MICHAELS STORES INC
Form 424B3
June 24, 2011

Use these links to rapidly review the document
TABLE OF CONTENTS
MICHAELS STORES, INC. INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Table of Contents

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Registration No. 333-173786

PROSPECTUS

Michaels Stores, Inc.

Offer to Exchange

\$800,000,000 Principal Amount of our $7^3/_4$% Senior Notes due November 1, 2018, which has been registered under the Securities Act of 1933, as amended, for any and all of our outstanding $7^3/_4$% Senior Notes due November 1, 2018.

Exchange Offer

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, our new $7^3/_4$% Senior Notes due November 1, 2018 (the "exchange notes"), for all of our outstanding $7^3/_4$% Senior Notes due November 1, 2018 (the "outstanding notes"). We are conducting the exchange offer in order to provide you with an opportunity to exchange your unregistered notes for freely tradable notes that have been registered under the Securities Act.

The principal features of the exchange offer are as follows:

- We will exchange all outstanding notes that are validly tendered and not validly withdrawn for an equal principal amount of exchange notes that are freely tradable.

- You may withdraw tenders of outstanding notes at any time prior to the expiration date of the exchange offer.

- The exchange offer expires at 5:00 p.m., New York City time, on July 28, 2011, unless extended. We do not currently intend to extend the expiration date.

- The exchange of outstanding notes for exchange notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes.

The terms of the exchange notes to be issued in the exchange offer are substantially identical to the outstanding notes, except that the exchange notes will be freely tradable.

We do not intend to apply for listing of the exchange notes on any securities exchange or to arrange for them to be quoted on any quotation system.

Broker-dealers who receive new securities pursuant to the exchange offer acknowledge that they will deliver a prospectus in connection with any resale of new securities; and

Broker-dealers who acquired the old securities as a result of market-making or other trading activities may use the prospectus for the exchange offer, as supplemented or amended, in connection with resales of the new securities.

Results of the Exchange Offer

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

You should consider carefully the risk factors beginning on page 11 of this prospectus before participating in the exchange offer.

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

The date of this prospectus is June 24, 2011

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	11
Industry and Market Data	23
Cautionary Note Regarding Forward-Looking Statements	23
The Exchange Offer	23
Use of Proceeds	34
Capitalization	35
Selected Financial Data	36
Ratio of Earnings to Fixed Charges	37
Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Business	59
Management	74
Executive Compensation	77
Principal Stockholders and Management Ownership	99
Certain Relationships and Related Party Transactions	101
Description of Certain Other Indebtedness	104
Description of Exchange Notes	112
Book-Entry Settlement and Clearance	173
Certain United States Federal Income Tax Considerations	174
Certain ERISA and Other Considerations	180
Plan of Distribution	181
Legal Matters	181
Experts	181
Where You Can Find More Information	182
Index to Consolidated Financial Statements	F-1

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

This prospectus incorporates important business and financial information about the company that is not included or delivered with the document. All such business and financial information incorporated but not included in this prospectus is available without charge to security holders upon written or oral request directed to Navin Rao, Vice President and Assistant General Counsel, 8000 Bent Branch Drive, Irving, Texas 75063 (Telephone: (972) 409-1300). To obtain timely delivery, you must request this information no later than five business days before the date on which you expect to make your decision with respect to the exchange offer. In any event, you must request this information prior to July 21, 2011.

Table of Contents

PROSPECTUS SUMMARY

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

We report on the basis of a 52 or 53-week fiscal year, which ends on the Saturday closest to January 31. References to fiscal year mean the year in which that fiscal year began. Fiscal 2010 ended on January 29, 2011, fiscal 2009 ended on January 30, 2010, fiscal 2008 ended on January 31, 2009 and fiscal 2007 ended on February 2, 2008. Fiscal years 2010, 2009, 2008 and 2007 contained 52 weeks.

Our Company

With over $4.0 billion in sales in fiscal 2010, Michaels Stores, Inc., together with its subsidiaries, is the largest arts and crafts specialty retailer in North America providing materials, project ideas, and education for creative activities. Michaels Stores, Inc. was incorporated in Delaware in 1983, and as of March 21, 2011, we operated 1,047 Michaels retail stores in 49 states, as well as in Canada, averaging 18,300 square feet of selling space per store. Our stores offer arts and crafts supplies and products for the crafter and do-it-yourself home decorator. We also operated 137 Aaron Brothers stores as of March 21, 2011, in nine states, averaging 5,600 square feet of selling space per store, offering photo frames, a full line of ready-made frames, custom framing services, and a wide selection of art supplies.

On October 16, 2007, we announced plans to align resources around our core retail chains, Michaels and Aaron Brothers stores. As a result, we discontinued our concept businesses, Recollections and Star Decorators Wholesale ("Star"). As of the end of fiscal 2007, we had closed all 11 Recollections and three of the four Star locations. The Star Decorators Wholesale Los Angeles store, the sole remaining Star location, is now being operated as a Michaels store. The operations of Recollections and Star have been reflected as discontinued operations.

Our mission is to be a world class performer that inspires and enables consumers to experience creativity and to lead industry growth and innovation, while creating a fun and rewarding place to work that fosters meaningful connections with our communities. Through our broad product assortments, educational in-store events, project sheets and displays, and on-line information, we offer a shopping experience that inspires creativity in the areas of arts, crafts, floral displays, framing, home accents, and kid's hobbies and activities.

We compete across many segments of the industry, including adult and kid's crafts, scrapbooking and paper crafting, jewelry making, art supplies, home, floral, celebrations, and ready-made and custom framing. Industry association reports estimate that the addressable market size associated with the core arts and crafts market is about $29 billion, and we estimate another $3 billion is associated with the framing market for a total market size of $32 billion annually. The market we compete in is highly fragmented, including stores across the nation operated primarily by small, independent retailers along with a few regional and national chains. We believe customers choose where to shop based upon store location, breadth of selection, price, quality of merchandise, availability of product, and customer service.

On October 31, 2006, we completed a recapitalization through a merger transaction (the "Merger") with Bain Capital Partners, LLC and The Blackstone Group (collectively, the "Sponsors"), with certain shares retained by Highfields Capital Partners (a then-existing shareholder of Michaels Stores, Inc., "Highfields"). As a result of the Merger, Michaels Holdings LLC, an entity controlled by

Table of Contents

the Sponsors, owns approximately 93% of our outstanding common stock, which is no longer publicly traded.

The Sponsors

Bain Capital Partners, LLC

Bain Capital, LLC is a global private investment firm whose affiliates, including Bain Capital Partners, manage several pools of capital including private equity, venture capital, public equity, high-yield assets and mezzanine capital with approximately $67 billion in assets under management. Bain Capital has a team of approximately 365 professionals dedicated to investing and to supporting its portfolio companies. Since its inception in 1984, funds sponsored by Bain Capital have made private equity investments and add-on acquisitions in over 300 companies in a variety of industries around the world. Headquartered in Boston, Bain Capital also has offices in New York, London, Munich, Hong Kong, Shanghai, Tokyo and Mumbai.

The Blackstone Group

Founded in 1985, The Blackstone Group, LP is a leading global alternative asset manager and provider of financial advisory services listed on the New York Stock Exchange (ticker symbol BX) with total assets under management of approximately $101.4 billion as of June 30, 2010. Blackstone is a world leader in private equity investing, having managed five general private equity funds as well as one specialized fund focusing on communications-related investments. In total, Blackstone's corporate private equity operation has raised approximately $48 billion in capital since 1987.

Since its inception in 1987, Blackstone has invested in 148 separate transactions in a variety of industries and geographies, with a total transaction value of approximately $300.0 billion. Blackstone's other core businesses include private real estate investing, corporate debt investing, hedge funds, mutual fund management, private placement, marketable alternative asset management, and investment banking advisory services.

Table of Contents

THE EXCHANGE OFFER

On October 21, 2010, we issued $800.0 million aggregate principal amount of $7^{3}/_{4}$% Senior Notes due November 1, 2018, which were exempt from registration under the Securities Act.

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

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

General	In connection with the private offering, Michaels Stores, Inc. and the guarantors of the outstanding notes entered into a registration rights agreement with the initial purchasers in which we agreed, among other things, to deliver this prospectus to you and to complete the exchange offer within 360 days after the date of original issuance of the outstanding notes. You are entitled to exchange in the exchange offer your outstanding notes for exchange notes which are identical in all material respects to the outstanding notes except: the exchange notes have been registered under the Securities Act; the exchange notes are not entitled to registration rights which are applicable to the outstanding notes under the registration rights agreement; and the liquidated damages provisions of the registration rights agreement are no longer applicable.
Exchange Offer	Michaels is offering to exchange: $800.0 million aggregate principal amount of $7^{3}/_{4}$% Senior Notes due 2018 which have been registered under the Securities Act for any and all of its outstanding $7^{3}/_{4}$% Senior Notes due 2018. You may only exchange outstanding notes in a principal amount equal to $2,000 and in integral multiples of $1,000 principal amount thereafter.
Resale	Based upon interpretations by the Staff of the Securities and Exchange Commission (the "SEC") set forth in no-action letters issued to unrelated third-parties, we believe that the exchange notes may be offered for resale, resold or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, unless you: are an "affiliate" of ours within the meaning of Rule 405 under the Securities Act; are a broker-dealer who purchased the notes directly from us for resale under Rule 144A, Regulation S or any other available exemption under the Securities Act; acquired the exchange notes other than in the ordinary course of your business;

Table of Contents

	have an arrangement with any person to engage in the distribution of the exchange notes; or are prohibited by law or policy of the SEC from participating in the exchange offer. However, we have not submitted a no-action letter, and there can be no assurance that the SEC will make a similar determination with respect to the exchange offer. Furthermore, in order to participate in the exchange offer, you must make the representations set forth in the letter of transmittal that we are sending you with this prospectus.
Expiration Date	The exchange offer will expire at 5:00 p.m., New York City time, on July 28, 2011 (the "expiration date") unless we, in our sole discretion, extend it. We do not currently intend to extend the expiration date.
Conditions to the Exchange Offer	The exchange offer is subject to certain customary conditions, some of which may be waived by us. See "The Exchange Offer Conditions to the Exchange Offer."
Procedure for Tendering Outstanding Notes	If you wish to tender your outstanding notes for exchange pursuant to the exchange offer, you must transmit to Law Debenture Trust Company of New York, as exchange agent, on or prior to the expiration date, either: a properly completed and duly executed copy of the letter of transmittal accompanying this prospectus, or a facsimile of the letter of transmittal, together with your outstanding notes and any other documentation required by the letter of transmittal, at the address set forth on the cover page of the letter of transmittal; or if you are effecting delivery by book-entry transfer, a computer-generated message transmitted by means of the Automated Tender Offer Program System of The Depository Trust Company ("DTC") in which you acknowledge and agree to be bound by the terms of the letter of transmittal and which, when received by the exchange agent, forms a part of a confirmation of book-entry transfer. In addition, you must deliver to the exchange agent on or prior to the expiration date, if you are effecting delivery by book-entry transfer, a timely confirmation of book- entry transfer of your outstanding notes into the account of the exchange agent at DTC pursuant to the procedures for book-entry transfers described in this prospectus under the heading "The Exchange Offer Procedures for Tendering Outstanding Notes."

	By executing and delivering the accompanying letter of transmittal or effecting delivery by book-entry transfer, you are representing to us that, among other things: neither the holder nor any other person receiving the exchange notes pursuant to the exchange offer is an "affiliate" of ours within the meaning of Rule 405 under the Securities Act; and if you are a broker-dealer that will receive exchange notes for your own account in exchange for outstanding notes that were acquired as a result of market-making or other trading activities, then you will deliver a prospectus in connection with any resale of such exchange notes. the person receiving the exchange notes pursuant to the exchange offer, whether or not this person is the holder, is receiving them in the ordinary course of business; neither the holder nor any other person receiving the exchange notes pursuant to the exchange offer has an arrangement or understanding with any person to participate in the distribution of such exchange notes and that such holder is not engaged in, and does not intend to engage in, a distribution of the exchange notes; See "The Exchange Offer Procedures for Tendering Outstanding Notes" and "Plan of Distribution."
Special Procedure for Beneficial Owners	If you are the beneficial owner of outstanding notes and your name does not appear on a security listing of DTC as the holder of those outstanding notes or if you are a beneficial owner of outstanding notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender those outstanding notes in the exchange offer, you should promptly contact the person in whose name your outstanding notes are registered and instruct that person to tender on your behalf. If you, as a beneficial holder, wish to tender on your own behalf you must, prior to completing and executing the letter of transmittal and delivering your outstanding notes, either make appropriate arrangements to register ownership of the outstanding notes in your name or obtain a properly completed bond power from the registered holder. The transfer of record ownership may take considerable time.
Guaranteed Delivery Procedures	If you wish to tender your outstanding notes and your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the letter of transmittal or any other documents required by the letter of transmittal prior to the expiration date or you cannot comply with the procedures of the Automated Tender Offer Program System of DTC prior to the expiration date, you must tender your outstanding notes according to the guaranteed delivery procedures set forth in this prospectus under "The Exchange Offer Guaranteed Delivery Procedures."

Table of Contents

Withdrawal Rights	The tender of the outstanding notes pursuant to the exchange offer may be withdrawn at any time prior to 5:00 p.m., New York City time, on the expiration date.
Acceptance of Outstanding Notes and Delivery of Exchange Notes	Subject to customary conditions, we will accept outstanding notes that are properly tendered in the exchange offer and not withdrawn prior to the expiration date. The exchange notes will be delivered promptly following the expiration date.
Effect of Not Tendering in the Exchange Offer	Any outstanding notes that are not tendered or that are tendered but not accepted will remain subject to the restrictions on transfer. Since the outstanding notes have not been registered under the federal securities laws, they bear a legend restricting their transfer absent registration or the availability of a specific exemption from registration. Upon the completion of the exchange offer, we will have no further obligations, except under limited circumstances, to provide for registration of the outstanding notes under the federal securities laws. See "The Exchange Offer Effect of Not Tendering."
Dissenters' Rights	Holders of outstanding notes do not have any appraisal or dissenters' rights in connection with the exchange offer. We intend to conduct the exchange offer in accordance with the applicable requirements of the Exchange Act and the rules and regulations of the SEC.
Interest on the Exchange Notes and the Outstanding Notes	The exchange notes will bear interest from the most recent interest payment date to which interest has been paid on the outstanding notes. Holders whose outstanding notes are accepted for exchange will be deemed to have waived the right to receive interest accrued on the outstanding notes.
Broker-Dealers	Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. See "Plan of Distribution."
Certain United States Federal Income Tax Considerations	The exchange of outstanding notes for exchange notes by tendering holders will not be a taxable exchange for United States federal income tax purposes, and such holders will not recognize any taxable gain or loss or any interest income for United States federal income tax purposes as a result of such exchange. See "Certain United States Federal Income Tax Considerations."
Exchange Agent	Law Debenture Trust Company of New York, the trustee under the indenture governing the notes (the "indenture"), is serving as exchange agent in connection with the exchange offer.
Use of Proceeds	We will not receive any proceeds from the issuance of exchange notes pursuant to the exchange offer.

Table of Contents

THE EXCHANGE NOTES

The following is a brief summary of the terms of the exchange notes. For a more complete description of the terms of the exchange notes, see "Description of Exchange Notes."

Issuer	Michaels Stores, Inc.
Securities Offered	\$800.0 million in aggregate principal amount of $7^{3}/_{4}$% Senior Notes due November 1, 2018.
Maturity Date	The exchange notes will mature on November 1, 2018.
Interest Rate	The exchange notes will bear interest at a rate of $7^{3}/_{4}$% per annum.
Interest Payment Dates	May 1 and November 1 of each year, commencing on May 1, 2011.
Guarantees	The exchange notes will be unconditionally guaranteed by our subsidiaries that guarantee our indebtedness under our amended and restated senior secured asset-based revolving credit facility and senior secured term loan facility. Two of our subsidiaries are considered immaterial subsidiaries under these facilities and will not guarantee the exchange notes. Subject to certain exceptions, if we create or acquire a new wholly owned domestic subsidiary that guarantees our debt or debt of a guarantor, it will guarantee the exchange notes unless we designate the subsidiary an "unrestricted subsidiary" under the indenture. See "Description of Exchange Notes Guarantees."
Ranking	The exchange notes will be our senior unsecured obligations and will: rank senior in right of payment to all of our existing and future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the exchange notes; rank equally in right of payment to all of our existing and future senior debt and other obligations that are not, by their terms, expressly subordinated in right of payment to the exchange notes; be effectively subordinated in right of payment to all of our existing and future secured debt (including under our Senior Credit Facilities), to the extent of the value of the assets securing such debt; and be structurally subordinated to all obligations of each of our subsidiaries that is not a guarantor of the exchange notes. Similarly, the exchange note guarantees will be unsecured senior obligations of the guarantors and will: rank senior in right of payment to all of the applicable guarantor's existing and future senior debt and other obligations that are, by their terms, expressly subordinated in right of payment to the exchange notes;

Table of Contents

	rank equally in right of payment to all of the applicable guarantor's existing and future senior debt and other obligations that are not, by their terms, expressly subordinated in right of payment to the exchange notes; be effectively subordinated in right of payment to all of the applicable guarantor's existing and future secured debt (including such guarantor's guarantee under our Senior Credit Facilities), to the extent of the value of the assets securing such debt; and be structurally subordinated to all obligations of any subsidiary of a guarantor that is not also a guarantor of the exchange notes. As of April 2, 2011, we had approximately $1,995 million of secured debt outstanding, consisting entirely of our senior secured term loan facility.
Optional Redemption	Prior to November 1, 2014 we may redeem some or all of the exchange notes for cash at a redemption price equal to 100% of their principal amount plus an applicable make-whole premium (as described in "Description of Exchange Notes Optional Redemption") plus accrued and unpaid interest, if any, to the redemption date. Beginning on November 1, 2014, we may redeem some or all of the exchange notes at the redemption prices listed under "Description of Exchange Notes Optional Redemption" plus accrued and unpaid interest, if any, to the redemption date.
Optional Redemption After Certain Equity Offerings	At any time (which may be more than once) until November 1, 2013, we can choose to redeem up to 35% of the outstanding exchange notes and outstanding notes with money that we raise in certain equity offerings, so long as: we pay 107.750% of the face amount of the exchange notes, plus accrued and unpaid interest, if any; we redeem the exchange notes within 90 days of completing such equity offering; and at least 50% of the aggregate principal amount of the exchange notes and outstanding notes (including any applicable notes issued after the original issue date of the outstanding notes) remains outstanding afterwards.
Change of Control	If we experience a change in control, we must give holders of the exchange notes the opportunity to sell us their exchange notes at 101% of their face amount, plus accrued and unpaid interest, if any. See "Description of Exchange Notes Repurchase at the Option of Holders Change of Control." We might not be able to pay you the required price for exchange notes you present to us at the time of a change of control, because we might not have enough funds at that time or the terms of our senior debt may prevent us from paying.

Asset Sale Proceeds	If we or our subsidiaries engage in asset sales, we generally must either invest the net cash proceeds from such sales in our business within a period of time, prepay senior secured debt or make an offer to purchase a principal amount of the exchange notes equal to the excess net cash proceeds, subject to certain exceptions. The purchase price of the exchange notes will be 100% of their principal amount, plus accrued and unpaid interest, if any. See "Description of Exchange Notes Repurchase at the Option of Holders Asset Sales."
Certain Covenants	The indenture governing the exchange notes will contain covenants limiting our ability and the ability of our restricted subsidiaries to, among other things: incur additional debt; pay dividends or distributions on our capital stock or repurchase our capital stock; issue stock of subsidiaries; make certain investments; create liens on our assets to secure debt; enter into transactions with affiliates; merge or consolidate with another company; and sell or otherwise transfer assets. These covenants are subject to a number of important limitations and exceptions, and the requirement to comply with certain covenants may be suspended or eliminated upon achievement of investment grade ratings for the exchange notes. See "Description of Exchange Notes."
No Public Market	The exchange notes will be freely transferable but will be new securities for which there will not initially be a market. Accordingly, we cannot assure you whether a market for the exchange notes will develop or as to the liquidity of any market. The initial purchasers in the private offering of the outstanding notes have advised us that they currently intend to make a market in the exchange notes. The initial purchasers are not obligated, however, to make a market in the exchange notes, and any such market-making may be discontinued by the initial purchasers in their discretion at any time without notice. Accordingly, we cannot assure you that a liquid market for the exchange notes will develop or be maintained.
Risk Factors	Investing in the exchange notes involves substantial risks. See "Risk Factors" for a description of certain of the risks you should consider before investing in the exchange notes.

Table of Contents

Risk Factors

Participating in the exchange offer, and therefore investing in the exchange notes, involves substantial risk. See the "Risk Factors" section of this prospectus for a description of material risks you should consider before investing in the exchange notes.

Corporate Information

Michaels Stores, Inc., a Delaware corporation, was founded in 1983 and is headquartered in Irving, Texas. Our principal executive offices are located at 8000 Bent Branch Drive, Irving, Texas 75603. Our telephone number is (972) 409-1300. We provide links to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, on our Internet website at www.michaels.com under the heading "Investor Relations." These links are automatically updated so the filings are available immediately after they are made publicly available by the Securities and Exchange Commission ("SEC"). These filings are also available through the SEC's EDGAR system at www.sec.gov. The information on our website does not constitute part of this registration statement, and you should rely only on the information contained in this registration statement when making a decision as to whether to invest in the exchange notes. All website addresses in this prospectus are intended to be inactive textual references only.

Table of Contents

RISK FACTORS

You should carefully consider the following risk factors and all other information contained in this prospectus before deciding to tender your outstanding notes in the exchange offer. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us.

Risks Related to the Exchange Offer

There may be adverse consequences if you do not exchange your outstanding notes.

If you do not exchange your outstanding notes for exchange notes in the exchange offer, you will continue to be subject to restrictions on transfer of your outstanding notes as set forth in the offering memorandum distributed in connection with the private offering of the outstanding notes. In general, the outstanding notes may not be offered or sold unless they are registered or exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act. You should refer to "Summary The Exchange Offer" and "The Exchange Offer" for information about how to tender your outstanding notes.

The tender of outstanding notes under the exchange offer will reduce the outstanding amount of each series of the outstanding notes, which may have an adverse effect upon, and increase the volatility of, the market prices of the outstanding notes due to a reduction in liquidity.

Risks Related to the Exchange Notes and Our Other Indebtedness

We Face Risks Related to Our Substantial Indebtedness

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk associated with our variable rate debt and prevent us from meeting our obligations under our exchange notes, other notes and credit facilities. Our high degree of leverage could have important consequences to us, including:

- making it more difficult for us to make payments on our debt;
- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on our debt, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures, and future business opportunities;
- exposing us to the risk of increased interest rates as certain of our borrowings under our Senior Credit Facilities are at variable rates;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions, and general corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and placing us at a competitive disadvantage compared to our competitors who may be less highly leveraged.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in our Senior Credit Facilities and the indentures governing our notes. In addition, our Senior Credit Facilities and indentures governing our notes do not restrict our

owners from creating new holding companies that may be able to incur indebtedness without regard to the restrictions set forth in our credit facilities and indentures. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

Our Debt Agreements Contain Restrictions That Limit our Flexibility in Operating our Business

Our Senior Credit Facilities and the indentures governing our notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability and the ability of our restricted subsidiaries to, among other things:

- incur additional debt;
- pay dividends or distributions on our capital stock or repurchase our capital stock;
- issue stock of subsidiaries;
- make certain investments;
- create liens on our assets to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company; and
- sell or otherwise transfer assets.

In addition, under our senior secured asset-based revolving credit facility, we are required to meet an availability test described below. Our ability to meet such test can be affected by events beyond our control, and we cannot assure you that we will meet such test. A breach of such covenant or any other covenant could result in a default under our Senior Credit Facilities. Upon the occurrence of an event of default under our Senior Credit Facilities, the lenders could elect to declare all amounts outstanding under our Senior Credit Facilities to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under our Senior Credit Facilities could proceed against the collateral granted to them to secure that indebtedness. We have pledged a significant portion of our assets as collateral under our Senior Credit Facilities. If the lenders under our Senior Credit Facilities accelerate the repayment of borrowings, we cannot assure that we will have sufficient assets to repay our Senior Credit Facilities, as well as our unsecured indebtedness, including the exchange notes.

Our senior secured asset-based revolving credit facility permits us to borrow up to $850 million; however, our ability to borrow thereunder is limited by a borrowing base, which at any time will equal the sum of 90% of eligible credit card receivables and debit card receivables plus between 85% and 87.5% of the appraised net orderly liquidation value of eligible inventory and of eligible letters of credit plus a percentage of eligible in-transit inventory to be agreed upon, less certain reserves. We must not permit excess availability at any time to be less than the greater of (a) $75 million and (b) 10% of the lesser of (1) the then borrowing base under the senior secured asset-based revolving credit facility or (2) a revolving credit ceiling of $850 million (as reduced or increased in accordance with the terms of the senior secured asset-based revolving credit facility, the "Revolving Credit Ceiling"). Excess availability under the senior secured asset-based revolving credit facility means the lesser of (a) the Revolving Credit Ceiling minus the outstanding credit extensions and (b) the then borrowing base minus the outstanding credit extensions.

Table of Contents

We may not be able to generate sufficient cash to service all of our indebtedness, including the exchange notes, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness, including the exchange notes.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure or refinance our indebtedness, including the exchange notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Our Senior Credit Facilities and the indentures governing the notes, including our outstanding notes, restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

Your right to receive payments on the exchange notes is effectively junior to those lenders who have a security interest in our assets.

Our obligations under the exchange notes and our guarantors' obligations under their guarantees of the exchange notes are unsecured, but our obligations under our Senior Credit Facilities and each guarantor's obligations under their respective guarantees of the Senior Credit Facilities are secured by a security interest in substantially all of our tangible and intangible assets, including the stock of our current and certain future wholly-owned U.S. subsidiaries, the assets of our current and certain future wholly-owned material U.S. subsidiaries, the stock and the assets of Michaels of Canada, ULC and a portion of the stock of certain of our U.S. guarantor subsidiaries' non-U.S. subsidiaries. If we are declared bankrupt or insolvent, or if we default under our Senior Credit Facilities, the lenders could declare all of the funds borrowed thereunder, together with accrued interest, immediately due and payable. If we were unable to repay such indebtedness, the lenders could foreclose on the pledged assets to the exclusion of holders of the exchange notes, even if an event of default exists under the indenture governing the exchange notes at such time.

Furthermore, if the lenders foreclose and sell the pledged equity interests in any subsidiary guarantor under the exchange notes, then that guarantor will be released from its guarantee of the exchange notes automatically and immediately upon such sale. In any such event, because the exchange notes will not be secured by any of our assets or the equity interests in subsidiary guarantors, it is possible that there would be no assets remaining from which your claims could be satisfied or, if any assets remained, they might be insufficient to satisfy your claims fully. See "Description of Certain Other Indebtedness." As of April 2, 2011, we had total secured indebtedness of approximately $1,995 million.

The indenture governing the exchange notes permits us and our restricted subsidiaries to incur substantial additional indebtedness in the future, including senior secured indebtedness.

Table of Contents

Your claims to our assets will be structurally subordinated to all of the creditors of any non-guarantor subsidiaries.

In general, our foreign subsidiaries, unrestricted subsidiaries, non-wholly owned subsidiaries and other subsidiaries that do not guarantee our indebtedness or indebtedness of a guarantor of the exchange notes are not required to guarantee the exchange notes. Accordingly, claims of holders of the exchange notes will be structurally subordinated to the claims of creditors of these non-guarantor subsidiaries, including trade creditors. All obligations of our non-guarantor subsidiaries will have to be satisfied before any of the assets of such subsidiaries would be available for distribution, upon a liquidation or otherwise, to us or a guarantor of the exchange notes.

If we default on our obligations to pay our indebtedness, we may not be able to make payments on the exchange notes.

Any default under the agreements governing our indebtedness, including a default under the Senior Credit Facilities, that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness, could prevent us from paying principal, premium, if any, and interest on the exchange notes and substantially decrease the market value of the exchange notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness (including covenants in our Senior Credit Facilities, the indenture governing the exchange notes and the indentures governing our outstanding notes), we could be in default under the terms of the agreements governing such indebtedness, including our Senior Credit Facilities, the indenture governing the exchange notes and the indentures governing our outstanding notes. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under our Senior Credit Facilities could elect to terminate their commitments thereunder, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to obtain waivers from the required lenders under our Senior Credit Facilities to avoid being in default. If we breach our covenants under our Senior Credit Facilities and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under our Senior Credit Facilities, the lenders could exercise their rights, as described above, and we could be forced into bankruptcy or liquidation.

We may not be able to repurchase the exchange notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we are required to offer to repurchase all outstanding exchange notes at 101% of their principal amount plus accrued and unpaid interest. The source of funds for any such purchase of the exchange notes will be our available cash or cash generated from our subsidiaries' operations or other sources, including borrowings, sales of assets or sales of equity. We may not be able to repurchase the exchange notes upon a change of control because we may not have sufficient financial resources to purchase all of the exchange notes that are tendered upon a change of control. Further, we will be contractually restricted under the terms of our Senior Credit Facilities from repurchasing all of the exchange notes tendered by holders upon a change of control. Accordingly, we may not be able to satisfy our obligations to purchase the exchange notes unless we are able to refinance or obtain waivers under our Senior Credit Facilities. Our failure to repurchase the exchange notes upon a change of control would cause a default under the indenture governing the exchange notes and a cross-default under the Senior Credit Facilities. The Senior Credit Facilities also provide that a change of control will be a default that permits lenders to accelerate the maturity of borrowings thereunder. Any of our future debt agreements may contain similar provisions.

The lenders under the senior secured term loan facility will have the discretion to release the guarantors under the senior secured term loan facility in a variety of circumstances, which will cause those guarantors to be released from their guarantees of the exchange notes.

While any obligations under the senior secured term loan facility remain outstanding, any guarantee of the exchange notes may be released without action by, or consent of, any holder of the exchange notes or the trustee under the indenture governing the exchange notes, at the discretion of lenders under the senior secured term loan facility, if the related guarantor is no longer a guarantor of obligations under the senior secured term loan facility or any other indebtedness. See "Description of Exchange Notes." The lenders under the senior secured term loan facility will have the discretion to release the guarantees under the senior secured term loan facility in a variety of circumstances. You will not have a claim as a creditor against any subsidiary that is no longer a guarantor of the exchange notes, and the indebtedness and other liabilities, including trade payables, whether secured or unsecured, of those subsidiaries will effectively be senior to claims of noteholders.

Because each guarantor's liability under its guarantees may be reduced to zero, avoided or released under certain circumstances, you may not receive any payments from some or all of the guarantors.

You have the benefit of the guarantees of the subsidiary guarantors. However, the guarantees by the subsidiary guarantors are limited to the maximum amount that the subsidiary guarantors are permitted to guarantee under applicable law. As a result, a subsidiary guarantor's liability under its guarantee could be reduced to zero, depending upon the amount of other obligations of such subsidiary guarantor. Further, under the circumstances discussed more fully below, a court under federal and state fraudulent conveyance and transfer statutes could void the obligations under a guarantee or further subordinate it to all other obligations of the guarantor. See " Federal and state fraudulent transfer laws may permit a court to void the guarantees, and, if that occurs, you may not receive any payments on the exchange notes." In addition, you will lose the benefit of a particular guarantee if it is released under certain circumstances described under "Description of Exchange Notes Guarantees."

Federal and state fraudulent transfer laws may permit a court to void the guarantees, and, if that occurs, you may not receive any payments on the exchange notes.

Federal and state fraudulent transfer and conveyance statutes may apply to the issuance of the exchange notes and the incurrence of the guarantees. Under federal bankruptcy law and comparable provisions of state fraudulent transfer or conveyance laws, which may vary from state to state, the exchange notes or guarantees could be voided as a fraudulent transfer or conveyance if (1) we or any of the guarantors, as applicable, issued the exchange notes or incurred the guarantees with the intent of hindering, delaying or defrauding creditors or (2) we or any of the guarantors, as applicable, received less than reasonably equivalent value or fair consideration in return for either issuing the exchange notes or incurring the guarantees and, in the case of (2) only, one of the following is also true at the time thereof:

- we or any of the guarantors, as applicable, were insolvent or rendered insolvent by reason of the issuance of the exchange notes or the incurrence of the guarantees;

- the issuance of the exchange notes or the incurrence of the guarantees left us or any of the guarantors, as applicable, with an unreasonably small amount of capital to carry on the business;

- we or any of the guarantors intended to, or believed that we or such guarantor would, incur debts beyond our or such guarantor's ability to pay as they mature; or

- we or any of the guarantors was a defendant in an action for money damages, or had a judgment for money damages docketed against us or such guarantor if, in either case, after final judgment, the judgment is unsatisfied.

Table of Contents

If a court were to find that the issuance of the exchange notes or the incurrence of the guarantee was a fraudulent transfer or conveyance, the court could void the payment obligations under the exchange notes or such guarantee, or subordinate the exchange notes or such guarantee to presently existing and future indebtedness of ours or of the related guarantor, or require the holders of the exchange notes to repay any amounts received. In the event of a finding that a fraudulent transfer or conveyance occurred, you may not receive any payment on the exchange notes. Further, the voidance of the exchange notes could result in an event of default with respect to our and our subsidiaries' other debt that could result in acceleration of such debt. As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or an antecedent debt is secured or satisfied. A debtor will generally not be considered to have received value in connection with a debt offering if the debtor uses the proceeds of that offering to make a dividend payment or otherwise retire or redeem equity securities issued by the debtor.

We cannot be certain as to the standards a court would use to determine whether or not we or the guarantors were solvent at the relevant time or, regardless of the standard that a court uses, that the exchange notes or the guarantees would not be subordinated to our or any of our guarantors' other debt.

Your ability to transfer the exchange notes may be limited by the absence of an active trading market, and an active trading market for the exchange notes may not develop.

The exchange notes are new issues of securities for which there is no established public market. Accordingly, the development or liquidity of any market for the exchange notes is uncertain. We do not intend to have the exchange notes listed on a national securities exchange or to arrange for quotation on any automated dealer quotation systems.

The initial purchasers have advised us that they intend to make a market in the exchange notes, as permitted by applicable laws and regulations; however, the initial purchasers are not obligated to make a market in any of the exchange notes, and they may discontinue their market-making activities at any time without notice.

Therefore, an active market for any of exchange notes may not develop, and if a market for any of the exchange notes does develop, that market may not continue. Historically, the market for non investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the exchange notes. The market, if any, for any of the exchange notes may be subject to similar disruptions, and any such disruptions may adversely affect the prices at which you may sell your exchange notes. In addition, subsequent to their initial issuance, the exchange notes may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar notes, our performance and other factors.

Risks Related to Our Company

We Face Risks Related to the Effect of Economic Uncertainty

If recovery from the economic downturn continues to be slow or prolonged, our results of operations, cash flows and financial condition could be adversely impacted. Our stores offer arts and crafts supplies and products for the crafter, and custom framing for the do-it-yourself home decorator, which some customers may perceive as discretionary. Pressure on discretionary income brought on by the recent economic downturn and slow recovery, including housing market declines, rising energy prices and a weak labor market, may cause consumers to reduce the amount they spend on discretionary items. The downturn in the economy may continue to adversely affect consumer confidence and retail spending, decreasing demand for our merchandise. Current economic conditions also make it difficult for us to accurately forecast future demand trends, which could cause us to purchase excess inventories, resulting in increases in our inventory carrying cost, or insufficient

inventories, resulting in our inability to satisfy our customer demand and potentially lose market share. In addition, as discussed under "Liquidity and Capital Resources," we believe that our current liquidity resources are adequate for the foreseeable future. Although we do not anticipate needing additional sources of capital in the near term, any disruption in the capital markets could make it difficult for us to raise additional capital when needed, or to eventually refinance our existing indebtedness on acceptable terms or at all. Similarly, if our suppliers face challenges in obtaining credit when needed or otherwise face difficult business conditions, they may become unable to offer us the merchandise we use in our business thereby causing reductions in our revenues, or they may demand more favorable payment terms, all of which could adversely affect our results of operations, cash flows and financial condition.

Failure to Adequately Maintain Security and Prevent Unauthorized Access to Electronic and Other Confidential Information and Data Breaches such as the Recent Payment Card Terminal Tampering Could Materially Adversely Affect Our Financial Condition and Operating Results

Network Security

We have become increasingly centralized and dependent upon automated information technology processes. In addition, a portion of our business operations is conducted over the Internet, increasing the risk of viruses that could cause system failures and disruptions of operations. Any failure to maintain the security of our customers' confidential information, or data belonging to ourselves or our suppliers, could put us at a competitive disadvantage, result in deterioration in our customers' confidence in us, and subject us to potential litigation, liability, fines and penalties, resulting in a possible material adverse impact on our financial condition and results of operations.

Data Breaches

On May 3, 2011, we were advised by the U.S. Secret Service that they were investigating certain fraudulent debit card transactions that occurred on accounts that had been used for legitimate purchases in selected Michaels stores. A subsequent internal investigation revealed that (as of the date of this filing) approximately 90 payment card terminals in certain Michaels stores had been physically tampered with, potentially resulting in the compromise of customer debit and credit card information. The Company continues to cooperate with various governmental entities and law enforcement authorities in investigating the payment card terminal tampering, but we do not know the full extent of any fraudulent use of such information. Three consumer class action lawsuits have been filed against the Company as a result of the tampering and additional litigation may be filed. Various other claims may be otherwise asserted against us for which we may be responsible, on behalf of customers, banks, payment card companies and stockholders seeking damages allegedly arising out of the payment card terminal tampering and other related relief. In addition, payment card companies and associations may seek to impose fines by reason of the tampering. We do not have sufficient information to reasonably estimate losses we may incur arising from the payment card terminal tampering. Such losses could be material to our results of operations and financial condition.

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

Our Reliance on Foreign Suppliers Increases Our Risk of Obtaining Adequate, Timely, and Cost-Effective Product Supplies

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

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

All of our products manufactured overseas and imported into the United States are subject to duties collected by the United States Customs Service. We may be subjected to additional duties, significant monetary penalties, the seizure and forfeiture of the products we are attempting to import, or the loss of import privileges if we or our suppliers are found to be in violation of U.S. laws and regulations applicable to the importation of our products.

Significant Increases in Inflation or Commodity Prices such as Petroleum, Natural Gas, Electricity, Steel and Paper May Adversely Affect Our Costs, Including Cost of Merchandise

Any future increases in commodity prices or inflation may adversely affect our costs, including cost of merchandise and distribution costs. Furthermore, the transportation industry may experience a shortage or reduction of capacity, which could be exacerbated by higher fuel prices. Our results of operations may be adversely affected if we are unable to secure, or are able to secure only at significantly higher costs, adequate transportation resources to fulfill our receipt of goods or delivery schedules to the stores, particularly as we receive and deliver our fall and Christmas seasonal merchandise.

Our Growth Depends on Our Ability to Open New Stores and Increase Comparable Store Sales

One of our key business strategies is to expand our base of retail stores. If we are unable to continue this strategy, our ability to increase our sales, profitability, and cash flow could be impaired. To the extent we are unable to open new stores as we anticipate, our sales growth would come only from increases in comparable store sales. Growth in profitability in that case would depend significantly on our ability to reduce our costs as a percentage of our sales. We may be unable to continue our store growth strategy if we cannot identify suitable sites for additional stores, negotiate acceptable leases, access sufficient capital to support store growth, or hire and train a sufficient number of qualified associates.

Our Success Will Depend on How Well We Manage Our Business

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

- the costs of opening and operating new stores may offset the increased sales generated by the additional stores;
- the closure of unsuccessful stores may result in the retention of liability for expensive leases;
- a significant portion of our management's time and energy may be consumed with issues unrelated to advancing our core business strategy;
- the implementation of future operational efficiency initiatives, which may include the consolidation of certain operations and/or the possible co-sourcing of additional selected functions, may not produce the desired reduction in costs and may result in disruptions arising from such actions;
- we may be unable to hire, train, and retain qualified employees, including management and senior executives, and significant turnover could be disruptive to our core business strategy and operations;
- failure to maintain stable relations with our labor force;
- our suppliers may be unable to meet the increased demand of additional stores in a timely manner; and
- we may be unable to expand our existing distribution centers or use third-party distribution centers on a cost-effective basis to provide merchandise for sale by our new stores.

Changes in Customer Demands Could Materially Adversely Affect Our Sales, Results of Operations, and Cash Flow

Our success depends on our ability to anticipate and respond in a timely manner to changing customer demands and preferences for products and supplies used in creative activities. If we misjudge the market, we may significantly overstock unpopular products and be forced to take significant inventory markdowns, which would have a negative impact on our operating results and cash flow. Also, shortages of key items could have a material adverse impact on our operating results. In addition, adverse weather conditions, economic instability, and consumer confidence volatility could have a material adverse impact on our sales and operating results.

Unexpected or Unfavorable Consumer Responses to Our Promotional or Merchandising Programs Could Materially Adversely Affect Our Sales, Results of Operations, Cash Flow and Financial Condition

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

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

19

Table of Contents

Changes in Newspaper Subscription Rates May Result in Reduced Exposure to Our Circular Advertisements

The majority of our promotional activities utilize circular advertisements in local newspapers. A continued decline in consumer subscriptions of these newspapers could reduce the frequency with which consumers receive our circular advertisements, thereby negatively affecting sales, results of operations, and cash flow.

Improvements to Our Supply Chain May Not Be Fully Successful

An important part of our efforts to achieve efficiencies, cost reductions, and sales and cash flow growth is the identification and implementation of improvements to our supply chain, including merchandise ordering, transportation, and receipt processing. During fiscal 2011, we plan to continue to implement enhancements to our distribution systems and processes, which are designed to improve efficiency through the supply chain and at our stores. Significant changes to our supply chain could have a material adverse impact on our results of operations.

Our Suppliers May Fail Us

Many of our suppliers are small firms that produce a limited number of items. Given their limited resources, these firms are susceptible to cash flow issues, access to capital, production difficulties, quality control issues, and problems in delivering agreed-upon quantities on schedule. We may not be able, if necessary, to return products to these suppliers and obtain refunds of our purchase price or obtain reimbursement or indemnification from them if their products prove defective. In addition, these suppliers may be unable to withstand a downturn in economic conditions. Significant failures on the part of our key suppliers could have a material adverse effect on our results of operations.

In addition, many of these suppliers require extensive advance notice of our requirements in order to supply products in the quantities we desire. This long lead time requires us to place orders far in advance of the time when certain products will be offered for sale, exposing us to risk of shifts in demand.

Risks Associated with the Vendors from Whom Our Products Are Sourced Could Materially Adversely Affect Our Revenue and Gross Profit

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

Table of Contents

Product Recalls and/or Product Liability, as well as Changes in Product Safety and Other Consumer Protection Laws, May Adversely Impact Our Operations, Merchandise Offerings, Reputation, Results of Operations, Cash Flow and Financial Condition

We are subject to regulations by a variety of federal, state and international regulatory authorities, including the Consumer Product Safety Commission. In fiscal 2010, we purchased merchandise from approximately 700 vendors. Since a majority of our merchandise is manufactured in foreign countries, one or more of our vendors might not adhere to product safety requirements or our quality control standards, and we might not identify the deficiency before merchandise ships to our stores. Any issues of product safety, including but not limited to those manufactured in foreign countries, could cause us to recall some of those products. If our vendors fail to manufacture or import merchandise that adheres to our quality control standards, our reputation and brands could be damaged, potentially leading to increases in customer litigation against us. Furthermore, to the extent we are unable to replace any recalled products, we may have to reduce our merchandise offerings, resulting in a decrease in sales, especially if a recall occurs near or during a seasonal period. If our vendors are unable or unwilling to recall products failing to meet our quality standards, we may be required to recall those products at a substantial cost to us. Moreover, changes in product safety or other consumer protection laws could lead to increased costs to us for certain merchandise, or additional labor costs associated with readying merchandise for sale. Long lead times on merchandise ordering cycles increase the difficulty for us to plan and prepare for potential changes to applicable laws. The Consumer Product Safety Improvement Act of 2008 imposes significant requirements on manufacturing, importing, testing and labeling requirements for our products. In the event that we are unable to timely comply with regulatory changes, significant fines or penalties could result, and could adversely affect our reputation, results of operations, cash flow and financial condition.

We Have Co-sourced Certain of Our Information Technology, Accounts Payable, Payroll, Accounting, and Human Resources Functions and May Co-source Other Administrative Functions, Which Makes Us More Dependent Upon Third Parties

We place significant reliance on a third party provider for the co-sourcing of certain of our information technology (IT), accounts payable, payroll, accounting, and human resources functions. This co-sourcing initiative is a component of our ongoing strategy to increase efficiencies, increase our IT capabilities, monitor our costs and seek additional cost savings. These functions are generally performed in an offshore location, with Michaels oversight. As a result, we are relying on third parties to ensure that certain functional needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over these processes, changes in pricing that may affect our operating results, and potentially, termination of provision of these services by our supplier. If our service providers fail to perform, we may have difficulty arranging for an alternate supplier or rebuilding our own internal resources, and we could incur significant costs, all of which may have a significant adverse effect on our business. We may co-source other administrative functions in the future, which would further increase our reliance on third parties. Further, the use of offshore service providers may expose us to risks related to local political, economic, social or environmental conditions (including acts of terrorism, the outbreak of war, or the occurrence of natural disaster), restrictive actions by foreign governments or changes in United States laws and regulations.

Our Information Systems May Prove Inadequate

We depend on our management information systems for many aspects of our business, including our perpetual inventory, automated replenishment, and weighted average cost stock ledger systems which are necessary to properly forecast, manage, and analyze our inventory. We will be materially adversely affected if our operational or management information systems are disrupted or we are unable to improve, upgrade, maintain, and expand our systems.

Table of Contents

Changes in Regulations or Enforcement May Adversely Impact Our Business

We are subject to federal, state, provincial and local regulations with respect to our operations in the U.S. and Canada. There are a number of legislative and regulatory initiatives, which the enactment or enforcement of, could adversely impact our business. Those initiatives include wage or workforce issues, collective bargaining matters, environmental regulation, price and promotion regulation, trade regulations and others. In addition, we expect that the Patient Protection and Affordable Care Act, which was signed into law on March 23, 2010, will increase our annual associate health care costs, with the most significant increases coming in 2014. Proposed changes in tax regulations may also change our effective tax rate as our business is subject to a combination of applicable tax rates in the various countries, states and other jurisdictions in which we operate.

A Weak Fourth Quarter Would Materially Adversely Affect Our Result of Operations

Our business is highly seasonal. Our inventories and short-term borrowings may grow in the second and third fiscal quarters as we prepare for our peak selling season in the third and fourth fiscal quarters. Our most important quarter in terms of sales, profitability, and cash flow historically has been the fourth fiscal quarter. If for any reason our fourth fiscal quarter results were substantially below expectations, our operating results for the full year would be materially adversely affected, and we could have substantial excess inventory, especially in seasonal merchandise, that is difficult to liquidate.

Competition Could Negatively Impact Our Business

The retail arts and crafts industry is competitive, which could result in the reduction of our prices and our loss of market share. We must remain competitive in the areas of quality, price, breadth of selection, customer service, and convenience. We compete with mass merchants (*e.g*., Wal-Mart Stores, Inc. and Target Corporation), who dedicate a portion of their selling space to a limited selection of craft supplies and seasonal and holiday merchandise, along with national and regional chains and local merchants. We also compete with specialty arts and crafts retailers, which include Hobby Lobby, A.C. Moore Arts & Crafts, Inc., Jo-Ann Stores, Inc., and Garden Ridge Corporation. Some of our competitors, particularly the mass merchants, are larger and have greater financial resources than we do. In addition, alternative methods of selling crafts, such as over the Internet, could result in additional competitors in the future and increased price competition since our customers could more readily comparison shop. Furthermore, we ultimately compete with alternative sources of entertainment and leisure for our customers.

The Interests of Our Controlling Stockholders May Conflict with the Interests of Our Creditors

The Sponsors indirectly own approximately 93% of the Company's Common Stock. The interests of these funds as equity holders may conflict with those of our creditors. The controlling stockholders may have an incentive to increase the value of their investment or cause us to distribute funds at the expense of our financial condition, which could affect our ability to make payments on the outstanding notes. In addition, these funds have the power to elect a majority of our board of directors and appoint new officers and management and, therefore, effectively control many other major decisions regarding our operations. In addition, our Sponsors have in the past and may continue to purchase our debt which could adversely affect the liquidity of the remaining debt of any series.

Table of Contents

INDUSTRY AND MARKET DATA

Market and industry data throughout this prospectus was obtained from a combination of our own research, the good faith estimates of management and various trade associations. While we believe our research, third party information, estimates of management and data from trade associations are reliable, we have not verified this data with any independent sources. Accordingly, we do not make any representations as to the accuracy or completeness of that data.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This registration statement contains "forward-looking statements" within the meaning of the federal securities laws, which statements involve risks and uncertainties. You can identify forward-looking statements because they contain words such as "believes," "expects," "may," "will," "should," "could, "seeks," "approximately," "intends," "plans," "estimates," or "anticipates" or similar expressions that concern our strategy, plans or intentions. All statements we make relating to the closing of the transactions described in this registration statement or to our estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performances and other developments. These forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore our actual results may differ materially from those that we expected. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and it is impossible for us to anticipate all factors that could affect our actual results.

Important factors that could cause actual results to differ materially from our expectations ("cautionary statements") are disclosed under "Risk Factors" and elsewhere in this registration statement, including, without limitation, in conjunction with the forward-looking statements included in this registration statement. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements.

The matters referred to in the forward-looking statements contained in this registration statement may not in fact occur. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

THE EXCHANGE OFFER

Purpose and Effect of the Exchange Offer

Michaels and the guarantors of the notes have entered into registration rights agreement with the initial purchasers of the outstanding notes in which we agreed, under certain circumstances, to use our reasonable best efforts to file a registration statement relating to the offer to exchange the outstanding notes for exchange notes and thereafter cause the registration statement to become effective under the Securities Act no later than 360 days following the closing date of the issuances of the outstanding notes. The exchange notes will have terms identical in all material respects to the outstanding notes, except that the exchange notes will not contain terms with respect to transfer restrictions, registration rights and additional interest for failure to observe certain obligations in the registration rights agreement. The outstanding notes were issued on October 21, 2010.

Under the circumstances set forth below, Michaels and the guarantors will use their reasonable best efforts to cause the SEC to declare effective a shelf registration statement with respect to the

Table of Contents

resale of the outstanding notes within the time periods and subject to the provisions specified in the registration rights agreement and keep the statement effective for up to two years after the effective date of the shelf registration statement. These circumstances include:

- if, because of any change in law or in currently prevailing interpretations of the staff of the SEC, we are not permitted to effect the exchange offer as contemplated by the registration rights agreement;

- if the exchange offer is not consummated within 360 days after the date of issuance of the outstanding notes;

- if any initial purchaser of outstanding notes acquired by them that have the status of an unsold allotment in the initial distribution of exchange notes so requests in writing to us at any time within 30 days after the consummation of the exchange offer; or

- if in the case of any holder that participates in the exchange offer, such holder does not receive exchange notes on the date of the exchange that may be freely sold without restriction under state and federal securities laws (other than due solely to the status of such holder as an affiliate of the Company within the meaning of the Securities Act) and so notifies us within 30 days after such holder first becomes aware of the restrictions.

If (A) we have neither (i) exchanged the exchange notes for all outstanding notes validly tendered in accordance with the terms of the exchange offer nor (ii) had a shelf registration declared effective, in either case on or prior to the 360th day after the original issue date of the outstanding notes, (B) notwithstanding clause (A), are required to file a shelf registration statement and such shelf registration statement is not declared effective on or prior to the 360th day after the date such filing was requested or required or (C) if applicable, a shelf registration statement has been declared effective and such shelf registration statement ceases to be effective at any time during the shelf registration period (subject to certain exceptions), then additional interest shall accrue on the principal amount of the applicable outstanding notes at a rate of 0.25% per annum (which rate will be increased by an additional 0.25% per annum for each subsequent 90-day period that such additional interest continues to accrue, provided that the rate at which such additional interest accrues may in no event exceed 1.00% per annum) commencing on (x) the 361st day after the original issue date of the outstanding notes, in the case of (A) above, (y) the 361st day after such shelf registration statement filing was requested or required, in the case of (B) above or (z) the day such shelf registration statement ceases to be effective, in the case of (C) above; provided, however, that upon the exchange of exchange notes for all outstanding notes tendered (in the case of clause (A) above), upon effectiveness of the applicable shelf registration statement (in the case of clause (B) above), or upon the effectiveness of a shelf registration statement that had ceased to remain effective (in the case of clause (C) above), additional interest on such outstanding notes as a result of such clause, as the case may be, shall cease to accrue.

If you wish to exchange your outstanding notes for exchange notes in the exchange offer, you will be required to make the following written representations:

- any exchange notes acquired in exchange for outstanding notes tendered are being acquired in the ordinary course of business;

- at the time of commencement or consummation of the exchange offer, the holder has no arrangement or understanding with any person to participate in the distribution of the exchange notes in violation of the provisions of the Securities Act;

- the holder is not an "affiliate" (as defined in Rule 405) of ours, or, if it is an affiliate of ours, it will comply with the registration and prospectus delivery requirements of the Securities Act;

Table of Contents

- if the holder is not a broker-dealer, the Holder is not engaged and does not intend to engage in distribution of the exchange notes; and

- if the holder is a broker-dealer, the holder will receive exchange notes for its own account in exchange for outstanding notes that were acquired as a result of market-making activities or other trading activities, and that it will comply with the applicable provisions of the Securities Act, including the delivery of a prospectus in connection with any resale of such exchange notes.

Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where the broker-dealer acquired the outstanding notes as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. Please see "Plan of Distribution."

Resale of Exchange Notes

Based on an interpretation by the SEC set forth in no-action letters issued to third-parties unrelated to us, we believe that, with the exceptions set forth below, exchange notes issued in the exchange offer may be offered for resale, resold and otherwise transferred by the holder of exchange notes without compliance with the registration and prospectus delivery requirements of the Securities Act, unless the holder:

- is an "affiliate," within the meaning of Rule 405 under the Securities Act, of Michaels Stores, Inc. or any subsidiary guarantor;

- is a broker-dealer who purchased outstanding notes directly from us for resale under Rule 144A or Regulation S or any other available exemption under the Securities Act;

- acquired the exchange notes other than in the ordinary course of the holder's business;

- has an arrangement with any person to engage in the distribution of the exchange notes; or

- is prohibited by any law or policy of the SEC from participating in the exchange offer.

Any holder who tenders in the exchange offer for the purpose of participating in a distribution of the exchange notes cannot rely on this interpretation by the SEC and must comply with the registration and prospectus delivery requirements of the Securities Act in connection with a secondary resale transaction. Each broker-dealer that receives exchange notes for its own account in exchange for outstanding notes, where such outstanding notes were acquired by such broker-dealer as a result of market making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of such exchange note. Please read "Plan of Distribution" for more details regarding the transfer of exchange notes. Broker-dealers who acquired outstanding notes directly from us and not as a result of market making activities or other trading activities may not rely on the SEC's interpretations discussed above or participate in the exchange offer, and must comply with the prospectus delivery requirements of the Securities Act in order to sell the outstanding notes.

Under certain circumstances specified in the registration rights agreement, we may be required to file a "shelf" registration statement for a continuous offer in connection with the outstanding notes pursuant to Rule 415 under the Securities Act.

Terms of the Exchange Offer

On the terms and subject to the conditions set forth in this prospectus and in the accompanying letters of transmittal, Michaels will accept for exchange in the exchange offer any outstanding notes that are validly tendered and not validly withdrawn prior to the applicable expiration date. Outstanding notes may only be tendered in a principal amount equal to $2,000 and in multiples of $1,000 thereafter.

Table of Contents

Michaels will issue $1,000 principal amount of exchange notes in exchange for each $1,000 principal amount of outstanding notes surrendered in the exchange offer.

The form and terms of the exchange notes will be identical in all material respects to the form and terms of the outstanding notes except the exchange notes will be registered under the Securities Act, will not bear legends restricting their transfer and will not provide for any additional interest upon our failure to fulfill our obligations under the registration rights agreement to complete the exchange offer, or file, and cause to be effective, a shelf registration statement, if required thereby, within the specified time period. The exchange notes will evidence the same debt as the outstanding notes. The exchange notes will be issued under and entitled to the benefits of the same indenture that authorized the issuance of the outstanding notes. For a description of the indenture, see "Description of Exchange Notes".

The exchange offer is not conditioned upon any minimum aggregate principal amount of outstanding notes being tendered for exchange.

As of the date of this prospectus, $800 million aggregate principal amount of the 7$^3/_4$% Senior Notes due 2018 are outstanding. This prospectus and the letters of transmittal are being sent to all registered holders of outstanding notes. There will be no fixed record date for determining registered holders of outstanding notes entitled to participate in the exchange offer. Michaels intends to conduct the exchange offer in accordance with the provisions of the registration rights agreement, the applicable requirements of the Securities Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations of the SEC. Outstanding notes that are not tendered for exchange in the exchange offer will remain outstanding and continue to accrue interest and will be entitled to the rights and benefits such holders have under the indenture relating to such holders' series of outstanding notes and the registration rights agreement except we will not have any further obligation to you to provide for the registration of the outstanding notes under the registration rights agreement.

Michaels will be deemed to have accepted for exchange properly tendered outstanding notes when it has given oral or written notice of the acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders for the purposes of receiving the exchange notes from us and delivering exchange notes to holders. Subject to the terms of the registration rights agreement, Michaels expressly reserves the right to amend or terminate the exchange offer and to refuse to accept the occurrence of any of the conditions specified below under " Conditions to the Exchange Offer."

If you tender your outstanding notes in the exchange offer, you will not be required to pay brokerage commissions or fees or, subject to the instructions in the applicable letter of transmittal, transfer taxes with respect to the exchange of outstanding notes. We will pay all charges and expenses, other than certain applicable taxes described below in connection with the exchange offer. It is important that you read " Fees and Expenses" below for more details regarding fees and expenses incurred in the exchange offer.

Expiration Date; Extensions, Amendments

As used in this prospectus, the term "expiration date" means 5:00 p.m., New York City time, on July 28, 2011. However, if we, in our sole discretion, extend the period of time for which the exchange offer is open, the term "expiration date" will mean the latest time and date to which we shall have extended the expiration of the exchange offer.

Table of Contents

To extend the period of time during which the exchange offer is open, we will notify the exchange agent of any extension by oral or written notice, followed by notification by press release or other public announcement to the registered holders of the outstanding notes no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date. Any such announcement will include the approximate number of securities deposited as of the date of extension.

Michaels reserves the right, in its sole discretion:

- to delay accepting for exchange any outstanding notes (if we amend or extend the exchange offer);
- to extend the exchange offer or to terminate the exchange offer if any of the conditions set forth below under "Conditions to the Exchange Offer" have not been satisfied, by giving oral or written notice of such delay, extension or termination to the exchange agent; and
- subject to the terms of the registration rights agreement, to amend the terms of the exchange offer in any manner.

Any delay in acceptance, extension, termination or amendment will be followed as promptly as practicable by oral or written notice to the registered holders of the outstanding notes. If Michaels amends the exchange offer in a manner that we determine to constitute a material change, including the waiver of a material condition, it will promptly disclose the amendment in a manner reasonably calculated to inform the holders of outstanding notes of that amendment, and it will extend the offer period, if necessary, so that at least five business days remain in the offer following notice of the material change.

Conditions to the Exchange Offer

Despite any other term of the exchange offer, Michaels will not be required to accept for exchange, or to issue exchange notes in exchange for, any outstanding notes and it may terminate or amend the exchange offer as provided in this prospectus prior to the expiration date if in its reasonable judgment:

- the exchange offer or the making of any exchange by a holder violates any applicable law or interpretation of the SEC;
- any action or proceeding has been instituted or threatened in any court or by or before any governmental agency with respect to the exchange offer that, in our judgment, would be expected to materially impair our ability to proceed with the exchange offer, or a material adverse development shall have occurred in any existing action or proceeding with respect to the Issuer; or
- any government approvals, which we deem to be necessary for the consummation of the exchange offer, have not been obtained.

In addition, Michaels will not be obligated to accept for exchange the outstanding notes of any holder that has not made to us:

- the representations described under "Purpose and Effect of the Exchange Offer," "Procedures for Tendering Outstanding Notes" and "Plan of Distribution;" or
- any other representations as may be reasonably necessary under applicable SEC rules, regulations, or interpretations to make available to us an appropriate form for registration of the exchange notes under the Securities Act.

Michaels expressly reserves the right at any time or at various times to extend the period of time during which the exchange offer is open. Consequently, Michaels may delay acceptance of any

Table of Contents

outstanding notes by giving oral or written notice of such extension to their holders. Michaels will return any outstanding notes that it does not accept for exchange for any reason without expense to their tendering holder promptly after the expiration or termination of the exchange offer.

Michaels expressly reserves the right to amend or terminate the exchange offer and to reject for exchange any outstanding notes not previously accepted for exchange, upon the occurrence of any of the conditions of the exchange offer specified above. Michaels will give oral or written notice of any extension, amendment, non-acceptance or termination to the holders of the outstanding notes as promptly as practicable. In the case of any extension, such notice will be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

These conditions are for our sole benefit and Michaels may assert them regardless of the circumstances that may give rise to them or waive them in whole or in part at any or at various times prior to the expiration date in our sole discretion. If Michaels fails at any time to exercise any of the foregoing rights, this failure will not constitute a waiver of such right. Each such right will be deemed an ongoing right that it may assert at any time or at various times prior to the expiration date.

In addition, Michaels will not accept for exchange any outstanding notes tendered, and will not issue exchange notes in exchange for any such outstanding notes, if at such time any stop order is threatened or in effect with respect to the registration statement of which this prospectus constitutes a part or the qualification of the indenture under the Trust Indenture Act of 1939 (the "TIA").

Procedures for Tendering Outstanding Notes

To tender your outstanding notes in the exchange offer, you must comply with either of the following:

- complete, sign and date the letter of transmittal, or a facsimile of the letter of transmittal, have the signature(s) on the letter of transmittal guaranteed if required by the letter of transmittal and mail or deliver such letter of transmittal or facsimile thereof to the exchange agent at the address set forth below under " Exchange Agent Notes" prior to the expiration date; or

- comply with DTC's Automated Tender Offer Program procedures described below.

In addition, either:

- the exchange agent must receive certificates for outstanding notes along with the applicable letter of transmittal prior to the expiration date;

- the exchange agent must receive a timely confirmation of book-entry transfer of outstanding notes into the exchange agent's account at DTC according to the procedures for book-entry transfer described below or a properly transmitted agent's message prior to the expiration date; or

- you must comply with the guaranteed delivery procedures described below.

Your tender, if not withdrawn prior to the expiration date, constitutes an agreement between us and you upon the terms and subject to the conditions described in this prospectus and in the applicable letter of transmittal.

The method of delivery of outstanding notes, letters of transmittal, and all other required documents to the exchange agent is at your election and risk. We recommend that instead of delivery by mail, you use an overnight or hand delivery service, properly insured. In all cases, you should allow sufficient time to assure timely delivery to the exchange agent before the expiration date. You should not send letters of transmittal or certificates representing outstanding notes to us. You may request that your broker, dealer, commercial bank, trust company or nominee effect the above transactions for you.

Table of Contents

If you are a beneficial owner whose outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company, or other nominee and you wish to tender your outstanding notes, you should promptly contact the registered holder and instruct the registered holder to tender on your behalf. If you wish to tender the outstanding notes yourself, you must, prior to completing and executing the applicable letter of transmittal and delivering your outstanding notes, either:

- make appropriate arrangements to register ownership of the outstanding notes in your name; or

- obtain a properly completed bond power from the registered holder of outstanding notes.

The transfer of registered ownership may take considerable time and may not be able to be completed prior to the expiration date.

Signatures on the applicable letter of transmittal or a notice of withdrawal, as the case may be, must be guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or another "eligible guarantor institution" within the meaning of Rule 17A(d)-15 under the Exchange Act unless the outstanding notes surrendered for exchange are tendered:

- by a registered holder of the outstanding notes who has not completed the box entitled "Special Registration Instructions" or "Special Delivery Instructions" on the applicable letter of transmittal; or

- for the account of an eligible guarantor institution.

If the applicable letter of transmittal is signed by a person other than the registered holder of any outstanding notes listed on the outstanding notes, such outstanding notes must be endorsed or accompanied by a properly completed bond power. The bond power must be signed by the registered holder as the registered holder's name appears on the outstanding notes and an eligible guarantor institution must guarantee the signature on the bond power.

If the applicable letter of transmittal or any certificates representing outstanding notes, or bond powers are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations, or others acting in a fiduciary or representative capacity, those persons should also indicate when signing and, unless waived by us, they should also submit evidence satisfactory to us of their authority to so act.

The exchange agent and DTC have confirmed that any financial institution that is a participant in DTC's system may use DTC's Automated Tender Offer Program to tender. Participants in the program may, instead of physically completing and signing the applicable letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of the exchange by causing DTC to transfer the outstanding notes to the exchange agent in accordance with DTC's Automated Tender Offer Program procedures for transfer. DTC will then send an agent's message to the exchange agent. The term "agent's message" means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that:

- DTC has received an express acknowledgment from a participant in its Automated Tender Offer Program that is tendering outstanding notes that are the subject of the book-entry confirmation;

- the participant has received and agrees to be bound by the terms of the applicable letter of transmittal, or in the case of an agent's message relating to guaranteed delivery, that such participant has received and agrees to be bound by the applicable notice of guaranteed delivery; and

- we may enforce that agreement against such participant.

Table of Contents

DTC is referred to herein as a "book-entry transfer facility."

Acceptance of Exchange Notes

In all cases, Michaels will promptly issue exchange notes for outstanding notes that it has accepted for exchange under the exchange offer only after the exchange agent timely receives:

- outstanding notes or a timely book-entry confirmation of such outstanding notes into the exchange agent's account at the book-entry transfer facility; and
- a properly completed and duly executed letter of transmittal and all other required documents or a properly transmitted agent's message.

By tendering outstanding notes pursuant to the exchange offer, you will represent to us that, among other things:

- you are not our affiliate or an affiliate of any guarantor within the meaning of Rule 405 under the Securities Act;
- if you are not a broker-dealer, you are not engaged in and do not intend to engage in a distribution of the exchange notes;
- you do not have an arrangement or understanding with any person or entity to participate in a distribution of the exchange notes; and
- you are acquiring the exchange notes in the ordinary course of your business.

In addition, each broker-dealer that is to receive exchange notes for its own account in exchange for outstanding notes must represent that such outstanding notes were acquired by that broker-dealer as a result of market-making activities or other trading activities and must acknowledge that it will deliver a prospectus that meets the requirements of the Securities Act in connection with any resale of the exchange notes. The letter of transmittal states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an "underwriter" within the meaning of the Securities Act. See "Plan of Distribution."

Michaels will interpret the terms and conditions of the exchange offer, including the letter of transmittal and the instructions to the letter of transmittal, and will resolve all questions as to the validity, form, eligibility, including time of receipt, and acceptance of outstanding notes tendered for exchange. Our determinations in this regard will be final and binding on all parties. Michaels reserves the absolute right to reject any and all tenders of any particular outstanding notes not properly tendered or to not accept any particular outstanding notes if the acceptance might, in its or its counsel's judgment, be unlawful. We also reserve the absolute right to waive any defects or irregularities as to any particular outstanding notes prior to the expiration date.

Unless waived, any defects or irregularities in connection with tenders of outstanding notes for exchange must be cured within such reasonable period of time as we determine. Neither Michaels, the exchange agent, nor any other person will be under any duty to give notification of any defect or irregularity with respect to any tender of outstanding notes for exchange, nor will any of them incur any liability for any failure to give notification. Any outstanding notes received by the exchange agent that are not properly tendered and as to which the irregularities have not been cured or waived will be returned by the exchange agent to the tendering holder, unless otherwise provided in the applicable letter of transmittal, promptly after the expiration date.

Book-Entry Delivery Procedures

Promptly after the date of this prospectus, the exchange agent will establish an account with respect to the outstanding notes at DTC and, as the book-entry transfer facility, for purposes of the

Table of Contents

exchange offer. Any financial institution that is a participant in the book-entry transfer facility's system may make book-entry delivery of the outstanding notes by causing the book-entry transfer facility to transfer those outstanding notes into the exchange agent's account at the facility in accordance with the facility's procedures for such transfer. To be timely, book-entry delivery of outstanding notes requires receipt of a confirmation of a book-entry transfer, a "book-entry confirmation," prior to the expiration date. In addition, although delivery of outstanding notes may be effected through book-entry transfer into the exchange agent's account at the book-entry transfer facility, the applicable letter of transmittal or a manually signed facsimile thereof, together with any required signature guarantees and any other required documents, or an "agent's message," as defined below, in connection with a book-entry transfer, must, in any case, be delivered or transmitted to and received by the exchange agent at its address set forth on the cover page of the applicable letter of transmittal prior to the expiration date to receive exchange notes for tendered outstanding notes, or the guaranteed delivery procedure described below must be complied with. Tender will not be deemed made until such documents are received by the exchange agent. Delivery of documents to the book-entry transfer facility does not constitute delivery to the exchange agent.

Holders of outstanding notes who are unable to deliver confirmation of the book-entry tender of their outstanding notes into the exchange agent's account at the book-entry transfer facility or all other documents required by the applicable letter of transmittal to the exchange agent on or prior to the expiration date must tender their outstanding notes according to the guaranteed delivery procedures described below.

Guaranteed Delivery Procedures

If you wish to tender your outstanding notes but your outstanding notes are not immediately available or you cannot deliver your outstanding notes, the applicable letter of transmittal or any other required documents to the exchange agent or comply with the procedures under DTC's Automatic Tender Offer Program in the case of outstanding notes, prior to the expiration date, you may still tender if:

- the tender is made through an eligible guarantor institution;

- prior to the expiration date, the exchange agent receives from such eligible guarantor institution either a properly completed and duly executed notice of guaranteed delivery, by facsimile transmission, mail, or

  hand delivery or a properly transmitted agent's message and notice of guaranteed delivery, that (1) sets forth your name and address, the certificate number(s) of such outstanding notes and the principal amount of outstanding notes tendered; (2) states that the tender is being made thereby; and (3) guarantees that, within three New York Stock Exchange trading days after the expiration date, the letter of transmittal, or facsimile thereof, together with the outstanding notes or a book-entry confirmation, and any other documents required by the letter of transmittal, will be deposited by the eligible guarantor institution with the exchange agent; and

- the exchange agent receives the properly completed and executed letter of transmittal or facsimile thereof, as well as certificate(s) representing all tendered outstanding notes in proper form for transfer or a book-entry confirmation of transfer of the outstanding notes into the exchange agent's account at DTC all other documents required by the letter of transmittal within three New York Stock Exchange trading days after the expiration date.

Upon request, the exchange agent will send to you a notice of guaranteed delivery if you wish to tender your outstanding notes according to the guaranteed delivery procedures.

Table of Contents

Withdrawal Rights

Except as otherwise provided in this prospectus, you may withdraw your tender of outstanding notes at any time prior to 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective:

- the exchange agent must receive a written notice, which may be by telegram, telex, facsimile or letter, of withdrawal at its address set forth below under " Exchange Agent"; or

- you must comply with the appropriate procedures of DTC's Automated Tender Offer Program system.

Any notice of withdrawal must:

- specify the name of the person who tendered the outstanding notes to be withdrawn;

- identify the outstanding notes to be withdrawn, including the certificate numbers and principal amount of the outstanding notes; and

- where certificates for outstanding notes have been transmitted, specify the name in which such outstanding notes were registered, if different from that of the withdrawing holder.

If certificates for outstanding notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of such certificates, you must also submit:

- the serial numbers of the particular certificates to be withdrawn; and

- a signed notice of withdrawal with signatures guaranteed by an eligible institution unless you are an eligible guarantor institution.

If outstanding notes have been tendered pursuant to the procedures for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn outstanding notes and otherwise comply with the procedures of the facility. We will determine all questions as to the validity, form, and eligibility, including time of receipt of notices of withdrawal and our determination will be final and binding on all parties. Any outstanding notes so withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer. Any outstanding notes that have been tendered for exchange but that are not exchanged for any reason will be returned to their holder, without cost to the holder, or, in the case of book-entry transfer, the outstanding notes will be credited to an account at the book-entry transfer facility, promptly after withdrawal, rejection of tender or termination of the exchange offer. Properly withdrawn outstanding notes may be retendered by following the procedures described under " Procedures for Tendering Outstanding Notes" above at any time on or prior to the expiration date.

Exchange Agent

Law Debenture Trust Company of New York has been appointed as the exchange agent for the exchange offer. Law Debenture Trust Company of New York also acts as trustee under the indenture governing the notes. You should direct all executed letters of transmittal and all questions and requests

Table of Contents

for assistance, requests for additional copies of this prospectus or of the letters of transmittal, and requests for notices of guaranteed delivery to the exchange agent addressed as follows:

By Registered & Certified Mail:	*By Regular Mail or Overnight Courier:*	*In Person by Hand Only:*	*By Facsimile (for Eligible Institutions only):*
Law Debenture Trust Company of New York 400 Madison Ave. 4th Floor New York, New York 10017 ATTN: James Jones	Law Debenture Trust Company of New York 400 Madison Ave. 4th Floor New York, New York 10017 ATTN: James Jones	Law Debenture Trust Company of New York 400 Madison Ave. 4th Floor New York, New York 10017 ATTN: James Jones	(212) 750-1361
			For Confirmation by Telephone: (212) 750-6474

If you deliver the letter of transmittal to an address other than the one set forth above or transmit instructions via facsimile other than the one set forth above, that delivery or those instructions will not be effective.

Fees and Expenses

The registration rights agreement provides that we will bear all expenses in connection with the performance of our obligations relating to the registration of the exchange notes and the conduct of the exchange offer. These expenses include registration and filing fees, accounting and legal fees and printing costs, among others. We will pay the exchange agent reasonable and customary fees for its services and reasonable out-of-pocket expenses. We will also reimburse brokerage houses and other custodians, nominees and fiduciaries for customary mailing and handling expenses incurred by them in forwarding this prospectus and related documents to their clients that are holders of outstanding notes and for handling or tendering for such clients.

We have not retained any dealer-manager in connection with the exchange offer and will not pay any fee or commission to any broker, dealer, nominee or other person, other than the exchange agent, for soliciting tenders of outstanding notes pursuant to the exchange offer.

Accounting Treatment

We will record the exchange notes in our accounting records at the same carrying value as the outstanding notes, which is the aggregate principal amount as reflected in our accounting records on the date of exchange. Accordingly, we will not recognize any gain or loss for accounting purposes upon the consummation of the exchange offer. We will record the expenses of the exchange offer as incurred.

Transfer Taxes

We will pay all transfer taxes, if any, applicable to the exchanges of outstanding notes under the exchange offer. The tendering holder, however, will be required to pay any transfer taxes, whether imposed on the registered holder or any other person, if:

- certificates representing outstanding notes for principal amounts not tendered or accepted for exchange are to be delivered to, or are to be issued in the name of, any person other than the registered holder of outstanding notes tendered;
- tendered outstanding notes are registered in the name of any person other than the person signing the letter of transmittal; or

Table of Contents

- a transfer tax is imposed for any reason other than the exchange of outstanding notes under the exchange offer.

If satisfactory evidence of payment of such taxes is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed to that tendering holder.

Holders who tender their outstanding notes for exchange will not be required to pay any transfer taxes. However, holders who instruct us to register exchange notes in the name of, or request that outstanding notes not tendered or not accepted in the exchange offer be returned to, a person other than the registered tendering holder will be required to pay any applicable transfer tax.

Consequences of Failure to Exchange

If you do not exchange your outstanding notes for exchange notes under the exchange offer, your outstanding notes will remain subject to the restrictions on transfer of such outstanding notes:

- as set forth in the legend printed on the outstanding notes as a consequence of the issuance of the outstanding notes pursuant to the exemptions from, or in transactions not subject to, the registration requirements of the Securities Act and applicable state securities laws; and

- as otherwise set forth in the offering memorandum distributed in connection with the private offering of the outstanding notes.

In general, you may not offer or sell your outstanding notes unless they are registered under the Securities Act or if the offer or sale is exempt from registration under the Securities Act and applicable state securities laws. Except as required by the registration rights agreement, we do not intend to register resales of the outstanding notes under the Securities Act.

Other

Participating in the exchange offer is voluntary, and you should carefully consider whether to accept. You are urged to consult your financial and tax advisors in making your own decision on what action to take.

We may in the future seek to acquire untendered outstanding notes in open market or privately negotiated transactions, through subsequent exchange offers or otherwise. We have no present plans to acquire any outstanding notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any untendered outstanding notes.

USE OF PROCEEDS

The outstanding notes were issued and sold on October 21, 2010. The net proceeds from the offering, together with cash on hand, were used to repurchase our outstanding 10% senior notes due 2014 (including payments of accrued interest) pursuant to a tender offer and consent solicitation launched on October 6, 2010 and to make certain payments in connection with the consents.

The exchange offer is intended to satisfy our obligations under the registration rights agreement, dated October 21, 2010, by and among us, the subsidiary guarantors party thereto and the initial purchasers of the outstanding notes. We will not receive any proceeds from the issuance of the exchange notes in the exchange offer. Instead, we will receive in exchange outstanding notes in like principal amount. We will retire or cancel all of the outstanding notes tendered in the exchange offer.

Table of Contents

CAPITALIZATION

The following table sets forth our capitalization as of April 30, 2011. The exchange offer will not affect our capitalization on a pro forma basis. The information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Use of Proceeds" and our consolidated financial statements and related notes included elsewhere in this registration statement.

	As of April 30, 2011 (Dollars in millions)
Cash and equivalents	$ 157
Debt	
Senior secured term loan facility	$ 1,996
Senior notes due 2018	794
Senior subordinated notes	400
Subordinated discount notes	353
Senior secured asset-based revolving credit facility	
Other	
Total debt	$ 3,543
Less current portion	
Long-term debt	$ 3,543
Less total stockholders' deficit	(2,624)
Total capitalization	$ 919

Table of Contents

SELECTED FINANCIAL DATA

The following financial information for the dates and for the periods indicated has been derived from our consolidated financial statements. This information should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere herein. The selected financial data for fiscal year 2006 reflects adjustments to reclassify the operations of Star and Recollections as discontinued operations.

	Three Months Ended		Fiscal Year				
	April 30, 2011(1)	May 1, 2010	2010(2)	2009	2008	2007	2006(3)
			(In millions, except per share and store count data)				
Results of Operations Data:							
Net sales	$ 953	$ 901	$ 4,031	$ 3,888	$ 3,817	$ 3,862	$ 3,843
Operating income	135	105	488	397	304	354	208
Income (loss) before discontinued operations	37	13	98	107	(5)	(22)	44
Discontinued operations loss, net of income tax						(10)	(3)
Net income (loss)	37	13	98	107	(5)	(32)	41
Dividends per common share(4)							0.12
Balance Sheet Data:							
Cash and equivalents	$ 157	$ 79	$ 319	$ 217	$ 33	$ 29	$ 30
Merchandise inventories	852	866	826	873	900	845	840
Total current assets	1,148	1,066	1,275	1,207	1,049	980	1,000
Total assets	1,631	1,563	1,770	1,710	1,625	1,614	1,693
Total current liabilities	631	538	687	717	681	679	742
Long-term debt	3,543	3,695	3,667	3,684	3,756	3,741	3,729
Total liabilities	4,255	4,319	4,434	4,481	4,512	4,506	4,568
Stockholders' deficit	(2,624)	(2,756)	(2,664)	(2,771)	(2,887)	(2,892)	(2,875)
Other Financial Data:							
Cash flow from operating activities	$ 19	$ 27	$ 438	$ 405	$ 59	$ 268	$ 157
Cash flow from investing activities	(15)	(14)	(83)	(43)	(85)	(100)	(143)
Cash flow from financing activities	(166)	(151)	(253)	(178)	30	(169)	(436)
Other Operating Data:							
Average net sales per selling square foot(5)(6)	$ 215	$ 208	$ 208	$ 205	$ 206	$ 217	$ 224
Comparable store sales increase (decrease)(7)	4.3%	4.9%	2.5%	0.2%	(4.6)%	(0.7)%	0.2%
Total selling square footage	20	20	20	20	19	19	18
Stores Open at End of Period:							
Michaels(6)	1,049	1,028	1,045	1,023	1,009	963	921
Aaron Brothers	136	146	137	152	161	166	166
Total stores open at end of period	1,185	1,174	1,182	1,175	1,170	1,129	1,087

(1)

Net income for the three months ended April 30, 2011 includes an $11 million loss related to the repurchase of $93 million face value, or $87 million accreted value, of our outstanding 13% Subordinated Discount Notes due 2016.

(2) Fiscal 2010 net income includes a $53 million loss related to the early extinguishment of our 2014 Notes.

Table of Contents

(3) Fiscal 2006 operational data, excluding comparable store sales, includes the 53rd week, which had net sales of approximately $56 million.

(4) The per share amounts in the table were retroactively adjusted to reflect the 2.9333-for-one Common Stock split effected in the form of stock dividends to stockholders of record as of the close of business on January 26, 2007.

(5) The calculation of average net sales per selling square foot includes only Michaels stores open longer than 36 months, and excludes Aaron Brothers stores. Average net sales per selling square foot has been annualized for the three months ended April 30, 2011 and May 1, 2010.

(6) For fiscal year 2006, the Star Decorators Wholesale Los Angeles store has been retroactively presented as a Michaels store.

(7) Comparable store sales increase (decrease) represents the increase (decrease) in net sales for stores open the same number of months in the indicated and comparable period of the previous year, including stores that were relocated or expanded during either period. A store is deemed to become comparable in its 14th month of operation in order to eliminate grand opening sales distortions. A store temporarily closed more than 2 weeks due to a catastrophic event is not considered comparable during the month it closed. If a store is closed longer than 2 weeks but less than 2 months, it becomes comparable in the month in which it reopens, subject to a mid-month convention. A store closed longer than 2 months becomes comparable in its 14th month of operation after its reopening. These percentages for fiscal year 2006 have been adjusted to exclude Star and Recollections.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for each of the periods shown.

	Three Months Ended		Fiscal Year Ended				
	April 30, 2011	May 1, 2010	Jan. 29, 2011	Jan. 30, 2010	Jan. 31, 2009	Feb. 2, 2008	Feb. 3, 2007
Ratio of Earnings to Fixed Charges	1.6x	1.3x	1.4x	1.4x			1.6x

These ratios are computed by dividing the total earnings by the total fixed charges. Earnings are defined as income (loss) before income taxes and discontinued operations, plus fixed charges. Fixed charges are defined as total interest expense plus an estimate of the interest component within rent expense. For the fiscal years ended January 31, 2009 and February 2, 2008, earnings were insufficient to cover fixed charges by $2 million and $17 million, respectively.

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and the related notes included elsewhere in this registration statement. The following discussion, as well as other portions of this registration statement, contains forward-looking statements that reflect our plans, estimates, and beliefs. Any statements contained herein (including, but not limited to, statements to the effect that Michaels or its management "anticipates," "plans," "estimates," "expects," "believes," "intends," and other similar expressions) that are not statements of historical fact should be considered forward-looking statements and should be read in conjunction with our consolidated financial statements and related notes contained elsewhere in this prospectus. Specific examples of forward-looking statements include, but are not limited to, statements regarding our forecasts of financial performance, capital expenditures, working capital requirements and forecasts of effective tax rate. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this registration statement, and particularly in "Risk Factors."

We report on the basis of a 52 or 53-week fiscal year, which ends on the Saturday closest to January 31. References to fiscal year mean the year in which that fiscal year began. Fiscal 2010 ended on January 29, 2011, fiscal 2009 ended on January 30, 2010, and fiscal 2008 ended on January 31, 2009. Each of these three fiscal years contained 52 weeks.

Overview

We are the largest arts and crafts specialty retailer in North America, with fiscal 2010 sales of over $4.0 billion. Our primary business is the operation of 1,047 Michaels stores across the United States and Canada. We also operate 137 Aaron Brothers stores, a custom frame, framing, and art supply chain (all store counts are as of March 21, 2011). Through our broad product assortments, educational in-store events, project sheets and displays, and on-line information, we offer a shopping experience that inspires creativity in the areas of arts, crafts, floral displays, framing, home accents, and kid's hobbies and activities.

Highlights for fiscal 2010 include the following:

- We surpassed the $4 billion sales mark for the first time in Company history with $4.031 billion in sales, a 3.7% improvement over last year, driven by a 2.5% increase in comparable store sales as well as the opening of 23 new stores. Our new store growth included three urban market format stores as well as our first small market format store. In addition, we completed 10 store relocations during the year.

- Our private brand merchandise represented 36% of total sales.

- Direct import penetration, as a percent of total receipts, increased to 23% compared to 17% in fiscal 2009.

- Gross margin improved by 110 basis points to 38.8% for fiscal 2010.

- We reported record operating income of $488 million, an increase of 22.9% from prior year.

- Adjusted EBITDA improved by 14.3%, from $544 million in fiscal 2009 to $622 million fiscal 2010. Net cash provided by operating activities increased $33 million, or 8.1%, and net income decreased by $9 million to $98 million.

- During the third quarter of fiscal 2010, we refinanced our $750 million 10% Senior Notes maturing in 2014 with $800 million $7^3/_4$% Senior Notes maturing in 2018.

- We reduced our senior secured term loan facility by $228 million.

38

Table of Contents

- Our average inventory per store decreased by 6.8% compared to fiscal 2009.

- On September 15, 2010, we acquired certain assets of ScrapHD, LLC, a digital scrapbooking and photo-booking business that, once re-launched in early fiscal 2011, will allow customers to work online to create digital scrapbooks which can be printed at home or professionally bound into a book.

- We launched new strategic merchandising alliances and exclusive product partnerships, such as the exclusive "Duff" bakeware collection of Chef Duff Goldman.

In fiscal 2011, we will continue to focus on strategic initiatives such as:

- enhancing the in-store experience,

- introducing new products through frequent merchandise resets,

- diversifying marketing programs,

- continued growth of global sourcing and private brand penetration,

- store expansion and portfolio optimization, and

- inventory optimization.

Critical Accounting Policies and Estimates

We have prepared our financial statements in conformity with U.S. generally accepted accounting principles, and these financial statements necessarily include some amounts that are based on our informed judgments and estimates. Our senior management has discussed the development and selection of these critical accounting estimates, and the disclosure in this section of this report regarding them, with the Audit Committee of our Board of Directors. Our significant accounting policies are discussed in Note 1 of Notes to Consolidated Financial Statements. Our critical accounting policies represent those policies that are subject to judgments and uncertainties. As discussed below, our financial position and results of operations may be materially different when reported under different conditions or when using different assumptions in the application of these policies. In the event estimates or assumptions prove to be different from actual amounts, adjustments are made in subsequent periods to reflect more current information. Our critical accounting policies include:

Merchandise Inventories Merchandise inventories are valued at the lower of cost or market, with cost determined using a weighted average method. Cost is calculated based upon the price paid for an item at the time it is received by us, and also includes the cost of warehousing, handling, purchasing, and importing the inventory, as well as inbound and outbound transportation, partially offset by vendor allowances. This net inventory cost is recognized through Cost of sales when the inventory is sold. It is impractical for us to assign specific allocated overhead costs and vendor allowances to individual units of inventory. As such, to match net inventory costs against the related revenues, we estimate the net inventory costs to be deferred and recognized each period as the inventory is sold.

Vendor allowances, which primarily represent volume rebates and cooperative advertising funds, are recorded as a reduction of the cost of the merchandise inventories and a subsequent reduction in Cost of sales when the inventory is sold. We generally earn vendor allowances as a percentage of certain merchandise purchases with no minimum purchase requirements. Typically, our vendor allowance programs extend for a period of 12 months. We recognized vendor allowances of $112 million, or 2.8% of net sales, in fiscal 2010, $133 million, or 3.4% of net sales, in fiscal 2009, and $149 million, or 3.9% of net sales, in fiscal 2008. During the three fiscal years ended January 29, 2011, the number of vendors from which vendor allowances were received ranged from approximately 670 to 770. As a result of our increased direct import penetration, vendor allowances, as a percentage of sales, have been declining and we expect this trend to continue in future years.

Table of Contents

We utilize perpetual inventory records to value inventory in our stores. Physical inventory counts are performed in a significant number of stores during each fiscal quarter by a third party inventory counting service. Substantially all stores open longer than one year are subject to at least one count each fiscal year. We adjust our perpetual records based on the results of the physical counts. We maintain a provision for estimated shrinkage based on the actual historical results of our physical inventories. We compare our estimates to the actual results of the physical inventory counts as they are taken and adjust the shrink estimates accordingly. A 10% change in our estimated shrinkage would have affected net income by $1 million for fiscal 2010. We also evaluate our merchandise to ensure that the expected net realizable value of the merchandise held at the end of a fiscal period exceeds cost. In the event that the expected net realizable value is less than cost, we reduce the value of that inventory accordingly. A 10% change in our inventory valuation reserve would have affected net income by $1 million for fiscal 2010.

Goodwill We review goodwill for impairment each year in the fourth quarter, or more frequently if certain events occur or circumstances change. The impairment review is performed by comparing each reporting unit's carrying value to its estimated fair value, determined through estimated discounted future cash flows and market-based methodologies. If the carrying value exceeds the estimated fair value, we determine the fair value of all assets and liabilities of the reporting unit, including the implied fair value of goodwill. If the carrying value of goodwill exceeds the implied fair value, we recognize an impairment charge equal to the difference.

Factors used in the valuation of goodwill include, but are not limited to, management's plans for future operations, recent operating results and discounted projected future cash flows. Material assumptions used in our impairment analysis include the weighted average cost of capital ("WACC") percentage, terminal growth rate and forecasted long-term sales growth. During fiscal 2010, fiscal 2009, and fiscal 2008, there was no impairment charge taken on our goodwill. A 1% change in the WACC rate represents an approximate $540 million change to the enterprise fair value of the Michaels reporting unit. A 1% change in the terminal growth rate and long-term sales growth rate represents an approximate combined $420 million change to the enterprise fair value. Neither assumption change would have resulted in an impairment of goodwill.

Impairment of Long-Lived Assets We evaluate long-lived assets, other than goodwill and assets with indefinite lives, for indicators of impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. Additionally, for store assets, we evaluate the performance of individual stores for indicators of impairment and underperforming stores are selected for further evaluation of the recoverability of the carrying amounts. The evaluation of long-lived assets is performed at the lowest level of identifiable cash flows, which is at the individual store level.

Our evaluation requires consideration of a number of factors including changes in consumer demographics and uncertain future events. Accordingly, our accounting estimates may change from period to period. These factors could cause management to conclude that impairment indicators exist and require that tests be performed, which could result in a determination that the value of long-lived assets is impaired, resulting in a writedown to fair value.

Our initial indicator that store assets are considered to be recoverable is that the estimated undiscounted cash flows for the remaining lease term, assuming zero growth over current year store performance, exceed the carrying value of the assets. This evaluation is performed on stores open longer than 36 months (unless significant impairment indicators exist), as we consider a store to become mature after that time period. Any stores that do not meet the initial criteria are further evaluated taking into consideration the estimated undiscounted store-specific cash flows for the remaining lease term compared to the carrying value of the assets. To estimate store-specific future cash flows, management must make assumptions about key store variables, including sales, growth rate, gross margin, payroll and other controllable expenses. Furthermore, management considers other

factors when evaluating stores for impairment, including the individual store's execution of its operating plan and other local market conditions.

An impairment is recognized once all the factors noted above are taken into consideration and it is determined that the carrying amount of the store's assets are not recoverable. The impairment is based on estimated fair value of the assets. We recorded an immaterial impairment charge in fiscal 2010, $2 million in fiscal 2009, and $3 million in fiscal 2008. In addition to recording impairment charges on certain stores based on the previously discussed criteria, we maintain a list of stores we consider at risk and monitor those stores closely. As of January 29, 2011, we did not have any stores we considered at risk for impairment.

Reserve for Closed Facilities We maintain a reserve for future rental obligations, carrying costs, and other closing costs related to closed facilities, primarily closed and relocated stores. In accordance with Accounting Standards Codification ("ASC" or "Codification") 420, Exit or Disposal Cost Obligations, we recognize exit costs for any store closures at the time the store is closed. Such costs are recorded within the Cost of sales and occupancy expense line item on our Consolidated Statements of Operations.

The cost of closing a store or facility is calculated as the lesser of the present value of future rental obligations remaining under the lease (less estimated sublease rental income) or the lease termination fee. The determination of the reserves is dependent on our ability to make reasonable estimates of costs to be incurred post-closure and of rental income to be received from subleases. In planning our store closures, we try to time our exits as close to the lease termination date as possible to minimize any remaining lease obligation. As of January 29, 2011 our reserve for closed facilities, including discontinued operations, was $5 million. The reserves could differ materially if market conditions were to vary significantly from our assumptions.

Self-Insurance We have insurance coverage for losses in excess of self-insurance limits for medical liability, general liability and workers' compensation claims. Health care reserves are based on actual claims experience and an estimate of claims incurred but not reported. Reserves for general liability and worker's compensation are determined through the use of actuarial studies. Due to the significant judgments and estimates utilized for determining these reserves, they are subject to a high degree of variability. In the event our insurance carriers are unable to pay claims submitted to them, we would record a liability for such estimated payments we expect to incur. A 10% change in our self-insurance liability would have affected net income by approximately $4 million for fiscal 2010.

Revenue Recognition Revenue from sales of our merchandise is recognized when the customer takes possession of the merchandise. Revenue is presented net of sales taxes collected. Sales related to custom framing are deferred until the order is picked up by the customer, which we estimate based on historical customer behavior. We deferred 13 days of custom framing revenue at the end of fiscal 2010, 2009 and 2008. A one day change in our custom frame deferral would have had an immaterial impact on our fiscal 2010 net income. As of January 29, 2011 and January 30, 2010, our deferred framing revenue was approximately $10 million and $8 million, respectively.

We allow for merchandise to be returned under most circumstances and provide a reserve for estimated returns. We use historical customer return behavior to estimate our reserve requirements. As of January 29, 2011 and January 30, 2010, our sales returns reserve was approximately $3 million.

We record a gift card liability on the date we issue the gift card to the customer. We record revenue and reduce the gift card liability as the customer redeems the gift card. The deferred revenue associated with outstanding gift cards increased $2 million from January 30, 2010, to $26 million as of January 29, 2011. We escheat the value of unredeemed gift cards where required by law. Any remaining liabilities not subject to escheatment are evaluated to determine whether the likelihood of the gift card being redeemed is remote (gift card breakage). We recognize gift card breakage as revenue, by applying

Table of Contents

our estimate of the rate of gift card breakage over the period of estimated performance. Our estimates of the gift card breakage rate are applied to the estimated amount of gift cards that are expected to go unused and that are not subject to escheatment, and such estimates are based on customers' historical redemption rates and patterns. We do not believe there is a reasonable likelihood that there will be a material change in the future estimates or assumptions we use to recognize income related to unredeemed gift cards. However, if actual results are not consistent with our assumptions, we may record additional income or expense.

Share-Based Compensation Expenses ASC 718, Stock Compensation, requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements, based on their fair value, over the requisite service period. Compensation cost is based on the grant date fair value of the award and ratably recognized as an expense over the effective vesting period. We estimate the fair value of stock option awards using a Black-Scholes option value model.

Because we are privately held and there is no public market for our Common Stock, the fair value of our equity is estimated by our Board of Directors at the time option grants are awarded. In estimating the fair value of our Common Stock, the Board of Directors considers factors that it believes are material to the valuation process including the Company's actual and projected financial results, the principal amount of the Company's indebtedness and formal valuations of the Company. In fiscal 2010, valuations completed relied on projections of our future performance, estimates of our weighted average cost of capital, and metrics based on the performance of a peer group of similar companies, including valuation multiples and stock price volatility. However, due to the economic deterioration that occurred during fiscal 2008, the traditional approaches outlined above did not yield an answer that was considered to be representative of the fair value of the Company's equity. Accordingly, as of the end of fiscal 2008 and fiscal 2009, the Company also completed a valuation based on a Black-Scholes option model, which utilized the fair value of the Company's assets, the book value of the Company's debt, an estimated time to a liquidity event, the asset volatility of a peer group of companies and the risk free rate. In future valuations, we will consider traditional approaches and, to the extent necessary, the Black-Scholes option model for valuing our Common Stock.

Other assumptions used in the option value model for estimating the fair value of stock option awards include expected volatility of our Common Stock share price, expected terms of the options, expected dividends, and forfeitures. The expected volatility rate is based on both historical volatility as well as implied volatilities from the exchange-traded options on the common stock of a peer group of companies. We utilize historical exercise and post-vesting employment behavior to estimate the expected terms of the options and do not use a dividend rate assumption. Our forfeitures assumption was estimated based on historical experience and anticipated events. The risk-free interest rate is based on the yields of U.S. Treasury instruments with approximately the same term as the expected life of the stock option award. We update our assumptions regularly based on historical trends and current market observations.

As of January 29, 2011, compensation cost not yet recognized related to nonvested awards totaled $21 million and is expected to be recognized over a weighted average period of 3.2 years. A 10% change in the fair value of stock option awards granted in fiscal 2010 would have had an immaterial impact on our fiscal 2010 net income and impacted compensation cost not yet recognized by $2 million.

Income Taxes We record income tax expense using the liability method for taxes and are subject to income tax in many jurisdictions, including the United States, various states and localities, and Canada. A current tax liability or asset is recognized for the estimated taxes payable or refundable on the tax returns for the current year and a deferred tax liability or asset is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. Deferred tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in

Table of Contents

tax rates is recognized as income or expense in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. In evaluating our ability to realize our deferred tax asset, we considered the following sources of future taxable income:

- Future reversals of existing taxable temporary differences;

- Future taxable income, exclusive of reversing temporary differences and carryforwards;

- Taxable income in prior carryback years; and

- Tax-planning strategies.

Our evaluation regarding whether a valuation allowance is required or should be adjusted also considers, among other things, the nature, frequency, and severity of recent losses, forecasts of future profitability and the duration of statutory carryforward periods. Our forecasts of future profitability represents our best estimate of these future events. After conducting this assessment, the valuation allowance recorded against our deferred tax assets was $15 million and $14 million as of January 29, 2011 and January 30, 2010, respectively. If actual results differ from estimated results, or if we adjust these assumptions in the future, we may need to adjust our deferred tax assets or liabilities, which could impact our effective tax rate.

The amount of income taxes we pay is subject to ongoing audits in the taxing jurisdictions in which we operate. During these audits, the taxing authorities may challenge items on our tax returns. Because the tax matters challenged by tax authorities are typically complex, the ultimate outcome of these challenges is uncertain. We recognize tax benefits for uncertain positions only to the extent that we believe it is more likely than not that the tax position will be sustained. Our future results may include favorable or unfavorable adjustments to our unrecognized tax benefits due to closure of income tax audits, new regulatory or judicial pronouncements, or other relevant events. As a result, our effective tax rate may fluctuate significantly on a quarterly and annual basis.

Results of Operations

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

	Three Months Ended		Fiscal Year		
	April 30, 2011	May 1, 2010	2010	2009	2008
Net sales	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of sales and occupancy expense	58.8	60.7	61.2	62.3	63.7
Gross profit	41.2	39.3	38.8	37.7	36.3
Selling, general, and administrative expense	26.6	27.2	26.3	27.1	27.8
Related party expenses	0.3	0.3	0.3	0.4	0.4
Store pre-opening costs	0.1	0.1	0.1	0.1	0.1
Operating income	14.2	11.7	12.1	10.1	8.0
Interest expense	6.8	7.6	6.8	6.6	7.9
Loss on early extinguishment of debt	1.2		1.3		
Other (income) and expense, net	(0.1)	0.8	0.2	(0.4)	0.1
Income before income taxes	6.3	3.3	3.8	3.9	
Provision for income taxes	2.4	1.9	1.3	1.3	0.1
Net income (loss)	3.9%	1.4%	2.5%	2.6%	(0.1)%

Quarter Ended April 30, 2011 Compared to the Quarter Ended May 1, 2010

Net Sales Net sales increased for the first quarter of fiscal 2011 by $52 million, or 5.7%, over the first quarter of fiscal 2010 due primarily to a $39 million increase in comparable store sales. Comparable store sales increased 4.3% driven by a 2.4% increase in customer traffic, a 1.5% increase in average ticket, and a positive impact of 0.4% from deferred custom framing revenue. The fluctuation in the exchange rates between the United States and Canadian dollars positively impacted the average ticket by 50 basis points. Comparable store sales growth was strongest in our bakeware, custom framing, and kid's crafts categories. In addition, sales from our non-comparable new stores provided incremental revenue of $13 million.

Cost of Sales and Occupancy Expense Cost of sales and occupancy expense increased $13 million to $560 million in the first quarter of 2011 from $547 million in the first quarter of 2010 due primarily to a $14 million increase in merchandise costs associated with higher sales and a $5 million increase in occupancy costs as a result of opening new stores and higher rent and maintenance for existing stores. These amounts were partially offset by a $4 million reduction from improved inventory controls. Cost of sales and occupancy expense decreased 190 basis points as a percentage of net sales. Merchandise cost decreased 110 basis points driven by our direct import initiative and improved pricing and promotion management, while increased focus on shrink management contributed 60 basis points to the reduction in cost of sales. In addition, occupancy costs decreased 20 basis points due to increased leverage on higher comparable store sales.

Selling, General and Administrative Expense Selling, general and administrative expense was $254 million in the first quarter of fiscal 2011 compared to $245 million in the first quarter of fiscal 2010. Selling, general and administrative expense increased $9 million driven by a $5 million increase in store costs related to operating 21 additional Michaels stores during the first quarter of fiscal 2011 and a $3 million increase in advertising due to digital campaigns that did not occur last year and the timing of promotional events. In addition, performance-based bonus expense increased $2 million due to higher profitability levels during the first quarter of fiscal 2011. These amounts were partially offset by a $2 million decrease in group insurance due to careful cost management and favorable claims experience. As a percentage of net sales, selling, general and administrative expense decreased 60 basis points due to increased leverage of payroll and group insurance expense from higher comparable store sales.

Related Party Expenses Related party expenses were $3 million in the first quarter of each of fiscal 2011 and fiscal 2010, consisting of management fees and associated expenses paid to our Sponsors and Highfields Capital Management, LP.

Interest Expense Interest expense for the quarter decreased $3 million to $65 million in the first quarter of fiscal 2011 from $68 million in the first quarter of fiscal 2010. The decrease is attributable to a $160 million repayment of the senior secured term loan facility and the refinancing of our Senior Notes

Loss on Early Extinguishment of Debt We recorded a loss of $11 million related to the early extinguishment of $93 million face value, or $87 million accreted value, of our 13% Subordinated Discount Notes during the first quarter of fiscal 2011. The $11 million loss is comprised of $8 million to recognize the unrealized interest accretion and write off of related debt issuance costs, as well as $3 million of purchase premiums. See Note 3 to the consolidated financial statements for further discussion.

Other (Income) and Expense, net Other income in the first quarter of fiscal 2011 related primarily to $3 million in foreign exchange rate gains, partially offset by a $2 million unfavorable change in the fair value of the interest rate cap as more fully described in Note 5 to the consolidated financial

statements. Other expense in the first quarter of fiscal 2010 related primarily to a $10 million unfavorable change in the fair value of the interest rate cap, partially offset by $3 million in foreign exchange rate gains.

Provision for Income Taxes The effective tax rate was 38.6% for the first quarter of fiscal 2011. The effective tax rate was 57.9% for the first quarter of fiscal 2010 due primarily to additional expense recorded to correct the federal deferred tax liability relating to state income taxes. We currently estimate our annualized effective tax rate for fiscal 2011 to be 37.7%.

Fiscal 2010 Compared to Fiscal 2009

Net Sales Net sales increased for fiscal 2010 by $143 million, or 3.7%, from fiscal 2009 due primarily to a $96 million increase in comparable store sales. Comparable store sales increased 2.5% due to an increase in customer transactions of 1.3% and an increase in the average ticket of 1.2%. The fluctuation in the exchange rates between the United States and Canadian dollars positively impacted the average ticket by 70 basis points. Comparable store sales growth was strongest in our bakeware, kid's crafts, and custom framing categories. In addition, sales from our non-comparable new stores provided incremental revenue of $47 million.

Cost of Sales and Occupancy Expense Cost of sales and occupancy expense increased $44 million to $2.467 billion from $2.423 billion in fiscal 2009 as a result of the 2.5% increase in comparable store sales and an increase in sales from non-comparable new stores. Cost of sales and occupancy expense decreased 110 basis points as a percentage of net sales. Merchandise costs, as a percentage of net sales, improved 60 basis points driven by our direct import initiative and improved pricing and promotion management. In addition, occupancy costs decreased 50 basis points due in part to 30 basis points of increased leverage on higher comparable store sales. Further, continued focus on cost management and lower occupancy amortization, due to reduced capital expenditures in recent years, each contributed a 10 basis point reduction to occupancy expense.

Selling, General and Administrative Expense Selling, general and administrative expense was $1.059 billion, or 26.3% of net sales, in fiscal 2010 compared to $1.052 billion, or 27.1% of net sales, in fiscal 2009. Selling, general and administrative expense increased $7 million driven by a $16 million increase in store costs related to operating 22 additional Michaels Stores during the year, as well as a $5 million increase in advertising expense. These amounts were partially offset by a $7 million decrease in group insurance due to careful cost management and a $6 million decrease in depreciation expense as a result of lower capital expenditures over the last several years. As a percentage of net sales, selling, general and administrative expense decreased 80 basis points due to increased payroll leverage of 30 basis points on higher comparable store sales and a 20 basis point decrease in both group insurance and depreciation expense for the reasons indicated above.

Related Party Expenses Related party expenses were $14 million for each of fiscal 2010 and fiscal 2009, consisting of management fees and associated expenses paid to our Sponsors and Highfields Capital Management, LP.

Interest Expense Interest expense increased from $257 million in fiscal 2009 to $276 million in fiscal 2010, as a result of increased interest rates associated with our amended credit facilities.

Loss on Early Extinguishment of Debt We recorded a loss of $53 million related to the early extinguishment of our 2014 Senior Notes (as defined herein) during fiscal 2010. The $53 million loss is comprised of $41 million of tender and call premiums and $12 million to write off the remaining unamortized debt issuance costs. See Note 3 to the consolidated financial statements for further discussion.

Table of Contents

Other (Income) and Expense, net Other expense for fiscal 2010 related to a $12 million loss in the fair value of the interest rate derivative (the "interest rate cap") that we purchased in the first quarter of fiscal 2009 to cap our exposure to interest rate increases on our senior secured term loan facility, as more fully described in Note 7 to the consolidated financial statements, partially offset by $2 million of foreign exchange rate gains. Other income for fiscal 2009 related primarily to a $10 million gain in the fair value of the interest rate cap and $5 million of foreign exchange rate gains.

Provision for Income Taxes The effective tax rate for fiscal 2010 was 34.4%. The rate was lower than the federal tax rate due primarily to favorable impacts of 2.8% from audit settlements with taxing authorities, 1.1% from federal manufacturing deductions and 1.1% from our ability to utilize federal tax credits. These amounts are partially offset by a 3.3% unfavorable impact from the state deferred tax liability correction recorded during the first quarter of fiscal 2010. The effective tax rate for fiscal 2009 of 31.6% was lower than the federal tax rate due primarily to favorable impacts of 3.1% related to the correction of a state deferred tax liability pool, 2.0% from the ability to utilize tax credits, which had been limited in prior years, and 0.9% of tax return to provision adjustments.

Fiscal 2009 Compared to Fiscal 2008

Net Sales Net sales increased for fiscal 2009 by $71 million, or 1.9%, from fiscal 2008 due primarily to sales from non-comparable new stores, which provided incremental revenue of $64 million. Our comparable store sales increased 0.2% due to an increase in customer traffic of 3.2%, partially offset by a decrease in the average ticket of 2.9% and an adverse impact of 0.1% related to the change in deferred custom framing revenue. Comparable store sales growth was the strongest in our jewelry, impulse, and bakeware categories. The fluctuation in the exchange rates between the United States and Canadian dollars did not have a significant impact on comparable store sales for fiscal 2009.

Cost of Sales and Occupancy Expense Cost of sales and occupancy expense decreased $8 million to $2.423 billion in fiscal 2009 from $2.431 billion in fiscal 2008 due to $24 million lower freight and distribution costs and a $5 million reduction in shrink, partially offset by a $16 million decrease in vendor allowances and additional merchandise costs associated with higher sales. In addition, occupancy costs increased by $4 million as a result of opening new stores. Cost of sales and occupancy expense decreased 140 basis points as a percentage of net sales. Merchandise costs decreased 120 basis points driven by improved management of promotional and clearance markdowns and lower fuel and distribution costs. In addition, occupancy expense decreased 20 basis points due to increased focus on cost management.

Selling, General and Administrative Expense Selling, general and administrative expense was $1.052 billion, or 27.1% of net sales, in fiscal 2009 compared to $1.060 billion, or 27.8% of net sales, in fiscal 2008. Selling, general and administrative expense decreased $8 million, or 70 basis points, driven by a $22 million or 90 basis point decrease in store expenses related to improved payroll and cost management, as well as a $10 million or 30 basis point decrease in both advertising and severance expense. Additionally, prior year amounts included $7 million or 20 basis points of consulting expenses for studies related to consumer insights and other strategic initiatives. These reductions were partially offset by a $38 million or 100 basis point increase in performance based bonus expense.

Related Party Expenses Related party expenses were $14 million for fiscal 2009 compared to $16 million in fiscal 2008 consisting of $14 million of management fees and associated expenses paid to our Sponsors and Highfields Capital Management, LP. Also included in the related party expenses in fiscal 2008 was approximately $2 million of amortization expense related to the Wylys' separation agreements.

Table of Contents

Interest Expense Interest expense decreased from $302 million in fiscal 2008 to $257 million in fiscal 2009, due to a lower average interest rate related to our variable-rate debt and lower average debt levels.

Other (Income) and Expense, net Other income for fiscal 2009 related to a $10 million gain in the fair value of the interest rate cap, as more fully described in Note 7 to the consolidated financial statements, and $5 million of foreign exchange rate gains. In fiscal 2008, other expense related to foreign exchange rate losses.

Provision for Income Taxes The effective tax rate for fiscal 2009 was 31.6%. The rate was lower than the federal tax rate due to the favorable impact of tax return to provision adjustments, the ability to utilize foreign tax credits, which had been limited in prior years, and the correction of a state deferred tax liability pool. The effective tax rate for fiscal 2008 was unfavorably impacted by non-deductible severance payments.

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 senior secured asset-based revolving credit facility will be sufficient to fund planned capital expenditures, working capital requirements, debt repayments, debt service requirements and growth for the foreseeable future. Our senior secured asset-based revolving credit facility provides senior secured financing of up to $850 million, subject to a borrowing base. As of April 30, 2011, the borrowing base was $648 million, which supported $48 million of outstanding letters of credited and provided $600 million of excess availability. Our cash and equivalents decreased $162 million from $319 million at January 29, 2011, to $157 million at April 30, 2011. Our cash and equivalents increased $102 million from $217 million at January 30, 2010 to $319 million at January 29, 2011.

We and our subsidiaries, affiliates, and significant shareholders may continue from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions, by tender offer or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors.

Cash Flow from Operating Activities

Cash flow provided by operating activities during the first quarter of fiscal 2011 was $19 million compared to $27 million during the first quarter of fiscal 2010. The $8 million change was primarily due to a $36 million decrease from the timing of inventory purchases and a $15 million decrease as a result of the timing of sales tax payments. In addition, the timing of payments related to prepaid expenses resulted in an $8 million decrease. These amounts were partially offset by an increase in net income of $27 million before the consideration of the $11 million loss on the extinguished Subordinated Discount Notes and the $8 million adverse impact of the change in the fair value of the interest rate cap. We also experienced a $26 million increase from improved accounts payable leverage.

Average inventory per Michaels store (including supporting distribution centers) decreased 2.8% from $803,000 at May 1, 2010 to $780,000 at April 30, 2011 primarily due to a planned reduction of store inventory levels. We anticipate average inventory per Michaels store at the end of fiscal 2011 to be down compared to the end of fiscal 2010.

Cash flow provided by operating activities in fiscal 2010 was $438 million compared to $405 million in fiscal 2009. The $33 million change was primarily due to improved net income of $44 million before consideration of the $53 million loss on the early extinguishment of the 2014 Senior Notes and a

Table of Contents

$30 million favorable impact from improved accounts payable leveraging. The improvement was partially offset by a $42 million unfavorable impact in our accrued performance based bonus expense as a result of higher bonus payments made in fiscal 2010 compared to fiscal 2009.

Cash Flow from Investing Activities

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

	Three Months Ended		Fiscal Year		
	April 30, 2011	May 1, 2010	2010	2009	2008
			(In millions)		
New and relocated stores and stores not yet opened(1)	$ 4	$ 5	$ 23	$ 14	$ 31
Existing stores	5	5	24	13	26
Information systems	4	3	27	12	24
Corporate and other	2	1	7	4	4
	$ 15	$ 14	$ 81	$ 43	$ 85

(1) In the first quarter of fiscal 2011, we incurred capital expenditures related to the opening of five Michaels stores and the relocation of four Michaels stores. In the first quarter of fiscal 2010, we incurred capital expenditures related to the opening of five Michaels stores and the relocation of seven Michaels stores.

In fiscal 2010, we incurred capital expenditures related to the opening of 23 Michaels stores in addition to the relocation of ten Michaels stores. In fiscal 2009, we incurred capital expenditures related to the opening of 18 Michaels stores and the relocation of five Michaels stores. In fiscal 2008, we incurred capital expenditures related to the opening of 51 Michaels stores and the relocation of 11 Michaels stores and two Aaron Brothers stores.

In fiscal 2009, we opened the majority of our stores in locations where the landlord paid to build the stores to our specifications. During fiscal 2010, we have opened a greater number of stores in locations where we paid to build the stores to our specifications. As a result, our capital expenditures for new and relocated stores have increased in fiscal 2010 compared to fiscal 2009. This trend may continue in future years.

During the third quarter of fiscal 2010, we purchased certain assets of ScrapHD, LLC. See Note 13 to the consolidated financial statements for further information.

We currently estimate that our capital expenditures will be increased to between $115 million and $125 million in fiscal 2011. We plan to open 35 to 40 stores, including 10 to 15 relocations, and invest in the infrastructure required to support our long-term goals.

Cash Flow from Financing Activities

Cash flow used in financing activities during the first quarter of fiscal 2011 was $166 million compared to $151 million during the first quarter of fiscal 2010. The $15 million increase was due in part to the repurchase of $93 million face value of our 13% Subordinated Discount Notes in the first quarter of fiscal 2011, for which we paid an additional $4 million in purchase premiums and third party fees. In addition, we made a voluntary prepayment of $50 million on our senior secured term loan facility during the first quarter of fiscal 2011. In fiscal 2010, we made an excess cash flow payment on our senior secured term loan facility of $118 million and paid $19 million in debt issuance costs related to the amendment to the senior secured asset-based revolving credit facility.

As noted above, during the first quarter of fiscal 2011, we completed an open market repurchase of $93 million face value, or $87 million accreted value, of our outstanding 13% Subordinated Discount

Notes due 2016 ("Subordinated Discount Notes"). Pursuant to the terms of the repurchase, we agreed to pay the holders of the Subordinated Discount Notes face value plus a 3.25% purchase premium for a total consideration of $1,032.50 per $1,000 face value.

In accordance with ASC 470, we recorded a loss of $11 million in the first quarter of fiscal 2011 related to the early extinguishment of the repurchased Subordinated Discount Notes. The $11 million loss is comprised of $8 million to recognize the unrealized interest accretion and write off of related debt issuance costs, as well as $3 million in purchase premiums.

Debt

To finance the Merger, we issued the 2014 Senior Notes, the Senior Subordinated Notes (as defined below), and the Subordinated Discount Notes (as defined below) (collectively, the "Notes"). We also executed a senior secured asset-based revolving credit facility as well as a senior secured term loan facility (collectively, and as subsequently amended, the "Senior Credit Facilities"). Borrowings under our senior secured asset-based revolving credit facility are influenced by a number of factors as more fully described below.

Notes

On October 31, 2006, we issued (i) $750 million in principal amount of 10% Senior Notes due November 1, 2014 (the "2014 Senior Notes"); (ii) $400 million in principal amount of $11\frac{3}{8}$% Senior Subordinated Notes due November 1, 2016 (the "Senior Subordinated Notes"); and (iii) $469 million in principal amount at maturity of 13% Subordinated Discount Notes due November 1, 2016 (the "Subordinated Discount Notes"). During the third quarter of fiscal 2010, we retired the 2014 Senior Notes and issued $800 million of $7\frac{3}{4}$% Senior Notes due November 1, 2018 (the "2018 Senior Notes"), at a discounted price of 99.262% of face value, resulting in an effective interest rate of $7\frac{7}{8}$%. Interest on the 2018 Senior Notes and the Senior Subordinated Notes is payable semi-annually in arrears on each May 1 and November 1, commencing on May 1, 2011 and May 1, 2007, respectively. No cash interest is payable on the Subordinated Discount Notes prior to November 1, 2011. Beginning on November 1, 2011, cash interest will accrue on the Subordinated Discount Notes and is payable semi-annually in arrears on each May 1 and November 1 (the first cash interest payment is May 1, 2012). The 2018 Senior Notes are guaranteed, jointly and severally, on an unsecured basis, the Senior Subordinated Notes are guaranteed, jointly and severally, on an unsecured senior subordinated basis, and the Subordinated Discount Notes are guaranteed, jointly and severally, on an unsecured subordinated basis, in each case, by each of our subsidiaries that guarantees our indebtedness under our Senior Credit Facilities.

The indentures governing the Notes contain covenants limiting, among other things, the Company's ability and the ability of the Company's restricted subsidiaries to:

- incur additional debt;
- pay dividends or distributions on the Company's capital stock or repurchase the Company's capital stock;
- issue stock of subsidiaries;
- make certain investments;
- create liens on the Company's assets to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company; and

sell or otherwise transfer assets.

Table of Contents

At any time prior to November 1, 2014, we may redeem all or a part of the 2018 Senior Notes at a redemption price equal to 100% of the principal amount of the 2018 Senior Notes redeemed plus the Applicable Premium (as defined in the indenture governing the 2018 Senior Notes (the "2018 Senior Indenture")) and accrued and unpaid interest, if any, to the date of redemption, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date.

On and after November 1, 2013, we may redeem our 2018 Senior Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount of 2018 Senior Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon, if any, to the applicable date of redemption if redeemed during the twelve-month period beginning on November 1 of each of the years indicated below:

Year	**Percentage**
2014	103.875%
2015	101.938%
2016 and thereafter	100.000%

In addition, until November 1, 2013, we may, at our option, on one or more occasions redeem up to 35% of the aggregate principal amount of the 2018 Senior Notes (including the aggregate principal amount of the 2018 Senior Notes issued after the original issue date of the outstanding 2018 Senior Notes) at a redemption price equal to 107.750% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the applicable date of redemption, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date, with the net cash proceeds of one or more Equity Offerings (as defined in the 2018 Senior Indenture); provided that at least 50% of the sum of the aggregate principal amount of the 2018 Senior Notes originally issued under the 2018 Senior Indenture and any 2018 Senior Notes that are issued under the 2018 Senior Indenture after the issue date remains outstanding immediately after the occurrence of each such redemption; and provided further that each such redemption occurs within 90 days of the date of closing of each such Equity Offering.

At any time prior to November 1, 2011, we may redeem all or a part of the Senior Subordinated Notes, at a redemption price equal to the sum of (i) 100% of the principal amount of Senior Subordinated Notes redeemed; (ii) the Applicable Premium (as defined in the indenture governing the Senior Subordinated Notes); and (iii) accrued and unpaid interest, if any, to the date of redemption, subject to the right of holders of record on the relevant record date to receive interest due on the interest payment date.

On and after November 1, 2011, we may redeem our Senior Subordinated Notes, in whole or in part, at the redemption prices (expressed as percentages of principal amount of Senior Subordinated Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon, if any, to the applicable date of redemption if redeemed during the twelve-month period beginning on November 1 of each of the years indicated below:

Year	**Percentage**
2011	105.688%
2012	103.792%
2013	101.896%
2014 and thereafter	100.000%

At any time prior to November 1, 2011, we may redeem all or part of the Subordinated Discount Notes at a redemption price equal to the sum of 100% of the Accreted Value (as defined in the indenture governing the Subordinated Discount Notes) of the Subordinated Discount Notes redeemed plus the Applicable Premium (as defined in the indenture governing the Subordinated Discount Notes) as of the date of redemption.

Table of Contents

On and after November 1, 2011, we may redeem our Subordinated Discount Notes, in whole or in part, at the redemption prices (expressed as percentages of Accreted Value of the Subordinated Discount Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon (to the extent not already included in Accreted Value), if any, as of the applicable date of redemption if redeemed during the twelve-month period beginning on November 1 of each of the years indicated below:

Year	Percentage
2011	106.500%
2012	104.333%
2013	102.167%
2014 and thereafter	100.000%

If we experience a change in control, we must give holders of our existing 2018 Senior Notes, Senior Subordinated Notes and Subordinated Discount Notes the opportunity to sell us their notes at 101% of their face amount or, in the case of Subordinated Discount Notes, the Accreted Value, plus accrued and unpaid interest.

If we or our subsidiaries engage in asset sales, we generally must either invest the net cash proceeds from such sales in our business within a period of time, prepay senior debt or make an offer to purchase a principal amount of our 2018 Senior Notes, Senior Subordinated Notes and Subordinated Discount Notes equal to the excess net cash proceeds, subject to certain exceptions. The purchase price of the 2018 Senior Notes, Senior Subordinated Notes and Subordinated Discount Notes will be 100% of their principal amount or, in the case of Subordinated Discount Notes, Accreted Value, plus accrued and unpaid interest.

On May 1, 2012, and, if necessary, any interest payment date thereafter prior to the maturity date of our Subordinated Discount Notes, we will be required to redeem a portion of each Subordinated Discount Note outstanding on such date in an amount necessary to ensure that each such note will not be an "applicable high yield discount obligation" within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986, as amended (the "Code"). The redemption price for each portion of a Subordinated Discount Note so redeemed will equal 100% of the Accreted Value (as defined in the indenture governing the Subordinated Discount Notes) of such portion as of the date of the redemption.

Senior Secured Asset-based Revolving Credit Facility

On February 18, 2010, we entered into an agreement to amend and restate various terms of the then existing asset-based revolving credit facility, dated as of October 31, 2006 (the "senior secured asset-based revolving credit facility"). As of January 29, 2011, the borrowing base was $653 million of which we had no outstanding borrowings. Borrowing capacity is available for letters of credit and borrowings on same-day notice.

The senior secured asset-based revolving credit facility provides an aggregate amount of $850 million in tranche A commitments, which are scheduled to terminate on the earlier of April 15, 2014, or 45 days prior to the maturity date of any class of term loans in the Company's senior secured term loan facility (the "ABL Maturity Date"). On April 8, 2011, the Company elected to permanently terminate $50 million in commitments under a last out tranche.

The borrowing base under the senior secured asset-based revolving credit facility equals the sum of (i) 90% of eligible credit card receivables and debit card receivables; (ii) between 85% and 87.5% of the appraised net orderly liquidation value of eligible inventory and of eligible letters of credit; and (iii) a percentage of eligible in-transit inventory, less certain reserves.

Table of Contents

Prior to October 31, 2011, the senior secured asset-based revolving credit facility provides us with the right to request up to $200 million of additional commitments under this facility, of which $48 million remains available. The lenders under this facility are not under any obligation to provide any such additional commitments, and any increase in commitments is subject to customary conditions precedent. On or after October 31, 2011, if we were to request any such additional commitments, and the existing lenders or new lenders were to agree to provide such commitments, the tranche A commitments under the senior secured asset-based revolving credit facility could be increased to up to $1.2 billion. However, our ability to borrow under this facility would still be limited by the amount of the borrowing base.

Borrowings under the senior secured asset-based revolving credit facility bear interest at a rate per annum equal to, at our option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50% and (3) a LIBOR rate subject to certain adjustments plus 1.00% or (b) a LIBOR rate subject to certain adjustments, in each case plus an applicable margin. The initial applicable margin is 2.50% for base rate borrowings and 3.50% for LIBOR borrowings. The applicable margin is subject to adjustment each fiscal quarter based on the excess availability under the senior secured asset-based revolving credit facility. Same-day borrowings bear interest at a rate per annum equal to a base rate determined by reference to the highest of (a) the prime rate of Bank of America, N.A., (b) the federal funds effective rate plus 0.50% and (c) a LIBOR rate subject to certain adjustments plus 1.00%, in each case, plus an applicable margin. The initial applicable margin with respect to same-day borrowings is 2.50%.

We are required to pay a commitment fee of 0.625% per annum on the unutilized commitments under the senior secured asset-based revolving credit facility. We must also pay customary letter of credit fees and agency fees.

If, at any time, the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the senior secured asset-based revolving credit facility exceeds the lesser of (i) the commitment amount and (ii) the borrowing base, we will be required to repay outstanding loans and cash collateralize letters of credit in an aggregate amount equal to such excess, with no reduction of the commitment amount. If the amount available under the senior secured asset-based revolving credit facility is less than $75 million at any time, or for five consecutive business days is less than the greater of $100 million or 15% of the lesser of the (i) then borrowing base and (ii) Revolving Credit Ceiling (as defined below), or if certain events of default have occurred, we will be required to repay outstanding loans and cash collateralize letters of credit with the cash we are required to deposit daily in a collection account maintained with the agent under the senior secured asset-based revolving credit facility. We may voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans at any time without premium or penalty other than customary breakage costs with respect to LIBOR loans. There is no scheduled amortization under the senior secured asset-based revolving credit facility; the principal amount of the loans outstanding is due and payable in full on the ABL Maturity Date.

We must not permit excess availability at any time to be less than the greater of (a) $75 million and (b) 10% of the lesser of (1) the then borrowing base under the senior secured asset-based revolving credit facility or (2) $850 million (as reduced or increased in accordance with the terms of the senior secured asset-based revolving credit facility, the "Revolving Credit Ceiling"). Excess availability under the senior secured asset-based revolving credit facility means the lesser of (a) the Revolving Credit Ceiling minus the outstanding credit extensions and (b) the then borrowing base minus the outstanding credit extensions.

All obligations under the senior secured asset-based revolving credit facility are unconditionally guaranteed, jointly and severally, by all of our existing material subsidiaries and are required to be guaranteed by certain of our future domestic wholly-owned material subsidiaries. All obligations under

the senior secured asset-based revolving credit facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of our assets and the assets of our material subsidiaries (the "Subsidiary Guarantors"), including:

- a first-priority security interest in personal property consisting of inventory and related accounts, cash, deposit accounts, all payments received by us or the Subsidiary Guarantors from credit card clearinghouses and processors or otherwise in respect of all credit card charges and debit card charges for sales of inventory by us and the Subsidiary Guarantors, and certain related assets and proceeds of the foregoing;

- a second-priority pledge of all of the capital stock held by us (excluding the stock of Michaels of Canada, ULC) and our Subsidiary Guarantors (which pledge, in the case of the capital stock of any foreign subsidiary, is limited to 65% of the voting stock of such foreign subsidiary and 100% of the non-voting stock of such subsidiary); and

- a second-priority security interest in, and mortgages on, substantially all other tangible and intangible assets of us and each Subsidiary Guarantor, including substantially all of our owned real property and equipment.

Although the senior secured asset-based revolving credit facility does not require us to comply with any financial ratio maintenance covenants, it does contain a number of covenants that, among other things and subject to certain exceptions, restrict the Company's ability and the ability of its subsidiaries to:

- incur additional indebtedness;

- pay dividends on the Company's capital stock or redeem, repurchase or retire the Company's capital stock or its other indebtedness;

- make investments, loans, advances and acquisitions;

- create restrictions on the payment of dividends or other amounts to the Company from its restricted subsidiaries;

- engage in transactions with affiliates of the Company;

- sell assets, including capital stock of the Company's subsidiaries;

- consolidate or merge; and

- create liens.

The covenants limiting dividends and other restricted payments; investments, loans, advances and acquisitions; and prepayments or redemptions of indebtedness, each permit the restricted actions in an unlimited amount, subject to the satisfaction of certain payment conditions, principally that we must meet certain specified excess availability requirements and minimum consolidated fixed charge coverage ratios, to be tested on a pro forma and 12 months projected basis. Adjusted EBITDA is used in the calculation of the consolidated fixed charge coverage ratios. The senior secured asset-based revolving credit facility also contains certain customary affirmative covenants and events of default.

Senior Secured Term Loan Facility

On October 31, 2006, we executed a $2.4 billion senior secured term loan facility with Deutsche Bank A.G. New York Branch and other lenders (as amended, the "senior secured term loan facility"). The full amount was borrowed on October 31, 2006. We are required to make scheduled quarterly payments, each equal to 0.25% of the original principal amount of the term loans, for the first six years and three quarters, with the balance payable on October 31, 2013.

Table of Contents

Borrowings under the senior secured term loan facility bear interest at a rate per annum equal to, at our option, either (a) a base rate determined by reference to the higher of (1) the prime rate of Deutsche Bank and (2) the federal funds effective rate plus 0.50% or (b) a LIBOR rate, subject to certain adjustments, in each case plus an applicable margin. As of January 29, 2011, the applicable margin for the B-1 and B-2 Term Loans (each as defined below) was 1.25% and 3.50%, respectively, with respect to base rate borrowings and 2.25% and 4.50%, respectively, with respect to LIBOR borrowings, subject to downward adjustment based on ratings thresholds set forth in the senior secured term loan facility.

The senior secured term loan facility provides $1.28 billion of term loans with a maturity date of October 31, 2013 (the "B-1 Term Loans") and $1.0 billion of term loans with a maturity date of July 31, 2016 (the "B-2 Term Loans" and, collectively with the B-1 Term Loans, the "Term Loans").

The senior secured term loan facility requires us to prepay outstanding Term Loans with (a) 100% of the net proceeds of any debt issued by us or our subsidiaries (with exceptions for certain debt permitted to be incurred under the senior secured term loan facility) and (b) 50% (which percentage will be reduced to 25% if our total leverage ratio is less than 6.00:1.00 and will be reduced to 0% if our total leverage ratio is less than 5.00:1.00) of our annual Excess Cash Flow (as defined in the senior secured term loan facility). We must also offer to prepay outstanding Term Loans at 100% of the principal amount to be prepaid, plus accrued and unpaid interest, with the proceeds of certain asset sales or casualty events under certain circumstances. We may voluntarily prepay outstanding loans under the senior secured term loan facility at any time without premium or penalty other than customary breakage costs with respect to LIBOR loans.

Our voluntary prepayments in fiscal 2010 of $110 million more than offset the payment required from our annual Excess Cash Flow, which resulted in none of our senior secured term loan facility being classified as current debt as of January 29, 2011. Under the senior secured term loan facility, excess cash flow payments and voluntary prepayments serve to reduce future scheduled quarterly principal payments. The excess cash flow payment and voluntary prepayments made in fiscal 2010 effectively satisfied all scheduled quarterly principal payments until maturity of the Term Loans. The excess cash flow calculation used to determine the required payment amount, if any, is calculated at the end of each fiscal year. Due to the nature of the calculation, we are unable to estimate if there will be a required payment for fiscal 2011.

All obligations under the senior secured term loan facility are unconditionally guaranteed, jointly and severally, by each direct and indirect wholly-owned subsidiary that guarantees the obligations of the Company under the senior secured asset-based revolving credit facility. All obligations under the senior secured term loan facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of our assets and the assets of the Subsidiary Guarantors, including:

- a first-priority pledge of all of the capital stock held by us (excluding the stock of Michaels of Canada, ULC) and the Subsidiary Guarantors (which pledge, in the case of any foreign subsidiary, is limited to 65% of the voting stock of such foreign subsidiary and 100% of the non-voting stock of such subsidiary);

- a first-priority security interest in, and mortgages on, substantially all other tangible and intangible assets of us and each Subsidiary Guarantor, including substantially all of our owned real property and equipment, but excluding, among other things, the collateral described in the following bullet point; and

- a second-priority security interest in personal property consisting of inventory and related accounts, cash, deposit accounts, all payments received by us or the Subsidiary Guarantors from credit card clearinghouses and processors or otherwise in respect of all credit card charges and

Table of Contents

debit card charges for sales of inventory by us and the Subsidiary Guarantors, and certain related assets and proceeds of the foregoing.

The senior secured term loan facility contains a number of negative covenants that are substantially similar (but more restrictive in certain respects) to those governing the outstanding senior notes as well as certain other customary affirmative and negative covenants as well as events of default. As of January 29, 2011, we were in compliance with all covenants.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

Non-GAAP Measures

The following table sets forth the Company's Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA"). The Company defines EBITDA as net income before interest, income taxes, discontinued operations, depreciation and amortization. Additionally, the table presents Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA"). The Company defines Adjusted EBITDA as EBITDA adjusted for certain defined amounts that are added to, or subtracted from, EBITDA (collectively, the "Adjustments") in accordance with the Company's $2.4 billion senior secured term loan facility and $850 million senior secured asset-based revolving credit facilities. The Adjustments are described in further detail in the table, and the footnotes to the table below.

The Company has presented EBITDA 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, 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 senior secured term loan facility and its senior secured asset-based revolving credit facilities. As it relates to the senior secured term loan 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 senior secured asset-based revolving 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 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 and Adjusted EBITDA may differ from similarly titled measures used by other companies. As EBITDA 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.

Table of Contents

The table below shows a reconciliation of EBITDA and Adjusted EBITDA to net income and net cash provided by operating activities.

	Three Months Ended		Fiscal Year		
	April 30, 2011	May 1, 2010	2010	2009	2008
Net cash provided by operating activities	$ 19	$ 27	$ 438	$ 405	$ 59
Depreciation and amortization	(25)	(26)	(103)	(116)	(129)
Share-based compensation	(2)	(2)	(8)	(8)	(8)
Deferred financing cost amortization	(4)	(5)	(20)	(17)	(17)
Accretion of subordinated discount notes	(13)	(12)	(50)	(45)	(39)
Change in fair value of interest rate cap	(2)	(10)	(12)	10	
Loss on early extinguishment of debt	(11)		(53)		
Changes in assets and liabilities	75	41	(94)	(122)	129
Net income (loss)	37	13	98	107	(5)
Interest expense	65	68	276	257	302
Loss on early extinguishment of debt	11		53		
Income tax provision	23	17	51	50	3
Depreciation and amortization	25	26	103	116	129
EBITDA	161	124	581	530	429
Adjustments:					
Share-based compensation	2	2	8	8	8
Sponsor Fees	3	3	14	14	14
Termination expense	1		1	4	15
Pre-opening costs	1	1	3	2	6
Multi-year initiatives(1)					3
Foreign currency translation (gains) losses	(3)	(3)	(2)	(5)	5
Store closing costs		1	2	5	3
Loss (gain) on interest rate cap	2	10	12	(10)	
Other(2)	1		3	(4)	6
Adjusted EBITDA	$ 168	$ 138	$ 622	$ 544	$ 489

(1) Multi-year initiatives relate to store remodel costs.

(2) Other adjustments relate to items such as moving and relocation expenses, franchise taxes, foreign currency hedge, and certain legal expenses.

Contractual Obligations

All of our significant contractual obligations are recorded on our Consolidated Balance Sheets or disclosed in our Notes to Consolidated Financial Statements.

We do not typically enter into off-balance sheet arrangements, except for arrangements related to operating lease commitments, service contract commitments, and trade letters of credit, as disclosed in the table below. Neither Michaels nor its subsidiaries typically guaranty the obligations of unrelated parties.

Table of Contents

As of January 29, 2011, our contractual obligations were as follows:

	Payments Due By Fiscal Year				
	Total	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(In millions)				
Operating lease commitments(1)	$ 1,647	$ 346	$ 582	$ 371	$ 348
Other commitments(2)	98	73	17	8	
Total debt(3)	3,716	1	1,343	4	2,368
Interest payments(4)	1,215	189	451	308	267
	$ 6,676	$ 609	$ 2,393	$ 691	$ 2,983

(1) Our operating lease commitments generally include non-cancelable leases for property and equipment used in our operations. Excluded from our operating lease commitments are amounts related to insurance, taxes, and common area maintenance associated with property and equipment. Such amounts historically represented approximately 33% of the total lease obligation over the previous three fiscal years.

(2) Other commitments include trade letters of credit and service contract obligations. Our service contract obligations were calculated based on the time period remaining in the contract or to the earliest possible date of termination, if permitted to be terminated by Michaels upon notice, whichever is shorter.

(3) Included in Total debt are $42 million of additional interest accretion related to our Subordinated Discount Notes and $6 million of discount accretion on the 2018 Senior Notes, which have not been recognized as of January 29, 2011. See Note 3 to the consolidated financial statements.

(4) Debt associated with our senior secured term loan facility was approximately $2.0 billion at January 29, 2011, and is subject to variable interest rates. The amounts included in interest payments in the table for the senior secured term loan facility were based on the indexed interest rate in effect at January 29, 2011. Approximately $1.6 billion of debt was subject to fixed interest rates. We did not have any outstanding borrowings under our senior secured asset-based revolving credit facility at January 29, 2011. Under our senior secured asset-based revolving credit facility, we are required to pay a commitment fee of 0.625% per year on the unutilized commitments. The amounts included in interest payments for the senior secured asset-based revolving credit facility were based on these annual commitment fees.

Additional information regarding our long-term debt and commitments and contingencies is provided in Note 3 and Note 10, respectively, of Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-06, *Improving Disclosures About Fair Value Measurements* an amendment to ASC topic 820, *Fair Value Measurements and Disclosures.* ASU 2010-06 expands disclosure requirements related to fair value measurements including (i) separately disclosing the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describing the reasons for the transfers and (ii) presenting separate information for Level 3 activity pertaining to gross purchases, sales, issuances, and settlements. The new disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the Level 3 activity disclosures, which are effective for fiscal years beginning after December 15, 2010. We adopted all requirements of ASU 2010-06 related to significant transfers in and out of Level 1 and Level 2 fair value measurements on January 31, 2010, with no material impact on our consolidated financial statements. We adopted the

new disclosure requirements related to the Level 3 activity on January 30, 2011, with no material impact on our consolidated financial statements. See Note 8 for further information regarding fair value measurements.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to fluctuations in exchange rates between the US and Canadian dollar, which is the functional currency of our Canadian subsidiaries. Our sales, costs and expenses of our Canadian subsidiaries, when translated into US dollars, can fluctuate due to exchange rate movement. As of April 30, 2011, a 10% increase or decrease in the exchange rate of the US and Canadian dollar would not materially affect net income.

We have market risk exposure arising from changes in interest rates on our senior secured term loan facility. The interest rates on our Senior Credit Facilities will reprice periodically, which will impact our earnings and cash flow. The interest rates on our notes are fixed. Based on our overall interest rate exposure to variable rate debt outstanding as of April 30, 2011, a 1% increase or decrease in interest rates would increase or decrease income before income taxes by approximately $20 million. A 1% increase in interest rates would decrease the fair value of our long-term fixed rate debt by approximately $49 million. A 1% decrease in interest rates would increase the fair value of our long-term fixed rate debt by approximately $53 million. A change in interest rates would not materially affect the fair value of our variable rate debt as the debt reprices periodically.

During fiscal 2009, we purchased an interest rate cap to limit the variability of cash flows associated with our interest payments on our senior secured term loan facility that result from fluctuations in the three-month LIBOR rate. The cap limits our interest exposure on a notional value of $2.0 billion to the lesser of the three-month LIBOR rate or 7.0%. The term of the cap is from April 15, 2009 through April 15, 2015. The fair value of the cap as of April 30, 2011 was $4 million and is included in Other assets on the Consolidated Balance Sheet. The change in fair value of the cap for the quarter ended April 30, 2011, resulted in a loss of $2 million and is recorded in Other (income) and expense, net in the Consolidated Statement of Operations. A 1% increase in the interest rates would increase income before income taxes by approximately $9 million. A 1% decrease in the interest rates would decrease income before income taxes by approximately $4 million.

Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

BUSINESS

The following discussion, as well as other portions of this registration statement, contains forward-looking statements that reflect our plans, estimates, and beliefs. Any statements contained herein (including, but not limited to, statements to the effect that Michaels or its management "anticipates," "plans," "estimates," "expects," "believes," and other similar expressions) that are not statements of historical fact should be considered forward-looking statements. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this prospectus, and particularly in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Unless the context otherwise indicates, references in this registration statement to "we," "our," "us," the "Company" and "Michaels" means Michaels Stores, Inc., together with its subsidiaries.

General

With over $4.0 billion in sales in fiscal 2010, Michaels Stores, Inc., together with its subsidiaries, is the largest arts and crafts specialty retailer in North America providing materials, project ideas and education for creative activities. Our mission is to be a world class performer that inspires and enables consumers to experience creativity and to lead industry growth and innovation, while creating a fun and rewarding place to work that fosters meaningful connections with our communities. Through our broad product assortments, educational in-store events, project sheets and displays, and on-line information, we offer a shopping experience that inspires creativity in the areas of arts, crafts, floral displays, framing, home accents, and kid's hobbies and activities.

Michaels Stores, Inc. was incorporated in Delaware in 1983, and as of March 21, 2011, we operate 1,047 Michaels retail stores in 49 states, as well as in Canada, averaging 18,300 square feet of selling space per store. Our stores offer arts and crafts supplies and products for the crafter and do-it-yourself home decorator. We also operate 137 Aaron Brothers stores as of March 21, 2011, in nine states, averaging 5,600 square feet of selling space per store, offering photo frames, a full line of ready-made frames, custom framing services, and a wide selection of art supplies.

On October 31, 2006, substantially all of the Common Stock of Michaels Stores, Inc. was acquired through a merger transaction (the "Merger") by affiliates of two investment firms, Bain Capital Partners, LLC and The Blackstone Group (collectively, together with their applicable affiliates, the "Sponsors"), with certain shares retained by affiliates of Highfields Capital Partners (a then-existing shareholder of Michaels Stores, Inc.). As a result of the Merger, Michaels Holdings LLC, an entity controlled by the Sponsors, owns approximately 93% of our outstanding Common Stock, which is no longer publicly traded.

On October 16, 2007, we announced plans to align resources around our core retail chains, Michaels and Aaron Brothers stores. As a result, we discontinued our concept businesses, Recollections and Star Decorators Wholesale ("Star"). As of the end of fiscal 2007, we had closed all 11 Recollections and three of the four Star locations. The Star Decorators Wholesale Los Angeles store, the sole remaining Star location, is now being operated as a Michaels store. The operations of Recollections and Star have been reflected as discontinued operations.

We provide links to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, on our Internet website at *www.michaels.com* under the heading "Investor Relations." These links are automatically updated, so the filings are available immediately after they are made publicly available by the Securities and Exchange Commission ("SEC"). The registration statements, such reports and other information can be inspected and copied at the Public Reference Room of the SEC located at Room 1580, 100 F Street, N.E., Washington D.C. 20549. Copies of such materials, including copies of all or any portion of the

Table of Contents

registration statement, can be obtained from the Public Reference Room of the SEC at prescribed rates. You can call the SEC at 1-800-SEC-0330 to obtain information on the operation of the Public Reference Room. Such materials may also be accessed electronically by means of the SEC's home page on the Internet (http://www.sec.gov).

Industry Overview

We are the largest specialty retailer in North America providing materials, project ideas, and education for creative activities in arts and crafts, home, and scrapbooking. We believe we are well positioned to benefit from favorable demographics, particularly a more affluent baby boomer population, and an increasing focus on savings and home-based, family activities. According to industry consumer participation surveys conducted in 2010, approximately 56% of U.S. households participate in an arts and crafts category and our typical customer is:

Female 77% are women.

Young 67% of crafters are under 55, with 42% of them between the ages of 35 and 54.

Middle class 72% of our crafters have household incomes greater than $50,000, with a median income of about $75,000.

Loyal Most crafters shop for craft supplies about three times a month, with approximately 40% of their visits to Michaels.

We compete across many segments of the industry, including adult and kid's crafts, scrapbooking and paper crafting, jewelry making, art supplies, home, floral, celebrations, and ready-made and custom framing. Industry association reports estimate that the addressable market size associated with the core arts and crafts market is about $29 billion, and we estimate another $3 billion is associated with the framing market for a total market size of $32 billion annually.

The market we compete in is highly fragmented, including stores across the nation operated primarily by small, independent retailers along with a few regional and national chains. We believe customers choose where to shop based upon store location, breadth of selection, price, quality of merchandise, availability of product, and customer service. We compete with many different types of retailers and classify our competition within the following categories:

Mass merchandisers. This category includes companies such as Wal-Mart Stores, Inc., Target Corporation, and other mass merchandisers. These retailers typically dedicate only a small portion of their selling space to a limited selection of home accents, arts and crafts supplies, and seasonal merchandise, but they do seek to capitalize on the latest trends by stocking products that are complimentary to those trends and their current merchandise offerings. These mass merchandisers generally have limited customer service staffs with varying amounts of experience in crafting projects.

Multi-store chains. This category includes several multi-store chains, each operating more than 30 stores, and comprises: Hobby Lobby, which operates approximately 470 stores in 39 states, primarily in the Midwestern and Southern United States; Jo-Ann Stores, Inc., which operates approximately 235 large-format stores across the country; A.C. Moore Arts & Crafts, Inc., which operates approximately 135 stores primarily in the mid-Atlantic and Northeast regions; and Garden Ridge Corporation, which operates approximately 45 stores in 18 states, primarily in the Midwestern and Southern United States. We believe all of these chains are significantly smaller than Michaels with respect to total net sales.

Small, local specialty retailers. This category includes local independent arts and crafts retailers and custom framing shops. Typically, these are single store operations managed by the owner. These stores generally have limited resources for advertising, purchasing, and distribution. Many

of these stores have established a loyal customer base within a given community and compete based on relationships and customer service.

Business Strategy

We continue to strive to increase sales and productivity by strengthening our position as a world class performer through the following strategies:

Merchandise. Our goal is to drive sales by inspiring our customers with a broad assortment of products at competitive prices and by creating an excellent in-store experience. We expect to continue to expand the custom framing business with exciting new offerings.

Improving our merchandise assortment. We are focused on introducing more new products in our categories to inspire the creativity of our customers. We accomplish this through frequent merchandise resets to provide more new products, inspiration, and excitement to our customers. We continue to test new merchandise assortments in selected markets before implementing regional or national rollouts. Our assortments include highly differentiated and exclusive product lines, which we believe help us further maximize our opportunities within arts and crafts trends.

Ideas and inspiration. We believe our customer experience can be a key advantage that differentiates us from our competitors and is a critical component of our merchandising strategy. Many of the craft supplies sold in our Michaels stores can be assembled into unique end products with an appropriate amount of guidance and direction. Accordingly, we offer a variety of classes, demonstrations, and family focused make-it and take-it events to inspire our customers with product ideas and information. In addition, we have in-store displays to stimulate new project ideas and we supply free project sheets with detailed instructions on how to assemble the finished product. We also offer project sheets and webisodes demonstrating techniques to make crafts, gifts, and more at www.michaels.com. Through our Internet site and social media outlets, we are encouraging co-creation between our associates and customers by providing forums for two-way dialogue and a place to share ideas. We believe this strategy enhances our customers' relationship with Michaels, drives incremental sales, and is core to our brand positioning.

Pricing and promotional strategy. We continue to develop an integrated pricing and promotion strategy based on customer behavior, while improving our long-term organizational capabilities, processes, and tools. Our promotional activity is item and/or price based, with promotions spanning across categories and regions. We believe we can improve margins through enhancements to our merchandise planning and merchandising systems by applying more sophisticated pricing models which are customized at the store level. We further believe that we will be able to increase our core market as we more precisely identify the promotional items that drive customer traffic.

Custom Framing. We are executing on strategies, and evaluating new opportunities, to drive the custom frame business. We have a heightened focus on ensuring that we have well trained custom framing sales associates to provide our customers with new products and service offerings. In addition, we plan to upgrade the capabilities of our manufacturing subsidiary that provides framing merchandise to our stores.

Custom Personalization. We are expanding our merchandise assortment to include custom personalization offerings. During fiscal 2010, we completed the acquisition of an online digital scrapbooking and photo-booking business that will allow customers to work online to create digital scrapbooks which can be printed at home or professionally bound into a book.

Table of Contents

Direct Imports and Private Brands.

Global sourcing. We believe that importing product directly from the manufacturer presents a significant long-term opportunity to enhance our margin, improve our product quality, and mitigate external cost pressures. We will continue to expand our relationships internationally, both through agents and directly with manufacturers, and will collaboratively plan to bring a compelling assortment to market. We also intend to improve our import process by reducing the lead time it takes to receive goods. In fiscal 2010, as a percent of total receipts, we sourced approximately 23% of our merchandise through direct relationships with international manufacturers or through agents, compared to 17% in fiscal 2009. We anticipate that we will continue to significantly expand our direct import business. In order to mitigate the risk of the rising cost of goods from China, we are actively exploring sourcing opportunities outside of China. We will also continue to identify and leverage key strategic domestic vendors who will work with us to bring fresh ideas, quality products and exceptional value to our customers.

Private Brand Development. Currently, we sell numerous products under a portfolio of private brands that have been designed and developed based on consumer insights. We believe that by focusing on a select number of strong, private brands, we will help drive differentiation, improve our image, and provide the framework for Michaels to more effectively market our globally sourced products. In fiscal 2010, our private label brands represented approximately 36% of total sales. We plan to increase the number of private label products we offer through proactive, fact-based, integrated product development. We expect to improve brand acceptance, awareness, and loyalty through internal and external marketing efforts. We believe our efforts will strengthen our value proposition in the marketplace, differentiate Michaels from its competitors, enhance customer loyalty, and increase market share by supporting Michaels' position in selection, newness, and value. We also plan to leverage social networking for consumer research on product development and brand building to enhance our private brand growth.

Store Experience.

The in-store experience. We want our stores to be the destination for Where Creativity Happens® by providing not just the products for which our customer is looking, but also ideas and inspiration that allow for an entertaining and enjoyable shopping experience. Our internet based customer relationship management platform has provided us timely, actionable feedback on our customers' in-store experience and has shown continued improvement in our stores' overall service levels. In support of our ongoing commitment to improve the in-store experience and provide customers with world class service, we will be evaluating and refining the responsibilities of our associates to increase our associate engagement with the customer. We believe these modifications will drive sales by building a stronger one-on-one relationship with our customer and delivering a higher level of service.

Marketing.

Improving marketing execution. We are committed to deepening our relationship with our customers. We utilize a diversified marketing mix including print, direct mail, email, in-store promotional activities, social media, and online advertising. We continue to explore ways to optimize our print advertising distribution while evaluating the efficiencies and effectiveness of alternative, more direct channels for customer connection. We are enhancing our digital marketing approach by creating an online experience that will engage our customers in a more social manner while providing a forum to interact with like-minded crafters. We are also examining ways to develop multi-channel marketing plans for key merchandise categories by establishing a targeted marketing approach based on customer-specific

behavior, including testing of a loyalty program. These approaches will be specifically directed towards those customer segments that represent the greatest sales opportunities.

Store Growth.

New store openings. We believe the combined United States and Canadian markets can support a total of 1,400 to 1,600 Michaels stores. We continue to make refinements to our store prototype model to maximize the return on our new store investments. Successes in our prototype models are being incorporated into merchandise resets across the chain. We will continue to evaluate and expand our urban and small market formats to further penetrate new and existing markets. In recent years, we have opened a greater number of stores in locations where we paid to build the stores to our specifications. We expect this trend to continue in fiscal 2011. During fiscal 2011, we anticipate opening 35 to 40 new Michaels stores including 10 to 15 relocations, funded primarily through cash provided by operating activities.

Cash Flow and Expense Management.

Inventory optimization. We are working to develop processes and systems to improve our inventory turnover. We plan to upgrade our replenishment and allocation systems as well as add a demand forecasting system, which we believe will improve the efficiency of our inventory by providing more accurate forecasts to our suppliers and highlighting unproductive inventory. In addition, we are benchmarking our supply chain with world class companies to identify opportunities to optimize investment in inventory, improve inventory turnover and drive sales through improved in-stocks. We believe additional tools and training for our stores will allow us to reduce shrink. We will also continue collaborating with our vendors on packaging standards to further reduce product damages.

Engaged Associates.

Workforce. Our associates are essential to ensuring the success of our strategic initiatives. We continue to identify opportunities to invest in and enrich our associates with improved training, development and support. We plan to drive performance of our associates in a sales-focused environment with clear accountability and rewards. Our goal is to create a culture that enhances the experiences of our associates, our customers and the communities we serve.

Merchandising

Our Michaels store merchandising strategy is to provide a broad assortment of products at competitive prices and to inspire our consumer through new products, finished projects, project sheets, and special events. Each Michaels store offers approximately 39,000 basic SKUs in a number of product categories. The following table shows a breakdown of sales for Michaels stores by department as a percentage of total sales:

	Fiscal Year		
	2010	**2009**	**2008**
General and children's crafts	46%	44%	42%
Home and seasonal	20	21	23
Scrapbooking	16	18	17
Framing	18	17	18
	100%	100%	100%

Table of Contents

We continue to search for ways to leverage our position as a market leader by establishing strategic partnerships and exclusive product relationships that will provide our customers with exciting merchandise. During fiscal 2010, we were the exclusive provider of the "Duff" bakeware collection from Chef Duff Goldman. In addition, we also launched our Paula Deen® line and Build-A-Bear Craftshop as well as the Peanuts and Dr. Seuss holiday offerings. We plan to continue to form partnerships and exclusive product associations in the future.

We routinely identify merchandise that requires some price reduction to accelerate sales of the product. The need for this reduction is generally attributable to clearance of seasonal merchandise or product that is being displaced from its assigned location in the store to make room for new merchandise. Additional SKUs that are candidates for repricing are identified using our perpetual inventory data. In each case, the appropriate repricing is determined at our corporate office. Price changes are transmitted electronically to the store and instructions are provided to our stores regarding product placement, signage, and display to ensure the product is effectively cleared.

Our Aaron Brothers stores offer on average approximately 7,300 SKUs, including photo frames, a full line of ready-made frames, art prints, framed art, art supplies and custom framing services. The merchandising strategy for our Aaron Brothers stores is to provide a unique, upscale framing assortment in an appealing environment with attentive customer service.

Seasonality

Our business is highly seasonal, with higher sales in the third and fourth fiscal quarters. Our fourth quarter, which includes the Christmas selling season, has on average accounted for approximately 35% of our net sales and approximately 50% of our operating income.

Purchasing and Inventory Management

We purchase merchandise from approximately 700 vendors. We believe our buying power and ability to make centralized purchases enables us to acquire products on favorable terms. Central merchandising management teams negotiate with vendors in an attempt to obtain the lowest net merchandise costs and improve product mix and inventory levels. In fiscal 2010, one vendor supplied approximately 10% of our purchases, with no other vendor accounting for more than 3% of total purchases.

In addition to purchasing from outside vendors, our Michaels and Aaron Brothers stores purchase custom frames, framing supplies, mats, and art prints from our framing operation, Artistree, which consists of a manufacturing facility and four regional processing centers to support our retail stores.

Substantially all of the products sold in Michaels stores are manufactured in Asia, Canada, Mexico, and the United States. Goods manufactured in Asia generally require long lead times and are ordered four to six months in advance of delivery. Those products are either imported directly by us or acquired from distributors based in the United States, and their purchase prices are denominated in United States dollars.

Our automated replenishment system uses perpetual inventory records to analyze individual store/SKU on-hand quantities, as well as other pertinent information such as sales forecasts, seasonal selling patterns, promotional events, and vendor lead times, to generate recommended merchandise reorder information. These recommended orders are reviewed daily and purchase orders are delivered electronically to our vendors and our distribution centers. In addition to improving our store in-stock position, these systems enable us to better forecast merchandise ordering quantities for our vendors and give us the ability to identify, order, and replenish the stores' merchandise using less store associate labor. These systems also allow us to react more quickly to selling trends and allow our store associates to devote more time to customer service, thereby improving inventory productivity and sales

opportunities. As mentioned above, we are developing processes and systems to improve our inventory turnover. We plan to upgrade our replenishment and allocation systems as well as add a demand forecasting system.

Artistree

We currently operate a vertically integrated framing operation that leverages Artistree, our wholly-owned manufacturing subsidiary, across our Michaels and Aaron Brothers store networks. Artistree supplies high quality custom and specialty framing merchandise, including art prints and precut mats.

Our moulding manufacturing plant, located in Kernersville, North Carolina, converts lumber into finished frame moulding that is supplied to our regional processing centers for custom framing orders for our stores. We manufacture approximately 16% of the moulding we process, import another 47% from quality manufacturers in Indonesia, Malaysia, China, and Italy, and purchase the balance from distributors. We directly source metal moulding for processing in our regional centers. The custom framing orders are processed (frames cut and joined, along with cutting mats and foamboard backing) and shipped to our stores where the custom frame order is completed for customer pick-up.

During fiscal 2010, we operated four regional processing centers in City of Industry, California; Coppell, Texas; Kernersville, North Carolina; and Mississauga, Ontario. Our art prints and pre-cut mats, along with our custom frame supplies, are packaged and distributed out of our Coppell regional processing center. Combined, these facilities occupy approximately 538,000 square feet and, in fiscal 2010, processed nearly 28 million linear feet of frame moulding and over 6 million individually custom cut mats for our Michaels and Aaron Brothers stores.

We believe Artistree provides a competitive advantage to our Michaels and Aaron Brothers stores. Based on the benefits we have received from this vertically integrated solution, we continue to evaluate opportunities to further leverage our strong framing operations.

Distribution

We currently operate a distribution network for supplying our stores with merchandise. Approximately 85% of Michaels stores' merchandise receipts are shipped through the distribution network with the remainder shipped directly from vendors. Approximately 56% of Aaron Brothers stores' merchandise is shipped through the distribution network with the remainder shipped directly from vendors. Our seven distribution centers are located in California, Florida, Illinois, Pennsylvania, Texas, and Washington. In addition, we utilize one third-party warehouse to store and supply our seasonal merchandise in preparation for the holiday season.

Michaels stores generally receive deliveries from the distribution centers weekly through a transportation network using a dedicated fleet of trucks and contract carriers. Aaron Brothers stores generally receive merchandise on a biweekly basis from a dedicated 174,000 square foot distribution center located in the Los Angeles, California area.

Table of Contents

Store Expansion and Relocation

The following table shows our total store growth for the last five years:

	Fiscal Year(1)				
	2010	**2009**	**2008**	**2007**	**2006**
Michaels stores:					
Retail stores open at beginning of year	1,023	1,009	963	921	886
Retail stores opened during the year	23	18	51	45	43
Retail stores opened (relocations) during the year	10	5	11	11	7
Retail stores closed during the year	(1)	(4)	(5)	(3)	(8)
Retail stores closed (relocations) during the year	(10)	(5)	(11)	(11)	(7)
Retail stores open at end of year	1,045	1,023	1,009	963	921
Aaron Brothers stores:					
Retail stores open at beginning of year	152	161	166	166	166
Retail stores opened during the year				2	1
Retail stores opened (relocations) during the year			1		
Retail stores closed during the year	(15)	(9)	(5)	(2)	(1)
Retail stores closed (relocations) during the year			(1)		
Retail stores open at end of year	137	152	161	166	166
Total store count at end of year	1,182	1,175	1,170	1,129	1,087

(1) In fiscal year 2006, the Star Decorators Wholesale Los Angeles store is retroactively presented as a Michaels store.

We plan to open approximately 35 to 40 Michaels stores in fiscal 2011. Included in these openings are relocations of 10 to 15 Michaels stores. We continue to pursue a store relocation program to improve the quality and performance of our store base.

We have developed a standardized procedure that allows for the efficient opening of new stores and their integration into our information and distribution systems. We develop the floor plan and merchandise layout and organize the advertising and promotions in connection with the opening of each new store. In addition, we maintain qualified store opening teams to provide new store personnel with in-store training.

Costs for opening stores at particular locations depend upon the type of building, the general cost levels in the area, store size, operating format, and the time of the year the store is opened. In fiscal 2010, the average net cost of opening a new Michaels store included approximately $0.8 million of leasehold improvements, furniture, fixtures and equipment, and pre-opening costs, and an estimated initial inventory investment, net of accounts payable, of approximately $0.4 million.

During fiscal 2011, we anticipate closing up to five Michaels stores and 5 to 10 Aaron Brothers stores. Many of our store closings are stores that have reached the end of their lease term.

Foreign Sales

All of our current international business is in Canada, which accounted for approximately 9% of total sales in fiscal 2010, and approximately 8% in each of fiscal 2009 and fiscal 2008. During the last three years, less than 6% of our assets have been located outside of the United States. See Note 12 to the Consolidated Financial Statements for net sales and assets by country.

Table of Contents

Trademarks and Service Marks

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business, including "Aaron Brothers," "Aaron Brothers Art & Framing," "Artistree," "Michaels," "Michaels the Arts and Crafts Store," "Recollections," "Timeframe," "Where Creativity Happens," and the stylized Michaels logo. We are registering or have registered our primary private brands including Artist's Loft, ArtMinds, Celebrate It, Creatology, Craft Smart, Recollections, Loops & Threads, Studio Décor, Bead Landing and Ashland, and various sub-brands associated with these primary marks.

Employees

As of March 21, 2011, we employed approximately 40,500 associates, approximately 29,600 of whom were employed on a part-time basis. The number of part-time associates substantially increases during the Christmas selling season. Of our full-time associates, approximately 2,300 are engaged in various executive, operating, training, distribution, and administrative functions in our corporate and division offices and distribution centers, and the remainder are engaged in store operations. None of our associates are subject to a collective bargaining agreement.

Properties

We lease substantially all of the sites for our Michaels and Aaron Brothers stores, with the majority of our stores having initial lease terms of approximately 10 years. The leases are generally renewable, with increases in lease rental rates. Lessors have made leasehold improvements to prepare our stores for opening under a majority of our existing leases. As of January 29, 2011, in connection with stores that we plan to open or relocate in future fiscal years, we had signed 24 leases for Michaels stores.

Table of Contents

As of March 21, 2011, we leased and occupied the following non-store facilities:

	Square Footage
Distribution centers:	
Centralia, Washington	718,000
City of Commerce, California (Aaron Brothers)	174,000
Hazleton, Pennsylvania	1,005,000
Jacksonville, Florida	776,000
Lancaster, California	763,000
New Lenox, Illinois	693,000
Tarrant County, Texas	433,000
	4,562,000
Artistree:	
City of Industry, California (regional processing center)	90,000
Coppell, Texas (regional processing and fulfillment operations center)	230,000
Kernersville, North Carolina (manufacturing plant and regional processing center)	156,000
Mississauga, Ontario (regional processing center)	62,000
	538,000
Office space:	
Coppell, Texas (corporate satellite office)	67,000
Grand Prairie, Texas (corporate processing center)	35,000
Irving, Texas (corporate headquarters)	217,000
Mississauga, Ontario (Canadian regional office)	3,000
	322,000
Coppell, Texas (new store staging warehouse)	29,000
Dallas, Texas (warehouse)	70,000
	5,521,000

Table of Contents

The following table indicates the number of our retail stores located in each state or province as of March 21, 2011:

	Number of Stores		
State/Province	**Michaels**	**Aaron Brothers**	**Total**
Alabama	10		10
Alaska	3		3
Alberta	15		15
Arizona	28	6	34
Arkansas	4		4
British Columbia	15		15
California	130	86	216
Colorado	21	6	27
Connecticut	13		13
Delaware	4		4
Florida	74		74
Georgia	30	2	32
Idaho	6	1	7
Illinois	41		41
Indiana	16		16
Iowa	7		7
Kansas	8		8
Kentucky	7		7
Louisiana	12		12
Maine	2		2
Manitoba	3		3
Maryland	22		22
Massachusetts	24		24
Michigan	35		35
Minnesota	22		22
Mississippi	5		5
Missouri	19		19
Montana	4		4
Nebraska	4		4
Nevada	10	5	15
New Brunswick	3		3
Newfoundland and Labrador	1		1
New Hampshire	7		7
New Jersey	27		27
New Mexico	3		3
New York	52		52
North Carolina	31		31
North Dakota	2		2
Nova Scotia	4		4
Ohio	30		30
Oklahoma	8		8
Ontario	35		35
Oregon	15	2	17
Pennsylvania	43		43
Prince Edward Island	1		1

Table of Contents

	Number of Stores		
State/Province	Michaels	Aaron Brothers	Total
Rhode Island	3		3
Saskatchewan	2		2
South Carolina	10		10
South Dakota	2		2
Tennessee	13		13
Texas	69	20	89
Utah	12		12
Vermont	2		2
Virginia	32		32
Washington	22	9	31
West Virginia	5		5
Wisconsin	18		18
Wyoming	1		1
Total	1,047	137	1,184

Legal Proceedings.

Employee Claims

Adams Claim

On April 22, 2009, 129 individuals commenced an action against the Company styled Adams, et. al. v. Michaels Stores, Inc. in the United States District Court for the Central District of California. The Adams suit alleges that Michaels failed to pay overtime wages, provide meal and rest periods (or compensation in lieu thereof), accurately record hours worked and provide itemized employee wage statements. The Adams suit additionally alleges that the foregoing conduct was in breach of California's unfair competition law. Similar claims were subsequently filed by an additional eight individuals. The plaintiffs seek injunctive relief, damages for unpaid wages, penalties, restitution, interest, and attorneys' fees and costs. A number of the individual plaintiff claims have been settled for immaterial amounts. A bench trial on one of the plaintiff's case occurred in December 2010, and no decision has been rendered. We believe we have meritorious defenses and intend to defend the remaining individual claims vigorously. We do not believe the resolution of these cases will have a material effect on our business.

Tijero and Godfrey Consolidated Claim

On February 12, 2010, the Company was served with a lawsuit filed on May 7, 2009 by Jose Tijero, a former assistant manager for Aaron Brothers as a purported class action proceeding on behalf of himself and all current and former hourly retail employees employed by Aaron Brothers in California. On July 12, 2010, the Company was served with a lawsuit filed on July 9, 2010 by Amanda Godfrey, a former Aaron Brothers' hourly employee alleging similar allegations as in the Tijero suit. On October 15, 2010, the cases were consolidated and re-filed in the United States District Court Northern District of California. These suits allege that Aaron Brothers failed to pay all wages and overtime, failed to provide its hourly employees with adequate meal and rest breaks (or compensation in lieu thereof), failed to timely pay final wages, unlawfully withheld wages and failed to provide accurate wage statements and further alleges that the foregoing conduct was in breach of various laws, including California's unfair competition law. The plaintiff seeks injunctive relief, compensatory damages, meal and rest break penalties, waiting time penalties, interest, and attorneys' fees and costs.

Table of Contents

We believe we have meritorious defenses and intend to defend the lawsuit vigorously. We are unable to estimate a range of loss, if any, in this case.

Consumer Class Action Claims

Zip Code Claims

On August 15, 2008, Linda Carson, a consumer, filed a purported class action proceeding against Michaels Stores, Inc. in the Superior Court of California, County of San Diego ("San Diego Superior Court"), on behalf of herself and all similarly-situated California consumers. The Carson suit alleges that Michaels unlawfully requested and recorded personally identifiable information (i.e., her zip code) as part of a credit card transaction. The plaintiff sought statutory penalties, costs, interest, and attorneys' fees. We contested certification of this claim as a class action and filed a motion to dismiss the claim. On March 9, 2009, the Court dismissed the case with prejudice. The plaintiff appealed this decision to the California Court of Appeal for the Fourth District, San Diego. On July 22, 2010, the Court of Appeal upheld the dismissal of the case. The plaintiff appealed this decision to the Supreme Court of California ("California Supreme Court"). On September 29, 2010, the California Supreme Court granted the plaintiff's petition for review; however, it stayed any further proceedings in the case until another similar zip code case pending before the court, Pineda v. Williams-Sonoma, was decided. On February 10, 2011, the California Supreme Court ruled, in the Williams-Sonoma case, that zip codes are personally identifiable information and therefore the Song-Beverly Credit Card Act of 1971, as amended ("Song Act") prohibits businesses from requesting or requiring zip codes in connection with a credit card transaction. On or about April 6, 2011, the Supreme Court transferred the Carson case back to the Court of Appeal with directions to the Court to reconsider its decision in light of Pineda decision. Upon reconsideration the Court of Appeal remanded the case back to the San Diego Superior Court. We are reviewing the matter in light of this recent decision and, at this time, we are unable to estimate a range of loss, if any, in this case. Additionally, since the California Supreme Court decision on February 10, 2011, three additional purported class action lawsuits alleging violations of the Song Act have been filed against the Company: Carolyn Austin v. Michaels Stores, Inc. and Tiffany Heon v. Michaels Stores, Inc., both in the San Diego Superior Court and Sandra A. Rubinstein v. Michaels Stores, Inc. in the Superior Court of California, County of Los Angeles, Central Division. Also, relying in part on the California Supreme Court decision, an additional purported class action lawsuit was recently filed against the Company: Melissa Tyler v. Michaels Stores, Inc. in the United States District Court-District of Massachusetts, alleging violation of a similar Massachusetts statute regarding the collection of personally identifiable information in connection with a credit card transaction. We intend to vigorously defend each of these cases and we are unable, at this time, to estimate a range of loss, if any.

Gift Card Claims

On April 9, 2010, Ross Rattray, a consumer, filed a purported class action proceeding against Michaels Stores, Inc. in the San Diego Superior Court, on behalf of himself and all similarly-situated California consumers. The Rattray suit alleges causes of action for unlawful and unfair business practices and false advertising under the California Business and Professions Code, and a violation of the Consumer Legal Remedies Act, for misrepresentation that Michaels gift cards are not redeemable for cash and for failure to disclose that the plaintiff could redeem the unused cash balance on a gift card when the value fell below $10.00. On March 15, 2011, the matter was mediated and a tentative settlement agreement was reached with the plaintiff for an immaterial amount, which continues to be subject to Court approval. Subsequently, on April 25, 2011, Shirley Polak and Billie Lavrov, consumers, filed a purported class action proceeding against Michaels Stores, Inc. in the County of Los Angeles Superior Court, on behalf of themselves and all similarly-situated California consumers. The Polak/

Lavrov complaint significantly mirrors the claims in the Rattray case and we intend to vigorously defend the case. We are unable to estimate a range of loss, if any, in this case.

Data Breach Claims

Payment Card Terminal Tampering

On May 3, 2011, we were advised by the U.S. Secret Service that they were investigating certain fraudulent debit card transactions that occurred on accounts that had been used for legitimate purchases in selected Michaels stores. A subsequent internal investigation revealed that (as of the date of this filing) approximately 90 payment card terminals in certain Michaels stores had been physically tampered with, potentially resulting in customer debit and credit card information to be compromised. We have since removed approximately 7,200 payment card terminals comparable to the identified tampered payment card terminals from our Michaels stores, and have replaced all payment card terminals in all U.S. Michaels stores. The Company continues to cooperate with various governmental entities and law enforcement authorities in investigating the payment card terminal tampering, but we do not know the full extent of any fraudulent use of such information.

On May 18, 2011, Brandi F. Ramundo, a consumer, filed a purported class action proceeding against Michaels Stores, Inc. in the United States District Court for the Northern District of Illinois, on behalf of herself and all similarly-situated U.S. consumers. The Ramundo suit alleges that Michaels failed to take commercially reasonable steps to protect consumer financial data, and was in breach of contract and various laws, including the Federal Stored Communications Act and the Illinois Consumer Fraud and Deceptive Practices Act. The plaintiff seeks compensatory, statutory and punitive damages, costs, credit card fraud monitoring services, interest and attorneys' fees. Subsequently two additional purported class action lawsuits significantly mirroring the claims in the Ramundo complaint have been filed against the Company: Mary Allen v. Michaels Stores, Inc. and Kimberly Siprut v. Michaels Stores, Inc., both in the United States District Court for the Northern District of Illinois. On June 3, 2011, the plaintiffs in the class actions filed a joint motion to relate, reassign and consolidate the actions. We believe we have meritorious defenses and intend to defend these lawsuits vigorously. We are unable to estimate a range of loss, if any, in these cases.

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. A federal grand jury requested information with respect to the same facts. We are cooperating in these inquiries and have provided information in response to the requests.

Certain of these trusts and corporate subsidiaries of the trusts acquired securities of Michaels in transactions directly or indirectly with Charles J. Wyly, Jr. and Sam Wyly, who were, respectively, Chairman and Vice Chairman of the Board of Directors prior to the consummation of the Merger, or with other Wyly family members. In addition, subsidiaries of certain of these trusts acquired securities directly from us in private placement transactions in 1996 and 1997 and upon the exercise of stock options transferred, directly or indirectly, to the trusts or their subsidiaries by Charles Wyly, Sam Wyly, or other Wyly family members.

We understand that Charles Wyly and Sam Wyly and/or certain of their family members are beneficiaries of irrevocable non-U.S. trusts. The 1996 and 1997 private placement sales by us of Michaels securities to subsidiaries of certain of these trusts were disclosed by us in filings with the SEC. The transfer by Charles Wyly and/or Sam Wyly (or by other Wyly family members or family-related entities) of Michaels securities to certain of these trusts and subsidiaries was also disclosed in filings

with the SEC by us and/or by Charles Wyly and Sam Wyly. Based on information provided to us, our SEC filings prior to 2005 did not report securities owned by the non-U.S. trusts or their corporate subsidiaries as beneficially owned by Charles Wyly and Sam Wyly.

Charles Wyly and Sam Wyly filed an amended Schedule 13D with the SEC on April 8, 2005, stating that they may be deemed the beneficial owners of Michaels securities held directly or indirectly by the non-U.S. trusts. In our 2005 and 2006 proxy statements, we included the securities held in the non-U.S. trusts or their separate subsidiaries, as reported by the Wylys, in the beneficial ownership table of our principal stockholders and management, with appropriate footnotes.

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 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. Charles Wyly, Sam Wyly and their attorney Michael French, a former director of the Company, have requested indemnification from the Company for certain legal costs with respect to these matters. The Company is currently assessing the Wylys' claim and French's claim.

Pricing and Promotions Inquiry

On or about February 11, 2011, the Company received a notice of investigation and a subpoena from the New York State Attorney General requiring the production of certain documents relating to the frequency of the Company's pricing promotions and advertisements. We have fully cooperated in the investigation and implemented certain modifications to our custom framing promotional activities in connection with the same. On May 24, 2011, the New York Attorney General sent the Company a proposed Assurance of Discontinuance which the Company is currently assessing. We do not believe the resolution of this investigation will have a material effect on our business.

General

We are a defendant from time to time in lawsuits incidental to our business. Based on currently available information, we believe that resolution of all known contingencies is uncertain. There can be no assurance that future costs of such litigation would not be material to our financial position, results of operations, or cash flows.

MANAGEMENT

Directors

Our current directors serve until their successors are duly elected and qualified or until the earlier of their resignation, death or removal.

Four of our current directors are affiliates of Bain Capital Partners, LLC ("Bain"), while the remaining four are affiliates of The Blackstone Group ("Blackstone"). Directors are chosen by Bain and Blackstone respectively, based on their general business experience and their experience working with other private equity owned companies or other retailers (as further detailed in the biographies below). Our Board has not determined any of our directors to be independent under the standards adopted by the New York Stock Exchange, which do not apply to us as we are a privately held corporation.

Set forth below is information concerning each of our directors, including their ages as of May 31, 2011, present principal occupations, other business experiences during the last five years, membership on committees of the Board, public company directorships held during the last five years and certain other directorships. Except for Messrs. Murphy and Wallace and Ms. Greenthal, each of the directors listed below has served on our Board since October 31, 2006. The stockholders of the Company elected Mr. Murphy to the Board on January 13, 2009, elected Mr. Wallace to the Board on March 11, 2009 and elected Ms. Greenthal to the Board on May 18, 2011, in each case to fill a vacancy created by the resignation of a former director.

Name	Age	Position	Committee Membership
Josh Bekenstein	52	Director	
Todd M. Cook	40	Director	Audit Committee
Jill A. Greenthal	54	Director	
Lewis S. Klessel	43	Director	Audit Committee
Matthew S. Levin	45	Director	Compensation Committee
Gerry M. Murphy	55	Director	
James A. Quella	61	Director	Audit Committee
Peter F. Wallace	36	Director	Audit Committee; Compensation Committee

Mr. Bekenstein is a managing director at Bain Capital Partners. Prior to joining Bain Capital Partners in 1984, Mr. Bekenstein spent several years at Bain & Company, where he was involved with companies in a variety of industries. Mr. Bekenstein received an M.B.A. from Harvard Business School and a B.A. from Yale University. Mr. Bekenstein serves as a director of Bombardier Recreational Products Inc., Dollarama Capital Corporation, Toys "R" Us, Inc., Burlington Coat Factory Warehouse Corporation, Bright Horizons Family Solutions Inc. and Waters Corporation.

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

Ms. Greenthal has been a senior advisor at The Blackstone Group in the private equity group, since 2007. From 2003 until 2007, Ms. Greenthal was a senior managing director in Blackstone's advisory group. Prior to joining Blackstone, Ms. Greenthal was Co-Head of the Global Media Investment Banking Group, a member of the Executive Board of Investment Banking, and Co-Head of the Boston office of Credit Suisse First Boston. Ms. Greenthal graduated as a member of The

Academy from Simmons College and received an M.B.A. from Harvard Business School. Ms. Greenthal currently serves on the board of directors of Akamai Technologies, Inc., Orbitz Worldwide, Inc., Universal Orlando Resort and The Weather Channel Companies. Ms. Greenthal was formerly a director of Martha Stewart Omnimedia, Houghton Mifflin and Freedom Communications.

Mr. Klessel is an operating partner at Bain Capital Partners. Prior to joining Bain Capital Partners, Mr. Klessel held a variety of operating and strategy leadership positions from 1997 to 2005 at The Home Depot, Inc., most recently as President of Maintenance Warehouse, a wholly-owned subsidiary that distributed maintenance products to facility management customers in the multi-housing, lodging, health-care and commercial sectors. Mr. Klessel received an M.B.A. from Harvard Business School where he was a Baker Scholar, and a B.S. from the Wharton School at the University of Pennsylvania. Mr. Klessel serves as a director of HD Supply, Inc. and Guitar Center, Inc.

Mr. Levin is a managing director at Bain Capital Partners. Prior to joining Bain Capital Partners in 2000, Mr. Levin was a consultant at Bain & Company in the consumer products and manufacturing industries. Mr. Levin received an M.B.A. from Harvard Business School where he was a Baker Scholar. He received a B.S. from the University of California at Berkeley. Mr. Levin serves as a board member of Bombardier Recreational Products Inc., Dollarama Capital Corporation, Edcon Holdings Pty. Ltd., Guitar Center, Inc., Lilliput Kidswear Ltd., Nutco Products, Toys "R" Us, Inc. and Unisource Worldwide, Inc.

Mr. Murphy is a senior managing director at The Blackstone Group in the private equity group, which he joined in 2008. Before joining Blackstone, Mr. Murphy spent five years as CEO of Kingfisher, a FTSE 100 company and the leading home improvement retailer in Europe and Asia. He has also served as CEO of Carlton Communications plc, Exel plc and Greencore Group plc. Mr. Murphy received his BSc and PhD in food technology from University College Cork and a 1st Class MBS in marketing from University College Dublin. Mr. Murphy serves as a director of United Biscuits Topco Limited, Kleopatra Acquisition Corp., British American Tobacco plc, The Blackstone Group International Limited and for the Advisory Board of KP Germany Zweite GmbH. Mr. Murphy was formerly a director of Abbey National plc, Reckitt Benckiser Group plc and Hornbach Holding AG.

Mr. Quella is a senior managing director and senior operating partner at The Blackstone Group in the private equity group. Prior to joining Blackstone in 2004, Mr. Quella was a managing director and senior operating partner with DLJ Merchant Banking Partners-CSFB Private Equity from 2000 to 2004. Prior to that, Mr. Quella worked at Mercer Management Consulting and Strategic Planning Associates. Mr. Quella received a B.A. in International Studies from the University of Chicago/University of Wisconsin-Madison and an M.B.A. from the University of Chicago. Mr. Quella serves as a director of Catalent Pharma Solutions, Inc. and Vanguard Health Systems, Inc. Mr. Quella was formerly a director of Freescale Semiconductor, Inc., Graham Packaging Company, L.P., The Nielsen Company and Intelenet Global Services.

Mr. Wallace is a senior managing director at The Blackstone Group in the private equity group, which he joined in 1997. Mr. Wallace received a B.A. in Government from Harvard College. Mr. Wallace serves on the board of directors of AlliedBarton Security Services, SeaWorld Parks & Entertainment, Pelmorex Media and The Weather Channel Companies. Mr. Wallace was formerly a director of Crestwood Midstream Partners and New Skies Satellites.

Table of Contents

Executive Officers

Our current executive officers, their ages as of May 31, 2011, and their business experience during at least the past five years are set forth below.

Name	Age	Position
John B. Menzer	60	Chief Executive Officer
Charles M. Sonsteby	57	Chief Administrative Officer and Chief Financial Officer
Nicholas E. Crombie	61	Executive Vice President Store Operations
Thomas C. DeCaro	56	Executive Vice President Supply Chain
Philo T. Pappas	52	Executive Vice President Category Management
Weizhong "Wilson" Zhu	59	Executive Vice President Private Brands & Global Sourcing
Shawn E. Hearn	45	Senior Vice President Human Resources
Paula A. Puleo	45	Senior Vice President Chief Marketing Officer
Michael J. Veitenheimer	54	Senior Vice President General Counsel and Secretary
John J. Wyatt	60	Senior Vice President Corporate Development

Mr. Menzer was named Chief Executive Officer in April 2009. Prior to joining Michaels, he served as Vice Chairman and Chief Administrative Officer of Wal-Mart Stores, Inc. from September 2005 to March 2008, President and Chief Executive Officer of Wal-Mart International from June 1999 to September 2005 and Executive Vice President and Chief Financial Officer of Wal-Mart Stores, Inc. from September 1995 to June 1999. Mr. Menzer serves as a director of Emerson Electric Co.

Mr. Sonsteby was named Chief Administrative Officer and Chief Financial Officer in October 2010. Prior to joining Michaels, Mr. Sonsteby served in various capacities at Brinker International, Inc. since March 1990, including as Executive Vice President and Chief Financial Officer since May 2001, as Senior Vice President of Finance from 1997 to 2001 and as Vice President and Treasurer from 1994 to 1997. Mr. Sonsteby was formerly a director of Zale Corporation.

Mr. Crombie was promoted to Executive Vice President Store Operations in May 2007. Prior to his promotion, he served as Zone Vice President of Stores for Michaels Stores, Inc. since January 2002. Prior to joining the Company, Mr. Crombie was Area Vice President, Mid-South for CVS from February 1999 to January 2002. From January 1996 until February 1999, he was employed by Caldor, Inc. with store operations responsibilities, including Regional Vice President. From November 1988 to January 1996, he was Director of Sales and Marketing and General Merchandising Manager for Major Appliances at Lechmere, Inc.

Mr. DeCaro was promoted to Executive Vice President Supply Chain in June 2005. Prior to his promotion, Mr. DeCaro had served as Senior Vice President Inventory Management since joining Michaels in August 2000. From April 1998 until joining the Company, he was Vice President Merchandise for The Walt Disney Company. Prior to this, he held the position of Senior Vice President Merchandise Planning and Allocation for Kohl's Department Stores from February 1996 to April 1998. In addition, Mr. DeCaro has held various positions in Merchandise Planning and Allocation and Finance for The Disney Store, The Limited Stores, May Department Stores, and Sanger Harris Department Stores.

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

Table of Contents

Mr. Zhu was promoted to Executive Vice President Private Brands & Global Sourcing in July 2009. Prior to his promotion, Mr. Zhu had served as Executive Vice President Global Sourcing since May 2008 and Senior Vice President Strategic Sourcing since joining the Company in April 2007. From March 2003 until April 2007, he was Vice President, Private Brand Development and Global Sourcing at Office Depot, Inc. Prior to joining Office Depot, Mr. Zhu served as Vice President, Global Sourcing for Hudson's Bay Company in Canada from March 2001 to March 2003. In addition, Mr. Zhu has held various management positions at Saks, Inc., Edison Brothers Stores, and Nulook Fashions.

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

Ms. Puleo was named Senior Vice President Chief Marketing Officer in March 2010. Prior to joining Michaels, she served in various management positions at RAPP Worldwide , including Executive Vice President Strategy & Enablement from February 2006 to February 2010 and Senior Vice President Account Management from December 2005 to January 2006. Prior to joining RAPP, Ms. Puleo served as Director of CRM at Limited Brands, Inc. from February 2003 to December 2005.

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

Mr. Wyatt was named Senior Vice President Corporate Development in June 2010. Prior to joining Michaels, he served as Vice President Real Estate, Development and Facilities at Bob Evans Farms, Inc. from April 2009 to June 2010. Prior to joining Bob Evans, Mr. Wyatt served as Vice President Real Estate & Development at Brinker International, Inc. from May 2004 to February 2008. Prior to joining Brinker International, Mr. Wyatt was a venture partner at 1024 Partners, LLC. In addition, Mr. Wyatt has held various management positions at Starbucks Corporation, Nike, Inc. and The Spiegel Group Companies.

EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Introduction

The following Compensation Discussion and Analysis relates to compensation paid to our executive officers named in the Summary Compensation Table for fiscal 2010. From the completion of the Merger to March 2011, our Compensation Committee was comprised of two members: Michael S. Chae and Matthew S. Levin. In March 2011, Peter F. Wallace was appointed to the Compensation Committee to fill a vacancy created by the resignation of Mr. Chae from the Committee. Each of the members of our Compensation Committee is affiliated with our Sponsors and has not been deemed an independent director. During fiscal 2010, several events occurred which impacted management and compensation decisions. These included the hiring of a new Chief Administrative Officer and Chief Financial Officer, a new Senior Vice President Chief Marketing Officer, a new Senior Vice President Corporate Development, and the departure of the Company's former Senior Vice

Table of Contents

President Controller, who also served as Chief Financial Officer for a portion of the fiscal year. Each of these events is more fully discussed below.

Compensation Program

Generally, our compensation program has continued the overall approach of our pre-Merger compensation program, modified as appropriate to reflect that we are now a privately-owned company with public debt. The principal guiding objectives of our compensation program are:

- attracting and retaining highly qualified individuals who make contributions that result in Michaels meeting its financial and strategic goals;

- motivating associates to exceptional levels of operating and financial performance; and

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

Currently, the total compensation for our officers at the Vice President level and above, including our executive officers, consists of three main components: base salary, annual cash incentive bonuses and long-term equity-based incentive compensation awards. The philosophy and the strategy of the cash incentive compensation program for our officers are to provide higher annual cash incentive compensation for exceptional corporate and financial performance. While the Compensation Committee takes into account tax and accounting considerations in structuring the components of our compensation program, these considerations are secondary to the primary objectives of the compensation program described above.

Compensation Strategy

The Compensation Committee approves and recommends to the Board the compensation for all executive officers at the level of Executive Vice President and above. The Board is ultimately responsible for determining the compensation of our executive officers at the level of Executive Vice President and above. The members of the Compensation Committee are ultimately responsible for determining the compensation of our executive officers at the Senior Vice President level, although the initial compensation for these officers is approved by the Board. Under our certificate of incorporation equity-based awards must also be approved by a majority of our stockholders. Both the Compensation Committee and the Board receive recommendations with respect to decisions regarding the executive officers, other than the Chief Executive Officer, by senior management, principally the Chief Executive Officer and the Senior Vice President Human Resources. In determining compensation levels for the executive officers, the Compensation Committee considers the scope of an individual's responsibilities, an individual's performance and prior experience, the performance of the Company and the attainment of planned financial and strategic initiatives. These factors are evaluated by the Compensation Committee and the Board with no particular weight given to any one factor. The Compensation Committee considers overall past compensation and incentives in determining the compensation of executive officers and seeks to assure that the executives have appropriate incentives to achieve high levels of Company performance. The Compensation Committee, through its members' involvement in numerous other portfolio companies, has access to compensation-related information to assist the Committee with respect to the Company's overall compensation program for associates generally, as well as compensation for executive officers. Approvals by the Compensation Committee and recommendations to the Board by the Compensation Committee are therefore predominantly based on the experience of the members of the Compensation Committee and alignment with the overall strategic direction and goals of the Company.

Table of Contents

Named Executive Officers

According to SEC rules, the Summary Compensation Table that immediately follows this Compensation Discussion and Analysis must include specific information for each of the following persons: (i) all individuals serving as principal executive officer or acting in a similar capacity during the last completed fiscal year; (ii) all individuals serving as principal financial officer or acting in a similar capacity during the last completed fiscal year; (iii) the three most highly compensated executive officers other than the principal executive officer and principal financial officer who were serving as executive officers at the end of the last completed fiscal year; and (iv) up to two additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer at the end of the last completed fiscal year. These individuals include: John B. Menzer, Chief Executive Officer (who served as principal executive officer); Charles M. Sonsteby, Chief Administrative Officer and Chief Financial Officer (who, beginning on October 4, 2010, served as principal financial officer); Philo T. Pappas, Executive Vice President Category Management, Paula A. Puleo, Senior Vice President Chief Marketing Officer, and John J. Wyatt, Senior Vice President Corporate Development (the three other most highly compensated individuals who were serving as executive officers at the end of fiscal 2010); Richard S. Jablonski, Vice President Financial Planning & Analysis (who performed the functions of principal financial officer during a portion of fiscal 2010); and Elaine D. Crowley, who served as Senior Vice President Controller and as Chief Financial Officer (and therefore, as principal financial officer) for part of fiscal 2010. These officers are referred to as our "Named Executive Officers." This Compensation Discussion and Analysis and the executive compensation discussion and tables that immediately follow describe the process, strategy and elements of the Company's compensation plan as applied to our Named Executive Officers.

Compensation Elements

Base Salaries

Base salaries for our executive officers are established based on the scope of their responsibilities, individual performance and prior experience, Michaels' operating and financial performance and the attainment of planned financial and strategic initiatives, taking into account the knowledge of the members of the Compensation Committee regarding competitive market compensation paid by companies for similar positions. The Compensation Committee recommends, and the Board sets, base salaries at a level designed to attract and retain highly qualified individuals who make contributions that result in Michaels meeting its operating and financial goals. Base salaries are reviewed and adjusted annually as deemed appropriate by the Compensation Committee and the Board. The Compensation Committee and the Board have discretion to adjust base salary during the fiscal year and exercised that discretion in fiscal 2010, as described below.

On October 4, 2010, Mr. Sonsteby was named Chief Administrative Officer and Chief Financial Officer of the Company. Pursuant to his offer letter with the Company, Mr. Sonsteby's base salary was set at $650,000, with salary increases to be consistent with our policy of advancement on an individual merit basis. In recommending Mr. Sonsteby's base salary that was approved by the Board, the Committee considered Mr. Sonsteby's compensation at his prior employer, the scope and responsibilities of his position at Michaels, the competitive market salary at comparable companies and the level of compensation needed to recruit Mr. Sonsteby to the Company.

On March 8, 2010, Ms. Puleo was named Senior Vice President Chief Marketing Officer of the Company. Pursuant to her offer letter with the Company, Ms. Puleo's base salary was set at $300,000, with salary increases to be consistent with our policy of advancement on an individual merit basis. In recommending Ms. Puleo's base salary that was approved by the Board, the Committee considered Ms. Puleo's compensation at her prior employer, the scope and responsibilities of her position at Michaels, the competitive market salary at comparable companies and the level of compensation

Table of Contents

needed to recruit Ms. Puleo to the Company. Ms. Puleo also received a signing bonus of $35,000 pursuant to her offer letter, which in the judgment of the Committee was instrumental to the Company's successful recruiting of her as Senior Vice President Chief Marketing Officer.

On June 21, 2010, Mr. Wyatt was named Senior Vice President Corporate Development of the Company. Pursuant to his offer letter with the Company, Mr. Wyatt's base salary was set at $275,000, with salary increases to be consistent with our policy of advancement on an individual merit basis. In recommending Mr. Wyatt's base salary that was approved by the Board, the Committee considered Mr. Wyatt's compensation at his prior employer, the scope and responsibilities of his position at Michaels, the competitive market salary at comparable companies and the level of compensation needed to recruit Mr. Wyatt to the Company. Mr. Wyatt also received a signing bonus of $50,000 pursuant to his offer letter, which in the judgment of the Committee was instrumental to the Company's successful recruiting of him as Senior Vice President Corporate Development.

Mr. Jablonski is not an executive officer of the Company. His original base salary was established based on the scope of his responsibilities, individual performance and prior experience, Michaels' operating and financial performance and the attainment of planned financial and strategic initiatives, and competitive market compensation paid by companies for similar positions. Mr. Jablonski's base salary is reviewed on an annual basis by the Chief Financial Officer, who assigns Mr. Jablonski a proposed merit-based increase based upon job performance and Company merit guidelines. Final approval to any increases to Mr. Jablonski's base salary is made by the Chief Executive Officer, based upon input and recommendations by the Chief Financial Officer and the Senior Vice President Human Resources.

In March 2010, the Compensation Committee reviewed recommendations regarding 2010 annual base salary rates for the executive officer group based on the criteria set forth under "Compensation Discussion and Analysis Compensation Strategies." Merit guidelines are determined by reviewing and participating in surveys of market data, as well as giving consideration to the Company's overall budget for associate compensation. Based upon this information, the Company utilized an annual merit rate of 2.75% for fiscal 2010.

Base salaries for the Named Executive Officers for fiscal 2009 and 2010, which reflects increases between the two fiscal years, are reflected below.

Name	**2009 Base Salary**	**2010 Base Salary**
John B. Menzer	$ 1,000,000	$ 1,027,000
Charles M. Sonsteby(1)	N/A	650,000
Philo T. Pappas	375,000	386,251
Paula A. Puleo(1)	N/A	300,000
John J. Wyatt(1)	N/A	275,000
Richard S. Jablonski	210,000	213,675
Elaine D. Crowley	300,000	306,000

(1) The Named Executive Officer joined the Company in fiscal 2010.

Table of Contents

Annual Bonuses

In March 2010, the Compensation Committee recommended that the Board approve the Company's Bonus Plan for executive officers (including the Named Executive Officers, excluding Mr. Jablonski) for fiscal 2010 (the "Bonus Plan") to provide financial incentives to those and other members of management who were in positions to make important contributions to Michaels' success. The Board subsequently approved the Bonus Plan. The structure of the Bonus Plan and the specific objectives relating to bonus payments were proposed by the Company's Chief Executive Officer and Senior Vice President Human Resources and were reviewed and adjusted by the Compensation Committee. Mr. Jablonski participated in a bonus plan with the same terms as the Bonus Plan, which was approved by the Chief Executive Officer, with input from the Senior Vice President Human Resources. For Messrs. Menzer, Sonsteby and Wyatt, and Ms. Crowley, the Bonus Plan tied 80% of the available bonus to Michaels' attainment of a financial objective (consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA"), less an inventory charge), and up to 20% of the available bonus to the individual's job performance. For Mr. Pappas and Ms. Puleo, the Bonus Plan tied 50% of the available bonus to Michaels' attainment of a financial objective (EBITDA, less an inventory charge), 15% to a business unit sales objective (U.S. and Canada sales for all Company stores), 15% to a business unit buyer contribution objective (scan margin, less shrink at cost, plus entitlements, less average monthly inventory at cost with a multiplier, less an inventory charge), and up to 20% of the available bonus to the individual's job performance. Mr. Jablonski's bonus plan tied 80% of the available bonus to Michaels' attainment of the same financial objective set forth in the Bonus Plan, and up to 20% of the available bonus to his individual job performance. Under the Bonus Plan and Mr. Jablonski's bonus plan, before any business unit or individual performance payout would be earned, the actual results of the financial objective (EBITDA, less an inventory charge) were required to meet the threshold established by the Compensation Committee. Each participating Named Executive Officer was entitled to a bonus equal to a certain percentage of that executive officer's base salary, depending on the achievement of the target, threshold or maximum performance level. The Compensation Committee set threshold, target and maximum performance levels for all officers of the Company. The final award depended on the actual level of performance achieved; however, the Compensation Committee retains the right to make adjustments in its sole discretion. The target levels of performance for the bonus goals were set at levels that the Compensation Committee and the Board believed to be reasonably achievable in view of Michaels' historical annual performance. Additional specific information regarding the targets and objectives is set forth below.

The target percentages set for fiscal 2010 and the threshold, target and maximum payments for each of the Named Executive Officers for fiscal 2010 were as follows:

	John B. Menzer	**Charles M. Sonsteby(1)**	**Philo T. Pappas**	**Paula A. Puleo(2)**	**John J. Wyatt(3)**	**Richard S. Jablosnki**	**Elaine D. Crowley(4)**
Percentage of Base Salary							
Target	100%	70%	50%	40%	40%	35%	50%
Threshold	18%	12.6%	9%	7.2%	7.2%	6.3%	9%
Maximum	200%	140%	100%	80%	80%	70%	100%
Financial Weightings							
Overall Company Results	80%	80%	50%	50%	80%	80%	80%
Company Sales			15%	15%			
Buyer Contribution Less Inventory Charge			15%	15%			
Individual Performance	20%	20%	20%	20%	20%	20%	20%

(1) Pursuant to Mr. Sonsteby's offer letter from the Company, Mr. Sonsteby's target annual bonus opportunity pursuant to the Bonus Plan was set at 70% of base salary (with a maximum bonus at

140% of his base salary), prorated to the commencement of his employment. Further, the Company agreed to pay Mr. Sonsteby an additional three incremental periods ($^{1}/_{12}$th) of bonus payments to any pro-rated bonus earned by him in fiscal 2010, to offset the three months of bonus forfeited with his former employer.

(2) Pursuant to Ms. Puleo's offer letter from the Company, Ms. Puleo's target annual bonus opportunity pursuant to the Bonus Plan was set at 40% of base salary (with a maximum bonus at 80% of her base salary), prorated to the commencement of her employment.

(3) Pursuant to Mr. Wyatt's offer letter from the Company, Mr. Wyatt's target annual bonus opportunity pursuant to the Bonus Plan was set at 40% of base salary (with a maximum bonus at 80% of his base salary), prorated to the commencement of his employment.

(4) Ms. Crowley separated from the Company on August 6, 2010.

Provided that the financial objective threshold is met, individual performance accounts for up to 20% of the maximum bonus for each of the Named Executive Officers. Each officer is evaluated annually based upon competencies and pre-established individual objectives. Performance against these measures is determined by the Compensation Committee (the Chief Financial Officer and Senior Vice President Human Resources in the case of Mr. Jablonski), based upon input and recommendations by the Chief Executive Officer (except in the case of Mr. Jablonski), on a scaled rating of Exceeds Expectations, Meets Expectations High, Meets Expectations Low or Needs Development. No specified weight is given to each measure and considerable discretion resides with the Compensation Committee (the Chief Financial Officer and Senior Vice President Human Resources in the case of Mr. Jablonski) in its evaluation of personal performances.

In March 2011, the Compensation Committee reviewed the Company's financial results as applicable to the pre-established fiscal 2010 annual bonus opportunities for the Named Executive Officers. As described previously, the financial objective of Company performance that was applicable to all the Named Executive Officers was EBITDA, less an inventory charge. At the beginning of fiscal 2010, the Compensation Committee established, and the Board approved, the EBITDA, less an inventory charge, goal for target-level bonuses at $492.5 million, with a maximum at $550.5 million, and for threshold bonuses at $456.5 million, which represented approximately 94% of target. For the fiscal year, the Company's financial performance was between target and maximum. As a result, bonuses above target were earned for the Company performance element of the plan.

The Compensation Committee, based upon input and recommendations by the Chief Executive Officer also evaluated the individual performance of each of the Named Executive Officers (other than the Chief Executive Officer and Mr. Jablonski) for purposes of determining bonuses based on individual performance. Additionally, the Compensation Committee evaluated the individual performance of the Chief Executive Officer for purposes of determining his bonus. The Chief Financial Officer and Senior Vice President Human Resources evaluated the individual performance of Mr. Jablonski, with final approval made by the Chief Executive Officer, for purposes of determining his bonus based on individual performance.

Actual amounts paid to the Named Executive Officers for fiscal 2010 are listed in the Summary Compensation Table.

Long-Term Equity-Based Compensation

On February 15, 2007, our Board and stockholders approved the Michaels Stores, Inc. 2006 Equity Incentive Plan, as well as certain specific grants under the plan to key associates. In addition, the stockholders granted the Board authority to make plan grants to other eligible participants in the future. The plan was established to advance the interests of Michaels and its affiliates by providing for the grant of equity-based awards to eligible participants (key associates and directors of, and

consultants and advisors to, Michaels or its affiliates). Awards under the plan are intended to align the long-term incentives of our executives and stockholders. Grants are awarded when an executive is hired and are adjusted for subsequent promotions. Grants are made at or above fair market value.

Each option is divided into three tranches with escalating exercise prices. Each tranche vests 20% on each of the first through fifth anniversaries of the grant date and all unvested options vest immediately upon a Change of Control, as defined in the Amended and Restated Stockholders Agreement dated February 16, 2007 among Michaels and its stockholders. The tranche structure of the option awards, with increasing exercise prices in each tranche, is designed to incentivize long-term performance by tying the value of the options to long-term increases in the value of our Common Stock.

The following options were granted to Named Executive Officers in fiscal 2010:

	Number of Shares of Common Stock Underlying Stock Options				
Name	**Total Shares**	**Tranche 0 (Exercise Price $11.55 Per Share)**	**Tranche 0 (Exercise Price $14.47 Per Share)**	**Tranche 1 (Exercise Price $15.00 Per Share)**	**Tranche 2 (Exercise Price $22.50 Per Share)**
Charles M. Sonsteby	567,648		189,216	189,216	189,216
Paula A. Puleo	283,872	94,624		94,624	94,624
John J. Wyatt	227,098	75,700		75,699	75,699

The amounts of awards were based on each Named Executive Officer's position at Michaels and the total target compensation packages deemed appropriate for such positions. The Compensation Committee and the Board felt these awards were reasonable and consistent with the nature of the individuals' responsibilities and satisfied the goals of competitive compensation and the retention of key executive officers.

Mr. Sonsteby was also granted a restricted stock award pursuant to the 2006 Equity Incentive Plan in fiscal 2010. Mr. Sonsteby's restricted stock award covers 38,200 shares with 20% vesting on each of the first through fifth anniversaries from October 4, 2010 (vesting of all shares would accelerate upon a Change of Control (as defined in the Stockholders Agreement) or in the event of Mr. Sonsteby's death, disability or termination by the Company without cause). In the judgment of the Compensation Committee and the Board, the restricted stock award was appropriate for Mr. Sonsteby's position and was instrumental to the Company's successful recruiting of Mr. Sonsteby as Chief Administrative Officer and Chief Financial Officer.

Other Benefits and Perquisites

Our Named Executive Officers also receive certain other benefits and perquisites. During fiscal 2010, these benefits included contributions to 401(k) accounts, the payment of life insurance premiums, Company-paid medical benefits and, in some cases, reimbursement for income taxes on taxable benefits. Our Chief Executive Officer is also entitled to the use of a Company-owned or leased automobile. The Compensation Committee and the Board believe these benefits and perquisites are reasonable and consistent with the nature of the individual's responsibilities, provide a competitive level of total compensation to our executives and serve as an important element in retaining those individuals. The cost to Michaels of these benefits to the Named Executive Officers is set forth in the Summary Compensation Table under the column "All Other Compensation" and detail about each element is set forth in the table presented in footnote 4 to the Summary Compensation Table.

Table of Contents

Employment and Severance Agreements

Mr. Menzer has an employment agreement with Michaels that was entered at the time of his appointment which includes certain severance benefits in the event of termination other than for cause or by Mr. Menzer for good reason, as such terms are defined in the agreement. The specific terms of Mr. Menzer's employment agreement are discussed in the section entitled "Menzer Employment Agreement" following the Grants of Plan-Based Awards Table and under "Executive and Director Compensation Potential Payments Upon Termination or Change of Control."

In April 2008, the Board approved the Company's Officer Severance Pay Plan (the "OSPP"), which was amended in July 2008. The OSPP was established by the Company to provide certain severance benefits, subject to the terms and conditions of the OSPP, to designated officers (those with a position of Vice President or above, or an equivalent title as approved by the Compensation Committee, and excluding the Chief Executive Officer) in the event that their employment is permanently terminated as a result of a "Qualifying Termination" (as defined in the OSPP and described below). A more detailed description of the OSPP may be found under "Executive and Director Compensation Potential Payments Upon a Change of Control."

IRS Limits on Deductibility

Following the Merger, the equity securities of Michaels are no longer publicly traded; accordingly, Section 162(m) of the Internal Revenue Code no longer applies to Michaels.

Table of Contents

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussion, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this registration statement and prospectus.

THE COMPENSATION COMMITTEE

Matthew S. Levin
Peter F. Wallace

EXECUTIVE AND DIRECTOR COMPENSATION

Summary Compensation Table

According to SEC rules, the Summary Compensation Table must include specific information for each of the following persons: (i) all individuals serving as principal executive officer or acting in a similar capacity during the last completed fiscal year; (ii) all individuals serving as principal financial officer or acting in a similar capacity during the last completed fiscal year; (iii) the three most highly compensated executive officers other than the principal executive officer and principal financial officer who were serving as executive officers at the end of the last completed fiscal year; and (iv) up to two additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer at the end of the last completed fiscal year. The following table summarizes the compensation for the fiscal years indicated paid to or earned by the following persons who were previously defined as Named Executive Officers: John B. Menzer (who served as principal executive officer), Charles M. Sonsteby (who, beginning on October 4, 2010, served as principal financial officer), Philo T. Pappas, Paula A. Puleo and John J. Wyatt (the three other most highly compensated individuals who were serving as executive officers at the end of fiscal 2010), Richard S. Jablonski (who performed the functions of principal financial officer during a portion of

Table of Contents

fiscal 2010), and Elaine D. Crowley (who served as principal financial officer during a portion of fiscal 2010).

Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Stock Awards ($)(1)**	**Option Awards ($)(2)**	**Non-Equity Incentive Plan Compensation ($)(3)**	**All Other Compensation ($)(4)**	**Total ($)**
John B. Menzer	2010	1,022,846				1,507,431	76,931	2,607,208
Chief Executive Officer(5)	2009	807,692		2,135,000	2,407,750	1,644,500	115,952	7,110,894
Charles M. Sonsteby *Chief Administrative Officer and Chief Financial Officer*(6)	2010	200,000		552,754	2,696,082	336,510(7)	16,579	3,801,925
Philo T. Pappas	2010	384,520				235,188	86,785	706,493
Executive Vice President(8)	2009	359,135	20,000	50,002	341,924	239,663	126,777	1,137,501
Paula A. Puleo *Senior Vice President Chief Marketing Officer*(9)	2010	265,385	35,000(10)		1,207,440	133,980	23,295	1,665,100
John J. Wyatt *Senior Vice President Corporate Development*(11)	2010	163,942	50,000(12)		965,954	74,931	29,028	1,283,855
Richard S. Jablonski *Vice President Financial Planning & Analysis*	2010	213,110				94,808	53,620	361,538
Elaine D. Crowley	2010	163,846					32,071	195,917
Former Chief Financial Officer(13)	2009	300,000			172,618	190,410	52,824	715,852
	2008	132,692	150,000		1,992,556		117,039	2,392,287

(1) The amounts in this column represent the aggregate grant date fair value of restricted stock awards calculated in accordance with ASC 718, based on the assumptions set forth in Note 6 to the consolidated financial statements. Because the Company is a privately-held company and there is no market for our Common Stock, the fair market value of our Common Stock is determined by our Board of Directors based on available information that is material to the value of our Common Stock, including any third party valuation reports, the principal amount of the Company's indebtedness, the Company's actual and projected financial results, and fluctuations in the market value of publicly-traded companies in the retail industry.

(2) Represents the aggregate grant date fair value of the option awards on the date of the grant as calculated in accordance with ASC 718, based on the assumptions set forth in Note 6 to the consolidated financial statements. Because the Company is a privately-held company and there is no market for our Common Stock, the fair market value of our Common Stock is determined by our Board of Directors based on available information that is material to the value of our Common Stock, including any third party valuation reports, the principal amount of the Company's indebtedness, the Company's actual and projected financial results, and fluctuations in the market value of publicly-traded companies in the retail industry.

(3) The amounts in this column for fiscal 2010 reflect the cash awards to Named Executive Officers under the Bonus Plan, which are discussed in further detail in the preceding section "Compensation Discussion and Analysis Compensation Elements Annual Bonuses." The amounts in this column for fiscal 2009 reflect the cash awards to Named Executive Officers under the Company's Bonus Plan for executive officers for fiscal 2009.

Table of Contents

(4) The table below reflects the fiscal 2010 components of this column.

	John B. Menzer	Charles M. Sonsteby	Philo T. Pappas	Paula A. Puleo	John J. Wyatt	Richard S. Jablonski	Elaine D. Crowley
Medical Benefits ($)	39,112	14,563	48,997	20,346	25,484	48,997	27,153
Insurance Premiums ($)	5,889	1,895	3,495	1,720	3,325	1,714	2,178
Company Contributions to 401(k) and Group Universal Life Plan ($)			3,026	865		2,450	2,450
Tax Reimbursement ($)(a)	16,386	121	31,267	364	219	359	290
Auto ($)	15,544						
Other ($)						100(b)	
Total Other	**76,931**	**16,579**	**86,785**	**23,295**	**29,028**	**53,620**	**32,071**

(a) Reimbursement of income taxes is related to relocation, executive gifts, long-term disability insurance premiums and medical expenses.

(b) The amounts in this row reflect for Mr. Jablonski the cost attributable to a gift card won in a holiday contest.

(5) Mr. Menzer became our Chief Executive Officer on April 6, 2009, and his base salary for fiscal 2009 reflects a partial fiscal year.

(6) Mr. Sonsteby joined the Company as Chief Administrative Officer and Chief Financial Officer on October 4, 2010, and his compensation for fiscal 2010 reflects a partial fiscal year.

(7) Pursuant to Mr. Sonsteby's offer letter, his annual incentive bonus opportunity was equal to (i) 12.6% to 140% of his fiscal 2010 base salary, prorated to the commencement of his employment, plus the addition of (ii) three incremental periods ($^{1}/_{12}$th) of bonus payments to any pro-rated bonus earned by him in fiscal 2010, to offset the three months of bonus forfeited with his former employer.

(8) Mr. Pappas joined the Company as Executive Vice President Category Management on February 23, 2009, and his compensation for fiscal 2009 reflects a partial fiscal year.

(9) Ms. Puleo joined the Company as Senior Vice President Chief Marketing Officer on March 8, 2010, and her compensation for fiscal 2010 reflects a partial fiscal year.

(10) Represents signing bonus provided to Ms. Puleo pursuant to her offer letter.

(11) Mr. Wyatt joined the Company as Senior Vice President Corporate Development on June 21, 2010, and his compensation for fiscal 2010 reflects a partial fiscal year.

(12) Represents signing bonus provided to Mr. Wyatt pursuant to his offer letter.

(13) Ms. Crowley joined the Company as Executive Vice President Chief Financial Officer on August 18, 2008, and her compensation for fiscal 2008 reflects a partial fiscal year. Ms. Crowley assumed the role of Senior Vice President Controller and Chief Financial Officer on April 12, 2010 and served in that position until August 6, 2010, when she separated from the Company.

Table of Contents

Grants of Plan-Based Awards for Fiscal 2010

The following table sets forth the plan-based awards granted to Named Executive Officers pursuant to Company plans during fiscal 2010.

Grants of Plan-Based Awards

Name and Principal Position	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1) Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number Shares of Stock(2) (#)	All Other Option Awards: Number of Securities Underlying Options(2) (#)	Exercise or Base Price of Option Awards ($/Sh)(3)	Grant Date Fair Value of Stock and Option Awards ($)(4)
John B. Menzer *Chief Executive Officer*	N/A	184,860	1,027,000	2,054,000				
Charles M. Sonsteby *Chief Administrative Officer and Chief Financial Officer*(5)	N/A	27,300	151,667	303,333				
	1/5/2011				38,200			
	1/5/2011					189,216	14.47	1,036,828
	1/5/2011					189,216	15.00	1,003,904
	1/5/2011					189,216	22.50	655,350
Philo T. Pappas *Executive Vice President Category Management*	N/A	34,763	193,125	386,251				
Paula A. Puleo *Senior Vice President Chief Marketing Officer*(6)	N/A	19,800	110,000	220,000				
	7/26/2010					94,624	11.55	441,213
	7/26/2010					94,624	15.00	444,250
	7/26/2010					94,624	22.50	321,977
John J. Wyatt *Senior Vice President Corporate Development*(7)	N/A	11,550	64,167	128,333				
	7/26/2010					75,700	11.55	352,974
	7/26/2010					75,699	15.00	355,399
	7/26/2010					75,699	22.50	257,581
Richard S. Jablonski *Vice President Financial Planning & Analysis*	N/A	13,462	74,786	149,573				
Elaine D. Crowley *Former Chief Financial Officer*(8)	N/A	13,770	76,500	153,000				

(1) The threshold, target and maximum amounts in these columns have been provided in accordance with Item 402(d) of Regulation S-K and show the range of payouts targeted for fiscal 2010 for performance under the Bonus Plan as discussed in further detail in "Compensation Discussion and Analysis Compensation Elements Annual Bonuses." For Mr. Sonsteby, Ms. Puleo, Mr. Wyatt and Ms. Crowley, these amounts reflect pro rated values for the partial year each executive was employed. Bonuses were recommended by the Compensation Committee, and approved by the Board, as applicable, in March 2011 and were paid in April 2011, as reflected in the Summary Compensation Table in the column entitled "Non-Equity Incentive Plan Compensation."

(2) All equity awards noted below were granted under the 2006 Equity Incentive Plan.

(3)

All grants of stock options under the 2006 Equity Incentive Plan have an exercise price equal to or greater than the fair market value of our Common Stock on the date of grant. Because the Company is a privately-held company and there is no market for our Common Stock, the fair market value of our Common Stock is determined by our Board of Directors based on available information that is material to the value of our Common Stock, including any third party valuation reports, the principal amount of the Company's indebtedness, the Company's actual and projected financial results, and fluctuations in the market value of publicly-traded companies in the retail industry.

(4)

The amounts in this column represent the aggregate grant date fair value of the stock options as calculated in accordance with ASC 718.

(5)

Stock options were granted to Mr. Sonsteby on January 5, 2011, vesting at the rate of 20% per year on each of the first through fifth anniversaries of October 4, 2010, or immediately upon a Change of Control (as defined in the Stockholders Agreement). Mr. Sonsteby's restricted stock awards vest 20% on each of October 4, 2011, October 4, 2012, October 4, 2013, October 4, 2014 and October 4, 2015 (vesting of the shares would accelerate upon a Change of Control (as defined in the Stockholders Agreement) or in the event of Mr. Sonsteby's death, disability or termination by the Company without cause). Mr. Sonsteby will receive all dividends and distributions, if any, paid with respect to the shares of restricted stock he holds, but if any such dividends or distributions are paid in shares of our capital stock, such shares will be subject to the same restrictions on transferability as are the shares of restricted stock with respect to which they were paid.

Table of Contents

(6) Stock options were granted to Ms. Puleo on July 26, 2010, vesting at the rate of 20% per year on each of the first through fifth anniversaries of March 8, 2010, or immediately upon a Change of Control(as defined in the Stockholders Agreement).

(7) Stock options were granted to Mr. Wyatt on July 26, 2010, vesting at the rate of 20% per year on each of the first through fifth anniversaries of June 21, 2010, or immediately upon a Change of Control (as defined in the Stockholders Agreement).

(8) Ms. Crowley separated from the Company on August 6, 2010. Based on her voluntary resignation from the Company, Ms. Crowley is not entitled to receive a bonus for fiscal 2010.

Employment Agreements with Certain Named Executive Officers

Menzer Employment Agreement

The compensation for John B. Menzer described in the Summary Compensation Table and the Grants of Plan-Based Awards Table above were in accordance with the terms of his employment agreement, as amended, with Michaels, pursuant to which he serves as Chief Executive Officer. The agreement became effective April 6, 2009. The agreement provides for an annual base salary of $1,000,000, subject to increase in the sole discretion of the Board. Mr. Menzer is eligible for an annual bonus for each fiscal year during his employment, with a target amount of 100% of his base salary and a maximum bonus potential of 200% of his base salary, based on performance targets established by the Board, with the actual amount of any bonus being in the sole discretion of the Board. In addition, in connection with the commencement of his employment, Mr. Menzer was granted 500,000 shares of restricted stock and an option to purchase 2,500,000 shares of Common Stock. For a more detailed description of the restricted stock and options grants, see "Compensation Discussion and Analysis Compensation Elements Long-Term Equity-Based Compensation," and the Outstanding Equity Awards at Fiscal Year-End table below. Mr. Menzer is also entitled to a Company leased automobile, and is entitled to participate in benefit plans standard for Michaels' executive officers, including life insurance plans.

Table of Contents

Outstanding Equity Awards at Fiscal Year-End 2010

The following table sets forth information regarding equity awards held by our Named Executive Officers as of January 29, 2011.

	Option Awards				Stock Awards	
Name and Principal Position	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)(1)**
John B. Menzer					500,000	7,610,000
Chief Executive Officer(2)	166,666	666,668	7.50	6/1/2017		
	166,666	666,667	15.00	6/1/2017		
	166,666	666,667	22.50	6/1/2017		
Charles M. Sonsteby					38,200	581,404
Chief Administrative		189,216	14.47	1/4/2019		
Officer and Chief		189,216	15.00	1/4/2019		
Financial Officer(3)		189,216	22.50	1/4/2019		
Philo T. Pappas					9,368	142,581
Executive Vice President	30,279	121,117	7.50	7/1/2017		
Category Management(4)	6,309		15.00	4/16/2017		
	29,017	116,072	15.00	7/1/2017		
	6,309		22.50	4/16/2017		
	29,017	116,072	22.50	7/1/2017		
Paula A. Puleo						
Senior Vice President		94,624	11.55	7/25/2018		
Chief Marketing Officer(5)		94,624	15.00	7/25/2018		
		94,624	22.50	7/25/2018		
John J. Wyatt						
Senior Vice President		75,700	11.55	7/25/2018		
Corporate Development(6)		75,699	15.00	7/25/2018		
		75,699	22.50	7/25/2018		
Richard S. Jablonski	5,677	22,711	7.50	7/1/2017		
Vice President Financial	7,192		15.00	3/25/2016		
Planning & Analysis(7)	4,239	16,956	15.00	7/1/2017		
	7,192		22.50	3/25/2016		
	4,239	16,956	22.50	7/1/2017		
Elaine D. Crowley						
Former Chief Financial Officer(8)						

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(1) Because the Company is a privately-held company and there is no market for our Common Stock, the fair market value of our Common Stock is determined by our Board of Directors based on available information that is material to the value of our Common Stock, including any third party valuation reports, the principal amount of the Company's indebtedness, the Company's actual and projected financial results, and fluctuations in the market value of publicly-traded companies in the

retail industry. The shares were valued based on a price per share of $15.22, which was the fair market value of our Common Stock on January 29, 2011, the last day of fiscal 2010.

(2)

Stock options were granted to Mr. Menzer on June 2, 2009, vesting at the rate of 20% on each of April 6, 2010, April 6, 2011, April 6, 2012, April 6, 2013 and April 6, 2014, or immediately upon a Change of Control (as defined in the Stockholders Agreement). Mr. Menzer's restricted stock awards vest 25% on each of April 6, 2011, April 6, 2012, April 6, 2013 and April 6, 2014 (vesting of all shares would accelerate upon a Change of Control (as defined in the Stockholders Agreement) and vesting of 133,333 shares would have accelerated in the event that Mr. Menzer's employment was terminated without cause or by him for good reason, or in the event of Mr. Menzer's death or disability, prior to April 6, 2011, which events did not occur). Mr. Menzer will receive all dividends and distributions, if any, paid with respect to the shares of restricted stock he holds, but if any such dividends or distributions are paid in shares of our capital stock, such shares will be subject to the same restrictions on transferability as are the shares of restricted stock with respect to which they were paid.

(3)

Stock options were granted to Mr. Sonsteby on January 5, 2011, vesting at the rate of 20% on each of October 4, 2011, October 4, 2012, October 4, 2013, October 4, 2014 and October 4, 2015, or immediately upon a Change of Control (as defined in the Stockholders Agreement). Mr. Sonsteby's restricted stock awards vest 20% on each of October 4, 2011, October 4, 2012, October 4, 2013, October 4, 2014 and October 4, 2015 (vesting of the shares would accelerate upon a Change of Control (as defined in the Stockholders Agreement) or in the event of Mr. Sonsteby's death, disability or termination by the Company without cause). Mr. Sonsteby will receive all dividends and distributions, if any, paid with respect to the shares of restricted stock he holds, but if any such dividends or distributions are paid in shares of our capital stock, such shares will be subject to the same restrictions on transferability as are the shares of restricted stock with respect to which they were paid.

(4)

Stock options were granted to Mr. Pappas on July 2, 2009 in connection with the Company's Exchange Offer, with 12,618 of these options immediately exercisable on the grant date based on the period of time that his exchanged options had been held in relation to the total term of the option and the remaining options vest at the rate of 20% on each of July 2, 2010, July 2, 2011, July 2, 2012, July 2, 2013 and July 2, 2014, or immediately upon a Change of Control (as defined in the Stockholders Agreement). For more information regarding the Exchange Offer, see Note 6 to the consolidated financial statements. Mr. Pappas's restricted stock awards vest 20% on each of April 17, 2010, April 17, 2011, April 17, 2012, April 17, 2013 and April 17, 2014 (vesting of the shares would accelerate upon Change of Control (as defined in the Stockholders Agreement) or in the event of Mr. Pappas's death, disability or termination by the Company without cause). Mr. Pappas will receive all dividends and distributions, if any, paid with respect to the shares of restricted stock he holds, but if any such dividends or distributions are paid in shares of our capital stock, such shares will be subject to the same restrictions on transferability as are the shares of restricted stock with respect to which they were paid.

(5)

Stock options were granted to Ms. Puleo on July 26, 2010, vesting at the rate of 20% on each of March 8, 2011, March 8, 2012, March 8, 2013, March 8, 2014 and March 8, 2015, or immediately upon a Change of Control (as defined in the Stockholders Agreement).

(6)

Stock options were granted to Mr. Wyatt on July 26, 2010, vesting at the rate of 20% on each of June 21, 2011, June 21, 2012, June 21, 2013, June 21, 2014 and June 21, 2015, or immediately upon a Change of Control (as defined in the Stockholders Agreement).

(7)

Stock options were granted to Mr. Jablonski on July 2, 2009 in connection with the Company's Exchange Offer, with 14,384 of these options immediately exercisable on the grant date based on the period of time that his exchanged options had been held in relation to the total term of the

Table of Contents

option and the remaining options vest at the rate of 20% on each of July 2, 2010, July 2, 2011, July 2, 2012, July 2, 2013 and July 2, 2014, or immediately upon a Change of Control (as defined in the Stockholders Agreement). For more information regarding the Exchange Offer, see Note 6 to the consolidated financial statements.

(8) Ms. Crowley separated from the Company on August 6, 2010, and exercised 30,279 vested options within 60 days of her departure. In accordance with the terms of the 2006 Equity Incentive Plan and her option agreement, all remaining options previously granted to her have been cancelled. Ms. Crowley's outstanding shares were repurchased by the Company on April 19, 2011.

Option Exercises and Stock Vested for Fiscal 2010

The following table shows the number of stock options exercised by our Named Executive Officers, and stock awards held by our Named Executive Officers that vested, during fiscal year 2010.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)(1)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)(1)**
John B. Menzer *Chief Executive Officer*				
Charles M. Sonsteby *Chief Administrative Officer and Chief Financial Officer*				
Philo T. Pappas *Executive Vice President Category Management*			2,342	27,050(2)
Paula A. Puleo *Senior Vice President Chief Marketing Officer*				
John J. Wyatt *Senior Vice President Corporate Development*				
Richard S. Jablonski *Vice President Financial Planning & Analysis*				
Elaine D. Crowley *Former Chief Financial Officer*	30,279	122,630(3)		

(1) Because the Company is a privately-held company and there is no market for our Common Stock, the fair market value of our Common Stock is determined by our Board of Directors based on available information that is material to the value of our Common Stock, including any third party valuation reports, the principal amount of the Company's indebtedness, the Company's actual and projected financial results, and fluctuations in the market value of publicly-traded companies in the retail industry.

(2) The shares were valued on the April 17, 2010 vesting date for Mr. Pappas's restricted shares.

(3) The dollar value reflects the difference in the fair market value of our Common Stock at the time of exercise and the option's exercise price. Ms. Crowley did not realize this amount, as she retained ownership of the shares received upon exercise. Ms. Crowley's outstanding shares were repurchased by the Company on April 19, 2011.

Table of Contents

Pension Benefits for Fiscal 2010

The Company has no pension plans.

Nonqualified Deferred Compensation for Fiscal 2010

The Company has no nonqualified deferred compensation plans.

Potential Payments upon Termination or Change of Control

Mr. Menzer's employment contract, as amended, which commenced April 6, 2009, specifies certain benefits that are payable to him in the event of termination. Mr. Sonsteby, Mr. Pappas, Ms. Puleo, Mr. Wyatt and Mr. Jablonski participate in the OSPP, adopted by the Board in April 2008 and amended in July 2008. Prior to her resignation effective August 6, 2010, Ms. Crowley was entitled to participate in the OSPP. In addition, each of the Named Executive Officers may be entitled to acceleration of their equity awards in the event of a termination or Change of Control, depending on the specific circumstance as set forth below.

The payments for which the Named Executive Officers are eligible under various circumstances related to termination or a Change of Control are detailed below, except for Ms. Crowley, whose actual payments received upon her separation from the Company are described below under "Rights and Potential Payments on Termination for Cause, Death, Disability and Voluntary Resignation Voluntary Resignation."

Rights and Potential Payments on Termination for Cause, Death, Disability and Voluntary Resignation

Cause. Each of the respective agreements and the OSPP provide that no payments or benefits are due to the Named Executive Officer in the event of a termination for cause except amounts accrued and payable to such executive through the termination date.

Death. Each Named Executive Officer is provided a life insurance policy by the Company with a $1,000,000 benefit ($500,000 in the case of Mr. Jablonski), which would be payable to the executive's beneficiaries upon such executive's death. Under his employment agreement, Mr. Menzer's beneficiaries are further entitled to an amount equal to his pro rated bonus for the year in which death occurs. Under the 2006 Equity Incentive Plan, the executive's estate has the option to exercise any vested stock options held by the Named Executive Officer prior to his death. Under the Stockholders Agreement, upon any termination of a Named Executive Officer's employment by reason of the executive's death, the executive's estate has the option to sell to the Company all or any portion of the vested shares of the Common Stock owned by the Named Executive Officer within 60 days after the date of termination, at the fair market value of the shares as of the date they are repurchased. In addition, pursuant to their restricted stock agreements, upon death 133,333 shares of Mr. Menzer's unvested restricted stock and all of Messrs. Sonsteby's and Pappas's unvested restricted stock would vest. Assuming the executive's death on January 29, 2011, the last day of our fiscal year, and that the executive's estate exercised its option to exercise any vested stock options held by the Named Executive Officer at such time and to sell to the Company all of the shares owned by the Named Executive Officer, the estate of each Named Executive Officer would have realized, based on the fair market value of the Common Stock as of fiscal year end ($15.22), the following amounts for his or her shares: John B. Menzer, $3,352,656; Charles M. Sonsteby, $581,404; Philo T. Pappas, $419,752; Paula A. Puleo, $0; John J. Wyatt, $0; and Richard S. Jablonski, $46,341.

Disability. The Company provides each Named Executive Officer with an executive long-term disability policy for the benefit of such executives which would provide disability benefits after 90 days of the executive becoming disabled in the amount of 67% of monthly compensation up to $20,000 per month. This benefit generally continues until the disability is resolved or age 65. Mr. Menzer is further

entitled to his full salary for the 90 days prior to the commencement of disability benefits, which equates to $253,233 (based on his fiscal 2010 base salary), paid in accordance with the Company's normal payroll practices. Under the Stockholders Agreement, upon any termination of a Named Executive Officer's employment by reason of the executive's disability, the executive has the option to sell to the Company all or any portion of the vested shares of the Common Stock owned by the Named Executive Officer within 60 days after the date of termination, at the fair market value of the shares as of the date they are repurchased. In addition, pursuant to their restricted stock agreements, upon disability 133,333 shares of Mr. Menzer's unvested restricted stock and all of Messrs. Sonsteby's and Pappas's unvested restricted stock would vest. Assuming the executive exercised his or her option to sell to the Company all of the shares owned by the Named Executive Officer upon disability on the last day of fiscal 2010, the Named Executive Officer would have received, based on the fair market value of the Common Stock as of fiscal year end ($15.22), the following amounts for his or her shares: John B. Menzer, $2,029,328; Charles M. Sonsteby, $581,404; Philo T. Pappas, $178,226; Paula A. Puleo, $0; John J. Wyatt, $0; and Richard S. Jablonski, $0.

Voluntary Resignation. In the event of a voluntary resignation of any of the Named Executive Officers, there are no payments or benefits that continue beyond what is accrued and payable through the termination date. Mr. Menzer's agreement states that he is required to give the Company 60 days prior written notice of resignation and the Board may, at its election, choose to waive Mr. Menzer's notice obligation but is still required to pay him for the applicable notice period. Ms. Crowley resigned effective August 6, 2010, and exercised 30,279 vested options within 60 days of her departure. Based on the fair market value of the Common Stock as of fiscal year end ($15.22), if Ms. Crowley had sold her shares on January 29, 2011, the last day of our fiscal year, she would have realized a gain on her shares of $233,754. Ms. Crowley's outstanding shares were repurchased by the Company on April 19, 2011 for an aggregate purchase price of $460,846. In accordance with the terms of the 2006 Equity Incentive Plan and her option agreement, all remaining options previously granted to her have been cancelled.

Rights and Potential Payment Upon a Change of Control or Termination Without Cause or With Good Reason

Menzer Employment Agreement

Mr. Menzer's employment agreement provides benefits to him in the event of a termination of his employment without cause or by him for good reason, as defined below. In either circumstance, for the two-year period following the date of termination he would be entitled to receive a severance benefit equal to (i) his base salary at the rate in effect on the date of termination, (ii) the amount of his annual target bonus for the year of termination and (iii) continued medical benefits. These benefits are contingent on Mr. Menzer signing and returning to the Company a release of claims in the form provided by the Company. The severance pay is payable on a pro-rated basis at the Company's regular payroll periods and in accordance with its normal payroll practices.

Pursuant to Mr. Menzer's agreement, "cause" means the following events or conditions, as determined by the Board in its reasonable judgment: (i) the refusal or failure to perform (other than by reason of disability), or material negligence in the performance of, his duties and responsibilities to the Company or any of its Affiliates (as defined in Mr. Menzer's agreement), or refusal or failure to follow or carry out any reasonable direction of the Board, and the continuance of such refusal, failure or negligence for a period of 10 days after notice; (ii) the material breach of any provision of any material agreement between Mr. Menzer and the Company or any of its Affiliates; (iii) fraud, embezzlement, theft or other dishonesty with respect to the Company or any of its Affiliates; (iv) the conviction of, or plea of nolo contendere to any felony or any other crime involving dishonesty or moral turpitude; and (v) any other conduct that involves a breach of fiduciary obligation.

Table of Contents

The term "good reason" is defined as (i) removal without Mr. Menzer's consent from the position of Chief Executive Officer; (ii) a material diminution in the nature or scope of his responsibilities, duties or authority, provided however that the Company's failure to continue Mr. Menzer's appointment or election as a director or officer of any of its Affiliates, a change in reporting relationships resulting from the direct or indirect control of the Company (or successor corporation) by another corporation or other entity and any diminution of the business of the Company or any of its Affiliates or any sale or transfer of equity, property or other assets of the Company or any of its Affiliates does not constitute "good reason"; or (iii) the material failure of the Company to provide him the base salary and benefits in accordance with the terms of the agreement. To qualify as a termination for good reason under the agreement, notice to the Company must be given by Mr. Menzer and the Company must have failed to cure the good reason within thirty days of receiving notice.

In addition to an employment agreement, Mr. Menzer entered into agreements providing for his restricted stock grant and his stock option grant. These agreements provide that in the event Mr. Menzer's employment is terminated without cause or by him for good reason (as defined in his employment agreement), before April 6, 2011, 133,333 shares of Mr. Menzer's unvested restricted stock will vest, which event did not occur. In addition, in the event of a Change of Control, all of Mr. Menzer's restricted stock and stock options immediately vest. Had a Change of Control occurred on the last day of fiscal 2010, the vested stock options would have a value of $6,616,672 which is the difference in (i) the fair market value of the Common Stock as of fiscal year end ($15.22) and $7.50 per share, with respect to 833,334 shares exercisable, and (ii) the fair market value of the Common Stock as of fiscal year end ($15.22) and $15.00 per share, with respect to 833,333 shares exercisable. Mr. Menzer's remaining 833,333 shares are priced at exercise prices above the fair market value of the Common Stock and therefore have no value. Had a Change of Control occurred on the last day of fiscal 2010, Mr. Menzer's unvested restricted stock would have a value of $7,610,000.

Mr. Menzer is subject to confidentiality covenants. In addition, Mr. Menzer is subject to non-competition and non-solicitation restrictions for a period of two years following resignation. The employment agreement provides no Change of Control severance benefits.

Officer Severance Pay Plan

In April 2008, the Board approved the OSPP, which was amended in July 2008. The OSPP was established by the Company to provide certain severance benefits, subject to the terms and conditions of the OSPP, to designated officers (those with a position of Vice President or above, or an equivalent title as approved by the Compensation Committee, and excluding the Chief Executive Officer) in the event that their employment is permanently terminated as a result of a "Qualifying Termination." For purposes of the OSPP, an executive is subject to a "Qualifying Termination" if:

- the executive is on active payroll or is on an approved leave of absence with a right to reinstatement at the time his or her employment terminates;

- the executive's employment is terminated by the Company other than for "Cause" (which includes a failure to perform or material negligence in the performance of the executive's duties, a material breach of a material agreement between the executive and the Company, fraud, embezzlement, theft, other dishonesty, the conviction of or plea of guilty or *nolo contendere* to a crime involving dishonesty of moral turpitude, breach of a fiduciary duty to the Company or violation of Company policy that inflicts damage to the Company) and other than a result of death or disability;

- the executive is not offered, nor has accepted, other employment with (1) an affiliate of the Company, (2) a successor of the Company, or (3) a purchaser of some or all of the assets of the Company, in each case: (a) in a position which the executive is qualified to perform regardless

Table of Contents

of whether the executive is subject to, among other things, a new job title, different reporting relationships or a modification of the executive's duties and responsibilities; (b) in a position that, when compared with the executive's last position with the Company, provides a comparable base salary and bonus opportunity; and (c) where there is no change in the executive's principal place of employment to a location more than 35 miles from the executive's principal place of employment immediately prior to the Qualifying Termination; and

the executive continues employment until the termination date designated by the Company or such earlier date to which the Company agrees, and, during the period from the date the executive receives notice of termination until the termination date, the executive continues to perform to the reasonable satisfaction of the Company.

Executives subject to a Qualifying Termination are entitled to the following benefits:

severance pay, payable in accordance with the Company's normal payroll practices, at the following levels: (i) for the position of Vice President with less than two years of service, six months of base salary continuation; (ii) for the position of Vice President with two or more years of service, twelve months of base salary continuation; (iii) for the position of Senior Vice President, Executive Vice President or President with less than two years of service, twelve months of base salary continuation; and (iv) for the position of Senior Vice President, Executive Vice President or President with two or more years of service, eighteen months of base salary continuation;

a prorated target annual bonus for the year of termination; and

the continuation of welfare and fringe benefits for the salary continuation period.

In order to obtain severance benefits under the OSPP, an executive must first execute a severance agreement and release with Michaels that includes a waiver and release of any and all claims against Michaels and a commitment that, for one year following termination, the executive will not solicit or hire any associate or distributor or vendor of Michaels or its subsidiaries and will not directly or indirectly compete with, or join an organization that directly or indirectly competes with, Michaels. Additionally, an executive officer will not be eligible for benefits under the OSPP if he or she is eligible for severance pay or other termination benefits (other than incidental perquisites such as continued use of a Company vehicle or an air travel allowance) under any other severance pay plan or under any employment agreement or other agreement with the Company or any of its affiliates.

Equity Plans

As with our Chief Executive Officer, each of the other Named Executive Officers currently employed with the Company have entered into stock option agreements that provide for vesting upon a Change of Control. Additionally, Messrs. Sonsteby and Pappas have restricted stock agreements that provide that all their restricted stock shall vest upon a Change of Control. Had a Change of Control occurred on the last day of fiscal 2010, each Named Executive Officer would have realized the following values for their vested options (based on the spread, if any, of the fair market value of the Common Stock as of fiscal year end ($15.22) over the value of the applicable exercise prices for the options) : Charles M. Sonsteby $183,540; Philo T. Pappas, $1,202,085; Paula A. Puleo, $368,087; John J. Wyatt, $294,473; and Richard S. Jablonski, $225,401. Had a Change of Control occurred on the last day of fiscal 2010, Mr. Sonsteby's and Mr. Pappas's unvested restricted stock would have values of $581,404 and $142,581, respectively.

Estimated Separation Payments

The table below reflects the amount of compensation payable in the event of an involuntary termination without cause or resignation for good reason (1) to Mr. Menzer under his employment

Table of Contents

agreement (including his restricted stock agreement) and (2) under the OSPP described above to each of the other Named Executive Officers. The amounts shown in the table for the Named Executive Officers, other than Ms. Crowley, assume that the executive's termination was effective as of the last day of the prior fiscal year, January 29, 2011 (Ms. Crowley, did not receive any separation payments in connection with her voluntary resignation from the Company effective August 6, 2010, as described above under "Rights and Potential Payments on Termination for Cause, Death, Disability and Voluntary Resignation Voluntary Resignation"). The actual amounts, or value, to be paid to these Named Executive Officers can only be determined at the time of such executive's separation from the Company.

	Executive Payments and Benefits upon Termination Without Cause or by Executive with Good Reason ($)
John B. Menzer	
Salary	2,054,000
Bonus	2,054,000
Restricted Stock	7,610,000
Welfare Benefits	80,034(1)
Automobile	27,077(2)
Total	11,825,111
Charles M. Sonsteby	
Salary	650,000
Bonus	148,342(3)
Restricted Stock	581,404
Welfare Benefits	46,746(4)
Total	1,426,492
Philo T. Pappas	
Salary	386,251
Bonus	193,125
Restricted Stock	142,581
Welfare Benefits	46,746(4)
Total	768,703
Paula A. Puleo	
Salary	300,000
Bonus	112,767(3)
Welfare Benefits	24,289(4)
Total	437,056
John J. Wyatt	
Salary	275,000
Bonus	67,507(3)
Welfare Benefits	46,746(4)
Total	389,253
Richard S. Jablonski	
Salary	213,675
Bonus	74,786
Welfare Benefits	46,746(4)
Total	335,207

(1) Represents estimated value of two years of continued benefits, including medical, long-term disability, life insurance, and executive and spouse physicals.

Table of Contents

(2) Represents personal use of automobile for 24 months.

(3) Represents the value of a prorated target bonus for fiscal 2010, based on the number of days the Named Executive Officer was employed with the Company during fiscal 2010.

(4) Represents the value of total fiscal 2010 medical, dental and vision actual costs plus an estimated annual increase of 12% associated with providing these benefits for 12 months.

Share Repurchase Rights

As described above, under the Stockholders Agreement, upon any termination of a Named Executive Officer's employment by reason of the executive's death or disability, the executive or his/her estate has the option to sell to the Company all or any portion of the vested shares of the Common Stock owned by the Named Executive Officer within 60 days after the date of termination, at the fair market value of the shares as of the date they are repurchased.

In addition, upon termination of a Named Executive Officer's employment for any reason, the Company has the option to purchase all or any portion of the executive's shares that were originally purchased from the Company, at the fair market value of the shares. If the Company elects to purchase the executive's shares, it must deliver notice to the executive no later than 240 days after (but not before the date that is one day after the six-month anniversary of) the later of (i) the date of termination or (ii) the exercise of any option originally granted to the executive or the date upon which any unvested shares granted to the executive become vested shares. With respect to those shares issued to a Named Executive Officer directly or indirectly pursuant to an incentive plan, the Company may purchase all or any portion of the executive's shares at the fair market value of the shares (upon delivery of the notice as described in the immediately preceding sentence), if the executive's employment is terminated due to death, disability, by the Company without cause or by the executive for good reason (or in circumstances in which the Company would have no grounds to terminate the executive for cause). If the Named Executive Officer's employment is terminated by the Company for cause, the Company may purchase all or any portion of the executive's shares at the lesser of the cost or the fair market value of the shares.

Assuming the Company exercised its option to repurchase the vested or purchased shares held by the Named Executive Officers on the last day of fiscal 2010, the Named Executive Officers would have received, based on the fair market value of the Common Stock as of fiscal year end ($15.22), the following amounts for their shares: John B. Menzer, $0; Charles M. Sonsteby, $0; Philo T. Pappas, $35,645; Paula A. Puleo, $0; John J. Wyatt, $0; Richard S. Jablonski, $0; and Elaine D. Crowley, $460,846.

Director Compensation for Fiscal 2010

The current directors are not paid any fees for services as directors, and they do not receive reimbursement for their expenses.

Compensation Committee Interlocks and Insider Participation

From the completion of the Merger to March 2011, our Compensation Committee was comprised of two members: Michael S. Chae and Matthew S. Levin. In March 2011, Peter F. Wallace was appointed to the Compensation Committee to fill a vacancy created by the resignation of Mr. Chae from the Committee. Each of the members of our Compensation Committee is affiliated with our Sponsors and has not been deemed an independent director. No executive officer of the Company served on the compensation committee (or equivalent), or the board of directors, of another entity whose executive officer(s) served on our Compensation Committee or Board.

Table of Contents

PRINCIPAL STOCKHOLDERS AND MANAGEMENT OWNERSHIP

The following table presents information regarding the number of shares of Michaels Common Stock beneficially owned as of April 28, 2011 (unless otherwise indicated) by each of Michaels' directors and the Named Executive Officers (as defined in "Executive Compensation Compensation Discussion and Analysis Executive and Director Compensation Summary Compensation Table"), and the current directors and executive officers of Michaels as a group. In addition, the table presents information about each person or entity known to Michaels to beneficially own 5% or more of Michaels Common Stock. Unless otherwise indicated by footnote, the beneficial owner exercises sole voting and investment power over the shares noted below. The percentage of beneficial ownership for our directors and executive officers, both individually and as a group, is calculated based on 118,937,139 shares of Michaels Common Stock outstanding as of April 28, 2011, and the number of unissued shares as to which such person or persons has the right to acquire voting and/or investment power within 60 days. Other than beneficial ownership information relating to the Company's executive officers, the beneficial ownership information set forth below was provided by or on behalf of our Directors, our Sponsors, and Highfields, and the Company has not independently verified the accuracy or completeness of the information so provided.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
Josh Bekenstein(2)		*
Todd M. Cook(2)		*
Lewis S. Klessel(2)		*
Matthew S. Levin(2)		*
Gerry M. Murphy(3)		*
James A. Quella(3)		*
Peter F. Wallace(3)		*
John B. Menzer	1,500,000(4)	1.3%
Charles M. Sonsteby	38,200	*
Philo T. Pappas	112,641(5)	*
Paula A. Puleo	56,774(6)	*
John J. Wyatt	45,418(7)	*
Richard S. Jablonski	28,539(8)	*
Elaine D. Crowley(9)		*
Michaels Holdings, LLC(2)(3)	110,373,482	92.8%
Bain Capital Investors, LLC and related funds(2)	110,373,482	92.8%
Affiliates of The Blackstone Group, L.P.(3)	110,373,482	92.8%
Highfields Capital Management, L.P. and related funds(10)	7,333,250	6.2%
All current directors and executive officers as a group (18 persons)	2,583,066(11)	2.1%

* Less than one percent.

(1) Pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise has or shares voting power and/or investment power or as to which such person has the right to acquire such voting and/or investment power within 60 days. Percentage of beneficial ownership by a person as of a particular date is calculated by dividing the number of shares beneficially owned by such person by the sum of the number of shares outstanding as of

Table of Contents

such date and the number of unissued shares as to which such person has the right to acquire voting and/or investment power within 60 days. Unless otherwise indicated, the number of shares shown includes outstanding shares of Common Stock owned as of April 28, 2011 by the person indicated.

(2)

Includes the 110,373,482 shares owned by Michaels Holdings LLC over which Bain Capital Investors, LLC and related funds may be deemed, as a result of their ownership of 50% of Michaels Holdings LLC's total outstanding shares and certain provisions of Michaels Holdings LLC's operating agreement, to have shared voting and dispositive power. Bain Capital Investors, LLC ("BCI") is the administrative member of and makes investment and voting decisions on behalf of Bain Capital Integral Investors 2006, LLC. Investment and voting decisions by BCI are made jointly by three or more individuals who are managing directors of the entity, and therefore no individual managing director of BCI is the beneficial owner of the shares ultimately of Michaels Common Stock directly owned by Michaels Holdings LLC. Messrs. Bekenstein, Cook and Levin are Managing Directors and Members of BCI, and they may therefore be deemed to share voting and dispositive power with respect to all the shares of Common Stock beneficially owned by Bain Capital Integral Investors 2006, LLC. Messrs. Bekenstein, Cook and Levin disclaim beneficial ownership of any shares beneficially owned by BCI. Mr. Klessel does not have voting or dispositive power over any shares of Common Stock that may be deemed to be beneficially owned by BCI. The address of Messrs. Bekenstein, Cook and Levin, and each of the Bain entities is c/o Bain Capital Partners, LLC, 111 Huntington Avenue, Boston, Massachusetts 02199.

(3)

Includes the 110,373,482 shares owned by Michaels Holdings LLC over which affiliates of The Blackstone Group L.P. may be deemed, as a result of their ownership of 50% of Michaels Holdings LLC's total outstanding shares and certain provisions of Michaels Holdings LLC's operating agreement, to have shared voting and dispositive power. Affiliates of The Blackstone Group L.P. include Blackstone Capital Partners V L.P., BCP V-S L.P., Blackstone Family Investment Partnership V L.P., Blackstone Family Investment Partnership V-A L.P., Blackstone Participation Partnership V L.P. and BCP V Co-Investors L.P. (collectively, the "Blackstone Funds"). Blackstone Management Associates V L.L.C. ("BMA V") is the general partner of each of the Blackstone Funds. BMA V L.L.C. ("BMA") is the sole member of BMA V, and may, therefore, be deemed to have shared voting and investment power over the shares. Investment and voting decisions by BMA are made jointly by three or more individuals who are managing directors, and therefore no individual managing director of BMA is the beneficial owner of the shares of Michaels Common Stock directly owned by Michaels Holdings LLC. Messrs. Murphy, Quella and Wallace are members of BMA, and they may therefore be deemed to share voting and dispositive power with respect to the shares. Messrs. Murphy, Quella and Wallace disclaim any beneficial ownership of any shares beneficially owned by BMA. Michael S. Chae resigned from the Board on May 18, 2011, and Jill A. Greenthal was elected to the Board on May 18, 2011. Ms. Greenthal does not have voting or dispositive power over any shares of Common Stock that may be deemed to be beneficially owned by BMA. The address of Messrs. Murphy, Quella and Wallace and each of the Blackstone entities is c/o The Blackstone Group, L.P., 345 Park Avenue, New York, New York 10154.

(4)

Includes 500,000 stock options that vested on April 6, 2010 and 500,000 stock options that vested on April 6, 2011.

(5)

Includes 12,618 stock options that vested on July 2, 2009 and 88,313 stock options that vested on July 2, 2010.

Table of Contents

(6) Includes 56,774 stock options that vested on March 8, 2011.

(7) Includes 45,418 stock options that will vest on June 21, 2011.

(8) Includes 14,384 stock options that vested on July 2, 2009 and 14,155 stock options that vested on July 2, 2010.

(9) Ms. Crowley separated from the Company on August 6, 2010. Ms. Crowley's outstanding common stock was repurchased by the Company on April 19, 2011.

(10) The address of Highfields Capital Management, LP and its related funds is 200 Clarendon Street, Boston, Massachusetts 02116.

(11) Consistent with the disclaimers of beneficial ownership of Messrs. Bekenstein, Cook, Levin, Murphy, Quella and Wallace contained in notes (2) and (3) above, this number does not include the 110,373,482 shares of Michaels Common Stock that may be deemed to be beneficially owned by each of (a) Bain Capital Investors, LLC and related funds and (b) Affiliates of The Blackstone Group. The total includes 1,981,154 vested options or options that will vest within 60 days of April 28, 2011, held by executive officers of the Company.

EQUITY COMPENSATION PLAN INFORMATION

On February 15, 2007, the Board of Directors and stockholders approved the 2006 Equity Incentive Plan, as well as certain specific grants under the plan to key employees. In addition, the stockholders granted the Board authority to make plan grants to other eligible participants in the future, which has occurred. The following table gives information about equity awards under the above-mentioned plan as of March 21, 2011.

Plan Category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)**	**Weighted-average exercise price of outstanding options, warrants and rights (b)**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)**
Equity Compensation plans approved by security holders	11,360,380	15.41	2,789,017
Equity compensation not approved by security holders	N/A	N/A	N/A
Total	11,360,380	15.41	2,789,017

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In connection with the completion of the Merger, we entered into management agreements with each of the Sponsors pursuant to which the Sponsors will provide management services to us until December 31, 2016, with evergreen extensions thereafter. Pursuant to these agreements, the Sponsors receive an aggregate annual management fee in the amount of $12 million and reimbursement for out-of-pocket expenses in connection with the provisions of services pursuant to the agreements. The management agreements also provide that the Sponsors are entitled to receive fees in connection with certain subsequent financing, acquisition, disposition and change of control transactions of 1% of the gross value of any such transaction. The management agreements contain customary exculpation and indemnification provisions in favor of the Sponsors. The management agreements may be terminated

by the Sponsors at any time and terminate automatically upon an initial public offering or a change of control unless we and the Sponsors determine otherwise. Upon termination, each provider of management services will be entitled to a termination fee calculated based on the present value of the annual fees due during the remaining period from the date of termination to October 31, 2016.

In connection with the completion of the Merger, we entered into a management agreement with Highfields Capital Management LP, an affiliate of Highfields Capital Partners, that provides for an annual management fee of $1.0 million for services that Highfields Capital Management LP renders to us.

We have a participation agreement with CoreTrust Purchasing Group ("CPG"), a division of HealthTrust Purchasing, designating CPG as our exclusive "group purchasing organization" for the purchase of certain non-merchandise products and services from third party vendors. CPG secures from vendors pricing terms for goods and services that are believed to be more favorable than participants in the group purchasing organization could obtain for themselves on an individual basis. In connection with purchases by its participants (including us), CPG receives a commission from the vendors in respect of such purchases. Although CPG is not affiliated with Blackstone, in consideration for Blackstone facilitating our participation in CPG and monitoring the services CPG provides to us, CPG remits a portion of the commissions received from vendors in respect of our purchases under the agreement to an affiliate of Blackstone.

Bain owns an approximate 58% equity position in an external vendor we utilize to print our circular advertisements. Payments associated with this vendor during fiscal 2010 were $39.1 million. We currently anticipate our payments to this vendor in fiscal 2011 will be $6.0 million.

Bain owns an approximate 51% equity position in an external vendor we entered into an agreement with in the fourth quarter of fiscal 2010 to provide print procurement services. We currently anticipate our payments to this vendor in fiscal 2011 will be $4.0 million.

Blackstone owns an approximate 68% equity position in an external vendor we utilize to count our store inventory. Payments associated with this vendor during fiscal 2010 were $5.9 million. We currently anticipate that our payments to this vendor in fiscal 2011 will be commensurate with those in fiscal 2010.

Blackstone owns an approximate 71% equity position in an external vendor we utilize for all of the candy-type items in our stores. Payments associated with this vendor during fiscal 2010 were $19.1 million. We currently anticipate that our payments to this vendor in fiscal 2011 will be commensurate with those in fiscal 2010.

During the second quarter of fiscal 2008, the Company entered into an employer health program agreement with Equity Healthcare LLC ("Equity Healthcare"), an affiliate of Blackstone. Equity Healthcare negotiates with providers of standard administrative services for health benefit plans as well as other related services for cost discounts and quality of service monitoring capability by Equity Healthcare. Because of the combined purchasing power of its client participants, Equity Healthcare is able to negotiate pricing terms for providers that are believed to be more favorable than the companies could obtain for themselves on an individual basis. In consideration for Equity Healthcare's provision of access to these favorable arrangements and its monitoring of the contracted third parties' delivery of contracted services to us, we pay Equity Healthcare a fee of $2 per participating employee per month ("PEPM Fee"). As we had approximately 5,700 employees enrolled in health and welfare benefit plans as of January 29, 2011, the annual amount payable under the agreement would be approximately $0.1 million.

Equity Healthcare may also receive a fee ("Health Plan Fees") from one or more of the health plans with whom Equity Healthcare has contractual arrangements if the total number of employees joining such health plans from participating companies exceeds specified thresholds. If and when Equity

Healthcare reaches the point at which the aggregate of its receipts from the PEPM Fee and the Health Plan Fees have covered all of its allocated costs, it will apply the incremental revenues derived from all such fees to (a) reduce the PEPM Fee otherwise payable by us; (b) avoid or reduce an increase in the PEPM Fee that might otherwise have occurred on contract renewal; or (c) arrange for additional services to us at no cost or reduced cost.

Blackstone owns an approximate 6% equity position in an external vendor we utilize for waste management services. Payments associated with this vendor during fiscal 2010 were $4.6 million. We currently anticipate that our payments to this vendor in fiscal 2011 will be commensurate with those in fiscal 2010.

Blackstone owns an approximate 99% equity position in an external vendor we utilize for hospitality services. Payments associated with this vendor during fiscal 2010 were $1.1 million. We currently anticipate that our payments to this vendor in fiscal 2011 will be commensurate with those in fiscal 2010.

Blackstone owns an approximate 99% equity position in an external vendor we utilize as our preferred hotel provider. Payments associated with this vendor during fiscal 2010 were $0.2 million. We currently anticipate that our payments to this vendor in fiscal 2011 will be commensurate with those in fiscal 2010.

Blackstone owns an approximate 12% equity position in an external vendor we utilize for certain integrated software and processing services. Payments associated with this vendor during fiscal 2010 were $0.2 million. We currently anticipate that our payments to this vendor in fiscal 2011 will be commensurate with those in fiscal 2010.

Our current directors are affiliates of Bain or Blackstone. As such, some or all of our directors may have an indirect material interest in payments with respect to debt securities of the Company that have been purchased, or for which transactions are pending, by affiliates of Bain and Blackstone. As of the date hereof, such affiliates did not hold any of our debt securities.

The Company, to date, has not adopted any formal policies or procedures for the review, approval or ratification of certain related-party transactions that may be required to be reported under the SEC disclosure rules. However, the Board believes that the transactions described in this section were on an arms-length basis and in the best interests of the stockholders.

As discussed in "Management Directors" above, each of the members of our Board is affiliated with the Sponsors and our Board has not determined any of our directors to be independent. See "Management Directors."

Table of Contents

DESCRIPTION OF CERTAIN OTHER INDEBTEDNESS

Our debt consisted of the following for fiscal 2010 and fiscal 2009:

	Interest Rate	Fiscal 2010	Fiscal 2009
		(In millions)	
Senior secured term loan facility	Variable	$ 2,046	$ 2,274
Senior notes due 2014	10.000%		750
Senior notes due 2018	7.750%	794	
Senior subordinated notes	11.375%	400	400
Subordinated discount notes	13.000%	427	377
Senior secured asset-based revolving credit facility	Variable		
Other	5.970%	1	2
Total debt		3,668	3,803
Less current portion		1	119
Long-term debt		$ 3,667	$ 3,684

We capitalized $132 million of costs, net of write-offs, related to our issuance of various debt instruments. We amortize these deferred financing costs over the lives of the respective debt agreements (which range from five to ten years) and record the amortization to interest expense. Our expected amortization expense pertaining to the deferred financing costs for each of the next five fiscal years and thereafter is as follows:

	2011	2012	2013	2014	2015	Thereafter
Amortization Expense	$ 19	$ 19	$ 17	$ 6	$ 5	$ 6

The aggregate amounts of scheduled maturities of our debt for the next five years and thereafter are as follows:

Fiscal Year	Amount
	(In millions)
2011	$ 1
2012	194
2013	1,149
2014	2
2015	2
Thereafter	2,368
Total debt payments	3,716
Less unrealized discount and interest accretion	48
Total debt balance as of January 29, 2011	$ 3,668

As of January 29, 2011 and January 30, 2010, there were no outstanding short-term borrowings.

10% Senior Notes due 2014

On October 6, 2010, we commenced a tender offer and consent solicitation related to our 10% Senior Notes due November 1, 2014 (the "2014 Senior Notes"). Pursuant to the consent solicitation, we received tenders and consents from the holders of $658,593,000, or approximately 87.81%, of the 2014 Senior Notes before the consent payment deadline, October 20, 2010, at 5:00 p.m. Eastern time (the "Consent Date"). The consents received exceeded the number needed to approve the proposed

Table of Contents

amendments to the indenture governing the 2014 Senior Notes (the "2014 Senior Indenture"). The amendments to the 2014 Senior Indenture eliminated substantially all of the affirmative and restrictive covenants contained in the 2014 Senior Indenture and the 2014 Senior Notes (other than, among other covenants, the covenant to pay interest and premium, if any, on, and principal of, the 2014 Senior Notes when due) and certain events of default, and modified or eliminated certain other provisions contained in the 2014 Senior Indenture and the 2014 Senior Notes.

Pursuant to the terms of the tender offer, we accepted for payment all 2014 Senior Notes tendered on or prior to the Consent Date, and holders who tendered such 2014 Senior Notes received $1,055.00 per $1,000 in principal amount of the 2014 Senior Notes validly tendered. On October 21, 2010, we also (i) instructed the trustee under the 2014 Senior Indenture (the "2014 Senior Notes Trustee") to deliver a notice of redemption to the holders of the remaining outstanding 2014 Senior Notes and (ii) deposited cash with the 2014 Senior Notes Trustee to satisfy and discharge the 2014 Senior Indenture and to fund the redemption of the remaining outstanding 2014 Senior Notes at a price equal to 105% plus the payment of accrued interest through the date of redemption, November 22, 2010. As a result, the 2014 Senior Indenture was discharged.

In accordance with ASC 470, *Debt*, we recorded a loss of $53 million related to the early extinguishment of our 2014 Senior Notes. The $53 million loss is comprised of $41 million tender and call premiums and the write-off of $12 million for the remaining unamortized debt issuance costs.

7 3/4% Senior Notes due 2018

On October 21, 2010, we issued $800.0 million aggregate principal amount of 7 3/4% Senior Notes that mature on November 1, 2018 (the "2018 Senior Notes") and were sold at a discounted price of 99.262% of face value, resulting in an effective interest rate of 7 7/8%. The 2018 Senior Notes are guaranteed, jointly and severally, on an unsecured senior basis, by each of our subsidiaries that guarantee indebtedness under our Senior Credit Facilities.

The 2018 Senior Notes and the guarantees thereof are our and the guarantors' unsecured senior obligations and rank senior in right of payment to all of our and the guarantors' existing and future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the 2018 Senior Notes (including the Senior Subordinated Notes and the Subordinated Discount Notes, as described below); rank equally in right of payment to all of our and the guarantors' existing and future debt and other obligations that are not, by their terms, expressly subordinated in right of payment to the 2018 Senior Notes; and are effectively subordinated in right of payment to all of our and the guarantors' existing and future secured debt (including obligations under the Senior Credit Facilities), to the extent of the value of the assets securing such debt, and are structurally subordinated to all obligations of our subsidiaries that are not guarantors of the 2018 Senior Notes.

At any time prior to November 1, 2014, we may redeem all or a part of the 2018 Senior Notes at a redemption price equal to 100% of the principal amount of the 2018 Senior Notes redeemed plus the Applicable Premium (as defined in the indenture governing the 2018 Senior Notes (the "2018 Senior Indenture")) and accrued and unpaid interest, if any, to the date of redemption, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date.

Table of Contents

On and after November 1, 2014, the Company may redeem the 2018 Senior Notes, in whole or in part, upon notice, at the redemption prices (expressed as percentages of principal amount of the 2018 Senior Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon, if any, to the applicable date of redemption if redeemed during the twelve-month period beginning on November 1 of each of the years indicated below:

Year	Percentage
2014	103.875%
2015	101.938%
2016 and thereafter	100.000%

In addition, until November 1, 2013, we may, at our option, on one or more occasions redeem up to 35% of the aggregate principal amount of the 2018 Senior Notes (including the aggregate principal amount of the 2018 Senior Notes issued after the original issue date of the outstanding 2018 Senior Notes) at a redemption price equal to 107.750% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the applicable date of redemption, subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date, with the net cash proceeds of one or more Equity Offerings (as defined in the 2018 Senior Indenture); provided that at least 50% of the sum of the aggregate principal amount of the 2018 Senior Notes originally issued under the 2018 Senior Indenture and any 2018 Senior Notes that are issued under the 2018 Senior Indenture after the issue date remains outstanding immediately after the occurrence of each such redemption; and provided further that each such redemption occurs within 90 days of the date of closing of each such Equity Offering.

Upon a change in control we are required to offer to purchase all of the 2018 Senior Notes at a price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any.

The 2018 Senior Indenture contains covenants limiting, among other things, the Company's ability and the ability of the Company's restricted subsidiaries to:

- incur additional debt;
- pay dividends or distributions on the Company's capital stock or repurchase the Company's capital stock;
- issue stock of subsidiaries;
- make certain investments;
- create liens on the Company's assets to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company; and
- sell or otherwise transfer assets.

The 2018 Senior Indenture also provides for events of default, which, if certain of them occur, would permit the trustee under the 2018 Senior Indenture or holders of at least 25% in principal amount of the then outstanding 2018 Senior Notes to declare the principal, premium, if any, interest and any other monetary obligations on all the then outstanding 2018 Senior Notes to be due and payable immediately.

In accordance with ASC 470, we recorded $15 million in debt issuance costs that is being amortized as interest expense over the life of the 2018 Senior Notes.

Table of Contents

11 3/8% Senior Subordinated Notes due 2016

On October 31, 2006, we issued $400 million in principal amount of 11 3/8% Senior Subordinated Notes due November 1, 2016 (the "Senior Subordinated Notes"). Interest is payable semi-annually in arrears on each May 1 and November 1, commencing on May 1, 2007. The Senior Subordinated Notes are guaranteed, jointly and severally, on an unsecured senior subordinated basis, by each of our subsidiaries that guarantee indebtedness under our Senior Credit Facilities.

The Senior Subordinated Notes and the guarantees thereof are our and the guarantors' unsecured senior subordinated obligations and (i) are subordinated in right of payment to all of our and the guarantors' existing and future senior debt, including the Senior Credit Facilities and the 2018 Senior Notes; (ii) rank equally in right of payment to all of our and the guarantors' future senior subordinated debt; (iii) are effectively subordinated to all of our and the guarantors' existing and future secured debt (including the Senior Credit Facilities) to the extent of the value of the assets securing such debt; and (iv) rank senior in right of payment to all of our and the guarantors' existing and future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the Senior Subordinated Notes, including the Subordinated Discount Notes.

At any time prior to November 1, 2011, we may redeem all or a part of the Senior Subordinated Notes, at a redemption price equal to the sum of (i) 100% of the principal amount of Senior Subordinated Notes redeemed; (ii) the Applicable Premium (as defined in the indenture governing the Senior Subordinated Notes); and (iii) accrued and unpaid interest, if any, to the date of redemption, subject to the right of holders of record on the relevant record date to receive interest due on the interest payment date.

On and after November 1, 2011, we may redeem all or part of the Senior Subordinated Notes, upon notice, at the redemption prices (expressed as percentages of principal amount of the Senior Subordinated Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon, if any, to the applicable date of redemption if redeemed during the twelve-month period beginning on November 1 of each of the years indicated below:

Year	**Percentage**
2011	105.688%
2012	103.792%
2013	101.896%
2014 and thereafter	100.000%

Upon a change in control, we are required to offer to purchase all of the Senior Subordinated Notes at a price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any. The indenture governing the Senior Subordinated Notes contains restrictive covenants substantially similar to those of the 2018 Senior Notes described above.

13% Subordinated Discount Notes due 2016

On October 31, 2006, we issued $469,449,000 in principal amount at maturity of 13% Subordinated Discount Notes due on November 1, 2016 ("the Subordinated Discount Notes"). No cash interest is payable on the Subordinated Discount Notes prior to November 1, 2011. Beginning on November 1, 2011, cash interest will accrue and is payable semi-annually in arrears on each May 1 and November 1 (the first cash interest payment date is May 1, 2012). The Subordinated Discount Notes are guaranteed, jointly and severally, on an unsecured subordinated basis, by each of our subsidiaries that guarantee indebtedness under our Senior Credit Facilities.

The Subordinated Discount Notes and the guarantees thereof are our and the guarantors' unsecured subordinated obligations and (i) are subordinated in right of payment to all of our and the

guarantors' existing and future senior debt (including the Senior Credit Facilities, the 2018 Senior Notes and the Senior Subordinated Notes); and (ii) are effectively subordinated to all of our and the guarantors' secured debt (including the Senior Credit Facilities) to the extent of the value of the assets securing such debt.

At any time prior to November 1, 2011, we may redeem all or part of the Subordinated Discount Notes at a redemption price equal to the sum of 100% of the Accreted Value (as defined in the indenture governing the Subordinated Discount Notes) of the Subordinated Discount Notes redeemed plus the Applicable Premium (as defined in the indenture governing the Subordinated Discount Notes) as of the date of redemption.

On and after November 1, 2011, we may redeem all or part of the Subordinated Discount Notes, upon notice, at the redemption prices (expressed as percentages of Accreted Value of the Subordinated Discount Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon (to the extent not already included in Accreted Value), if any, as of the applicable date of redemption (if redeemed during the twelve-month period beginning on November 1 of each of the years indicated below:

Year	Percentage
2011	106.500%
2012	104.333%
2013	102.167%
2014 and thereafter	100.000%

On May 1, 2012, and, if necessary, any interest payment date thereafter prior to the maturity date of the Subordinated Discount Notes, we are required to redeem a portion of each Subordinated Discount Note outstanding on such date equal to an amount sufficient, but not in excess of the amount necessary, to ensure that such Subordinated Discount Note will not be an "applicable high yield discount obligation" within the meaning of Section 163(i)(1) of the Internal Revenue Code of 1986, as amended. These redemptions are to be at a price equal to 100% of the Accreted Value of such portion as of the date of redemption.

Upon a change in control, we are required to offer to purchase all of the Subordinated Discount Notes at a price in cash equal to 101% of the Accreted Value, plus accrued and unpaid interest, if any. The Subordinated Discount indenture contains restrictive covenants substantially similar to those of the 2018 Senior Notes described above.

Senior Secured Asset-Based Revolving Credit Facility

On February 18, 2010, we entered into an agreement to amend and restate various terms of the then existing asset-based revolving credit facility, dated as of October 31, 2006 (the "Asset based revolving credit facility"). As of January 29, 2011, the borrowing base was $653 million of which we had no outstanding borrowings. Borrowing capacity is available for letters of credit and borrowings on same-day notice.

The senior secured asset-based revolving credit facility provides an aggregate amount of $850 million in tranche A commitments, which are scheduled to terminate on the earlier of April 15, 2014, or 45 days prior to the maturity date of any class of term loans in the Company's senior secured term loan facility (the "ABL Maturity Date"). On April 8, 2011, the Company elected to permanently terminate $50 million in commitments under a last out tranche.

The borrowing base under the senior secured asset-based revolving credit facility equals the sum of (i) 90% of eligible credit card receivables and debit card receivables; (ii) between 85% and 87.5% of

Table of Contents

the appraised net orderly liquidation value of eligible inventory and of eligible letters of credit; and (iii) a percentage of eligible in-transit inventory, less certain reserves.

Prior to October 31, 2011, the senior secured asset-based revolving credit facility provides us with the right to request up to $200 million of additional commitments under this facility, of which $48 million remains available. The lenders under this facility are not under any obligation to provide any such additional commitments, and any increase in commitments is subject to customary conditions precedent. On or after October 31, 2011, if we were to request any such additional commitments, and the existing lenders or new lenders were to agree to provide such commitments, the tranche A commitments under the senior secured asset-based revolving credit facility could be increased to up to $1.2 billion. However, our ability to borrow under this facility would still be limited by the amount of the borrowing base.

Borrowings under the senior secured asset-based revolving credit facility bear interest at a rate per annum equal to, at our option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Bank of America, N.A., (2) the federal funds effective rate plus 0.50% and (3) a LIBOR rate subject to certain adjustments plus 1.00% or (b) a LIBOR rate subject to certain adjustments, in each case plus an applicable margin. The initial applicable margin is 2.50% for base rate borrowings and 3.50% for LIBOR borrowings. The applicable margin is subject to adjustment each fiscal quarter based on the excess availability under the senior secured asset-based revolving credit facility. Same-day borrowings bear interest at a rate per annum equal to a base rate determined by reference to the highest of (a) the prime rate of Bank of America, N.A., (b) the federal funds effective rate plus 0.50% and (c) a LIBOR rate subject to certain adjustments plus 1.00%, in each case, plus an applicable margin. The initial applicable margin with respect to same-day borrowings is 2.50%.

We are required to pay a commitment fee of 0.625% per annum on the unutilized commitments under the senior secured asset-based revolving credit facility. We must also pay customary letter of credit fees and agency fees.

If, at any time, the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the senior secured asset-based revolving credit facility exceeds the lesser of (i) the commitment amount and (ii) the borrowing base, we will be required to repay outstanding loans and cash collateralize letters of credit in an aggregate amount equal to such excess, with no reduction of the commitment amount. If the amount available under the senior secured asset-based revolving credit facility is less than $75 million at any time, or for five consecutive business days is less than the greater of $100 million or 15% of the lesser of the (i) then borrowing base and (ii) Revolving Credit Ceiling (as defined below), or if certain events of default have occurred, we will be required to repay outstanding loans and cash collateralize letters of credit with the cash we are required to deposit daily in a collection account maintained with the agent under the senior secured asset-based revolving credit facility. We may voluntarily reduce the unutilized portion of the commitment amount and repay outstanding loans at any time without premium or penalty other than customary breakage costs with respect to LIBOR loans. There is no scheduled amortization under the senior secured asset-based revolving credit facility; the principal amount of the loans outstanding is due and payable in full on the ABL Maturity Date.

We must not permit excess availability at any time to be less than the greater of (a) $75 million and (b) 10% of the lesser of (1) the then borrowing base under the senior secured asset-based revolving credit facility or (2) $850 million (as reduced or increased in accordance with the terms of the senior secured asset-based revolving credit facility, the "Revolving Credit Ceiling"). Excess availability under the senior secured asset-based revolving credit facility means the lesser of (a) the Revolving Credit Ceiling minus the outstanding credit extensions and (b) the then borrowing base minus the outstanding credit extensions.

Table of Contents

All obligations under the senior secured asset-based revolving credit facility are unconditionally guaranteed, jointly and severally, by all of our existing material subsidiaries and are required to be guaranteed by certain of our future domestic wholly-owned material subsidiaries. All obligations under the senior secured asset-based revolving credit facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of our assets and the assets of our material subsidiaries (the "Subsidiary Guarantors"), including:

- a first-priority security interest in personal property consisting of inventory and related accounts, cash, deposit accounts, all payments received by us or the Subsidiary Guarantors from credit card clearinghouses and processors or otherwise in respect of all credit card charges and debit card charges for sales of inventory by us and the Subsidiary Guarantors, and certain related assets and proceeds of the foregoing;

- a second-priority pledge of all of the capital stock held by us (excluding the stock of Michaels of Canada, ULC) and our Subsidiary Guarantors (which pledge, in the case of the capital stock of any foreign subsidiary, is limited to 65% of the voting stock of such foreign subsidiary and 100% of the non-voting stock of such subsidiary); and

- a second-priority security interest in, and mortgages on, substantially all other tangible and intangible assets of us and each Subsidiary Guarantor, including substantially all of our owned real property and equipment.

Although the senior secured asset-based revolving credit facility does not require us to comply with any financial ratio maintenance covenants, it does contain a number of covenants that, among other things and subject to certain exceptions, restrict the Company's ability and the ability of its subsidiaries to:

- incur additional indebtedness;

- pay dividends on the Company's capital stock or redeem, repurchase or retire the Company's capital stock or its other indebtedness;

- make investments, loans, advances and acquisitions;

- create restrictions on the payment of dividends or other amounts to the Company from its restricted subsidiaries;

- engage in transactions with affiliates of the Company;

- sell assets, including capital stock of the Company's subsidiaries;

- consolidate or merge; and

- create liens.

The covenants limiting dividends and other restricted payments; investments, loans, advances and acquisitions; and prepayments or redemptions of indebtedness, each permit the restricted actions in an unlimited amount, subject to the satisfaction of certain payment conditions, principally that we must meet certain specified excess availability requirements and minimum consolidated fixed charge coverage ratios, to be tested on a pro forma and 12 months projected basis. Adjusted EBITDA is used in the calculation of the consolidated fixed charge coverage ratios. The senior secured asset-based revolving credit facility also contains certain customary affirmative covenants and events of default.

In the first quarter of fiscal 2010, we recorded $19 million in debt issuance costs related to the amendment to the senior secured asset-based revolving credit facility that is being amortized as interest expense over the life of the senior secured asset-based revolving credit facility in

accordance with ASC 470. In addition, we are amortizing $5 million of the unamortized debt issuance costs related to the senior secured asset-based revolving credit facility over the revised life.

Table of Contents

Senior Secured Term Loan Facility

On October 31, 2006, we executed a $2.4 billion senior secured term loan facility with Deutsche Bank A.G. New York Branch and other lenders (as amended, the "senior secured term loan facility"). The full amount was borrowed on October 31, 2006. We are required to make scheduled quarterly payments, each equal to 0.25% of the original principal amount of the term loans, for the first six years and three quarters, with the balance payable on October 31, 2013.

Borrowings under the senior secured term loan facility bear interest at a rate per annum equal to, at our option, either (a) a base rate determined by reference to the higher of (1) the prime rate of Deutsche Bank and (2) the federal funds effective rate plus 0.50% or (b) a LIBOR rate, subject to certain adjustments, in each case plus an applicable margin. As of January 29, 2011, the applicable margin for the B-1 and B-2 Term Loans (each as defined below) was 1.25% and 3.50%, respectively, with respect to base rate borrowings and 2.25% and 4.50%, respectively, with respect to LIBOR borrowings, subject to downward adjustment based on ratings thresholds set forth in the senior secured term loan facility.

The senior secured term loan facility provides $1.28 billion of term loans with a maturity date of October 31, 2013 (the "B-1 Term Loans") and $1.0 billion of term loans with a maturity date of July 31, 2016 (the "B-2 Term Loans" and, collectively with the B-1 Term Loans, the "Term Loans").

The senior secured term loan facility requires us to prepay outstanding Term Loans with (a) 100% of the net proceeds of any debt issued by us or our subsidiaries (with exceptions for certain debt permitted to be incurred under the senior secured term loan facility) and (b) 50% (which percentage will be reduced to 25% if our total leverage ratio is less than 6.00:1.00 and will be reduced to 0% if our total leverage ratio is less than 5.00:1.00) of our annual Excess Cash Flow (as defined in the senior secured term loan facility). We must also offer to prepay outstanding Term Loans at 100% of the principal amount to be prepaid, plus accrued and unpaid interest, with the proceeds of certain asset sales or casualty events under certain circumstances. We may voluntarily prepay outstanding loans under the senior secured term loan facility at any time without premium or penalty other than customary breakage costs with respect to LIBOR loans.

Our voluntary prepayments in fiscal 2010 of $110 million more than offset the payment required from our annual Excess Cash Flow, which resulted in none of our senior secured term loan facility being classified as current debt as of January 29, 2011. Under the senior secured term loan facility, excess cash flow payments and voluntary prepayments serve to reduce future scheduled quarterly principal payments. The excess cash flow payment and voluntary prepayments made in fiscal 2010 effectively satisfied all scheduled quarterly principal payments until maturity of the Term Loans. The excess cash flow calculation used to determine the required payment amount, if any, is calculated at the end of each fiscal year. Due to the nature of the calculation, we are unable to estimate if there will be a required payment for fiscal 2011.

All obligations under the senior secured term loan facility are unconditionally guaranteed, jointly and severally, by each direct and indirect wholly-owned subsidiary that guarantees the obligations of the Company under the senior secured asset-based revolving credit facility. All obligations under the senior secured term loan facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of our assets and the assets of the Subsidiary Guarantors, including:

- a first-priority pledge of all of the capital stock held by us (excluding the stock of Michaels of Canada, ULC) and the Subsidiary Guarantors (which pledge, in the case of any foreign subsidiary, is limited to 65% of the voting stock of such foreign subsidiary and 100% of the non-voting stock of such subsidiary);

- a first-priority security interest in, and mortgages on, substantially all other tangible and intangible assets of us and each Subsidiary Guarantor, including substantially all of our owned

Table of Contents

real property and equipment, but excluding, among other things, the collateral described in the following bullet point; and

a second-priority security interest in personal property consisting of inventory and related accounts, cash, deposit accounts, all payments received by us or the Subsidiary Guarantors from credit card clearinghouses and processors or otherwise in respect of all credit card charges and debit card charges for sales of inventory by us and the Subsidiary Guarantors, and certain related assets and proceeds of the foregoing.

The senior secured term loan facility contains a number of negative covenants that are substantially similar (but more restrictive in certain respects) to those governing the outstanding senior notes as well as certain other customary affirmative and negative covenants as well as events of default. As of January 29, 2011, we were in compliance with all covenants.

DESCRIPTION OF EXCHANGE NOTES

General

Certain terms used in this description are defined under the subheading "Certain Definitions." In this description, (i) the terms "*we*," "*our*" and "*us*" each refer to Michaels Stores, Inc. and its consolidated Subsidiaries; and (ii) the term "*Issuer*" refers only to Michaels Stores, Inc. and not any of its Subsidiaries.

The terms of the exchange notes are identical in all material respects to the outstanding notes except that, upon completion of the exchange offer, the exchange notes will be free of any covenants regarding exchange registration rights. Unless otherwise noted, all references to "$" refer to U.S. dollars.

The Issuer issued $800,000,000 aggregate principal amount of 7$^{3}/_{4}$% senior notes due 2018 (the "*Notes*") under an indenture dated October 21, 2010 (the "*Indenture*") among the Issuer, the Guarantors and Law Debenture Trust Company of New York, as trustee (the "*Trustee*"). The Notes were issued in a private transaction that was not subject to the registration requirements of the Securities Act. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (the "Trust Indenture Act").

The following description is only a summary of the material provisions of the Indenture, does not purport to be complete and is qualified in its entirety by reference to the provisions thereof, including the definitions therein of certain terms used below. We urge you to read the Indenture because it, and not this description, defines your rights as a Holder of the Notes. You may obtain a copy of the Indenture from the Company at our address set forth under the heading "The Exchange Notes Corporate Information". The registered holder of any Note will be treated as the owner of it for all purposes, except where otherwise required by applicable law. Only registered holders will have rights under the Indenture.

Brief Description of Notes

The Notes:

are unsecured senior obligations of the Issuer;

are *pari passu* in right of payment to all existing and future senior indebtedness (including the Senior Credit Facilities) of the Issuer;

are effectively subordinated to all Secured Indebtedness of the Issuer (including the Senior Credit Facilities) to the extent of the value of the assets securing such Indebtedness;

Table of Contents

are senior in right of payment to all existing and future Subordinated Indebtedness (including the Senior Subordinated Notes and the Subordinated Discount Notes) of the Issuer; and

are initially guaranteed on a senior unsecured basis by each Restricted Subsidiary that guarantees the Senior Credit Facilities.

Guarantees

The Guarantors, as primary obligors and not merely as sureties, have jointly and severally irrevocably and unconditionally guaranteed, on an unsecured senior basis, the performance and full and punctual payment when due, whether at maturity, by acceleration or otherwise, of all obligations of the Issuer under the Indenture and the Notes, whether for payment of principal of, premium, if any, or interest in respect of the Notes, expenses, indemnification or otherwise, on the terms set forth in the Indenture by executing the Indenture.

The Restricted Subsidiaries (other than as described below) guarantee the Notes. Each of the Guarantees of the Notes is a general unsecured obligation of each Guarantor and is *pari passu* in right of payment with all existing and future senior indebtedness of each such entity, is effectively subordinated to all Secured Indebtedness of each such entity and is senior in right of payment to all existing and future Subordinated Indebtedness (including guarantees of the Senior Subordinated Notes and the Subordinated Discount Notes) of each such entity. The Notes are structurally subordinated to Indebtedness of Subsidiaries of the Issuer that do not guarantee the Notes.

Not all of the Issuer's Subsidiaries guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, the non-guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Issuer. None of our Foreign Subsidiaries (except for Michaels of Canada, ULC), non-Wholly-Owned Subsidiaries or any Receivables Subsidiary is required to guarantee the Notes. In addition, certain Immaterial Subsidiaries (as defined in the Senior Credit Facilities) do not guarantee the Notes.

The obligations of each Guarantor under its Guarantee are limited as necessary to prevent such Guarantee from constituting a fraudulent conveyance under applicable law.

Any Guarantor that makes a payment under its Guarantee is entitled upon payment in full of all guaranteed obligations under the Indenture to a contribution from each other Guarantor in an amount equal to such other Guarantor's pro rata portion of such payment based on the respective net assets of all the Guarantors at the time of such payment determined in accordance with GAAP.

The Indenture provides that each Guarantor may consolidate with, amalgamate or merge with or into or sell its assets to the Issuer or another Guarantor without limitation, or with other Persons upon the terms and conditions set forth in the Indenture. See "Certain Covenants Merger, Consolidation or Sale of All or Substantially All Assets."

If a Guarantee was rendered voidable, it could be subordinated by a court to all other indebtedness (including guarantees and other contingent liabilities) of the Guarantor, and, depending on the amount of such indebtedness, a Guarantor's liability on its Guarantee could be reduced to zero. See "Risk Factors Risks Related to the Exchange Notes and Our Other Indebtedness Federal and state fraudulent transfer laws may permit a court to void the guarantees, and, if that occurs, you may not receive any payments on the exchange notes."

Each Guarantee by a Guarantor provides by its terms that it shall be automatically and unconditionally released and discharged upon:

(1) (a) any sale, exchange, disposition or transfer (by merger or otherwise) of (x) the Capital Stock of such Guarantor, after which the applicable Guarantor is no longer a Restricted

Table of Contents

Subsidiary, or (y) all or substantially all the assets of such Guarantor, which sale, exchange, disposition or transfer in each case is made in compliance with clauses (1) and (2) of the first paragraph under the caption "Repurchase at the Option of Holders Asset Sales;"

(b) the release or discharge of the guarantee by such Guarantor of the Senior Credit Facilities or the guarantee which resulted in the creation of such Guarantee, except a discharge or release by or as a result of payment under such guarantee;

(c) the proper designation of any Restricted Subsidiary that is a Guarantor as an Unrestricted Subsidiary; or

(d) the Issuer exercising its legal defeasance option or covenant defeasance option as described under "Legal Defeasance and Covenant Defeasance" or the Issuer's obligations under the Indenture being discharged in accordance with the terms of the Indenture; and

(2) the Issuer delivering to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for in the Indenture relating to such transaction have been complied with.

Ranking

The payment of the principal of, premium, if any, and interest on the Notes and the payment of any Guarantee rank *pari passu* in right of payment to all senior indebtedness of the Issuer or the relevant Guarantor, as the case may be, including the obligations of the Issuer and such Guarantor under the Senior Credit Facilities.

The Notes are effectively subordinated in right of payment to all of the Issuer's and each Guarantor's existing and future Secured Indebtedness to the extent of the value of the assets securing such Indebtedness. As of April 2, 2011, we had approximately $1,995 million of Secured Indebtedness, consisting entirely of Secured Indebtedness under the Senior Credit Facilities.

Although the Indenture contains limitations on the amount of additional Indebtedness that the Issuer and the Guarantors may incur, under certain circumstances the amount of such Indebtedness could be substantial and, in any case, such Indebtedness may be senior indebtedness. See "Certain Covenants Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock."

Paying Agent and Registrar for the Notes

The Issuer maintains one or more paying agents for the Notes in the Borough of Manhattan, City of New York. The initial paying agent for the Notes is the Trustee.

The Issuer also maintains a registrar with offices in the Borough of Manhattan, City of New York. The initial registrar is the Trustee. The registrar maintains a register reflecting ownership of the Notes outstanding from time to time and will make payments on and facilitate transfers of Notes on behalf of the Issuer.

The Issuer may change the paying agents or the registrars without prior notice to the Holders. The Issuer or any of its Subsidiaries may act as a paying agent or registrar.

Transfer and Exchange

A Holder may transfer or exchange Notes in accordance with the Indenture. The registrar and the Trustee may require a Holder to furnish appropriate endorsements and transfer documents in connection with a transfer of Notes. Holders are required to pay all taxes due on transfer. The Issuer is not required to transfer or exchange any Note selected for redemption. Also, the Issuer is not required to transfer or exchange any Note for a period of 15 days before a selection of Notes to be redeemed.

Table of Contents

Principal, Maturity and Interest

The Issuer initially issued $800,000,000 in aggregate principal amount of Notes. The Issuer may issue additional Notes under the Indenture from time to time subject to compliance with the covenant described below under "Certain Covenants Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock" (the "*Additional Notes*"). The Notes and any Additional Notes subsequently issued under the Indenture will be treated as a single class for all purposes under the Indenture, including waivers, amendments, redemptions and offers to purchase. Unless the context requires otherwise, references to "Notes" for all purposes of the Indenture and this "Description of Exchange Notes" include any Additional Notes.

Interest on the Notes accrues at the rate of 7$^{3}/_{4}$% per annum and be payable in cash. Interest on the Notes is payable semi-annually in arrears on each May 1 and November 1, commencing on May 1, 2011. The Issuer will make each interest payment to the Holders of record of the Notes on the immediately preceding April 15 and October 15. Interest on the exchange notes will accrue from the most recent date to which interest has been paid with respect to the outstanding notes, or if no interest has been paid with respect to such notes, for the date of original issuance thereof. Holders whose outstanding notes are accepted for exchange in the exchange offer will be deemed to have waived the right to receive interest accrued on the outstanding notes. Interest is computed on the basis of a 360-day year comprised of twelve 30-day months. The Notes will mature on November 1, 2018 and were issued in denominations of $2,000 and integral multiples of $1,000 in excess of $2,000.

Principal of, premium, if any, and interest on the Notes is payable at the office or agency of the Issuer maintained for such purpose within the City and State of New York or, at the option of the Issuer, payment of interest may be made by check mailed to the Holders of the Notes at their respective addresses set forth in the register of Holders; *provided* that all payments of principal, premium, if any, and interest with respect to the Notes represented by one or more global notes registered in the name of or held by DTC or its nominee will be made by wire transfer of immediately available funds to the accounts specified by the Holder or Holders thereof. Until otherwise designated by the Issuer, the Issuer's office or agency in New York is the office of the Trustee maintained for such purpose.

Mandatory Redemption; Offers to Purchase; Open Market Purchases

The Issuer is not required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, the Issuer may be required to offer to purchase Notes as described under the caption "Repurchase at the Option of Holders." We may at any time and from time to time purchase Notes in the open market or otherwise.

Optional Redemption

Except as set forth below, the Issuer is not entitled to redeem Notes at its option prior to November 1, 2014.

At any time prior to November 1, 2014, the Issuer may redeem all or a part of the Notes, upon not less than 30 nor more than 60 days' prior notice mailed by first-class mail to the registered address of each Holder of Notes or otherwise delivered in accordance with the procedures of DTC, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium as of, and accrued and unpaid interest, if any, to the date of redemption (the "*Redemption Date*"), subject to the rights of Holders of record on the relevant record date to receive interest due on the relevant interest payment date.

On and after November 1, 2014, the Issuer may redeem the Notes, in whole or in part, upon notice as described under the heading "Repurchase at the Option of Holders Selection and Notice,"

at the redemption prices (expressed as percentages of principal amount of the Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon, if any, to the applicable Redemption Date, subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date, if redeemed during the twelve-month period beginning on November 1 of each of the years indicated below:

Year	Percentage
2014	103.875%
2015	101.938%
2016 and thereafter	100.000%

In addition, until November 1, 2013, the Issuer may, at its option, on one or more occasions redeem up to 35% of the aggregate principal amount of Notes (including the aggregate principal amount of Notes issued after the Issue Date) at a redemption price equal to 107.750% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the applicable Redemption Date, subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date, with the net cash proceeds of one or more Equity Offerings; *provided* that at least 50% of the sum of the aggregate principal amount of Notes originally issued under the Indenture and any Notes that are issued under the Indenture after the Issue Date remains outstanding immediately after the occurrence of each such redemption; *provided further* that each such redemption occurs within 90 days of the date of closing of each such Equity Offering.

Notice of any redemption of Notes upon any Equity Offering may be given prior to such redemption, and any such redemption or notice may, at the Issuer's discretion, be subject to one or more conditions precedent, including, but not limited to, completion of the related Equity Offering.

The Trustee shall select the Notes to be redeemed in the manner described under "Repurchase at the Option of Holders Selection and Notice."

Repurchase at the Option of Holders

Change of Control

The Notes provide that if a Change of Control occurs, unless the Issuer has previously or concurrently mailed a redemption notice with respect to all the outstanding Notes as described under "Optional Redemption," the Issuer will make an offer to purchase all of the Notes pursuant to the offer described below (the "*Change of Control Offer*") at a price in cash (the "*Change of Control Payment*") equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase, subject to the right of Holders of record of the Notes on the relevant record date to receive interest due on the relevant interest payment date. Within 30 days following any Change of Control, the Issuer will send notice of such Change of Control Offer by first-class mail, with a copy to the Trustee, to each Holder of Notes to the address of such Holder appearing in the security register or otherwise in accordance with the procedures of DTC, with the following information:

(1) that a Change of Control Offer is being made pursuant to the covenant entitled "Change of Control," and that all Notes properly tendered pursuant to such Change of Control Offer will be accepted for payment by the Issuer;

(2) the purchase price and the purchase date, which will be no earlier than 30 days nor later than 60 days from the date such notice is mailed (the "*Change of Control Payment Date*");

(3) that any Note not properly tendered will remain outstanding and continue to accrue interest;

(4) that unless the Issuer defaults in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer will cease to accrue interest on the Change of Control Payment Date;

(5) that Holders electing to have any Notes purchased pursuant to a Change of Control Offer will be required to surrender such Notes, with the form entitled "Option of Holder to Elect Purchase" on the reverse of such Notes completed, to the paying agent specified in the notice at the address specified in the notice prior to the close of business on the third Business Day preceding the Change of Control Payment Date;

(6) that Holders will be entitled to withdraw their tendered Notes and their election to require the Issuer to purchase such Notes, *provided* that the paying agent receives, not later than the close of business on the second Business Day prior to the Change of Control Payment Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder of the Notes, the principal amount of Notes tendered for purchase, and a statement that such Holder is withdrawing its tendered Notes and its election to have such Notes purchased;

(7) that if the Issuer is redeeming less than all of the Notes, the Holders of the remaining Notes will be issued new Notes and such new Notes will be equal in principal amount to the unpurchased portion of the Notes surrendered. The unpurchased portion of the Notes must be equal to $2,000 or an integral multiple of $1,000 in excess of $2,000; and

(8) the other instructions, as determined by the Issuer, consistent with the covenant described hereunder, that a Holder must follow.

The Issuer must comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws or regulations are applicable in connection with the repurchase by the Issuer of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, the Issuer must comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue thereof.

On the Change of Control Payment Date, the Issuer will, to the extent permitted by law,

(1) accept for payment all Notes issued by it or portions thereof properly tendered pursuant to the Change of Control Offer;

(2) deposit with the paying agent an amount equal to the aggregate Change of Control Payment in respect of all Notes or portions thereof so tendered; and

(3) deliver, or cause to be delivered, to the Trustee for cancellation the Notes so accepted together with an Officer's Certificate to the Trustee stating that such Notes or portions thereof have been tendered to and purchased by the Issuer.

The Revolving Credit Facility prohibits or limits, and future credit agreements or other agreements to which the Issuer becomes a party may prohibit or limit, the Issuer from purchasing any Notes as a result of a Change of Control. In the event a Change of Control occurs at a time when the Issuer is prohibited from purchasing the Notes, the Issuer could seek the consent of its lenders to permit the purchase of the Notes or could attempt to refinance the borrowings that contain such prohibition. If the Issuer does not obtain such consent or repay such borrowings, the Issuer will remain prohibited from purchasing the Notes. In such case, the Issuer's failure to purchase tendered Notes after any applicable notice and lapse of time would constitute an Event of Default under the Indenture.

The Senior Credit Facilities provide, and future credit agreements or other agreements relating to senior indebtedness to which the Issuer becomes a party may provide, that certain change of control events with respect to the Issuer would constitute a default thereunder (including a Change of Control

under the Indenture). If we experience a change of control that triggers a default under our Senior Credit Facilities, we could seek a waiver of such default or seek to refinance our Senior Credit Facilities. In the event we do not obtain such a waiver or refinance the Senior Credit Facilities, such default could result in amounts outstanding under our Senior Credit Facilities being declared due and payable.

Our ability to pay cash to the Holders of Notes following the occurrence of a Change of Control may be limited by our then-existing financial resources. Therefore, sufficient funds may not be available when necessary to make any required repurchases.

The Change of Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of us and, thus, the removal of incumbent management. The Change of Control purchase feature is a result of negotiations between the Initial Purchasers and us. We have no present intention to engage in a transaction involving a Change of Control, although it is possible that we could decide to do so in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to incur additional Indebtedness are contained in the covenants described under "Certain Covenants Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock" and "Certain Covenants Liens." Such restrictions in the Indenture can be waived only with the consent of the Holders of a majority in principal amount of the Notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture does not contain any covenants or provisions that may afford Holders of the Notes protection in the event of a highly leveraged transaction.

We are not required to make a Change of Control Offer following a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by us and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer. Notwithstanding anything to the contrary herein, a Change of Control Offer may be made in advance of a Change of Control, conditional upon such Change of Control, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

The definition of "Change of Control" includes a disposition of all or substantially all of the assets of the Issuer to any Person. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Issuer. As a result, it may be unclear as to whether a Change of Control has occurred and whether a Holder of Notes may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions under the Indenture relative to the Issuer's obligation to make an offer to repurchase the Notes as a result of a Change of Control may be waived or modified with the written consent of the Holders of a majority in principal amount of the Notes.

Asset Sales

The Indenture provides that the Issuer will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale, unless:

(1) the Issuer or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Sale at least equal to the fair market value (as determined in good faith by the Issuer) of the assets sold or otherwise disposed of; and

(2) except in the case of a Permitted Asset Swap, at least 75% of the consideration therefor received by the Issuer or such Restricted Subsidiary, as the case may be, is in the form of Cash Equivalents; *provided* that the amount of:

(a) any liabilities (as shown on the Issuer's or such Restricted Subsidiary's most recent balance sheet or in the footnotes thereto) of the Issuer or such Restricted Subsidiary, other than liabilities that are by their terms subordinated to the Notes, that are assumed by the transferee of any such assets and for which the Issuer and all of its Restricted Subsidiaries have been validly released by all creditors in writing,

(b) any securities received by the Issuer or such Restricted Subsidiary from such transferee that are converted by the Issuer or such Restricted Subsidiary into Cash Equivalents (to the extent of the Cash Equivalents received) within 180 days following the closing of such Asset Sale, and

(c) any Designated Non-cash Consideration received by the Issuer or such Restricted Subsidiary in such Asset Sale having an aggregate fair market value, taken together with all other Designated Non-cash Consideration received pursuant to this clause (c) that is at that time outstanding, not to exceed 7.5% of Total Assets at the time of the receipt of such Designated Non-cash Consideration, with the fair market value of each item of Designated Non-cash Consideration being measured at the time received and without giving effect to subsequent changes in value,

shall be deemed to be Cash Equivalents for purposes of this provision and for no other purpose.

Within 450 days after the receipt of any Net Proceeds of any Asset Sale, the Issuer or such Restricted Subsidiary, at its option, may apply the Net Proceeds from such Asset Sale,

(1) to permanently reduce:

(a) Obligations under the Senior Credit Facilities and to correspondingly reduce commitments with respect thereto;

(b) Obligations under Indebtedness (other than Subordinated Indebtedness) that is secured by a Lien, which Lien is permitted by the Indenture, and to correspondingly reduce commitments with respect thereto;

(c) Obligations under other Indebtedness (other than Subordinated Indebtedness) (and to correspondingly reduce commitments with respect thereto), *provided* that the Issuer shall equally and ratably reduce Obligations under the Notes as provided under "Optional Redemption," through open-market purchases (to the extent such purchases are at or above 100% of the principal amount thereof) or by making an offer (in accordance with the procedures set forth below for an Asset Sale Offer) to all Holders to purchase their Notes at 100% of the principal amount thereof, plus the amount of accrued but unpaid interest, if any, on the amount of Notes that would otherwise be prepaid; or

(d) Indebtedness of a Restricted Subsidiary that is not a Guarantor, other than Indebtedness owed to the Issuer or another Restricted Subsidiary;

(2) to make (a) an Investment in any one or more businesses, *provided* that such Investment in any business is in the form of the acquisition of Capital Stock and results in the Issuer or another of its Restricted Subsidiaries, as the case may be, owning an amount of the Capital Stock of such business such that it constitutes a Restricted Subsidiary, (b) capital expenditures or (c) acquisitions of other assets, in the case of each of (a), (b) and (c), used or useful in a Similar Business; or

Table of Contents

(3) to make an Investment in (a) any one or more businesses, *provided* that such Investment in any business is in the form of the acquisition of Capital Stock and results in the Issuer or another of its Restricted Subsidiaries, as the case may be, owning an amount of the Capital Stock of such business such that it constitutes a Restricted Subsidiary, (b) properties or (c) other assets that, in the case of each of (a), (b) and (c), replace the businesses, properties and/or assets that are the subject of such Asset Sale;

provided that, in the case of clauses (2) and (3) above, a binding commitment shall be treated as a permitted application of the Net Proceeds from the date of such commitment so long as the Issuer or such other Restricted Subsidiary enters into such commitment with the good faith expectation that such Net Proceeds will be applied to satisfy such commitment within 180 days of such commitment (an "*Acceptable Commitment*") and, in the event any Acceptable Commitment is later cancelled or terminated for any reason before the Net Proceeds are applied in connection therewith, the Issuer or such Restricted Subsidiary enters into another Acceptable Commitment (a "*Second Commitment*") within 180 days of such cancellation or termination; *provided further* that if any Second Commitment is later cancelled or terminated for any reason before such Net Proceeds are applied, then such Net Proceeds shall constitute Excess Proceeds (as defined below).

Any Net Proceeds from the Asset Sale that are not invested or applied as provided and within the time period set forth in the preceding paragraph will be deemed to constitute "*Excess Proceeds*." When the aggregate amount of Excess Proceeds exceeds $50.0 million, the Issuer shall make an offer to all Holders of the Notes and, if required by the terms of any Indebtedness that is *pari passu* with the Notes ("*Pari Passu Indebtedness*"), to the holders of such Pari Passu Indebtedness (an "*Asset Sale Offer*"), to purchase the maximum aggregate principal amount of the Notes and such Pari Passu Indebtedness that is an integral multiple of $1,000 that may be purchased out of the Excess Proceeds at an offer price in cash in an amount equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date fixed for the closing of such offer, in accordance with the procedures set forth in the Indenture. The Issuer will commence an Asset Sale Offer with respect to Excess Proceeds within ten Business Days after the date that Excess Proceeds exceed $50.0 million by mailing the notice required pursuant to the terms of the Indenture, with a copy to the Trustee or otherwise in accordance with the procedures of DTC.

To the extent that the aggregate amount of Notes and such Pari Passu Indebtedness tendered pursuant to an Asset Sale Offer is less than the Excess Proceeds, the Issuer may use any remaining Excess Proceeds for general corporate purposes, subject to compliance with other covenants contained in the Indenture. If the aggregate principal amount of Notes and the Pari Passu Indebtedness surrendered in an Asset Sale Offer exceeds the amount of Excess Proceeds, the Trustee shall select the Notes and such Pari Passu Indebtedness to be purchased on a pro rata basis based on the accreted value or principal amount of the Notes or such Pari Passu Indebtedness tendered. Upon completion of any such Asset Sale Offer, the amount of Excess Proceeds shall be reset to zero (regardless of whether there are any remaining Excess Proceeds upon such completion).

Pending the final application of any Net Proceeds pursuant to this covenant, the holder of such Net Proceeds may apply such Net Proceeds temporarily to reduce Indebtedness outstanding under a revolving credit facility or otherwise invest such Net Proceeds in any manner not prohibited by the Indenture.

The Issuer must comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws or regulations are applicable in connection with the repurchase of the Notes pursuant to an Asset Sale Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, the Issuer must comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue thereof.

Table of Contents

The Revolving Credit Facility prohibits or limits, and future credit agreements or other agreements to which the Issuer becomes a party may prohibit or limit, the Issuer from purchasing any Notes pursuant to this Asset Sales covenant. In the event the Issuer is prohibited from purchasing the Notes, the Issuer could seek the consent of its lenders to the purchase of the Notes or could attempt to refinance the borrowings that contain such prohibition. If the Issuer does not obtain such consent or repay such borrowings, it will remain prohibited from purchasing the Notes. In such case, the Issuer's failure to purchase tendered Notes would constitute an Event of Default under the Indenture.

Selection and Notice

If the Issuer is redeeming less than all of the Notes issued by it at any time, the Trustee will select the Notes to be redeemed (a) if the Notes are listed on any national securities exchange, in compliance with the requirements of the principal national securities exchange on which the Notes are listed or (b) on a pro rata basis (to the extent practicable), by lot or by such other method as the Trustee shall deem fair and appropriate.

Notices of purchase or redemption shall be mailed by first-class mail, postage prepaid, at least 35 but not more than 60 days before the date of purchase or Redemption Date to each Holder of record of Notes at such Holder's registered address or otherwise delivered in accordance with the procedures of DTC, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. If any Note is to be purchased or redeemed in part only, any notice of purchase or redemption that relates to such Note shall state the portion of the principal amount thereof that has been or is to be purchased or redeemed.

The Issuer will issue a new Note in a principal amount equal to the unredeemed portion of the Note called for redemption or tendered for purchase in the name of the Holder upon cancellation of the redeemed or purchased Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest ceases to accrue on Notes or portions thereof called for redemption.

Certain Covenants

Set forth below are summaries of certain covenants that are contained in the Indenture.

If on any date following the Issue Date (i) the Notes have Investment Grade Ratings from both Rating Agencies and (ii) no Default has occurred and is continuing under the Indenture (the occurrence of the events described in the foregoing clauses (i) and (ii) being collectively referred to as a "*Covenant Suspension Event*"), the Issuer and the Restricted Subsidiaries will not be subject to the covenants (the "*Suspended Covenants*") described under:

(1) "Repurchase at the Option of Holders Asset Sales";

(2) " Limitation on Restricted Payments";

(3) " Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock";

(4) clause (4) of the first paragraph of " Merger, Consolidation or Sale of All or Substantially All Assets";

(5) " Transactions with Affiliates";

(6) " Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries";

(7) " Limitation on Guarantees of Indebtedness by Restricted Subsidiaries"; and

(8) "Repurchase at the Option of Holders Change of Control."

Table of Contents

In the event that the Issuer and the Restricted Subsidiaries are not subject to the Suspended Covenants under the Indenture for any period of time as a result of the foregoing, and on any subsequent date (the "*Reversion Date*") (a) one or both of the Rating Agencies withdraw their Investment Grade Rating or downgrade the rating assigned to the Notes below an Investment Grade Rating or (b) the Issuer or any of its Affiliates enters into an agreement to effect a transaction that would result in a Change of Control and one or more of the Rating Agencies indicate that if consummated, such transaction (alone or together with any related recapitalization or refinancing transactions) would cause such Rating Agency to withdraw its Investment Grade Rating or downgrade the ratings assigned to the Notes below an Investment Grade Rating, then the Issuer and the Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants under the Indenture with respect to future events. The period beginning on the day of a Covenant Suspension Event and ending on a Reversion Date is called a "*Suspension Period*".

On each Reversion Date, all Indebtedness incurred, or Disqualified Stock or Preferred Stock issued, during the Suspension Period will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (3) of the second paragraph under " Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock". Calculations made after the Reversion Date of the amount available to be made as Restricted Payments under " Limitation on Restricted Payments" will be made as though the covenant described under " Limitation on Restricted Payments" had been in effect since the Issue Date and throughout the Suspension Period. Accordingly, Restricted Payments made during the Suspension Period will reduce the amount available to be made as Restricted Payments under the first paragraph of " Limitation on Restricted Payments" (but will not reduce any amounts available to be made as Restricted Payments under the second paragraph of " Limitation on Restricted Payments"). However, no Default or Event of Default will be deemed to have occurred on the Reversion Date (or thereafter) under any Suspended Covenant solely as a result of any actions taken by the Issuer or its Restricted Subsidiaries, or events occurring, during the Suspension Period. For purposes of the "Repurchase at the Option of Holders Asset Sales" covenant, on the Reversion Date, the unutilized Excess Proceeds amount will be reset to zero.

There can be no assurance that the Notes will ever achieve or maintain Investment Grade Ratings.

Limitation on Restricted Payments

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly:

(I) declare or pay any dividend or make any payment having the effect thereof or any distribution on account of the Issuer's, or any of its Restricted Subsidiaries' Equity Interests, including any dividend or distribution payable in connection with any merger or consolidation other than:

(a) dividends or distributions by the Issuer payable solely in Equity Interests (other than Disqualified Stock) of the Issuer; or

(b) dividends or distributions by a Restricted Subsidiary so long as, in the case of any dividend or distribution payable on or in respect of any class or series of securities issued by a Restricted Subsidiary other than a Wholly- Owned Subsidiary, the Issuer or a Restricted Subsidiary receives at least its pro rata share of such dividend or distribution in accordance with its Equity Interests in such class or series of securities;

(II) purchase, redeem, defease or otherwise acquire or retire for value any Equity Interests of the Issuer or any direct or indirect parent of the Issuer, including in connection with any merger or consolidation;

(III) make any principal payment on, or redeem, repurchase, defease or otherwise acquire or retire for value, in each case prior to any scheduled repayment, sinking fund payment or maturity, any Subordinated Indebtedness, other than:

(a) Indebtedness permitted under clauses (7) and (8) of the covenant described under " Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock"; or

(b) the purchase, repurchase or other acquisition of Subordinated Indebtedness purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of purchase, repurchase or acquisition; or

(IV) make any Restricted Investment

(all such payments and other actions set forth in clauses (I) through (IV) above being collectively referred to as "*Restricted Payments*"), unless, at the time of such Restricted Payment:

(1) no Default shall have occurred and be continuing or would occur as a consequence thereof;

(2) immediately after giving effect to such transaction on a *pro forma* basis, the Issuer could incur $1.00 of additional Indebtedness under the provisions of the first paragraph of the covenant described under " Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock"; and

(3) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Issuer and its Restricted Subsidiaries after October 31, 2006 (including Restricted Payments permitted by clauses (1), (6)(c), (9) and (14) of the next succeeding paragraph, but excluding all other Restricted Payments permitted by the next succeeding paragraph), is less than the sum of (without duplication):

(a) 50% of the Consolidated Net Income of the Issuer for the period (taken as one accounting period) beginning July 30, 2006 to the end of the Issuer's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment, or, in the case such Consolidated Net Income for such period is a deficit, minus 100% of such deficit; *plus*

(b) 100% of the aggregate net cash proceeds and the fair market value, as determined in good faith by the Issuer, of marketable securities or other property received by the Issuer since immediately after October 31, 2006 (other than net cash proceeds to the extent such net cash proceeds have been used to incur Indebtedness, Disqualified Stock or Preferred Stock pursuant to clause (12)(a) of the second paragraph of " Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock") from the issue or sale of:

(i) (A) Equity Interests of the Issuer, including Treasury Capital Stock (as defined below), but excluding cash proceeds and the fair market value, as determined in good faith by the Issuer, of marketable securities or other property received from the sale of:

(x) Equity Interests to members of management, directors or consultants of the Issuer, any direct or indirect parent company of the Issuer and the Issuer's Subsidiaries after October 31, 2006 to the extent such amounts have been applied to Restricted Payments made in accordance with clause (4) of the next succeeding paragraph; and

(y) Designated Preferred Stock; and

(B) to the extent such net cash proceeds are actually contributed to the Issuer, Equity Interests of the Issuer's direct or indirect parent companies (excluding contributions of the proceeds from the sale of Designated Preferred Stock of such companies or contributions to the extent such amounts have been applied to Restricted Payments made in accordance with clause (4) of the next succeeding paragraph); or

(ii) debt securities of the Issuer that have been converted into or exchanged for Equity Interests of the Issuer;

provided, however, that this clause (b) shall not include the proceeds from (W) Refunding Capital Stock (as defined below), (X) Equity Interests or convertible debt securities of the Issuer sold to a Restricted Subsidiary, (Y) Disqualified Stock or debt securities that have been converted into Disqualified Stock or (Z) Excluded Contributions; *plus*

(c) 100% of the aggregate amount of cash and the fair market value, as determined in good faith by the Issuer, of marketable securities or other property contributed to the capital of the Issuer following October 31, 2006 other than (X) net cash proceeds to the extent such net cash proceeds have been used to incur Indebtedness or issue Disqualified Stock or Preferred Stock pursuant to clause (12)(a) of the second paragraph of " Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock," (Y) by a Restricted Subsidiary and (Z) from any Excluded Contributions; *plus*

(d) 100% of the aggregate amount received in cash and the fair market value, as determined in good faith by the Issuer, of marketable securities or other property received by means of:

(i) the sale or other disposition (other than to the Issuer or a Restricted Subsidiary) of Restricted Investments made by the Issuer or its Restricted Subsidiaries and repurchases and redemptions of such Restricted Investments from the Issuer or its Restricted Subsidiaries and repayments of loans or advances, and releases of guarantees, which constitute Restricted Investments by the Issuer or its Restricted Subsidiaries, in each case after October 31, 2006; or

(ii) the sale (other than to the Issuer or a Restricted Subsidiary) of the stock of an Unrestricted Subsidiary or a distribution from an Unrestricted Subsidiary (other than in each case to the extent the Investment in such Unrestricted Subsidiary was made by the Issuer or a Restricted Subsidiary pursuant to clause (7) of the next succeeding paragraph or to the extent such Investment constituted a Permitted Investment) or a dividend from an Unrestricted Subsidiary after October 31, 2006; *plus*

(e) in the case of the redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary or the merger, amalgamation or consolidation of an Unrestricted Subsidiary into the Issuer or a Restricted Subsidiary or the transfer of all or substantially all of the assets of an Unrestricted Subsidiary to the Issuer or a Restricted Subsidiary after October 31, 2006, the fair market value of the Investment in such Unrestricted Subsidiary (or the assets transferred), as determined by the Issuer in good faith or, if such fair market value may exceed $125.0 million, in writing by an Independent Financial Advisor, at the time of the redesignation of such Unrestricted Subsidiary as a Restricted Subsidiary or at the time of such merger, amalgamation, consolidation or transfer of assets other than to the extent the Investment in such Unrestricted Subsidiary was made by the Issuer or a Restricted Subsidiary pursuant to clause (7) of the next succeeding paragraph or to the extent such Investment constituted a Permitted Investment.

Table of Contents

The Company estimates that the amount available for Restricted Payments pursuant to the foregoing clause (3) was approximately $183 million as of January 29, 2011.

The foregoing provisions do not prohibit:

(1) the payment of any dividend within 60 days after the date of declaration thereof, if at the date of declaration such payment would have complied with the provisions of the Indenture;

(2) (a) the redemption, repurchase, retirement or other acquisition of any Equity Interests ("*Treasury Capital Stock*") of the Issuer or any Equity Interests of any direct or indirect parent company of the Issuer or any Subordinated Indebtedness of the Issuer or a Restricted Subsidiary, in exchange for, or out of the proceeds of, the substantially concurrent sale or issuance (other than to a Restricted Subsidiary) of, Equity Interests of the Issuer or any direct or indirect parent company of the Issuer to the extent contributed to the Issuer (in each case, other than any Disqualified Stock) ("*Refunding Capital Stock*"), (b) the declaration and payment of dividends on Treasury Capital Stock out of the proceeds of the substantially concurrent sale or issuance (other than to a Subsidiary of the Issuer or to an employee stock ownership plan or any trust established by the Issuer or any of its Subsidiaries) of Refunding Capital Stock, and (c) if immediately prior to the retirement of Treasury Capital Stock, the declaration and payment of dividends thereon was permitted under clause (6) of this paragraph, the declaration and payment of dividends on the Refunding Capital Stock (other than Refunding Capital Stock the proceeds of which were used to redeem, repurchase, retire or otherwise acquire any Equity Interests of any direct or indirect parent company of the Issuer) in an aggregate amount per year no greater than the aggregate amount of dividends per annum that were declarable and payable on such Treasury Capital Stock immediately prior to such retirement;

(3) the redemption, repurchase or other acquisition or retirement of Subordinated Indebtedness of the Issuer or a Guarantor made by exchange for, or out of the proceeds of, the substantially concurrent sale of, new Indebtedness of the Issuer or a Guarantor, as the case may be, which is incurred in compliance with " Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock" so long as:

(a) the principal amount (or accreted value, if applicable) of such new Indebtedness does not exceed the principal amount of (or accreted value, if applicable), plus any accrued and unpaid interest on, the Subordinated Indebtedness being so redeemed, repurchased, exchanged, acquired or retired for value, plus the amount of any premium required to be paid under the terms of the instrument governing the Subordinated Indebtedness being so redeemed, repurchased, exchanged, acquired or retired and any reasonable fees and expenses incurred in connection with such redemption, repurchase, exchange, acquisition or retirement and the issuance of such new Indebtedness;

(b) such new Indebtedness is subordinated to the Notes or the applicable Guarantee at least to the same extent as such Subordinated Indebtedness so repurchased, exchanged, redeemed, acquired or retired for value;

(c) such new Indebtedness has a final scheduled maturity date equal to or later than the final scheduled maturity date of the Subordinated Indebtedness being so redeemed, repurchased, exchanged, acquired or retired; and

(d) such new Indebtedness has a Weighted Average Life to Maturity equal to or greater than the remaining Weighted Average Life to Maturity of the Subordinated Indebtedness being so redeemed, repurchased, exchanged, acquired or retired;

(4) a Restricted Payment to pay for the repurchase, retirement or other acquisition or retirement for value of Equity Interests (other than Disqualified Stock) of the Issuer or any of its

Table of Contents

direct or indirect parent companies held by any future, present or former employee, director or consultant of the Issuer, any of its Subsidiaries or any of its direct or indirect parent companies, or any of their respective estates, spouses or former spouses pursuant to any management equity plan or stock option plan or any other management or employee benefit plan or agreement (including, for the avoidance of doubt, any principal and interest payable on any notes issued by the Issuer or any direct or indirect parent company in connection with any such repurchase, retirement or other acquisition or retirement); *provided*, *however*, that the aggregate Restricted Payments made under this clause (4) do not exceed in calendar year 2010 $30.0 million and in any other calendar year $15.0 million (which shall increase to $30.0 million subsequent to the consummation of an underwritten public Equity Offering by the Issuer or any direct or indirect parent company of the Issuer) with unused amounts in any calendar year being carried over to succeeding calendar years subject to a maximum (without giving effect to the following proviso) of $30.0 million in any calendar year (which shall increase to $60.0 million subsequent to the consummation of an underwritten public Equity Offering by the Issuer or any direct or indirect parent company of the Issuer); *provided further* that such amount in any calendar year may be increased by an amount not to exceed:

(a) the cash proceeds from the sale of Equity Interests (other than Disqualified Stock) of the Issuer and, to the extent contributed to the Issuer, Equity Interests of any of the Issuer's direct or indirect parent companies, in each case to members of management, directors or consultants of the Issuer, any of its Subsidiaries or any of its direct or indirect parent companies that occurs after October 31, 2006, to the extent the cash proceeds from the sale of such Equity Interests have not otherwise been applied to the payment of Restricted Payments by virtue of clause (3) of the preceding paragraph, plus, in respect of any sale of Equity Interests in connection with an exercise of stock options, an amount equal to the amount required to be withheld by the Issuer or any of its direct or indirect parent companies in connection with such exercise under applicable law to the extent such amount is repaid to the Issuer or its direct or indirect parent company, as applicable, constituted a Restricted Payment and has not otherwise been applied to the payment of Restricted Payments by virtue of clause (3) of the preceding paragraph; *plus*

(b) the cash proceeds of key man life insurance policies received by the Issuer or its Restricted Subsidiaries after the Issue Date; *less*

(c) the amount of any Restricted Payments previously made with the cash proceeds described in clauses (a) and (b) of this clause (4);

and *provided further* that cancellation of Indebtedness owing to the Issuer from employees, directors or consultants of the Issuer, any of the Issuer's direct or indirect parent companies or any of the Issuer's Restricted Subsidiaries in connection with a repurchase of Equity Interests of the Issuer or any of its direct or indirect parent companies will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture;

(5) the declaration and payment of dividends to holders of any class or series of Disqualified Stock of the Issuer or any of its Restricted Subsidiaries issued in accordance with the covenant described under " Limitation on Incurrence of Indebtedness and Issuance of Disqualified Stock and Preferred Stock" to the extent such dividends are included in the definition of "Fixed Charges";

(6) (a) the declaration and payment of dividends to holders of any class or series of Designated Preferred Stock (other than Disqualified Stock) issued by the Issuer after the Issue Date;

(b) the declaration and payment of dividends to a direct or indirect parent company of the Issuer, the proceeds of which will be used to fund the payment of dividends to holders of any class or series of Designated Preferred Stock (other than Disqualified Stock) of such parent company issued after the Issue Date, provided that the amount of dividends paid pursuant to this clause (b) shall not exceed the aggregate amount of cash actually contributed to the Issuer from the sale of such Designated Preferred Stock; or

(c) the declaration and payment of dividends on Refunding Capital Stock that is Preferred Stock in excess of the dividends declarable and payable thereon pursuant to clause (2) of this paragraph;

provided, *however*, in the case of each of (a), (b) and (c) of this clause (6), that for the most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date of issuance of such Designated Preferred Stock or the declaration of such dividends on Refunding Capital Stock that is Preferred Stock, after giving effect to such issuance or declaration on a *pro forma* basis, the Issuer and its Restricted Subsidiaries on a consolidated basis would have had a Fixed Charge Coverage Ratio of at least 2.00 to 1.00;

(7) Investments in Unrestricted Subsidiaries having an aggregate fair market value, taken together with all other Investments made pursuant to this clause (7) that are at the time outstanding, without giving effect to the sale of an Unrestricted Subsidiary to the extent the proceeds of such sale do not consist of, or have not been subsequently sold or transferred for, cash or marketable securities, not to exceed $75.0 million (with the fair market value of each Investment being measured at the time made and without giving effect to subsequent changes in value);

(8) repurchases of Equity Interests deemed to occur upon exercise of stock options or warrants if such Equity Interests represent a portion of the exercise price of such options or warrants;

(9) the declaration and payment of dividends on the Issuer's common stock (or the payment of dividends to any direct or indirect parent entity to fund a payment of dividends on such entity's common stock), following the first public offering of the Issuer's common stock or the common stock of any of its direct or indirect parent companies after the Issue Date, of up to 6% per annum of the net cash proceeds received by or contributed to the Issuer in or from any public offering, other than public offerings with respect to the Issuer's common stock registered on Form S-8 and other than any public sale constituting an Excluded Contribution;

(10) Restricted Payments that are made with Excluded Contributions;

(11) other Restricted Payments in an aggregate amount taken together with all other Restricted Payments made pursuant to this clause (11) that are at the time outstanding (without giving effect to the sale of an Investment to the extent the proceeds of such sale do not consist of, or have not been subsequently sold or transferred for, cash or marketable securities) not to exceed $75.0 million;

(12) distributions or payments of Receivables Fees;

(13) any Restricted Payment used to fund the Transactions and the fees and expenses related thereto or owed to Affiliates, in each case with respect to any Restricted Payment to or owed to an Affiliate, to the extent permitted by the covenant described under " Transactions with Affiliates";

(14) the repurchase, redemption or other acquisition or retirement for value of any Subordinated Indebtedness pursuant to the provisions similar to those described under the captions "Repurchase at the Option of Holders Change of Control" and "Repurchase at the Option of Holders Asset Sales"*provided* that all Notes tendered by Holders in connection with a

Change of Control Offer or Asset Sale Offer, as applicable, have been repurchased, redeemed or acquired for value;

(15) the declaration and payment of dividends or distributions by the Issuer to, or the making of loans to, any direct or indirect parent company in amounts required for any direct or indirect parent companies to pay, in each case without duplication,

(a) franchise taxes and other fees, taxes and expenses required to maintain their corporate existence;

(b) federal, state and local income taxes, to the extent such income taxes are attributable to the income of the Issuer and its Restricted Subsidiaries and, to the extent of the amount actually received from its Unrestricted Subsidiaries, in amounts required to pay such taxes to the extent attributable to the income of such Unrestricted Subsidiaries; *provided* that in each case the amount of such payments in any fiscal year does not exceed the excess (if any) of (A) the amount that the Issuer and its Restricted Subsidiaries would be required to pay in respect of federal, state and local income taxes for such fiscal year were the Issuer, its Restricted Subsidiaries and its Unrestricted Subsidiaries (to the extent described above) to pay such taxes separately from any such parent company over (B) the aggregate federal, state and local income taxes paid by the Issuer and its Restricted Subsidiaries;

(c) customary salary, bonus and other benefits payable to officers and employees of any direct or indirect parent company of the Issuer to the extent such salaries, bonuses and other benefits are attributable to the ownership or operation of the Issuer and its Restricted Subsidiaries;

(d) general corporate operating and overhead costs and expenses of