MICHAELS STORES INC
Form 10-Q
June 02, 2014

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 May 3, 2014

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

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	Accelerated filer o
Non-accelerated filer x (Do not check if a smaller reporting company)	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 May 30, 2014, 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.

FORM 10-Q

Part I FINANCIAL INFORMATION

Part II OTHER INFORMATION

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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)

	May 3, 2014	February 1, 2014	May 4, 2013
ASSETS			
Current assets:			
Cash and equivalents	$ 112	$ 234	$ 55
Merchandise inventories	930	901	843
Prepaid expenses and other	95	95	85
Receivable from Parent		2	
Deferred income taxes	37	39	37
Income tax receivables	8	2	8
Total current assets	1,182	1,273	1,028
Property and equipment, at cost	1,628	1,600	1,527
Less accumulated depreciation and amortization	(1,266)	(1,242)	(1,186)
Property and equipment, net	362	358	341
Goodwill	94	94	94
Debt issuance costs, net of accumulated amortization of $56, $54, and $52, respectively	36	37	42
Deferred income taxes	22	28	28
Long-term receivable from Parent	5	8	
Other assets	3	3	2
Total non-current assets	160	170	166
Total assets	$ 1,704	$ 1,801	$ 1,535
LIABILITIES AND STOCKHOLDERS DEFICIT			
Current liabilities:			
Accounts payable	$ 313	$ 368	$ 232
Accrued liabilities and other	315	377	300
Share-based compensation liability			36
Current portion of long-term debt	16	16	198
Dividend payable to Holdings		30	
Deferred income taxes		1	4
Income taxes payable	47	42	27
Total current liabilities	691	834	797
Long-term debt	2,873	2,878	2,887
Deferred income taxes	1	2	2
Share-based compensation liability			28

Other long-term liabilities		84		88		79
Total long-term liabilities		2,958		2,968		2,996
Total liabilities		3,649		3,802		3,793
Commitments and contingencies						
Stockholders deficit:						
Common Stock, $0.10 par value, 100 shares authorized; 100 shares issued and outstanding at May 3, 2014, February 1, 2014, and May 4, 2013						
Additional paid-in capital		125		124		50
Accumulated deficit		(2,069)		(2,125)		(2,313)
Accumulated other comprehensive (loss) income		(1)				5
Total stockholders deficit		(1,945)		(2,001)		(2,258)
Total liabilities and stockholders deficit	$	1,704	$	1,801	$	1,535

See accompanying notes to consolidated financial statements.

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MICHAELS STORES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

(Unaudited)

	Quarter Ended	
	May 3, 2014	May 4, 2013
Net sales	$ 1,052	$ 993
Cost of sales and occupancy expense	623	584
Gross profit	429	409
Selling, general, and administrative expense	282	272
Share-based compensation	4	3
Related party expenses	3	4
Store pre-opening costs	1	2
Operating income	139	128
Interest expense	41	47
Refinancing costs and losses on early extinguishment of debt		7
Income before income taxes	98	74
Provision for income taxes	42	28
Net income	56	46
Other comprehensive (loss), net of tax:		
Foreign currency translation adjustment and other	(1)	(1)
Comprehensive income	$ 55	$ 45

See accompanying notes to consolidated financial statements.

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MICHAELS STORES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

	Quarter Ended	
	May 3, 2014	May 4, 2013
Operating activities:		
Net income	$ 56	$ 46
Adjustments:		
Depreciation and amortization	27	25
Share-based compensation	4	4
Debt issuance costs amortization	2	2
Refinancing costs expensed and losses on early extinguishment of debt		7
Changes in assets and liabilities:		
Merchandise inventories	(28)	20
Prepaid expenses and other	1	1
Deferred income taxes	5	
Accounts payable	(45)	(14)
Accrued interest	(16)	(30)
Accrued liabilities and other	(45)	(41)
Income taxes		(14)
Other long-term liabilities	(3)	(4)
Net cash (used in) provided by operating activities	(42)	2
Investing activities:		
Additions to property and equipment	(31)	(22)
Net cash used in investing activities	(31)	(22)
Financing activities:		
Redemption of senior subordinated notes due 2016		(142)
Borrowings on asset-based revolving credit facility		306
Payments on asset-based revolving credit facility		(125)
Repayments on senior secured term loan facility	(4)	
Payments of dividends to Holdings	(30)	
Payment of capital leases		(1)
Change in cash overdraft	(12)	(19)
Other	(3)	
Net cash (used in) provided by financing activities	(49)	19
Net decrease in cash and equivalents	(122)	(1)
Cash and equivalents at beginning of period	234	56
Cash and equivalents at end of period	$ 112	$ 55
Supplemental Cash Flow Information:		
Cash paid for interest	$ 56	$ 75
Cash paid for income taxes	$ 36	$ 44

See accompanying notes to consolidated financial statements.

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MICHAELS STORES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Quarter Ended May 3, 2014

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Michaels Stores, Inc. and our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. All expressions of the Company , us, we, our, and all similar expressions are references to Michaels Stores, Inc. and our consolidated, wholly-owned subsidiaries, unless otherwise expressly stated or the context otherwise requires.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

The balance sheet at February 1, 2014, has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals and other items) considered necessary for a fair presentation have been included.

Because of the seasonal nature of our business, the results of operations for the quarter ended May 3, 2014 are not indicative of the results to be expected for the entire year.

We report on the basis of a 52- or 53-week fiscal year, which ends on the Saturday closest to January 31. All references herein to fiscal 2014 relate to the 52 weeks ending January 31, 2015 and all references to fiscal 2013 relate to the 52 weeks ended February 1, 2014. In addition, all references herein to the first quarter of fiscal 2014 relate to the 13 weeks ended May 3, 2014, and all references to the first quarter of fiscal 2013 relate to the 13 weeks ended May 4, 2013.

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

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Note 2. Debt

Our outstanding debt is detailed in the table below. We were in compliance with the terms and conditions of all debt agreements for all periods presented.

	May 3, 2014	February 1, 2014 (in millions)	May 4, 2013	Interest Rate
Senior secured term loan	$ 1,623	$ 1,628	$ 1,640	Variable
Senior notes	1,006	1,006	1,007	7.750%
Senior subordinated notes	260	260		5.875%
Senior subordinated notes			256	11.375%
Asset-based revolving credit facility			182	Variable
Total debt	2,889	2,894	3,085	
Less current portion	16	16	198	
Long-term debt	$ 2,873	$ 2,878	$ 2,887	

Restated Revolving Credit Facility

As of May 3, 2014, the borrowing base of our restated senior secured asset-based revolving credit facility (Restated Revolving Credit Facility) was $650 million, of which we had no borrowings, $61 million of outstanding letters of credit and the unused borrowing capacity was $589 million.

Note 3. Comprehensive Loss

Accumulated other comprehensive loss, net of tax, is reflected in the Consolidated Balance Sheets as follows:

	Foreign Currency Translation and Other (in millions)
Balance at February 1, 2014	$
Foreign currency translation adjustment and other	(1)
Balance at May 3, 2014	$ (1)

Note 4. Fair Value Measurements

As defined in Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* (ASC 820), fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 establishes a three-level valuation hierarchy for fair value measurements. These valuation techniques are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect less transparent active market data, as well as internal assumptions. These two types of inputs create the following fair value hierarchy:

- Level 1 Quoted prices for *identical* instruments in active markets;
- Level 2 Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable; and
- Level 3 Instruments with significant unobservable inputs.

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The table below provides the carrying and fair values of our senior secured term loan facility (Restated Term Loan Credit Facility), our 73/4% Senior Notes that are due in 2018 (2018 Senior Notes) and our 57/8% Senior Subordinated Notes that are due in 2020 (the 2020 Senior Subordinated Notes , and together, with our 2018 Senior Notes, (our notes)) as of May 3, 2014. The fair value of our Restated Term Loan Credit Facility was determined based on quoted market prices of similar instruments which are considered Level 2 inputs within the fair value hierarchy. The fair value of our notes was determined based on recent trades which are considered Level 1 inputs within the fair value hierarchy.

	Carrying Value	Fair Value
	(in millions)	
Senior secured term loan	$ 1,623	$ 1,626
Senior notes	1,006	1,060
Senior subordinated notes	260	263

Note 5. Income Taxes

The effective tax rate was 42.9% for the first quarter of fiscal 2014. The effective rate was 37.8% for the first quarter of fiscal 2013. The current rate is higher than the prior year due to certain discrete items required to be recognized as a result of a change in tax status of our Canadian subsidiary. On February 2, 2014, the Company changed the corporate structure of our Canadian operations from a branch for U.S. tax purposes to a controlled foreign corporation of an indirect foreign subsidiary of Michaels Stores, Inc. As a result of the change in tax status, the net deferred tax assets related to U.S. temporary differences for the branch were written off. In addition, the Company recognized as discrete events, a tax gain on the contribution of certain assets to the new entity as part of the transaction, as well as previously unrecognized currency losses. The effects of the write-off, the gain on the contribution, and the currency losses were discrete charges to the income tax provision of $6 million, $1 million, and ($1) million respectively, during the first quarter. We currently estimate our effective tax rate for fiscal 2014 to be approximately 38.5%.

Note 6. Commitments and Contingencies

We are involved in ongoing legal and regulatory proceedings. Other than those described in the following paragraphs, there were no material changes to our disclosures of commitments and contingencies from our Annual Report on Form 10-K for the fiscal year ended February 1, 2014.

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 class action proceeding on behalf of themselves and certain former and current store managers employed by Michaels 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. On December 3, 2013, the Superior Court entered an Order certifying a class of approximately 200 members. The Company subsequently successfully removed the case to the United States District Court for the Central District of California and on May 8, 2014, the class was de-certified. We believe we have meritorious defenses and intend to defend the lawsuits vigorously. We do not believe the resolution of the lawsuits will have a material effect on our Consolidated Financial Statements.

Consumer class action claims

Data security incident

Five putative class actions were filed relating to our recent Data Breach. The plaintiffs generally allege that the Company failed to secure and safeguard customers private information including credit and debit card information and as such, breached an implied contract, violated the Illinois Consumer Fraud Act (and other states similar laws) and are seeking damages including declaratory relief, actual damages, punitive damages, statutory damages, attorneys fees, litigation costs, remedial action, pre and post judgment interest, and other relief as available. The cases are as follows: Christina Moyer v. Michaels Stores, Inc. was filed on January 27, 2014; Michael and Jessica Gouwens v. Michaels Stores, Inc., was filed on January 29, 2014; Nancy Maize and Jessica Gordon v.

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Michaels Stores, Inc., was filed on February 21, 2014; and Daniel Ripes v. Michaels Stores, Inc. was filed on March 14, 2014. All four of these cases were filed in the United States District Court-Northern District of Illinois, Eastern Division. A case, Mary Jane Whalen v. Michaels Stores, Inc., was filed in the United States District Court for the Eastern District of New York on March 18, 2014, but was voluntarily dismissed by the plaintiff on April 11, 2014, without prejudice to her right to re-file a complaint. On April 16, 2014, an order was entered consolidating the current actions. We believe we have meritorious defenses and intend to defend the lawsuits vigorously.

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

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

General

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

ASC 450, Contingencies, 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, as well as other matters previously disclosed in the Company s filings with the Securities and Exchange Commission (SEC), the Company is currently able to estimate a reasonably possible loss or range of loss in excess of amounts accrued (if any). For some of the matters included within this estimation, an accrual has been made because a loss is believed to be both probable and reasonably estimable, but an exposure to loss exists in excess of the amount accrued; in these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, although estimable, is believed to be reasonably possible, but not probable; in these cases the estimate reflects the reasonably possible loss or range of loss within the ranges identified. For the various ranges identified, the aggregate of these estimated amounts is approximately $9 million, which is also inclusive of amounts accrued by the Company.

For other matters disclosed above or as previously disclosed in the Company s filings with the SEC, 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 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.

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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 Note 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.

Note 7. Segments and Geographic Information

We consider our Michaels - U.S., Michaels - Canada and Aaron Brothers to be our operating segments for purposes of determining reportable segments based on the criteria of ASC 280, *Segment Reporting* (ASC 280). We determined that our Michaels - U.S., Michaels - Canada, and Aaron Brothers operating segments have similar economic characteristics and meet the aggregation criteria set forth in ASC 280. Therefore, we combine those operating segments into one reporting segment.

Our sales and assets by country are as follows:

	Quarter Ended			
	May 3, 2014		May 4, 2013	
	(in millions)			
Net Sales:				
United States	$	952	$	899
Canada		100		94
Consolidated Total	$	1,052	$	993

	May 3, 2014		February 1, 2014		May 4, 2013	
			(in millions)			
Total Assets:						
United States	$	1,588	$	1,678	$	1,421
Canada		116		123		114
Consolidated Total	$	1,704	$	1,801	$	1,535

Our chief operating decision makers evaluate historical operating performance, plan and forecast future periods operating performance based on operating income and earnings before interest, income taxes, depreciation, amortization, and refinancing costs and losses on early extinguishment of debt (EBITDA (excluding refinancing costs and losses on early extinguishment of debt)). We believe these metrics more closely reflect the operating effectiveness of factors over which management has control. A reconciliation of Net income to EBITDA (excluding refinancing costs and losses on early extinguishment of debt) is presented below.

	Quarter Ended	
	May 3, 2014	May 4, 2013
	(in millions)	

Net income	$	56	$	46
Interest expense		41		47
Provision for income taxes		42		28
Refinancing costs and losses on early extinguishments of debt				7
Depreciation and amortization		27		25
EBITDA (excluding refinancing costs and losses on early extinguishments of debt)	$	166	$	153

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Note 8. Related Party Transactions

We pay annual management fees to Bain Capital Partners, LLC (Bain Capital) and The Blackstone Group L.P. (The Blackstone Group and, together with Bain Capital, the Sponsors) and Highfields Capital Management LP in the amount of $12 million and $1 million, respectively. We recognized $3 million and $4 million of expense related to annual management fees during the first quarters of fiscal 2014 and fiscal 2013, respectively. These expenses are included in Related party expenses on the Consolidated Statements of Comprehensive Income.

Bain Capital owns a majority equity position in LogicSource, an external vendor we utilize for print procurement services. Payments associated with this vendor during each of the first quarters of fiscal 2014 and fiscal 2013 were $1 million each. These expenses are included in Selling, general and administrative expense on the Consolidated Statements of Comprehensive Income.

The Blackstone Group owns a majority equity position in Brixmor Properties Group, a vendor we utilize to lease certain properties. Payments associated with this vendor during each of the first quarters of fiscal 2014 and fiscal 2013 were $1 million. These expenses are included in Cost of sales and occupancy expense in the Consolidated Statements of Comprehensive Income.

The Blackstone Group owns a majority equity position in RGIS, an external vendor we utilize to count our store inventory. Payments associated with this vendor during the first quarters of fiscal 2014 and fiscal 2013 were $2 million and $1 million, respectively. These expenses are included in Selling, general and administrative expense on the Consolidated Statements of Comprehensive Income.

The Blackstone Group owns a majority equity position in Vistar, an external vendor we utilize for all of the candy-type items in our stores. Payments associated with this vendor during the first quarters of fiscal 2014 and fiscal 2013 were $7 million and $6 million, respectively. These expenses are recognized in Cost of sales as the sales are recorded.

Our current directors (other than Jill A. Greenthal, John J. Mahoney, James A. Quella, and Carl S. Rubin) are affiliates of Bain Capital or The Blackstone Group. As such, some or all of such directors may have an indirect material interest in payments with respect to debt securities of the Company that have been purchased by affiliates of Bain Capital and The Blackstone Group. As of May 3, 2014, affiliates of The Blackstone Group held approximately $38 million of our senior secured term loan.

Michaels Stores, Inc. is wholly owned by FinCo Holdings (Holdings). On July 29, 2013, FinCo Holdings co-issued $800 million aggregate principal amount of 7.50%/8.25% PIK Toggle Notes due 2018 (PIK Notes). The PIK Notes are not guaranteed by the Company, Holdings or any of their subsidiaries, but the indenture governing the PIK Notes contains restrictive covenants that apply to FinCo Holdings and its restricted subsidiaries, including the Company, Holdings and their subsidiaries, and a breach of such covenants would cause FinCo Holdings to be in default under the indenture governing the PIK Notes. In addition, the PIK Notes are not reflected in the financial statements of the Company. If interest on the PIK Notes for all interest periods is paid in cash, annual interest payments will total $60 million. The Company intends for any cash interest payments to be funded by the Company through a cash dividend to Holdings. In the first quarter of 2014, the Company paid a cash dividend of $30 million to Holdings. The dividend was declared during the fiscal year ended, February 1, 2014.

In the first fiscal quarter of 2014, the Company paid $8 million to repurchase common stock of The Michaels Companies, Inc. (the Parent of FinCo Holdings and Michaels Stores, Inc.) from former employees of Michaels Stores, Inc. The Company also received $5 million in proceeds from stock options exercised by former employees of Michaels Stores, Inc. The net proceeds of these transactions are recorded as a Long-term receivable from Parent on the Company s Consolidated Balance Sheets.

Note 9. Condensed Consolidating Financial Information

All obligations of Michaels Stores, Inc. (MSI) under the 2018 Senior Notes, 2020 Senior Subordinated Notes, Restated Term Loan Credit Facility, and Restated Revolving Credit Facility are guaranteed by each of our subsidiaries other than Aaron Brothers Card Services, LLC, Artistree of Canada, ULC, Michaels Stores of Puerto Rico, LLC and certain foreign and domestic subsidiary holding companies. In addition, all obligations of Michaels Stores, Inc. under the Restated Term Loan Credit Facility and Restated Revolving Credit Facility are guaranteed by Holdings. As of May 3, 2014, the financial statements of Aaron Brothers Card Services, LLC, Artistree of Canada, ULC, Michaels Stores of Puerto Rico, LLC and certain foreign and domestic subsidiary holding companies were immaterial. Each subsidiary guarantor is 100% owned, directly or indirectly, by the Company and all guarantees are joint and several and full and unconditional.

The following condensed consolidating financial information represents the financial information of MSI and its wholly-owned subsidiary guarantors, prepared on the equity basis of accounting. The information is presented in accordance with the requirements of Rule 3-10 under the SEC s Regulation S-X. The financial information may not necessarily be indicative of results of operations, cash flows, or financial position had the subsidiary guarantors operated as independent entities.

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Supplemental Condensed Consolidating Balance Sheet

	May 3, 2014			
	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated
	(in millions)			
ASSETS				
Current assets:				
Cash and equivalents	$ 79	$ 33	$	$ 112
Merchandise inventories	613	317		930
Intercompany receivables		684	(684)	
Other	116	24		140
Total current assets	808	1,058	(684)	1,182
Property and equipment, net	283			