight and important contributions to our Board.

Mr. Wallace is a senior managing director at The Blackstone Group in the private equity group, which he joined in 1997. Mr. Wallace received a B.A. in Government from Harvard College. Mr. Wallace serves on the board of directors of AlliedBarton Security Services, GCA Services Group, SeaWorld Parks & Entertainment, Vivint and The Weather Channel Companies. Mr. Wallace was formerly a director of Crestwood Midstream Partners, New Skies Satellites and Pelmorex Media. These experiences and knowledge, along with his service on public company boards, enhance Mr. Wallace's contributions and value to our Board.

In connection with the Merger and the subsequent Reorganization, the Sponsors entered into an agreement providing that Michaels Holdings LLC will vote its shares of the Company so that each board member of Michaels Holdings LLC will serve on the Board of the Company. In connection with this offering, we will enter into an investor agreement with the Sponsors. Under the investor agreement, each of the Sponsors will have the contractual right to name up to three individuals to our Board. See "Certain Relationships and Related Party Transactions Other Arrangements and Relationships with the Sponsors Investor Agreement".

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Executive officers

Our current executive officers, their ages as of December 16, 2013, and their business experience during at least the past five years are set forth below.

Name	Age	Position
Carl S. Rubin	54	Chief Executive Officer; Director
Charles M. Sonsteby	60	Chief Administrative Officer and Chief Financial Officer
Theodore Bachmeier	50	Executive Vice President Store Operations
Thomas C. DeCaro	58	Executive Vice President Supply Chain
Philo T. Pappas	54	Executive Vice President Category Management
Paula A. Puleo	48	Executive Vice President Chief Marketing Officer
Eric C. Gordon	50	Senior Vice President Chief Information Officer
Shawn E. Hearn	48	Senior Vice President Human Resources
Dennis Mullahy	48	Senior Vice President Growth Initiatives
Michael J. Veitenheimer	57	Senior Vice President General Counsel and Secretary
Lance Weibye	44	Vice President Development

Mr. Sonsteby was named Chief Administrative Officer and Chief Financial Officer in October 2010. Prior to joining Michaels, Mr. Sonsteby served in various capacities at Brinker International, Inc. (which owns and operates casual dining restaurants) beginning in March 1990, including as Executive Vice President and Chief Financial Officer from 2001 until 2010, as Senior Vice President of Finance from 1997 to 2001 and as Vice President and Treasurer from 1994 to 1997. Mr. Sonsteby was formerly a director of Zale Corporation.

Mr. Bachmeier was promoted to Executive Vice President Store Operations in September 2013. Prior to his promotion, he served as Zone Vice President of Stores for Michaels from January 2011, Vice President Aaron Brothers Store Operations from July 2008 to January 2011, and District Manager for Michaels from 1997 to July 2008.

Mr. DeCaro was promoted to Executive Vice President Supply Chain in June 2005. Prior to his promotion, Mr. DeCaro served as Senior Vice President Inventory Management since August 2000 when he joined Michaels. From April 1998 until joining the Company, he was Vice President Merchandise for The Walt Disney Company (a multi-national media conglomerate, which also operates retail stores and theme parks). Prior to this, he held the position of Senior Vice President Merchandise Planning and Allocation for Kohl's Department Stores (a U.S. department store chain) from February 1996 to April 1998. In addition, Mr. DeCaro has held various positions in Merchandise Planning and Allocation and Finance for The Disney Store, The Limited Stores, May Department Stores, and Sanger Harris Department Stores.

Mr. Pappas was named Executive Vice President Category Management in February 2009. Prior to joining Michaels, he served as Chief Merchandising Officer at Tweeter Home Entertainment Group, Inc. (a specialty consumer electronics retailer) from April 2003 to October 2008. On June 11, 2007, Tweeter and each of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware in Wilmington, Delaware. Prior to joining Tweeter, Mr. Pappas served in various management positions at Staples, Inc. (an office supply store chain) from November 1994 to April 2003, most recently as Senior Vice President of Merchandising.

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Ms. Puleo was promoted to Executive Vice President Chief Marketing Officer in January 2013. Prior to her promotion, Ms. Puleo served as our Senior Vice President Chief Marketing Officer since March 2010. Prior to joining Michaels, she served in various management positions at RAPP Worldwide (a multi-channel marketing agency), including Executive Vice President Strategy & Enablement from February 2006 to February 2010 and Senior Vice President Account Management from December 2005 to January 2006. Prior to joining RAPP, Ms. Puleo served as Director of CRM at Limited Brands, Inc. (an apparel company with a series of retail brands) from February 2003 to December 2005.

Mr. Gordon was named Senior Vice President Chief Information Officer in September 2011. Prior to joining Michaels, he served as Chief Information Officer and Division Senior Vice President at Collective Brands, Inc. (a specialty family footwear retailer) from January 2008 to August 2011. Prior to joining Collective Brands, Mr. Gordon served as Vice President, Solutions Delivery at Family Dollar Stores, Inc. (a regional chain of variety stores) from June 2003 to December 2007.

Mr. Hearn was named Senior Vice President Human Resources in February 2007. Prior to his promotion, Mr. Hearn served as our Vice President, Field Human Resources since joining Michaels in November 2002. Prior to joining Michaels, he served in various operations, marketing, and human resource management positions at KMart Corporation (a multi-national retailer) from August 1981 to October 2002, most recently as Vice President, Advertising.

Mr. Mullahy was named Senior Vice President Growth Initiatives in November 2013. Prior to joining Michaels, he served as Senior Vice President Supply Chain at Ulta Salon, Cosmetics & Fragrance, Inc. from July 2011 to September 2013. Prior to joining Ulta, Mr. Mullahy served as Group Vice President Merchandising and Supply Chain Management at Meijer, Inc. from May 2005 to July 2011. In addition, Mr. Mullahy served in various capacities at Accenture, including as Partner from June 2000 to May 2005.

Mr. Veitenheimer was named Senior Vice President General Counsel and Secretary in January 2008. Prior to joining Michaels, Mr. Veitenheimer served as Senior Vice President of Law and Human Resources of The Bombay Company, Inc. (a specialty retailer focused on home accessories, wall decor and furniture), from June 2007 to December 2007 after having served as a Senior Vice President since February 2006, its Secretary since July 1985 and its General Counsel since November 1983. On September 20, 2007, The Bombay Company, Inc. and its U.S. wholly-owed subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, Northern District of Texas, Fort Worth Division. Prior to joining The Bombay Company, Mr. Veitenheimer was in private practice of law in Fort Worth, Texas.

Mr. Weibye was named Vice President Development in November 2012. He previously served as our Vice President Real Estate from June 2010 and Senior Director Real Estate since joining the Company in April 2008. Prior to joining Michaels, he served as Senior Manager of Real Estate Development for Kohl's Corporation from July 2004 to April 2008.

Corporate governance

Our Board is responsible for governing company business and affairs. Highlights of our corporate governance practices are described below.

Board committees

Following the completion of this offering, we will continue to have an Audit Committee and a Compensation Committee, which will have the composition and responsibilities described below. Each

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committee will operate under a charter that will be amended and restated by our Board effective upon the completion of this offering. The composition of each committee as set forth below will be effective upon the closing of this offering. The members of each committee are appointed by the Board and serve until their successor is elected and qualified, unless they are earlier removed or resign. 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 holds 10% or more but less than 25% of our outstanding Common Stock, and one director for so long as such Sponsor owns at least 3% or more but less than 10% of our outstanding Common Stock. In addition, from time to time, special committees may be established under the direction of the Board when necessary to address specific issues.

Because we intend to avail ourselves of the "controlled company" exception under the rules of our Compensation Committee will not be required to be composed entirely of independent directors as defined under the rules of The controlled company exception does not modify the independence requirements for the Audit Committee, and we intend to comply with the requirements of the Sarbanes-Oxley Act and which require that our Audit Committee be composed of at least three members, a majority of whom will be independent within 90 days of the date of this prospectus, and all of whom will be independent within one year of the date of this prospectus.

Compensation committee

The purpose of the Compensation Committee is to assist the Board in fulfilling responsibilities relating to oversight of the compensation of our directors, executive officers and other employees and the Company's incentive and equity-based compensation programs. The Compensation Committee reviews and recommends to our Board compensation plans, policies and programs and approves specific compensation levels for all executive officers. Upon completion of this offering, the Compensation Committee will consist of . Prior to the consummation of this offering, our Board will adopt a written amended and restated charter under which the Compensation Committee will operate. A copy of the amended and restated charter, which will satisfy the applicable standards of the SEC and , will be available on our website.

Audit committee

The purpose of the Audit Committee will be set forth in the amended and restated Audit Committee charter. The Audit Committee's primary duties and responsibilities will be to:

- appoint, compensate, retain and oversee the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services and review and appraise the audit efforts of our independent accountants
- establish procedures for (i) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and (ii) confidential and anonymous submissions by our employees of concerns regarding questionable accounting or auditing matters
- engage independent counsel and other advisers, as necessary
- determine funding of various services provided by accountants or advisers retained by the committee
- review our financial reporting processes and internal controls
- review and approve related-party transactions or recommend related-party transactions for review by independent members of our Board

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provide an open avenue of communication among the independent accountants, financial and senior management and the Board

Upon completion of this offering, the Audit Committee will consist of . is both an independent director and an "audit committee financial expert" within the meaning of Item 407 of Regulation S-K. Prior to the consummation of this offering, our Board will adopt an amended and restated charter under which the Audit Committee will operate. A copy of the amended and restated charter, which will satisfy the applicable standards of the SEC and will be available on our website.

Code of business conduct and ethics

We have adopted a Code of Business Conduct and Ethics that applies to, among others, our principal executive officer, principal financial officer, and principal accounting officer or controller, or persons performing similar functions. Following this offering, a current copy of the code will be posted on our website, which is located at *www.michaels.com*.

Compensation committee interlocks and insider participation

None of our executive officers serves as a member of the board of directors or compensation committee of any other entity (other than a subsidiary) that has one or more executive officers who serve on our Board or Compensation Committee.

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Executive compensation

Compensation discussion and analysis

Introduction

The following Compensation Discussion and Analysis relates to compensation paid to our executive officers named in the Summary Compensation Table for fiscal 2012, as well as our Chief Executive Officer, Carl S. "Chuck" Rubin, who commenced employment with the Company on March 18, 2013. Peter F. Wallace and Matthew S. Levin are the current members of our Compensation Committee and served in this role for all of fiscal 2012.

Named executive officers

According to SEC rules, the Summary Compensation Table that immediately follows this Compensation Discussion and Analysis must include specific information for each of the following persons: (i) all individuals serving as principal executive officer or acting in a similar capacity during the last completed fiscal year; (ii) all individuals serving as principal financial officer or acting in a similar capacity during the last completed fiscal year; (iii) the three most highly compensated executive officers other than the principal executive officer and principal financial officer who were serving as executive officers at the end of the last completed fiscal year; and (iv) up to two additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer at the end of the last completed fiscal year. These individuals are: Lewis S. Klessel, Member of the Interim Office of the Chief Executive Officer and Interim Chief Operating Officer (who served as principal executive officer for part of the year); Charles M. Sonsteby, Member of the Interim Office of the Chief Executive Officer, Chief Administrative Officer and Chief Financial Officer (who served as principal executive officer for part of the year and principal financial officer); Thomas C. DeCaro, Executive Vice President Supply Chain; Philo T. Pappas, Executive Vice President Category Management; Weizhong "Wilson" Zhu, Executive Vice President Private Brands & Global Sourcing (the three other most highly compensated individuals who were serving as executive officers at the end of fiscal 2012); and John B. Menzer, our former Chief Executive Officer (who served as principal executive officer for part of the year). These officers are referred to as our "Named Executive Officers". This Compensation Discussion and Analysis and the executive compensation discussion and tables that immediately follow describe the process, strategy and elements of the Company's compensation plan as applied to our Named Executive Officers.

We entered into an employment agreement with Mr. Rubin in connection with his appointment as our Chief Executive Officer, effective as of March 18, 2013, the material terms of which are described below under "Executive Compensation Employment and Severance Agreements". Effective Mr. Rubin's start date, the Interim Office of the Chief Executive Officer was discontinued. Effective the same date, Mr. Klessel resigned from his position as interim Chief Operating Officer of the Company and Mr. Sonsteby continued in his role as the Company's Chief Administrative Officer and Chief Financial Officer.

Compensation program

The principal objectives of our compensation program are:

- attracting and retaining highly qualified individuals whose contributions result in Michaels meeting or exceeding its financial and strategic goals;

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- motivating officers to achieve exceptional levels of operating and financial performance; and

- aligning officer interests with the long term goals of our stockholders.

Currently, the total compensation for our officers at the Vice President level and above, including our Named Executive Officers, consists of three main components: base salary, annual cash incentive bonuses and long term equity-based incentive compensation awards. The strategy of the cash incentive compensation program for our officers is to provide higher annual cash incentive compensation for exceptional corporate and business financial performance. We also believe that by placing a significant equity opportunity in the hands of executives who are capable of driving and sustaining growth, our stockholders will benefit along with the executives who helped create stockholder value. The table immediately below includes the principal components of our pay-for-performance approach.