UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A

(Mark One)

☒ **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

☐ **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	**75-1943604**
(State or other jurisdiction of incorporation or organization)	(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 ☐ No ☐

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 ☒ No ☐

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 ☐	Accelerated filer ☐
Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

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.

Explanatory Note

Michaels Stores, Inc. (“Company”) is filing this Amendment No. 1 (“Form 10-Q/A”) to its Quarterly Report on Form 10-Q for the quarter ended August 3, 2013, filed with the Securities and Exchange Commission (“SEC”) on August 30, 2013 (the “Form 10-Q”), for the purpose of correcting historical share-based compensation expense caused by the Company’s repurchase of shares that had not been held for at least six months following the exercise of stock options under its equity incentive plans. Since the participants held such shares for less than six months following exercise (“immature shares”), liability accounting applies to the plan.

The Company has determined its previously issued unaudited interim consolidated financial statements for the three and six month periods ended August 3, 2013 and July 28, 2012, contained an error with respect to ASC 718, *Compensation — Stock Compensation.* Specifically, former participants in the Company’s Equity Incentive Plan and its successor Plan (The Michaels Companies, Inc. (“Parent”) Equity Incentive Plan, together the “Plan”) exercised stock options upon their termination from the Company, and the Company repurchased the 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 Company determined the accounting error was material to fiscal 2011 and fiscal 2012 financial statements and those financial statements required restatement. As a result, the Company is also restating its financial statements for the three and six months ended August 3, 2013 and July 28, 2012. The impact to share-based compensation expense for the three and six months ended August 3, 2013 was $7 million ($5, Net of tax) and $12 million ($8, Net of tax), respectively. For the three and six months ended July 28, 2012 the impact was $6 million ($4, Net of tax) and $9 million ($5, Net of tax), respectively. As part of the restatement, the Company also recorded other adjustments related to merchandise inventories and the reserve for closed facilities which were previously determined to be immaterial to the respective periods. In total, the adjustments resulted in a decline of net income by $3 million and $4 million for the three and six month periods ended August 3, 2013, respectively, and by $4 million and $6 million for the three and six month periods ended July 28, 2012.

In connection with the restatement of our consolidated financial statements described herein, management re-evaluated the Company’s internal controls over financial reporting and disclosure controls and share repurchase procedures. It was determined a material weakness existed beginning in the third quarter of 2011 due to management’s failure to identify the accounting implications under ASC 718 related to the Company’s practice of repurchasing immature shares following option exercises by employees upon termination of employment, as well as its failure to follow internal controls relating to the repurchase of shares. For a discussion of management’s consideration of the Company’s internal control over financial reporting and the material weakness identified, see Item 4.

For convenience of the reader, this amended filing sets forth the original filing, in its entirety. The following items have been amended principally as a result of, and to reflect, the restatement:

Part I, Item 1	- Financial Statements (unaudited)
Part I, Item 2	- Management’s Discussion and Analysis of Financial Condition and Results of Operations
Part I, Item 4	- Controls and Procedures

In accordance with applicable SEC rules, this Amended Filing includes new certifications as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) from our Chief Executive Officer and Chief Financial Officer dated as of the date of filing of this Amended Filing.

The remaining items contained within this amended report consist of all other items originally contained in the Form 10-Q and are included for the convenience of the reader. The sections of the Form 10-Q which were not amended are unchanged and continue in full force and effect as originally filed. This amended report speaks as of the date of the original filing and has not been updated to reflect events occurring subsequent to the original filing other than those associated with the restatement of our financial statements.

MICHAELS STORES, INC.
FORM 10-Q

Part I—FINANCIAL INFORMATION

MICHAELS STORES, INC.
Part I—FINANCIAL INFORMATION

Item 1. Financial Statements.

MICHAELS STORES, INC.
CONSOLIDATED BALANCE SHEETS
(in millions, except share data)
(Unaudited)

	August 3, 2013 (Restated)	February 2, 2013 (Restated)	July 28, 2012 (Restated)
ASSETS			
Current assets:			
Cash and equivalents	$ 51	$ 56	$ 113
Merchandise inventories	909	862	925
Prepaid expenses and other	96	86	89
Deferred income taxes	38	37	42
Income tax receivable	36	3	27
Total current assets	1,130	1,044	1,196
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	29	30	32
Other assets	5	3	3
Total non-current assets	168	173	181
Total assets	$ 1,645	$ 1,555	$ 1,703
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	$ 289	$ 263	$ 277
Accrued liabilities and other	335	367	353
Share-based compensation liability	19	35	29
Current portion of long-term debt	238	150	1
Deferred income taxes	4	4	1
Income taxes payable	—	37	—
Total current liabilities	885	856	661
Long-term debt	2,882	2,891	3,363
Deferred income taxes	2	2	11
Share-based compensation liability	26	27	23
Other long-term liabilities	81	83	86
Total long-term liabilities	2,991	3,003	3,483
Total liabilities	3,876	3,859	4,144
Commitments and contingencies			
Stockholders' deficit:			
Common Stock, $0.10 par value, 100 shares authorized; 100 shares issued and outstanding	—	—	—
Additional paid-in capital	61	49	52
Accumulated deficit	(2,296)	(2,359)	(2,499)
Accumulated other comprehensive income	4	6	6
Total stockholders' deficit	(2,231)	(2,304)	(2,441)
Total liabilities and stockholders' deficit	$ 1,645	$ 1,555	$ 1,703

See accompanying notes to consolidated financial statements.

MICHAELS STORES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)
(Unaudited)

	Quarter Ended		Six Months Ended	
	August 3, 2013	July 28, 2012 (Restated)	August 3, 2013	July 28, 2012 (Restated)
Net sales	$ 904	$ 892	$ 1,897	$ 1,870
Cost of sales and occupancy expense	567	557	1,151	1,124
Gross profit	337	335	746	746
Selling, general, and administrative expense	254	251	526	510
Share-based compensation	8	3	11	7
Related party expenses	3	4	7	7
Store pre-opening costs	1	1	3	2
Operating income	71	76	199	220
Interest expense	45	61	92	127
Refinancing costs and losses on early extinguishment of debt	—	—	7	—
Other (income) and expense, net	1	—	1	(1)
Income before income taxes	25	15	99	94
Provision for income taxes	8	6	36	34
Net income	17	9	63	60
Other comprehensive income, net of tax:				
Foreign currency translation adjustment and other	(1)	(2)	(2)	—
Comprehensive income	$ 16	$ 7	$ 61	$ 60

See accompanying notes to consolidated financial statements.

MICHAELS STORES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Six Months Ended	
	August 3, 2013	July 28, 2012
		(Restated)
Operating activities:		
Net income	$ 63	$ 60
Adjustments:		
Depreciation and amortization	50	46
Share-based compensation	13	11
Debt issuance costs amortization	4	8
Refinancing costs and losses on early extinguishment of debt	7	—
Changes in assets and liabilities:		
Merchandise inventories	(47)	(82)
Prepaid expenses and other	(13)	(9)
Accounts payable	43	(23)
Accrued interest	(2)	(4)
Accrued liabilities and other	(59)	(42)
Income taxes	(71)	(46)
Other long-term liabilities	(2)	1
Net cash used in operating activities	(14)	(80)
Investing activities:		
Additions to property and equipment	(50)	(45)
Net cash used in investing activities	(50)	(45)
Financing activities:		
Redemption of senior subordinated notes due 2016	(142)	—
Repurchase of subordinated discount notes due 2016	—	(127)
Repayments on senior secured term loan facility	(4)	—
Borrowings on asset-based revolving credit facility	375	—
Payments on asset-based revolving credit facility	(154)	—
Payment of capital leases	(2)	(1)
Change in cash overdraft	(14)	(5)
Net cash provided by (used in) financing activities	59	(133)
Net decrease in cash and equivalents	(5)	(258)
Cash and equivalents at beginning of period	56	371
Cash and equivalents at end of period	$ 51	$ 113
Supplemental Cash Flow Information:		
Cash paid for interest	$ 89	$ 122
Cash paid for income taxes	$ 109	$ 80

See accompanying notes to consolidated financial statements.

MICHAELS STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Quarter and Six Months Ended August 3, 2013
(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Michaels Stores, Inc. and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. All expressions of the "Company", "Michaels", "us," "we," "our," and all similar expressions are references to Michaels Stores, Inc. and its 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 2, 2013.

The balance sheet at February 2, 2013 has been derived from the restated 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 August 3, 2013 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 2013" relate to the 52 weeks ending February 1, 2014, and all references to"fiscal 2012" relate to the 53 weeks ended February 2, 2013. In addition, all references herein to "the second quarter of fiscal 2013" relate to the 13 weeks ended August 3, 2013, and all references to "the second quarter of fiscal 2012" relate to the 13 weeks ended July 28, 2012. Finally, all references to "the six months ended August 3, 2013" relate to the 26 weeks ended August 3, 2013, and "the six months ended July 28, 2012" relate to the 26 weeks ended July 28, 2012.

Recent Accounting Pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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.

Note 2. Restatement — Share-based Compensation

The Company has determined its previously issued unaudited interim consolidated financial statements for the three and six month periods ended August 3, 2013 and July 28, 2012, contained an error with respect to Accounting Standards Codification ("ASC") 718, *Compensation — Stock Compensation*. Specifically, former participants in the Company's Equity Incentive Plan and its successor Plan (The Michaels Companies, Inc. ("Parent") Equity Incentive Plan, together the "Plan") exercised stock options upon their termination from the Company, and the Company repurchased the 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 Company determined the accounting error was material to fiscal 2011 and fiscal 2012 financial statements and those financial statements required restatement. As a result, the Company is also restating its financial statements for the three and six months ended August 3, 2013 and July 28, 2012. The impact to share-based compensation expense for the three and six months ended August 3, 2013, was $7 million ($5, net of tax) and $12 million ($8, net of tax), respectively. The impact to share-based compensation expense for the three and six months ended July 28, 2012, was $6 million ($4, net of tax) and $9 million ($5, net of tax), respectively. As part of the restatement, the Company also recorded other adjustments related to merchandise inventories and the reserve for closed facilities which were previously determined to be immaterial to the respective periods. In total, the adjustments resulted in a decline of Net income by $3 and $4 million for the three and six months ended August 3, 2013, and $4 and $6 million for the three and six months ended July 28, 2012.

The following footnotes have been restated:

- Note 6 — Income Taxes
- Note 9 — Segments and Geographic Information
- Note 11 — Condensed Consolidating Financial Information

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

Consolidated Balance Sheet
As of August 3, 2013

	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Merchandise inventories	$ 905	$ 4	$ —	$ 909
Deferred income taxes	37	1	—	38
Income tax receivable	34	2	—	36
Total current assets	1,123	7	—	1,130
Deferred income taxes	13	16	—	29
Total non-current assets	152	16	—	168
Accrued liabilities and other	338	(3)	—	335
Share-based compensation liability	—	19	—	19
Income taxes payable	1	(1)	—	—
Total current liabilities	870	15	—	885
Share-based compensation liability	—	26	—	26
Total long-term liabilities	2,965	26	—	2,991
Additional paid-in capital	60	1	—	61
Accumulated deficit	(2,277)	(19)	—	(2,296)
Total stockholders' deficit	(2,213)	(18)	—	(2,231)

Consolidated Balance Sheet
As of July 28, 2012

	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Merchandise inventories	$ 922	$ 3	$ —	$ 925
Total current assets	1,193	3	—	1,196
Deferred income taxes	18	14	—	32
Total non-current assets	167	14	—	181
Accrued liabilities and other	351	2	—	353
Share-based compensation liability	—	29	—	29
Income taxes payable	2	(2)	—	—
Total current liabilities	632	29	—	661
Share-based compensation liability	—	23	—	23
Total long-term liabilities	3,460	23	—	3,483
Additional paid-in capital	62	(10)	—	52
Accumulated deficit	(2,474)	(25)	—	(2,499)
Total stockholders' deficit	(2,406)	(35)	—	(2,441)

Consolidated Statements of Comprehensive Income
Quarter Ended August 3, 2013

	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Cost of sales and occupancy expense	$ 567	$ 1	$ (1)	$ 567
Gross Profit	337	(1)	1	337
Selling, general and administrative expense	258	(2)	(2)	254
Share-based compensation	—	8	—	8
Operating income	75	(7)	3	71
Income before income taxes	29	(7)	3	25
Provision for income taxes	9	(2)	1	8
Net income	20	(5)	2	17
Comprehensive income	19	(5)	2	16

Consolidated Statements of Comprehensive Income Six Months Ended August 3, 2013	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Cost of sales and occupancy expense	$ 1,153	$ 2	$ (4)	$ 1,151
Gross Profit	744	(2)	4	746
Selling, general and administrative expense	529	(1)	(2)	526
Share-based compensation	—	11	—	11
Operating income	205	(12)	6	199
Income before income taxes	105	(12)	6	99
Provision for income taxes	38	(4)	2	36
Net income	67	(8)	4	63
Comprehensive income	65	(8)	4	61

Consolidated Statements of Comprehensive Income Quarter Ended July 28, 2012	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Cost of sales and occupancy expense	$ 553	$ 4	$ —	$ 557
Gross Profit	339	(4)	—	335
Selling, general and administrative expense	252	(1)	—	251
Share-based compensation	—	3	—	3
Operating income	82	(6)	—	76
Income before income taxes	21	(6)	—	15
Provision for income taxes	8	(2)	—	6
Net income	13	(4)	—	9
Comprehensive income	11	(4)	—	7

Consolidated Statements of Comprehensive Income Six Months Ended July 28, 2012	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Cost of sales and occupancy expense	$ 1,119	$ 4	$ 1	$ 1,124
Gross Profit	751	(4)	(1)	746
Selling, general and administrative expense	512	(2)	—	510
Share-based compensation	—	7	—	7
Operating income	230	(9)	(1)	220
Income before income taxes	104	(9)	(1)	94
Provision for income taxes	38	(4)	—	34
Net income	66	(5)	(1)	60
Comprehensive income	66	(5)	(1)	60

Cash Flow Data Six Months Ended August 3, 2013	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Operating Activities:				
Net income	$ 67	(7)	3	$ 63
Share-based compensation	1	12	—	13
Merchandise inventories	(40)	(2)	(5)	(47)
Accrued liabilities and other	(38)	(21)	—	(59)
Income taxes	(71)	(2)	2	(71)
Net cash provided by (used in) operating activities	6	(20)	—	(14)
Repurchase of common stock	(45)	45	—	—
Proceeds from stock options exercised	25	(25)	—	—
Net cash provided by financing activities	39	20	—	59

	Cash Flow Data Six Months Ended July 28, 2012			
	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Operating Activities:				
Net income	$ 66	(5)	(1)	$ 60
Share-based compensation	3	8	—	11
Merchandise inventories	(82)	(1)	1	(82)
Income taxes	(43)	(3)	—	(46)
Net cash used in operating activities	(79)	(1)	—	(80)
Repurchase of common stock	(3)	3	—	—
Proceeds from stock options exercised	2	(2)	—	—
Net cash provided by (used in) financing activities	(134)	1	—	(133)

Note 3. 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.

	August 3, 2013	February 2, 2013 (in millions)	July 28, 2012	Interest Rate
Senior secured term loan	$ 1,636	$ 1,640	$ 1,996	Variable
Senior notes	1,007	1,007	795	7.750%
Senior subordinated notes	255	393	393	11.375%
Subordinated discount notes	—	—	180	13.000%
Asset-based revolving credit facility	222	1	—	Variable
Total debt	3,120	3,041	3,364	
Less current portion	238	150	1	
Long-term debt	$ 2,882	$ 2,891	$ 3,363	

$11^{3}/_{8}$% Senior Subordinated Notes due 2016

On January 28, 2013, we caused to be delivered to the holders of our outstanding $11^{3}/_{8}$% Senior Subordinated Notes due November 1, 2016 (the "Senior Subordinated Notes") an irrevocable notice relating to the redemption of $137 million in aggregate principal amount of the Senior Subordinated Notes. On February 27, 2013, we redeemed the $137 million of Senior Subordinated Notes at a redemption price equal to 103.792%. In accordance with Accounting Standards Codification ("ASC") 470 *Debt*, we recorded a loss on early extinguishment of debt of approximately $7 million related to the partial redemption of our Senior Subordinated Notes. The $7 million loss is comprised of a $5 million redemption premium and $2 million to write off related debt issuance costs.

Restated Revolving Credit Facility

As of August 3, 2013, the borrowing base of our restated senior secured asset-based revolving credit facility ("the Restated Revolving Credit Facility") was $650 million, of which we had $222 million in borrowings, $61 million of outstanding letters of credit and the unused borrowing capacity was $367 million.

Restated Term Loan Credit Facility

The Company 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 Company paid $4 million for the quarter ended August 3, 2013 and the current portion of debt includes $16 million that will be paid during the next four quarters.

Note 4. Comprehensive Income

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

	Foreign Currency Translation and Other
	(in millions)
Balance at February 2, 2013	$ 6
Foreign currency translation adjustment	(2)
Balance at August 3, 2013	$ 4

Note 5. Fair Value Measurements

As defined in ASC 820, *Fair Value Measurements and Disclosures*, 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.

We apply fair value techniques on a non-recurring basis for the establishment of potential impairment loss related to goodwill pursuant to ASC 350, *Intangibles—Goodwill and Other* and determining the fair value of long-lived assets pursuant to ASC 360, *Property, Plant, and Equipment.* During the quarter and six months ended August 3, 2013, there were no material events or changes in circumstances indicating the carrying amounts of our goodwill or long-lived assets may not be recoverable.

The table below provides the carrying and fair values of our senior secured term loan facility ("Restated Term Loan Credit Facility"), our 7 3/4% Senior Notes that mature in 2018 ("2018 Senior Notes") and our Senior Subordinated Notes, (together, with our 2018 Senior Notes, "our notes") as of August 3, 2013. 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	$ 1,636	$ 1,645
Senior notes	1,007	1,079
Senior subordinated notes	255	267

Note 6. Income Taxes

The effective tax rate was 32.0% for the second quarter of fiscal 2013. The effective tax rate was 40.0% for the second quarter of fiscal 2012. The current year tax rate is lower than the prior year tax rate due primarily to the realization of state tax credits this year.

The effective tax rate was 36.4% for the first six months of fiscal 2013. The effective tax rate was 36.2% for the first six months of fiscal 2012. The rate was higher than the prior year six month tax rate due primarily to the realization of state tax credits this year partly offset by the prior year favorable impact related to our reserve for uncertain tax positions. We currently estimate our annualized effective tax rate for fiscal 2013 to be 37.4%.

Note 7. 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 2, 2013 and our Quarterly Report on Form 10-Q for the quarterly period ended May 4, 2013.

Consumer Class Action Claims

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 the Company: 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 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.

Governmental inquiries and related matters

Non-U.S. trust inquiry

In early 2005, the District Attorney's office of the County of New York and the SEC opened inquiries concerning non-U.S. trusts that directly or indirectly held shares of Michaels common stock and common stock options. On July 29, 2010, the SEC filed a civil enforcement action in federal district court for the Southern District of New York against Charles Wyly, Sam Wyly, the Wylys' attorney—Michael French, and others alleging, among other things, violations of various federal securities laws, including those governing ownership reporting and trading of securities, in connection with the non-U.S. trusts and their subsidiaries. Additional information may be obtained at the SEC's website. Sam Wyly, the estate of Charles Wyly and Mr. French, also a former director of the Company, have requested indemnification from the Company for certain legal costs with respect to these matters. The Company has resolved all claims with regards to Sam Wyly and the estate of Charles Wyly for an immaterial amount.

On April 12, 2012, Mr. French filed a lawsuit against the Company and the non-U.S. trusts in the District Court of Dallas County, Texas. The matter was dismissed as to the non-U.S. trusts. Mr. French seeks damages from the Company for breach of contract, attorneys' fees and costs related to the Company's alleged indemnification obligations to Mr. French and attorneys' fees and costs related to the lawsuit. On August 9, 2013, the dispute was settled for an amount that will not 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 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 $10 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.

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 8. The Michaels Companies and its Subsidiaries

In July 2013, Michaels was reorganized into a holding company structure ("Reorganization"). The Michaels Companies, Inc. ("Parent"), Michaels FinCo Holdings, LLC ("FinCo Holdings"), Michaels FinCo, Inc. (" FinCo Inc") and Michaels Funding, Inc. ("Holdings") and Michaels Stores Merger Co, Inc. ("MergerCo") were formed in connection with the Reorganization: (i) MergerCo was merged with and into Michaels with Michaels being the surviving corporation; (ii) each share of Michaels' common stock was converted into the right to receive one share of Parent common stock, subject to the same vesting conditions, if any, as applied to the share so converted, and each such share of Michaels' common stock was cancelled and retired and ceased to exist; and (iii) each option to purchase one or more shares of common stock of Michaels was assumed by Parent and converted into an option to purchase an equivalent number of shares of common stock of Parent with the remaining terms of each such option remaining unchanged except as was necessary to reflect the Reorganization. Approximately 118 million shares of Michaels' common stock were converted into Parent common stock. The Michaels' 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. Michaels then issued 100 shares of stock with a $0.10 par value to Holdings. In addition, common stock issued and outstanding and additional paid-in capital for February 2, 2013 and July 28, 2012 on the Consolidated Balance Sheets have been adjusted to reflect this transaction as if it happened prior to those dates.

As a result of the Reorganization, FinCo Holdings is wholly owned by the Parent. FinCo Inc and Holdings are wholly owned by FinCo Holdings. Michaels is wholly owned by Holdings.

Subsequent to the Reorganization, on July 29, 2013, FinCo Holdings and FinCo Inc issued $800 million aggregate principal amount of 7.50%/8.25% PIK Toggle Notes due 2018 ("PIK Notes"). The PIK Notes were issued in a private transaction. Interest payments on the PIK Notes are due February 1 and August 1 of each year until maturity. The first two interest payments and the last interest payment are required to be paid entirely in cash. All other interest payments must be made in cash, except that all or a portion of the interest on the PIK Notes may be paid by increasing the principal amount of the outstanding PIK Notes or by issuing additional PIK Notes depending on the amount of cash dividends that can be paid by the Company under our credit agreements governing our Senior Secured Credit Facilities, the terms of the indentures governing our outstanding notes and the terms of our other indebtedness outstanding at the time. The proceeds from the debt issuance were about $782 million, after deducting the initial purchasers' discount and estimated fees and expenses. FinCo Holdings distributed the net proceeds to Parent and the proceeds were used to fund a cash dividend to the Parent's equity and equity-award holders and pay related fees and expenses.

The PIK Notes are senior unsecured obligations of FinCo Holdings and FinCo Inc and are not guaranteed by the Company or any of the Company's subsidiaries. In addition, neither the PIK Notes nor the dividend transaction is reflected in the financial statements of the Company. If interest on the PIK Notes is paid in cash, annual interest payments will total $60 million or a total of approximately $301 million from July 29, 2013 until August, 1, 2018, the maturity date. Any cash interest payments will be funded by the Company through a cash dividend to Holdings.

Note 9. Segments and Geographic Information

We consider our Michaels — U.S., Michaels — Canada, Aaron Brothers and online scrapbooking business operations to be our operating segments for purposes of determining reportable segments based on the criteria of ASC 280, *Segment Reporting.* 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. During the second quarter of 2013, the online scrapbooking business was discontinued; as an operating segment, it is immaterial to the financial statements as a whole.

Our sales and assets by country are as follows:

	Quarter Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
		(in millions)		
Net Sales:				
United States	$ 819	$ 812	$ 1,717	$ 1,703
Canada	85	80	180	167
Consolidated Total	$ 904	$ 892	$ 1,897	$ 1,870

	August 3, 2013	February 2, 2013	July 28, 2012
		(in millions)	
	(Restated)	(Restated)	(Restated)
Total Assets:			
United States	$ 1,522	$ 1,446	$ 1,586
Canada	123	109	117
Consolidated Total	$ 1,645	$ 1,555	$ 1,703

Our chief operating decision makers evaluate historical operating performance, plan and forecast future periods' operating performance based on 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 EBITDA (excluding refinancing costs and losses on early extinguishment of debt) represents the financial measure that more closely reflects the operating effectiveness of factors over which management has control. As such, an element of base incentive compensation targets for certain management personnel are based on EBITDA (excluding refinancing costs and losses on early extinguishment of debt). A reconciliation of EBITDA (excluding refinancing costs and losses on early extinguishment of debt) to Net income is presented below.

	Quarter Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
	(Restated)		(Restated)	
		(in millions)		
Net income	$ 17	$ 9	$ 63	$ 60
Interest expense	45	61	92	127
Refinancing costs and losses on early extinguishments of debt	—	—	7	—
Provision for income taxes	8	6	36	34
Depreciation and amortization	25	22	50	46
EBITDA (excluding refinancing costs and losses on early extinguishments of debt)	$ 95	$ 98	$ 248	$ 267

Note 10. 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 second quarter of fiscal 2013 and fiscal 2012, respectively and $7 million during the six months ended August 3, 2013 and July 28, 2012, 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 the second quarters of fiscal 2013 and fiscal 2012 were $1 million and were $2 million and $3 million during the six months ended August 3, 2013 and July 28, 2012, 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 Brixmor Properties Group, a vendor we utilize to lease certain properties. Payments associated with this vendor during each of the second quarters of fiscal 2013 and fiscal 2012 were $1 million and were $2 million during the six months ended August 3, 2013 and July 28, 2012. 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 second quarters of fiscal 2013 and fiscal 2012 were $2 million and $1 million, respectively and were $3 million during the six months ended August 3, 2013 and July 28, 2012. 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 second quarter of fiscal 2013 and fiscal 2012 were $6 million and were $12 million and $11 million during the six months ended August 3, 2013 and July 28, 2012, respectively. These expenses are recognized in cost of sales as the sales are recorded.

Our current directors (other than Jill A. Greenthal 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 August 3, 2013, affiliates of The Blackstone Group held $38 million of our Restated Term Loan Credit Facility.

As a result of the Reorganization discussed in Note 8, at August 3, 2013, the Company has recorded a receivable from Parent of $4 million for payments made by the Company related to the repurchase of stock issued by Parent as a result of a stock option exercise by an employee of the Company. Amounts paid by the Company on Parent's behalf related to the dividend payment discussed in Note 8 and the stock option exercise discussed above were $20 million for the six months ended August 3, 2013.

Note 11. Condensed Consolidating Financial Information

All obligations of the Company under its notes, the Restated Revolving Credit Facility and the Restated Term Loan Credit Facility are guaranteed by each of its subsidiaries other than Aaron Brothers Card Services, LLC, Artistree of Canada, ULC and Michaels Stores of Puerto Rico, LLC and will be guaranteed by its direct parent, Holdings. As of August 3, 2013, the financial statements of Aaron Brothers Card Services, LLC, Artistree of Canada, ULC and Michaels Stores of Puerto Rico, LLC were immaterial. Each subsidiary guarantor is 100% owned, directly or indirectly, by the Company and such guarantees of each subsidiary guarantor are (and the guarantee of Holdings will be) joint and several and full and unconditional.

The following condensed consolidating financial information represents the financial information of Michaels Stores, Inc. 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.

Supplemental Condensed Consolidating Balance Sheet

	August 3, 2013			
	Parent Company (Restated)	Guarantor Subsidiaries	Eliminations	Consolidated (Restated)
		(in millions)		
ASSETS				
Current assets:				
Cash and equivalents	$ 28	$ 23	$ —	$ 51
Merchandise inventories	619	290	—	909
Intercompany receivables	—	484	(484)	—
Other	142	28	—	170
Total current assets	789	825	(484)	1,130
Property and equipment, net	274	73	—	347
Goodwill	94	—	—	94
Investment in subsidiaries	453	—	(453)	—
Other assets	72	2	—	74
Total assets	$ 1,682	$ 900	$ (937)	$ 1,645
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable	$ 5	$ 284	$ —	$ 289
Accrued liabilities and other	205	130	—	335
Share-based compensation liability	6	13	—	19
Current portion of long-term debt	238	—	—	238
Intercompany payable	484	—	(484)	—
Other	4	—	—	4
Total current liabilities	942	427	(484)	885
Long-term debt	2,882	—	—	2,882
Share-based compensation liability	17	9	—	26
Other long-term liabilities	72	11	—	83
Total stockholders' deficit	(2,231)	453	(453)	(2,231)
Total liabilities and stockholders' deficit	$ 1,682	$ 900	$ (937)	$ 1,645

Supplemental Condensed Consolidating Balance Sheet

	February 2, 2013			
	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated
	(Restated) (In millions)			
ASSETS				
Current assets:				
Cash and equivalents	$ 37	$ 19	$ —	$ 56
Merchandise inventories	591	271	—	862
Intercompany receivables	—	329	(329)	—
Other	105	21	—	126
Total current assets	733	640	(329)	1,044
Property and equipment, net	271	67	—	338
Goodwill, net	94	—	—	94
Investment in subsidiaries	284	—	(284)	—
Other assets	76	3	—	79
Total assets	$ 1,458	$ 710	$ (613)	$ 1,555
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable	5	258	—	263
Accrued liabilities and other	235	132	—	367
Share-based Compensation	22	13	—	35
Current portion of long-term debt	150	—	—	150
Intercompany payable	329	—	(329)	—
Other	36	5	—	41
Total current liabilities	777	408	(329)	856
Long-term debt	2,891	—	—	2,891
Other long-term liabilities	73	12	—	85
Share based Compensation	21	6	—	27
Total stockholders' deficit	(2,304)	284	(284)	(2,304)
Total liabilities and stockholders' deficit	$ 1,458	$ 710	$ (613)	$ 1,555

Supplemental Condensed Consolidating Balance Sheet

	July 28, 2012			
	Parent Company (Restated)	Guarantor Subsidiaries	Eliminations	Consolidated (Restated)
		(in millions)		
ASSETS				
Current assets:				
Cash and equivalents	$ 93	$ 20	$ —	$ 113
Merchandise inventories	603	322	—	925
Intercompany receivables	—	556	(556)	—
Other	135	23	—	158
Total current assets	831	921	(556)	1,196
Property and equipment, net	265	61	—	326
Goodwill	95	—	—	95
Investment in subsidiaries	569	—	(569)	—
Other assets	83	3	—	86
Total assets	$ 1,843	$ 985	$ (1,125)	$ 1,703
LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current liabilities:				
Accounts payable	$ 8	$ 269	$ —	$ 277
Accrued liabilities and other	234	119	—	353
Share-based compensation liability	19	10	—	29
Current portion of long-term debt	1	—	—	1
Intercompany payable	556	—	(556)	—
Other	1	—	—	1
Total current liabilities	819	398	(556)	661
Long-term debt	3,363	—	—	3,363
Share-based compensation liability	16	7	—	23
Other long-term liabilities	86	11	—	97
Total stockholders' deficit	(2,441)	569	(569)	(2,441)
Total liabilities and stockholders' deficit	$ 1,843	$ 985	$ (1,125)	$ 1,703

Supplemental Condensed Consolidating Statement of Comprehensive Income

	Quarter Ended August 3, 2013			
	Parent Company (Restated)	Guarantor Subsidiaries	Eliminations	Consolidated (Restated)
		(in millions)		
Net sales	$ 783	$ 534	$ (413)	$ 904
Cost of sales and occupancy expense	522	458	(413)	567
Gross profit	261	76	—	337
Selling, general, and administrative expense	221	33	—	254
Share-based compensation	6	2	—	8
Related party expenses	3	—	—	3
Store pre-opening costs	1	—	—	1
Operating income	30	41	—	71
Interest expense	45	—	—	45
Refinancing costs and losses on early extinguishment of debt	—	—	—	—
Other (income) and expense, net	—	1	—	1
Intercompany charges (income)	12	(12)	—	—
Equity in earnings of subsidiaries	52	—	(52)	—
Income before income taxes	25	52	(52)	25
Provision for income taxes	8	13	(13)	8
Net income	17	39	(39)	17
Other comprehensive income, net of tax:				
Foreign currency translation adjustment and other	(1)	—	—	(1)
Comprehensive income	$ 16	$ 39	$ (39)	$ 16

Supplemental Condensed Consolidating Statement of Comprehensive Income

	Quarter Ended July 28, 2012			
	Parent Company (Restated)	Guarantor Subsidiaries	Eliminations	Consolidated (Restated)
		(in millions)		
Net sales	$ 777	$ 521	$ (406)	$ 892
Cost of sales and occupancy expense	519	444	(406)	557
Gross profit	258	77	—	335
Selling, general, and administrative expense	218	33	—	251
Share-based compensation	2	1	—	3
Related party expenses	4	—	—	4
Store pre-opening costs	1	—	—	1
Operating income	33	43	—	76
Interest expense	61	—	—	61
Other (income) and expense, net	—	—	—	—
Intercompany charges (income)	15	(15)	—	—
Equity in earnings of subsidiaries	58	—	(58)	—
Income before income taxes	15	58	(58)	15
Provision for income taxes	6	22	(22)	6
Net income	9	36	(36)	9
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(2)	—	—	(2)
Comprehensive income	$ 7	$ 36	$ (36)	$ 7

Supplemental Condensed Consolidating Statement of Comprehensive Income

	Six Months Ended August 3, 2013			
	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated
	(Restated) (in millions)			
Net sales	$ 1,652	$ 1,081	$ (836)	$ 1,897
Cost of sales and occupancy expense	1,077	910	(836)	1,151
Gross profit	575	171	—	746
Selling, general, and administrative expense	455	71	—	526
Share-based compensation	9	2	—	11
Related party expenses	7	—	—	7
Store pre-opening costs	3	—	—	3
Operating income	101	98	—	199
Interest expense	92	—	—	92
Refinancing costs and losses on early extinguishment of debt	7	—	—	7
Other (income) and expense, net	—	1	—	1
Intercompany charges (income)	25	(25)	—	—
Equity in earnings of subsidiaries	122	—	(122)	—
Income before income taxes	99	122	(122)	99
Provision for income taxes	36	44	(44)	36
Net income	63	78	(78)	63
Other comprehensive income, net of tax:				
Foreign currency translation adjustment and other	(2)	—	—	(2)
Comprehensive income	$ 61	$ 78	$ (78)	$ 61

Supplemental Condensed Consolidating Statement of Comprehensive Income

	Six Months Ended July 28, 2012			
	Parent Company (Restated)	Guarantor Subsidiaries	Eliminations	Consolidated (Restated)
	(in millions)			
Net sales	$ 1,638	$ 1,070	$ (838)	$ 1,870
Cost of sales and occupancy expense	1,056	906	(838)	1,124
Gross profit	582	164	—	746
Selling, general, and administrative expense	442	68	—	510
Share-based compensation	6	1	—	7
Related party expenses	7	—	—	7
Store pre-opening costs	2	—	—	2
Operating income	125	95	—	220
Interest expense	127	—	—	127
Other (income) and expense, net	—	(1)	—	(1)
Intercompany charges (income)	32	(32)	—	—
Equity in earnings of subsidiaries	128	—	(128)	—
Income before income taxes	94	128	(128)	94
Provision for income taxes	34	46	(46)	34
Net income	60	(82)	(82)	60
Comprehensive income	$ 60	$ 82	$ (82)	$ 60

Supplemental Condensed Consolidating Statement of Cash Flows

	Six Months Ended August 3, 2013			
	Parent Company (Restated)	Guarantor Subsidiaries	Eliminations	Consolidated (Restated)
	(in millions)			
Operating activities:				
Net cash (used in) provided by operating activities	$ (33)	$ 66	$ (47)	$ (14)
Investing activities:				
Cash paid for property and equipment	(35)	(15)	—	(50)
Net cash used in investing activities	(35)	(15)	—	(50)
Financing activities:				
Net repayments of short-term debt	75	—	—	75
Intercompany dividends	—	(47)	47	—
Other financing activities	(16)	—	—	(16)
Net cash provided by (used in) financing activities	59	(47)	47	59
Decrease in cash and equivalents	(9)	4	—	(5)
Beginning cash and equivalents	37	19	—	56
Ending cash and equivalents	$ 28	$ 23	$ —	$ 51

Supplemental Condensed Consolidating Statement of Cash Flows

	Six Months Ended July 28, 2012			
	Parent Company (Restated)	Guarantor Subsidiaries	Eliminations	Consolidated (Restated)
		(in millions)		
Operating activities:				
Net cash used in operating activities	$ (99)	$ 68	$ (49)	$ (80)
Investing activities:				
Cash paid for property and equipment	(38)	(7)	—	(45)
Net cash used in investing activities	(38)	(7)	—	(45)
Financing activities:				
Net repayment of long term debt	(127)	—	—	(127)
Intercompany dividends	—	(49)	49	—
Other financing activities	(6)	—	—	(6)
Net cash used in financing activities	(133)	(49)	49	(133)
Decrease in cash and equivalents	(270)	12	—	(258)
Beginning cash and equivalents	363	8	—	371
Ending cash and equivalents	$ 93	$ 20	$ —	$ 113

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

All expressions of the "Company", "us," "we," "our," and all similar expressions are references to Michaels Stores, Inc. and its consolidated wholly-owned subsidiaries, unless otherwise expressly stated or the context otherwise requires.

Disclosure Regarding Forward-Looking Information

The following discussion should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. The following discussion, as well as other portions of this Quarterly Report on Form 10-Q, 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 and should be read in conjunction with our consolidated financial statements and related notes in our Annual Report on Form 10-K for the fiscal year ended February 2, 2013. Such forward-looking statements are based upon management's current knowledge and assumptions about future events and involve risks and uncertainties that could cause actual results, performance or achievements to be materially different from anticipated results, prospects, performance or achievements expressed or implied by such forward-looking statements. Such risks and uncertainties include, but are not limited to:

- risks related to general economic conditions; if recovery from the economic downturn continues to be slow or prolonged, it could continue to adversely affect consumer confidence and retail spending, decrease demand for our merchandise and adversely impact our results of operations, cash flows and financial condition;

- risks related to our substantial indebtedness, as our leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our notes and credit facilities;

- our ability to open new stores and increase comparable store sales growth, as our growth depends on our strategy of expanding our base of retail stores; and if we are unable to continue this strategy, our ability to increase our sales, profitability, and cash flow could be impaired;

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

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

- 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;

- our suppliers may fail us;

- risks associated with the vendors from whom our products are sourced could materially adversely affect our revenue and gross profit;

- product recalls and/or product liability, as well as changes in product safety and other consumer protection laws, may adversely impact our operations, merchandise offerings, reputation, results of operation, cash flow, and financial condition;

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

- improvements to our supply chain may not be fully successful;

- changes in customer demand could materially adversely affect our sales, results of operations, and cash flow;

- how well we manage our business;

- competition could negatively impact our business;

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

- our information systems may prove inadequate;
- risks related to our disclosed material weakness in our internal control over financial reporting related to our accounting for share-based compensation expense that could affect our ability to report our financial condition, results of operations or cash flows accurately and on a timely basis;
- failure to attract or retain senior management could adversely affect our operations;
- a weak fourth quarter would materially adversely affect our results of operations;
- changes in newspaper subscription rates may result in reduced exposure to our circular advertisements;
- our material weakness in internal control over financial reporting related to our accounting for share-based compensation expense;
- changes in regulations or enforcement may adversely impact our business;
- restrictions in our debt agreements that limit our flexibility in operating our business, as 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 and require that we maintain specified financial ratios upon the occurrence of certain events;
- disruptions in the capital markets could increase our costs of doing business;
- our real estate leases generally obligate us for long periods, which subjects us to various financial risks;
- we have co-sourced certain of our information technology, accounts payable, payroll, accounting and human resources functions, and may co-source other administrative functions, which makes us more dependent upon third parties;
- we are exposed to fluctuations in exchange rates between the U.S. and Canadian dollar, which is the functional currency of our Canadian subsidiaries;
- failure to attract and retain quality sales, distribution center and other associates in appropriate numbers as well as experienced buying and management personnel could adversely affect our performance;
- our results may be adversely affected by serious disruptions or catastrophic events, including geo-political events and weather; and
- the interests of our indirect parent, FinCo Holding, and our Sponsors may conflict with the interests of our debt holders.

For more details on factors that may cause actual results to differ materially from such forward-looking statements, please see Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended February 2, 2013, and other reports from time to time filed with or furnished to the Securities and Exchange Commission (“SEC”). We disclaim any intention to, and undertake no obligation to, update or revise any forward-looking statement.

General

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 2013” relate to the 52 weeks ending February 1, 2014 and all references to “fiscal 2012” relate to the 53 weeks ended February 2, 2013. In addition, all references herein to “the second quarter of fiscal 2013” relate to the 13 weeks ended August 3, 2013 and all references to “the second quarter of fiscal 2012” relate to the 13 weeks ended July 28, 2012. Finally, all references to “the six months ended August 3, 2013” relate to the 26 weeks ended August 3, 2013, and “the six months ended July 28, 2012” relate to the 26 weeks ended July 28, 2012.

The following table sets forth certain of our unaudited operating data:

	Quarter Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
Michaels stores:				
Retail stores open at beginning of period	1,113	1,066	1,099	1,064
Retail stores opened during the period	6	8	21	10
Retail stores opened (relocations) during the period	4	4	8	10
Retail stores closed during the period	—	—	(1)	—
Retail stores closed (relocations) during the period	(4)	(4)	(8)	(10)
Retail stores open at end of period	1,119	1,074	1,119	1,074
Aaron Brothers stores:				
Retail stores open at beginning of period	122	130	125	134
Retail stores opened (relocations) during the period	1	—	2	—
Retail stores closed during the period	(1)	(2)	(4)	(6)
Retail stores closed (relocations) during the period	—	—	(1)	—
Retail stores open at end of period	122	128	122	128
Total store count at end of period	1,241	1,202	1,241	1,202
Other operating data:				
Average inventory per Michaels store (in thousands) (1)	$ 774	$ 823	774	$ 823
Comparable store sales (decrease) increase (2)	(1.3)%	2.9%	(1.0)%	2.1%

(1) The calculation of average inventory per Michaels store excludes our Aaron Brothers stores.

(2) Comparable store sales (decrease) increase represents the (decrease) increase in Net sales for Michaels and Aaron Brothers stores open the same number of months in the indicated period and the 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 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.

Restatement - Share-based Compensation

The Company has determined its previously issued unaudited interim consolidated financial statements for the three and six month periods ended August 3, 2013 and July 28, 2012, contained an error with respect to ASC 718, *Compensation — Stock Compensation.* Specifically, former participants in the Company's Equity Incentive Plan and its successor Plan (The Michaels Companies, Inc. ("Parent") Equity Incentive Plan, together the "Plan") exercised stock options upon their termination from the Company, and the Company repurchased the 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 Company determined the accounting error was material to fiscal 2011 and fiscal 2012 financial statements and those financial statements required restatement. As a result, the Company is also restating its financial statements for the three and six months ended August 3, 2013 and July 28, 2012. The non-cash impact to share-based compensation expense for the three and six months ended August 3, 2013 was $7 million ($5, Net of tax) and $12 million ($8, net of tax), respectively. The impact to share-based compensation expense for the three and six months ended July 28, 2012, was $6 million ($4, net of tax) and $9 million ($5, net of tax), respectively. As part of the restatement, the Company also recorded other adjustments related to merchandise inventories and the reserve for closed facilities which were previously determined to be immaterial to the respective periods. In total, the adjustments resulted in a decline of Net income by $3 and $4 million for the three and six months ended August 3, 2013, and $4 and $6 million for the three and six months ended July 28, 2012. 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 August 3, 2013	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Merchandise inventories	$ 905	$ 4	$ —	$ 909
Deferred income taxes	37	1	—	38
Income tax receivable	34	2	—	36
Total current assets	1,123	7	—	1,130
Deferred income taxes	13	16	—	29
Total non-current assets	152	16	—	168
Accrued liabilities and other	338	(3)	—	335
Share-based compensation liability	—	19	—	19
Income taxes payable	1	(1)	—	—
Total current liabilities	870	15	—	885
Share-based compensation liability	—	26	—	26
Total long-term liabilities	2,965	26	—	2,991
Additional paid-in capital	60	1	—	61
Accumulated deficit	(2,277)	(19)	—	(2,296)
Total stockholders' deficit	(2,213)	(18)	—	(2,231)

Consolidated Balance Sheet As of July 28, 2012	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Merchandise inventories	$ 922	$ 3	$ —	$ 925
Total current assets	1,193	3	—	1,196
Deferred income taxes	18	14	—	32
Total non-current assets	167	14	—	181
Accrued liabilities and other	351	2	—	353
Share-based compensation liability	—	29	—	29
Income taxes payable	2	(2)	—	—
Total current liabilities	632	29	—	661
Share-based compensation liability	—	23	—	23
Total long-term liabilities	3,460	23	—	3,483
Additional paid-in capital	62	(10)	—	52
Accumulated deficit	(2,474)	(25)	—	2,499
Total stockholders' deficit	(2,406)	(35)	—	2,441

Consolidated Statements of Comprehensive Income Quarter Ended August 3, 2013	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Cost of sales and occupancy expense	$ 567	$ 1	$ (1)	$ 567
Gross profit	337	(1)	1	337
Selling, general and administrative expense	258	(2)	(2)	254
Share-based compensation	—	8	—	8
Operating income	75	(7)	3	71
Income before income taxes	29	(7)	3	25
Provision for income taxes	9	(2)	1	8
Net income	20	(5)	2	17
Comprehensive income	19	(5)	2	16

	Consolidated Statements of Comprehensive Income Six Months Ended August 3, 2013			
	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Cost of sales and occupancy expense	$ 1,153	$ 2	$ (4)	$ 1.151
Gross Profit	744	(2)	4	746
Selling, general and administrative expense	529	(1)	(2)	526
Share-based compensation	—	11	—	11
Operating income	205	(12)	6	199
Income before income taxes	105	(12)	6	99
Provision for income taxes	38	(4)	2	36
Net income	67	(8)	4	63
Comprehensive income	65	(8)	4	61

	Consolidated Statements of Comprehensive Income Quarter Ended July 28, 2012			
	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Cost of sales and occupancy expense	$ 553	$ 4	$ —	$ 557
Gross Profit	339	(4)	—	335
Selling, general and administrative expense	252	(1)	—	251
Share-based compensation	—	3	—	3
Operating income	82	(6)	—	76
Income before income taxes	21	(6)	—	15
Provision for income taxes	8	(2)	—	6
Net income	13	(4)	—	9
Comprehensive income	11	(4)	—	7

	Consolidated Statements of Comprehensive Income Six Months Ended July 28, 2012			
	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Cost of sales and occupancy expense	$ 1,119	$ 4	$ 1	$ 1,124
Gross Profit	751	(4)	(1)	746
Selling, general and administrative expense	512	(2)	—	510
Share-based compensation	—	7	—	7
Operating income	230	(9)	(1)	220
Income before income taxes	104	(9)	(1)	94
Provision for income taxes	38	(4)	—	34
Net income	66	(5)	(1)	60
Comprehensive income	66	(5)	(1)	60

	Cash Flow Data Six Months Ended August 3, 2013			
	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Operating Activities:				
Net income	$ 67	(7)	3	$ 63
Share-based compensation and other	1	12	—	13
Merchandise inventories	(40)	(2)	(5)	(47)
Accrued liabilities and other	(38)	(21)	—	(59)
Income taxes	(71)	(2)	2	(71)
Net cash provided by (used in) operating activities	6	(20)	—	(14)
Repurchase of common stock	(45)	45	—	—
Proceeds from stock options exercised	25	(25)	—	—
Net cash provided by financing activities	39	20	—	59

	Cash Flow Data Six Months Ended July 28, 2012			
	As Reported	Share-based compensation Adjustment	Other Adjustments	As Restated
Operating Activities:				
Net income	$ 66	(5)	(1)	$ 60
Share-based compensation	3	8	—	11
Merchandise inventories	(82)	(1)	1	(82)
Income taxes	(43)	(3)	—	(46)
Net cash used in operating activities	(79)	(1)	—	(80)
Repurchase of common stock	(3)	3	—	—
Proceeds from stock options exercised	2	(2)	—	—
Net cash provided by (used in) financing activities	(134)	1	—	(133)

Results of Operations

The following table sets forth the percentage relationship to Net sales of each line item of our unaudited Consolidated Statements of Comprehensive Income. This table should be read in conjunction with the following discussion and with our consolidated financial statements, including the related notes, contained herein.

	Quarter Ended		Six Months Ended	
	August 3, 2013	July 28, 2012 (Restated)	August 3, 2013	July 28, 2012 (Restated)
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales and occupancy expense	62.7%	62.4%	60.7%	60.1%
Gross profit	37.3%	37.6%	39.3%	39.9%
Selling, general, and administrative expense	28.1%	28.1%	27.7%	27.3%
Share-based compensation	0.9%	0.3%	0.6%	0.4%
Related party expenses	0.3%	0.4%	0.4%	0.4%
Store pre-opening costs	0.1%	0.1%	0.2%	0.1%
Operating income	7.9%	8.5%	10.5%	11.8%
Interest expense	5.0%	6.8%	4.8%	6.8%
Refinancing costs and losses on early extinguishment of debt	0.0%	0.0%	0.4%	0.0%
Other (income) and expense, net	0.1%	0.0%	0.1%	-0.1%
Income before income taxes	2.8%	1.7%	5.2%	5.0%
Provision for income taxes	0.9%	0.7%	1.9%	1.8%
Net income	1.9%	1.0%	3.3%	3.2%

Quarter Ended August 3, 2013 Compared to the Quarter Ended July 28, 2012

Net Sales—Net sales increased for the second quarter of fiscal 2013 by $12 million, or 1.3%, over the second quarter of fiscal 2012 due primarily to $24 million of incremental revenue from our non-comparable store sales, partially offset by a $12 million decrease in comparable store sales. Comparable store sales decreased 1.3% due to a 3.6% decrease in customer transactions and a 0.4% negative impact from deferred custom framing revenue, which was partially offset by a 2.7% increase in the average ticket. The fluctuation in the exchange rates between the United States and Canadian dollars adversely impacted the average ticket by 10 basis points. Two of our strongest categories were home accents and yarn. The increase in home accents was due to positive customer response to our expanded assortment and improved presentation. Our yarn growth is primarily driven by positive customer response to trend products.

Cost of Sales and Occupancy Expense—Cost of sales and occupancy expense increased $10 million to $567 million in the second quarter of fiscal 2013 from $557 million in the second quarter of fiscal 2012. Cost of sales increased $4 million due to lower recognition of vendor allowances and $3 million due primarily to increased merchandise costs for higher sales compared to the prior year. This is partly offset by $4 million due to favorable shrink experience, $3 million due to improved efficiencies and new product offerings in our vertically integrated framing operations and $3 million favorable due to liability accounting for share-based compensation. In addition, we had a $13 million increase in rent and related expenses, including $5 million from opening new stores, a $6 million increase in store remodel and improvement expenses and a $1 million increase due to the timing of maintenance costs.

Cost of sales and occupancy expense increased 30 basis points points as a percentage of Net sales to 62.7% for the second quarter of fiscal 2013 from 62.4% for the second quarter of fiscal 2012. Occupancy costs increased 120 basis points due to increased remodel expenses, pre-opening lease expenses on new stores and the timing of maintenance costs. Merchandise costs decreased 80 basis points driven by our direct import and private brand initiatives, as well as improved pricing and promotion management. In addition, cost of sales decreased due to a 30 basis point improvement in efficiencies and new product offerings in our vertically integrated framing operation, and a 30 basis point decrease due to liability accounting for share-based compensation. These amounts were partially offset by a 70 basis point increase in freight and distribution costs.

Selling, General and Administrative Expense— Selling, general and administrative expense was $254 million in the second quarter of fiscal 2013 compared to $251 million in the second quarter of fiscal 2012. Selling, general and administrative expense increased by $7 million due to incremental store costs related to operating an additional 45 additional Michaels stores at the end of the second quarter of fiscal 2013 compared to the end of the second quarter of fiscal 2012. These increases were partially offset by $6 million in savings for bonus expense. As a percentage of Net sales, Selling, general and administrative expense was flat for the second quarter of 2013 at 28.1% due to the reasons described above.

Share-Based Compensation—Share-based compensation expenses increased to $8 million in the second quarter of fiscal 2013 from $3 million in the second quarter of fiscal 2012 primarily driven by the vesting of options and an increase in the fair value of option awards, which are fair valued at the end of each fiscal period.

Related Party Expenses—Related party expenses were $3 million and $4 million in the second quarter of fiscal 2013 and fiscal 2012, respectively, consisting of management fees and associated expenses paid to affiliates of two investment firms: Bain Capital Partners, LLC and The Blackstone Group, L.P. (collectively, together with their applicable affiliates, the "Sponsors") and Highfields Capital Management, LP.

Interest Expense—Interest expense decreased $16 million to $45 million in the second quarter of fiscal 2013 from $61 million in the second quarter of fiscal 2012. The decrease is attributable to a $244 million reduction in our total debt outstanding and by a lower average interest rate associated with our amended senior secured term loan facility.

Provision for Income Taxes—The effective tax rate was 32.0% for the second quarter of fiscal 2013. The effective tax rate was 40.0% for the second quarter of fiscal 2012. The current year tax rate is lower than the prior year tax rate primarily due to the realization of state tax credits this year. We currently estimate our annualized effective tax rate for fiscal 2013 to be 37.4%.

Six Months Ended August 3, 2013 Compared to the Six Months Ended July 28, 2012

Net Sales—Net sales increased for the first six months of fiscal 2013 by $27 million, or 1.4%, over the first six months of fiscal 2012 due primarily to $45 million of incremental revenue from our non-comparable store sales, partially offset by a $18 million decrease in comparable store sales. Comparable store sales decreased 1.0% driven by a 3.4% decrease in customer transactions, partially offset by a 2.3% increase in the average ticket. The fluctuation in the exchange rates between the United States and Canadian dollars adversely impacted the average ticket by 20 basis points. Two of our strongest categories were yarn and custom framing. Our yarn growth is primarily driven by positive customer response to trend products. The increase in custom framing is driven by product mix and visualization capabilities in our stores.

Cost of Sales and Occupancy Expense—Cost of sales and occupancy expense increased $27 million to $1,151 million for the first six months of fiscal 2013 from $1,124 million for the first six months of fiscal 2012. We had a $24 million increase in rent and related expenses, including $10 million from opening new stores, a $7 million increase in store remodel and improvement expenses and a $5 million increase due to the timing of maintenance costs. In addition, cost of sales increased $4 million due to a $12 million increase in merchandise costs associated with higher sales, a $3 million increase in inventory markdowns due to an increase in discontinued stock keeping units associated with planned merchandise resets and a slower sell through of this merchandise and a $4 million reduction in the recognition of vendor allowances compared to the prior year. This was partially offset by a $6 million decrease due to improved efficiencies and new product offerings in our vertically integrated framing operations, a $3 million decrease due to timing of recognition of capitalized inventory costs, $3 million decrease due to our direct import penetration and private brand initiatives and $3 million of favorable shrink experience in the current year compared to the prior year.

Cost of sales and occupancy expense increased 60 basis points as a percentage of Net sales to 60.7% for the first six months of fiscal 2013 from 60.1% for the first six months of fiscal 2012. Occupancy costs increased 110 basis points due to increased remodel expenses and lease expenses on new stores as well as the timing of repairs and maintenance expenses compared to the prior year. In addition, cost of sales decreased by 50 basis points for the reasons indicated above.

Selling, General, and Administrative Expense— Selling, general and administrative expense was $526 million for the first six months of fiscal 2013 compared to $510 million for the first six months of fiscal 2012. The $16 million increase was driven primarily by $14 million of incremental costs related to operating 45 additional Michaels stores. Additionally, Selling, general and administrative expense increased by $4 million for payroll and payroll-related costs, $3 million for increased advertising, $3 million for higher strategic initiative consulting fees and $2 million for executive signing costs. These amounts were partially offset by $9 million in savings for bonus expenses.

As a percentage of Net sales, Selling, general and administrative expense increased 40 basis points due to an 80 basis point increase in new store costs and a 20 basis point increase in strategic initiative consulting fees. These percentages were partially offset by a 40 basis point decrease in bonus expense.

Share-Based Compensation—Share-based compensation expenses increased to $11 million in the first six months of fiscal 2013 from $7 million in the first six months of fiscal 2012 primarily driven by the vesting of options and an increase in the fair value of option awards, which are fair valued at the end of each fiscal period.

Related Party Expenses—Related party expenses were $7 million for the first six months of each of fiscal 2013 and fiscal 2012, consisting of management fees and associated expenses paid to our Sponsors and Highfields Capital Management, LP.

Interest Expense— Interest expense decreased $35 million to $92 million in the second quarter of fiscal 2013 from $127 million in the second quarter of fiscal 2012. The decrease is attributable to a $244 million reduction in our total debt outstanding and by a lower average interest rate associated with our amended senior secured term loan facility.

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 six 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 our $11^3/_8$% Senior Subordinated Notes due November 1, 2016 (the "Senior Subordinated Notes"). See Note 3 to the consolidated financial statements for further discussion.

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

Provision for Income Taxes—The effective tax rate was 36.4% for the first six months of fiscal 2013. The effective tax rate was 36.2% for the first six months of fiscal 2012. The rate was higher than the prior year six month tax rate due primarily to the realization of state tax credits this year partly offset by the prior year favorable impact related to our reserve for uncertain tax positions. We currently estimate our annualized effective tax rate for fiscal 2013 to be 37.4%.

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 senior secured asset-based revolving credit facility ("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 Item 1A. Risk Factors of our Annual Report on Form 10-K for the fiscal year ended February 2, 2013 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, subject to a borrowing base. As of August 3, 2013, the borrowing base was $650 million, of which we had $222 million in outstanding borrowings, $61 million of outstanding letters of credit and $367 million of unused borrowing capacity. Our cash and equivalents decreased $5 million from $56 million at February 2, 2013 to $51 million at August 3, 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.

The Company intends to use excess operating cash flows to repay portions of its indebtedness, pay dividends to its parent and fund growth opportunities, depending on market conditions. If the Company uses its excess cash flows to pay dividends or repay its debt, it will reduce the amount of excess cash available for additional capital expenditures. The Company intends to make a dividend to its parent to fund the February 1 payment due on the PIK Notes, as defined below.

As of February 2, 2013, we had an aggregate principal amount of $393 million of our Senior Subordinated Notes scheduled to mature in November 2016. On February 27, 2013, we redeemed $137 million in aggregate principal amount of the outstanding Senior Subordinated Notes with cash on hand and borrowings made under our senior secured term loan facility ("Restated Term Loan Credit Facility") for an aggregate redemption price (including the applicable redemption premium and accrued and unpaid interest) of $147 million. The 7 $^{3}/_{4}$% Senior Notes mature in 2018 ("2018 Senior Notes"), 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 used in operating activities during the first six months of fiscal 2013 was $14 million compared to cash flow used in operating activities of $80 million during the first six months of fiscal 2012. The $66 million change was primarily due to a $66 million increase for the timing of vendor payments and a $34 million increase due to the timing of inventory purchases. These amounts were partially offset by the exercise of options by certain former employees and the subsequent repurchase of the shares.

Average inventory per Michaels store (including supporting distribution centers) decreased 6.0% from $823,000 at July 28, 2012 to $774,000 at August 3, 2013, primarily driven by decreasing inventory in the distribution centers.

Cash Flow from Investing Activities

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

	Six Months Ended	
	August 3, 2013	**July 28, 2012**
	(in millions)	
New and relocated stores and stores not yet opened (1)	$ 19	$ 15
Existing stores	11	8
Information systems	13	16
Corporate and other	7	6
	$ 50	$ 45

(1) In the first six months of fiscal 2013, we incurred capital expenditures related to the opening of 21 Michaels stores in addition to the relocation of 8 Michaels stores. In the first six months of fiscal 2012, we incurred capital expenditures related to the opening of 10 Michaels stores in addition to the relocation of 10 Michaels stores.

Cash Flow from Financing Activities

Cash flow provided by financing activities during the first six months of fiscal 2013 was $59 million compared to cash used in financing activities of $133 million during the first six months of fiscal 2012. Cash flow used in financing activities for the first six months of fiscal 2013 was impacted by the redemption of the $137 million of Senior Subordinated Notes at a redemption price of 103.792%, or a total of $142 million, and net borrowings of $221 million under our Restated Revolving Credit Facility.

Other

In July 2013, Michaels was reorganized into a holding company structure ("Reorganization"). The Michaels Companies, Inc. ("Parent"), Michaels FinCo Holdings, LLC ("FinCo Holdings"), Michaels FinCo, Inc. (" FinCo Inc") and Michaels Funding, Inc. ("Holdings") and Michaels Stores Merger Co, Inc. ("MergerCo") were formed in connection with the Reorganization: (i) MergerCo was merged with and into Michaels with Michaels being the surviving corporation; (ii) each share of Michaels' common stock was converted into the right to receive one share of Parent common stock, subject to the same vesting conditions, if any, as applied to the share so converted, and each such share of Michaels' common stock was cancelled and retired and ceased to exist; and (iii) each option to purchase one or more shares of common stock of Michaels was assumed by Parent and converted into an option to purchase an equivalent number of shares of common stock of Parent with the remaining terms of each such option remaining unchanged except as was necessary to reflect the Reorganization.

As a result, FinCo Holdings is wholly owned by the Parent. FinCo Inc and Holdings are wholly owned by FinCo Holdings. Michaels is wholly owned by Holdings.

Subsequent to the Reorganization, FinCo Holdings and FinCo Inc issued $800 million aggregate principal amount of 7.50%/8.25% PIK Toggle Notes due 2018 ("PIK Notes"). The PIK Notes were issued in a private transaction. Interest payments on the PIK Notes are due February 1 and August 1 of each year until maturity. The first two interest payments and the last interest payment are required to be paid entirely in cash. Otherwise, under certain circumstances, all or a portion of the interest on the PIK Notes may be paid by increasing the principal amount of the outstanding PIK Notes or by issuing additional PIK Notes. The PIK Notes are not guaranteed by the Company or any of its subsidiaries. The proceeds from the debt issuance were about $782 million, after deducting the initial purchasers' discount and estimated fees and expenses. FinCo Holdings distributed the net proceeds to Parent and the proceeds were used to fund a cash dividend to the Parent's equity and equity-award holders and pay related fees and expenses.

While not required, the Company intends to make a dividend to its parent to fund the February 1, 2014 interest payment of approximately $31 million on the PIK Notes and, to the extent that such dividends can be made consistent with covenants applicable to the Company, future interest payments on the PIK Notes. If interest on the PIK Notes is paid in cash, annual interest payments will total $60 million or a total of approximately $301 million from July 29, 2013 until August, 1, 2018, the maturity date.

Non-GAAP Measures

The following table sets forth the Company's Earnings before Interest, Taxes, Depreciation, Amortization, and Loss on early extinguishment of debt ("EBITDA excluding refinancing costs and losses on early extinguishment of debt"). The Company defines EBITDA (excluding refinancing costs and losses on early extinguishment of debt) as Net income before interest, income taxes, depreciation, amortization and loss on early extinguishment of debt. Additionally, the table presents Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). The Company defines Adjusted EBITDA as 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 its 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 the Company's ability to make restricted payments as well as the determination of mandatory repayments of the loans. Under the Restated Term Loan Credit Facility, Adjusted EBITDA is used in the calculation of fixed charge coverage ratios, which under certain circumstances, may restrict the Company's ability to make certain payments (characterized as restricted payments), investments (including acquisitions) and debt repayments.

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.

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 used in operating activities.

	Quarter Ended		Six Months Ended	
	August 3, 2013	July 28, 2012	August 3, 2013	July 28, 2012
		(Restated) (in millions)		
Net cash provided by (used in) operating activities	$ (16)	$ (121)	$ (14)	$ (80)
Depreciation and amortization	(25)	(22)	(50)	(46)
Share-based compensation	(9)	(7)	(13)	(11)
Debt issuance costs amortization	(2)	(4)	(4)	(8)
Refinancing costs and losses on early extinguishment of debt	—	—	(7)	—
Changes in assets and liabilities	69	163	151	205
Net income	17	9	63	60
Interest expense	45	61	92	127
Refinancing costs and losses on early extinguishment of debt	—	—	7	—
Provision for income taxes	8	6	36	34
Depreciation and amortization	25	22	50	46
EBITDA (excluding refinancing costs and losses on early extinguishment of debt)	95	98	248	267
Adjustments:				
Share-based compensation	9	7	13	11
Sponsor fees	3	4	7	7
Termination expense	1	—	1	—
Store pre-opening costs	1	1	3	2
Store remodel costs	4	—	4	—
Foreign currency transaction losses (gains)	1	—	1	(1)
Store closing costs	1	2	1	2
Other (1)	2	2	4	2
Adjusted EBITDA	$ 117	$ 114	$ 282	$ 290

(1) Other adjustments relate to items such as moving & relocation expenses, franchise taxes, certain signing bonuses and certain legal settlements.

Item 3. 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 August 3, 2013, a 10% increase or decrease in the exchange rate of the U.S. and Canadian dollar would have a minimal impact on Net income.

We have market risk exposure arising from changes in interest rates on our Restated Term Loan Credit Facility and our Restated Revolving Credit Facility, together the (“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 and Senior Subordinated Notes are fixed. Based on our overall interest rate exposure to variable rate debt outstanding as of August 3, 2013, a 1% increase or decrease in interest rates would increase or decrease income before income taxes by $19 million. A 1% increase in interest rates would decrease the fair value of our long-term fixed rate debt by $13 million. A 1% decrease in interest rates would increase the fair value of our long-term fixed rate debt by $14 million. A change in interest rates would not materially affect the fair value of our variable rate debt as the debt reprices periodically.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including the 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, as of the end of the period covered by this report.

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 as of the end of the period covered by this report 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 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 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 August 3, 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 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.

In addition, the Company will distribute formal communication to all option holders and stockholders emphasizing the exercise terms under the 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.

Change in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fiscal quarter ended August 3, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MICHAELS STORES, INC.
Part II—OTHER INFORMATION

Item 1. Legal Proceedings.

Information regarding legal proceedings is incorporated herein by reference from Note 7 to our Consolidated Financial Statements.

Item 1A. Risk Factors

Information regarding the Company's risk factors appears in Item 1A. Risk Factors disclosed in our Annual Report on Form 10-K for the fiscal year ended February 2, 2013.

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the fiscal year ended February 2, 2013 other than the risk factors set forth below:

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 label 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, 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.

We are controlled by our indirect parent, FinCo Holdings, and the Sponsors, whose interests as equity holders may conflict with those of our debt investors and those of our Company.

We are controlled by our indirect parent, FinCo Holdings, which is controlled by our Sponsors, who currently indirectly own approximately 93% of our common stock in the aggregate. FinCo Holdings and the Sponsors control the election of our directors and thereby have the power to control our affairs and policies, including the appointment of management, the issuance of additional equity and the declaration and payment of dividends if allowed under the terms of the credit agreements governing our Senior Secured Credit Facilities, the terms of the indentures governing our outstanding notes and the terms of our other indebtedness outstanding at the time. Neither FinCo Holdings nor the Sponsers have any liability for any obligations under or relating to our Senior Secured Credit Facilities, our outstanding notes or our other indebtedness, and their respective interests may be in conflict with those of our debt investors. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the Sponsors may pursue strategies that favor equity investors over debt investors. In addition, our equity holders may have an interest in pursuing acquisitions, divestitures, financing or other transactions that, in their judgment, could enhance their equity investments, even though such transactions may involve risk to our debt investors. FinCo Holdings is a holding company, and its only material assets are the capital stock of Holdings and FinCo Inc. FinCo Holdings has no operations of its own. Accordingly, repayment of FinCo Holdings' indebtedness, including the PIK Notes, is dependent, to a significant extent, on the generation of cash flow by the Company and its ability to make such cash available to FinCo Holdings, by dividend, debt repayment or otherwise. FinCo Holdings and FinCo Inc are required to pay cash dividends on the PIK Notes, unless certain conditions set forth in the indenture governing the PIK Notes are satisfied, in which case, all or a portion of the interest on the PIK Notes may be paid by increasing the principal amount of the outstanding PIK Notes or by issuing additional PIK Notes. Additionally, the Sponsors may make investments in businesses that directly or indirectly compete with us, or may pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. For information concerning our arrangements with the Sponsors, see "Item 10. Directors, Executive Officers and Corporate Governance" and "Item 13. Certain Relationships and Related Transactions, and Director Independence of our Annual Report on Form 10-K for the fiscal year ended February 2, 2013."

Item 5. Other Information

Submission of Matters to a Vote of Security Holders

By a written consent dated July 22, 2013, holders of 92.90% of the common stock of the Company voted their shares to approve the merger between MergerCo and the Company and to amend the Company's Amended and Restated Certificate of Incorporation in order to, among other things, change the authorized number of shares of common stock from 220,000,000 shares to 100 shares, and include any additional changes required by Section 251(g) of the Delaware General Corporation Law. The affirmative vote of more than 50% of the stockholders was required to take such action.

Iran Sanctions Related Disclosure

Under the Iran Threat Reduction and Syrian Human Rights Act of 2012, which added Section 13(r) of the Securities Exchange Act of 1934, we are required to include certain disclosures in our periodic reports if we or any of our "affiliates" knowingly engaged in certain specified activities during the period covered by this Quarterly Report on Form 10-Q. Because the SEC defines the term "affiliate" broadly, it includes any entity controlled by us as well as any person or entity that controls us or is under common control with us ("control" is also construed broadly by the SEC). We do not believe we and our consolidated subsidiaries have knowingly engaged in any transaction or dealing reportable under Section 13(r) of the Exchange Act during the quarter ended August 3, 2013.

The Blackstone Group L.P., one of our Sponsors, informed us of disclosures publicly filed and/or provided to them by Hilton Worldwide, Inc., and Travelport Limited, which may be considered their affiliates. These disclosures are included in, and the Company hereby incorporates by reference herein, Exhibit 99.1 to this this Quarterly Report on Form 10-Q.

Item 6. Exhibits.

(a) Exhibits:

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of July 22, 2013, by and among Michaels Stores, Inc., The Michaels Companies, Inc., Michaels FinCo Holdings, LLC, Michaels Funding, Inc., and Michaels Stores MergerCo. Inc. (previously filed as Exhibit 2.1 to Form 10-Q filed by Company on August 30, 2013, SEC File No. 001-09338).
3.1	Amended and Restated Certificate of Incorporation of Michaels Stores, Inc. (previously filed as Exhibit 3.1 to Form 10-Q filed by Company on August 30, 2013, SEC File No. 001-09338).
4.1	Amendment No. 1 to Registration Rights Agreement, dated as of July 22, 2013, among Michaels Stores, Inc. and certain stockholders thereof (previously filed as Exhibit 4.1 to Form 10-Q filed by Company on August 30, 2013, SEC File No. 001-09338).
10.1	The Michaels Companies, Inc. Equity Incentive Plan (previously filed as Exhibit 10.1 to Form 10-Q filed by Company on August 30, 2013, SEC File No. 001-09338).*
10.2	Form of Stock Option Agreement under the Michaels Companies, Inc. Equity Incentive Plan (previously filed as Exhibit 10.2 to Form 10-Q filed by Company on August 30, 2013, SEC File No. 001-09338).*
10.3	Form of Restricted Stock Award Agreement under the Michaels Companies, Inc. Equity Incentive Plan (previously filed as Exhibit 10.3 to Form 10-Q filed by Company on August 30, 2013, SEC File No. 001-09338).*
10.4	Amendment No. 1 to Amended and Restated Shareholders Agreement, dated as of July 22, 2013, among Michaels Stores, Inc. and certain stockholders thereof (previously filed as Exhibit 10.4 to Form 10-Q filed by Company on August 30, 2013, SEC File No. 001-09338).
31.1	Certifications of Carl S. Rubin pursuant to §302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certifications of Charles M. Sonsteby pursuant to §302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
99.1	Section 13 (r) Disclosure.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

*Management contract or compensatory plan or arrangement.

MICHAELS STORES, INC.
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICHAELS STORES, INC.

By: /s/ Carl S. Rubin
Carl S. Rubin
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Charles M. Sonsteby
Charles M. Sonsteby
Chief Administrative Officer & Chief Financial Officer
(Principal Financial Officer)

Dated: December 9, 2013

INDEX TO EXHIBITS

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101.PRE	XBRL Taxonomy Extension Presentation Linkbase

*Management contract or compensatory plan or arrangement.

Exhibit 31.1

CERTIFICATIONS

I, Carl S. Rubin, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Michaels Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 9, 2013

/s/ Carl S. Rubin
Carl S. Rubin
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Charles M. Sonsteby, certify that

1. I have reviewed this quarterly report on Form 10-Q/A of Michaels Stores, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 9, 2013

/s/ Charles M. Sonsteby
Charles M. Sonsteby
Chief Administrative Officer & Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. § 1350,
AS ADOPTED PURSUANT TO § 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the filing of the Quarterly Report on Form 10-Q/A of Michaels Stores, Inc., a Delaware corporation (the "Company"), for the period ended August 3, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 9, 2013

/s/ Carl S. Rubin
Carl S. Rubin
Chief Executive Officer
(Principal Executive Officer)

/s/ Charles M. Sonsteby
Charles M. Sonsteby
Chief Administrative Officer & Chief Financial Officer
(Principal Financial Officer)

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350 and is not being filed as part of the Report or as a separate disclosure document.

Exhibit 99.1

SECTION 13(r) DISCLOSURE

Hilton Worldwide Inc., which may be considered an affiliate of The Blackstone Group L.P., provided the disclosure reproduced below in connection with activities during the second fiscal quarter of 2013. We have no involvement in or control over the activities of Hilton Worldwide Inc., any of its predecessor companies or any of its subsidiaries, and we have not independently verified or participated in the preparation of this disclosure.

> "As previously disclosed, during the reporting period, certain individual employees at two Hilton-branded hotels in the United Arab Emirates received routine wage payments as direct deposits to their personal accounts at Bank Melli, an entity identified on the Specially Designated Nationals and Blocked Persons List ("SDN List") maintained by the Office of Foreign Assets Control in the U.S. Department of the Treasury. Both of these hotels are owned by a third party, staffed by employees of the third-party owner and operated pursuant to a management agreement between the owner and a Hilton affiliate. In each case, these payments originated from the third-party owner's account to the personal accounts of the employees at their chosen bank. During the reporting period, both hotels discontinued making direct deposits to accounts at Bank Melli. No revenues or net profits are associated with these transactions.
>
> Also as previously disclosed. during the reporting period, several individuals stayed at the DoubleTree Kuala Lumpur, Malaysia, pursuant to a rate agreement between the hotel and Mahan Air, an entity identified on the SDN List. The rate agreement was terminated as of May 2, 2013. This hotel is staffed by employees of the third-party owner and operated pursuant to a management agreement between the owner and a Hilton affiliate. Under the rate agreement, which was entered into in the name of the owner, the hotel reserved a number of rooms for Mahan Air crew members at the DoubleTree Kuala Lumpur several times each week. Revenue and net profit received by Hilton attributable to Mahan Air crew hotel stays during the reporting period was approximately $430."

Travelport Limited, which may be considered as an affiliate of The Blackstone Group, L.P., provided the disclosure reproduced below in connection with activities during the second fiscal quarter of 2013. We have no involvement in or control over the activities of Travelport Limited, any of its predecessor companies or any of its subsidiaries, and we have not independently verified or participated in the preparation of this disclosure.

> "As part of our global business in the travel industry, we provide certain passenger travel related GDS and airline IT services to Iran Air. We also provide certain airline IT Solutions services to Iran Air Tours. All of these services are either exempt from applicable sanctions prohibitions pursuant to a statutory exemption in the International Emergency Economic Powers Act permitting transactions ordinarily incident to travel or, to the extent not otherwise exempt, specifically licensed by the U.S. Office of Foreign Assets Control ("OFAC"). Subject to any changes in the exempt/licensed status of such activities, we intend to continue these business activities, which are directly related to and promote the arrangement of travel for individuals.
>
> Prior to and during the reporting period, we also provided airline IT Solutions services to Syrian Arab Airlines. These services were generally understood to be permissible under the same statutory travel exemption. The services were terminated following the May 2013 action by OFAC to designate this airline as a Specially Designated Global Terrorist pursuant to the Global Terrorism Sanctions Regulations.
>
> The gross revenue and net profit attributable to these activities in the quarter ended June 30, 2013 were approximately $248,000 and $176,000, respectively."