MICHAELS STORES INC Form 10-Q August 30, 2013 Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 3, 2013

OR

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

For the transition period from to

Commission file number 001-09338

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MICHAELS STORES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

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

8000 Bent Branch Drive

Irving, Texas 75063

(Address of principal executive offices, including zip code)

(972) 409-1300

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.* Yes o No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No 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.

Large accelerated filer o

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

Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of August 26, 2013, 100 shares of the Registrant s Common Stock were outstanding.

^{*}The Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, but is not required to file such reports under such sections.

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MICHAELS STORES, INC.

Part I FINANCIAL INFORMATION

Item 1. Financial Statements.

MICHAELS STORES, INC.

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

(Unaudited)

ASSETS Current assets: Cash and equivalents \$ 51 \$ 56 \$ 113 Merchandise inventories 905 865 922 Prepaid expenses and other 96 86 89 Deferred income taxes 37 37 42 Income tax receivable 34 3 27 Total current assets 1,123 1,047 1,193 Property and equipment, at cost 1,542 1,502 1,438 Less accumulated depreciation and amortization (1,195) (1,164) (1,112) Property and equipment, net of accumulated amortization of \$54, \$54, and \$82, 94 94 95 Defit issuance costs, net of accumulated amortization of \$54, \$54, and \$82, 13 13 18 Other assets 5 3 33 3 Total non-current assets 152 156 167 Total assets \$ 1,622 \$ 1,541 \$ 1,686 Current liabilities: \$ <td< th=""><th></th><th colspan="2">August 3, February 2, 2013 2013</th><th colspan="2">July 28, 2012</th></td<>		August 3, February 2, 2013 2013		July 28, 2012	
Cash and equivalents \$ 51 \$ 56 \$ 113 Merchandise inventories 905 865 922 Prepaid expenses and other 96 86 89 Deferred income taxes 37 37 42 Income tax receivable 34 3 27 Total current assets 1,123 1,047 1,193 Property and equipment, at cost 1,542 1,502 1,438 Less accumulated depreciation and amortization (1,195) (1,164) (1,112) Property and equipment, net 347 338 326 Goodwill 94 94 94 95 Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, respectively 40 46 51 Deferred income taxes 13 13 18 04 94 95 Det issuance costs, net of accumulated amortization of \$54, \$54, and \$82, respectively 40 46 51 Deferred income taxes 13 13 18 01 166 Other assets 5 3 33 32	ASSETS				
Merchandise inventories 905 865 922 Prepaid expenses and other 96 86 89 Deferred income taxes 37 37 42 Income tax receivable 34 3 27 Total current assets 1,123 1,047 1,193 Property and equipment, at cost 1,542 1,502 1,438 Less accumulated depreciation and amortization (1,195) (1,164) (1,112) Property and equipment, net 347 338 326 Goodwill 94 94 95 Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, respectively 40 46 51 Deferred income taxes 13 13 13 18 Other assets 5 3 3 Total assets 1,622 1,541 1,686 LLABILITIES AND STOCKHOLDERS DEFICIT Current liabilities 1,682 277 Accounts payable \$ 289 263 277 Accounts payable \$ 2	Current assets:				
Prepaid expenses and other 96 86 89 Deferred income taxes 37 37 42 Income tax receivable 34 3 27 Total current assets 1,123 1,047 1,193 Property and equipment, at cost 1,542 1,502 1,438 Less accumulated depreciation and amortization (1,195) (1,164) (1,112) Property and equipment, net 347 338 326 Goodwill 94 94 95 Deftred income taxes 13 13 18 Other assets 5 3 3 Total onn-current assets 152 1,56 167 Total assets 5 3 3 3 Total assets \$ 1,622 \$ 1,541 1,686 LIABILITIES AND STOCKHOLDERS DEFICIT Current liabilities \$ 289 \$ 263 \$ 277 Accounts payable \$ 289 \$ 263 \$ 277 Accounts payable \$ 289 \$	Cash and equivalents	\$ 51	\$ 56	\$ 113	
Deferred income taxes 37 37 42 Income tax receivable 34 3 27 Total current assets $1,123$ $1,047$ $1,193$ Property and equipment, at cost $1,542$ $1,502$ $1,438$ Less accumulated depreciation and amortization $(1,195)$ $(1,164)$ $(1,112)$ Property and equipment, net 347 338 326 Goodwill 94 94 95 Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, $respectively$ 40 46 51 Deferred income taxes 13 13 18 0 04 95 Deti susance costs, net of accumulated amortization of \$54, \$54, and \$82, $respectively$ 40 46 51 Deferred income taxes 5 3 33 73 13 18 Other assets 5 3 3 3 3 Total on-current assets 152 $1,541$ $1,686$ LIABILITIES AND STOCKHOLDERS DEFICIT $$28$	Merchandise inventories	905	865	922	
Income tax receivable 34 3 27 Total current assets 1,123 1,047 1,193 Property and equipment, at cost 1,542 1,502 1,438 Less accumulated depreciation and amortization (1,195) (1,164) (1,112) Property and equipment, net 347 338 326 Goodwill 94 94 95 Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, respectively 40 46 51 Deferred income taxes 13 13 18 0ther assets 5 3 3 Total non-current assets 152 156 167 164 167 1686 LIABILITIES AND STOCKHOLDERS DEFICIT Current liabilities: 38 367 351 Accounts payable \$ 289 \$ 263 \$ 277 Accound liabilities: and other 338 367 351 338 367 351 Deferred income taxes 4 4 1 1 40 2	Prepaid expenses and other	96	86	89	
Total current sasets 1,123 1,047 1,193 Property and equipment, at cost 1,542 1,502 1,438 Less accumulated depreciation and amortization (1,195) (1,164) (1,112) Property and equipment, net 347 338 326 Goodwill 94 94 95 Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, respectively 40 46 51 Deferred income taxes 13 13 18 0ther assets 5 3 33 Total non-current assets 152 156 167 167 1686 LIABILITIES AND STOCKHOLDERS DEFICIT Current liabilities: Accounts payable \$ 289 \$ 263 \$ 277 Accrued liabilities and other 338 367 351 351 351 Current portion of long-term debt 238 150 1 1 40 2	Deferred income taxes	37	37	42	
Property and equipment, at cost 1,542 1,502 1,438 Less accumulated depreciation and amortization (1,195) (1,164) (1,112) Property and equipment, net 347 338 326 Goodwill 94 94 95 Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, respectively 40 46 51 Deferred income taxes 13 13 18 Other assets 5 3 33 Total non-current assets 152 156 167 Total assets \$ 1,622 \$ 1,541 \$ 1,686 LIABILITIES AND STOCKHOLDERS DEFICIT Current liabilities: Accounts payable \$ 289 \$ 263 \$ 277 Accrued liabilities: 338 367 338 367 351 Deferred income taxes 238 150 1 1 1	Income tax receivable	34	3	27	
Less accumulated depreciation and amortization $(1,195)$ $(1,164)$ $(1,112)$ Property and equipment, net 347 338 326 Goodwill 94 94 95 Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, $respectively$ 40 46 51 Deferred income taxes 13 13 13 18 Other assets 5 3 3 Total non-current assets 152 156 167 Total assets $\$$ $1,622$ $\$$ $1,541$ $\$$ $1,686$ LIABILITIES AND STOCKHOLDERS DEFICIT Current liabilities: Accounts payable $\$$ 289 $\$$ 263 $\$$ 277 Accrued liabilities and other 338 367 351 50 11 10 10 Deferred income taxes 4 4 1 10 238 150 11	Total current assets	1,123	1,047	1,193	
Property and equipment, net 347 338 326 Goodwill 94 94 95 Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, respectively 40 46 51 Deferred income taxes 13 13 18 Other assets 5 3 33 Total non-current assets 152 156 167 Total assets \$ 1,622 \$ 1,541 \$ LIABILITIES AND STOCKHOLDERS DEFICIT Current liabilities: Accounts payable \$ 289 \$ 263 \$ 277 Accounts payable \$ 238 150 1 1 10 1 Deferred income taxes 4 4 1 1 10 2 1	Property and equipment, at cost	1,542	1,502	1,438	
Goodwill 94 94 95 Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, 40 46 51 respectively 40 46 51 Deferred income taxes 13 13 18 Other assets 5 3 3 Total non-current assets 152 156 167 Total assets \$ 1,622 \$ 1,541 \$ LIABILITIES AND STOCKHOLDERS DEFICIT Current liabilities: Accounts payable \$ 289 \$ 263 \$ 277 Accrued liabilities and other 338 367 351 351 Current portion of long-term debt 238 150 1 Deferred income taxes 4 4 1 Income taxes payable 1 40 2	Less accumulated depreciation and amortization	(1,195)	(1,164)	(1,112)	
Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82, respectively 40 46 51 Deferred income taxes 13 13 18 Other assets 5 3 3 Total non-current assets 152 156 167 Total assets \$ 1,622 \$ 1,541 \$ 1,686 LIABILITIES AND STOCKHOLDERS DEFICIT Current liabilities: Accounts payable \$ 289 \$ 263 \$ 277 Accrued liabilities and other 338 367 351 351 1 1 1 1 Deferred income taxes 4 4 4 1 1 1 40 2	Property and equipment, net	347	338	326	
respectively 40 46 51 Deferred income taxes 13 13 18 Other assets 5 3 3 Total non-current assets 152 156 167 Total assets \$ 1,622 \$ 1,541 \$ LIABILITIES AND STOCKHOLDERS DEFICIT V V V Current liabilities: -	Goodwill	94	94	95	
respectively 40 46 51 Deferred income taxes 13 13 18 Other assets 5 3 3 Total non-current assets 152 156 167 Total assets \$ 1,622 \$ 1,541 \$ LIABILITIES AND STOCKHOLDERS DEFICIT V V V Current liabilities: -	Debt issuance costs, net of accumulated amortization of \$54, \$54, and \$82,				
Other assets 5 3 3 Total non-current assets 152 156 167 Total non-current assets \$ 1,622 \$ 1,541 \$ 1,686 LIABILITIES AND STOCKHOLDERS DEFICIT Current liabilities: Zesp \$ 263 \$ 277 Accounts payable \$ 289 \$ 263 \$ 277 Accrued liabilities and other 338 367 351 351 351 150 1 Deferred income taxes 4 4 1 1 40 2		40	46	51	
Total non-current assets152156167Total assets\$1,622\$1,541\$1,686LIABILITIES AND STOCKHOLDERS DEFICITCurrent liabilities:Accounts payable\$289\$263\$277Accrued liabilities and other338367351351Current portion of long-term debt2381501Deferred income taxes4411Income taxes payable1402	Deferred income taxes	13	13	18	
Total assets\$1,622\$1,541\$1,686LIABILITIES AND STOCKHOLDERS DEFICITCurrent liabilities:Accounts payable\$289\$263\$277Accrued liabilities and other338367351351Current portion of long-term debt2381501Deferred income taxes441Income taxes payable1402	Other assets	5	3	3	
LIABILITIES AND STOCKHOLDERS DEFICITCurrent liabilities:Accounts payable\$289 \$263 \$277Accrued liabilities and other338367351Current portion of long-term debt2381501Deferred income taxes441Income taxes payable1402	Total non-current assets	152	156	167	
Current liabilities:Accounts payable\$289 \$263 \$277Accrued liabilities and other338367351Current portion of long-term debt2381501Deferred income taxes441Income taxes payable1402	Total assets	\$ 1,622	\$ 1,541	\$ 1,686	
Current liabilities:Accounts payable\$289 \$263 \$277Accrued liabilities and other338367351Current portion of long-term debt2381501Deferred income taxes441Income taxes payable1402					
Accounts payable\$289\$263\$277Accrued liabilities and other338367351Current portion of long-term debt2381501Deferred income taxes441Income taxes payable1402	LIABILITIES AND STOCKHOLDERS DEFICIT				
Accrued liabilities and other338367351Current portion of long-term debt2381501Deferred income taxes441Income taxes payable1402	Current liabilities:				
Current portion of long-term debt2381501Deferred income taxes441Income taxes payable1402	Accounts payable	\$ 289	\$ 263	\$ 277	
Deferred income taxes441Income taxes payable1402	Accrued liabilities and other	338	367	351	
Income taxes payable 1 40 2	Current portion of long-term debt	238	150	1	
	Deferred income taxes	4	4	1	
	Income taxes payable	1	40	2	
Total current liabilities 870 824 632	Total current liabilities	870	824	632	
Long-term debt 2,882 2,891 3,363	Long-term debt	2,882	2,891	3,363	
Deferred income taxes 2 2 11	Deferred income taxes	2	2	11	
Other long-term liabilities 81 83 86	Other long-term liabilities	81	83	86	
Total long-term liabilities 2,965 2,976 3,460		2,965	2,976	3,460	
Total liabilities 3,835 3,800 4,092		3,835	3,800	4,092	

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Commitments and contingencies Stockholders deficit:

Common Stock, \$0.10 par value, 100 shares authorized; 100 shares issued and

outstanding			
Additional paid-in capital	60	61	62
Accumulated deficit	(2,277)	(2,326)	(2,474)
Accumulated other comprehensive income	4	6	6
Total stockholders deficit	(2,213)	(2,259)	(2,406)
Total liabilities and stockholders deficit	\$ 1,622 \$	1,541 \$	1,686

See accompanying notes to consolidated financial statements.

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MICHAELS STORES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(Unaudited)

Quarter Ended July 28, 2012 August 3, 2013 August 3, 2013

Net sales

Six Months Ended

July 28, 2012