

MICHAELS STORES INC
Form PRER14A
September 01, 2006

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
 Definitive Proxy Statement
 Definitive Additional Materials
 Soliciting Material Pursuant to §240.14a-12

MICHAELS STORES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Common Stock, par value \$0.10 per share, of Michaels Stores, Inc. (Common Stock)

(2) Aggregate number of securities to which transaction applies:

132,830,320 shares of Common Stock, including restricted shares

10,212,618 options to purchase shares of Common Stock with an exercise price less than \$44.00

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

The filing fee was determined based upon the sum of (A) 132,830,320 shares of Common Stock, including restricted shares, multiplied by \$44.00 per share and (B) 10,212,618 options to purchase shares of Common Stock with an exercise price less than \$44.00, multiplied by \$17.64 per share (which is the difference between \$44.00 and the weighted average exercise price per share). In accordance with Section 14(g)(1)(A) of the Securities Exchange Act of 1934, as amended, the filing fee was determined by multiplying \$0.000107 by the sum of the preceding sentence.

(4) Proposed maximum aggregate value of transaction:

\$6,024,684,662

(5) Total fee paid:

\$644,641

- Ⓟ Fee paid previously with preliminary materials.
- Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Table of Contents

PRELIMINARY PROXY STATEMENT, SUBJECT TO COMPLETION

8000 Bent Branch Drive, Irving, Texas 75063

[], 2006

Dear Stockholder:

The board of directors of Michaels Stores, Inc. (Michaels, we, us or our) has unanimously approved a merger agreement providing for the merger of Michaels with affiliates of Bain Capital Partners, LLC and The Blackstone Group, which are private equity firms. If the merger is completed, you will receive \$44.00 in cash, without interest, for each share of our common stock that you own, and Michaels will become wholly owned by entities sponsored by or co-investors with Bain Capital Partners, LLC and The Blackstone Group.

You will be asked, at a special meeting of the Michaels stockholders, to consider and vote on a proposal to adopt the merger agreement. After careful consideration, our board of directors approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and unanimously declared that the merger agreement, the merger and the other transactions contemplated by the merger agreement are advisable and in the best interests of our stockholders. **THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ADOPTION OF THE MERGER AGREEMENT.**

The time, date and place of the special meeting to consider and vote upon the adoption of the merger agreement are as follows:

9:30 a.m., central daylight time, on October 5, 2006

8000 Bent Branch Drive, Irving, Texas 75063

The proxy statement attached to this letter provides you with information about the merger and the special meeting. A copy of the merger agreement is attached as Annex A to this proxy statement. A copy of the first amendment to the merger agreement is attached as Annex B to this proxy statement. We encourage you to read the entire proxy statement carefully. You may also obtain additional information on us from documents we have filed with the Securities and Exchange Commission.

Your vote is very important, regardless of the number of shares of our common stock you own. The merger cannot be completed unless holders of a majority of the outstanding shares of our common stock entitled to vote at the special meeting of stockholders vote for the adoption of the merger agreement. If you do not vote, it will have the same effect as a vote against the adoption of the merger agreement.

Whether or not you plan to attend the special meeting in person, please complete, sign, date and return promptly the enclosed proxy card. If you hold shares through a broker or other nominee, you should follow the procedures provided by your broker or nominee. These actions will not limit your right to vote in person if you wish to attend the special meeting and vote in person.

Thank you in advance for your cooperation and continued support.

On behalf of your Board of Directors,

Charles J. Wyly, Jr.
Chairman of the Board

THIS PROXY STATEMENT IS DATED [], 2006 AND IS FIRST BEING
MAILED TO STOCKHOLDERS ON OR ABOUT [], 2006.

Table of Contents

8000 Bent Branch Drive, Irving, Texas 75063
**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 5, 2006**

TO THE STOCKHOLDERS OF MICHAELS STORES, INC.:

A special meeting of stockholders of Michaels Stores, Inc., a Delaware corporation (Michaels, we, us or our), will be held at 8000 Bent Branch Drive, Irving, Texas 75063, on October 5, 2006, beginning at 9:30 a.m., central daylight time, for the following purposes:

1. **Adoption of the Merger Agreement.** To consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of June 30, 2006, as amended, among Bain Paste Mergerco, Inc., Blackstone Paste Mergerco, Inc., Bain Paste Finco, LLC, Blackstone Paste Finco, LLC and Michaels Stores, Inc., pursuant to which, upon the merger becoming effective, each outstanding share of Michaels common stock, par value \$0.10 per share (other than shares held in our treasury or owned by Bain Paste Mergerco, Inc., Blackstone Paste Mergerco, Inc., Bain Paste Finco, LLC or Blackstone Paste Finco, LLC, shares held by stockholders who properly demand statutory appraisal rights and rollover shares) will be converted into the right to receive \$44.00 in cash, without interest.
2. **Adjournment or Postponement of the Special Meeting.** To approve the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the meeting to adopt the merger agreement.
3. **Other Matters.** To transact such other business as may properly come before the special meeting or any adjournment thereof.

Only stockholders of record of our common stock as of the close of business on September 1, 2006, will be entitled to notice of, and to vote at, the special meeting and any adjournment or postponement of the special meeting. All stockholders of record are cordially invited to attend the special meeting in person.

Your vote is very important, regardless of the number of shares of our common stock you own. The adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of our common stock on the record date for the special meeting. Even if you plan to attend the meeting in person, we request that you complete, sign, date and return the enclosed proxy in the envelope provided and thus ensure that your shares will be represented at the meeting if you are unable to attend. If you sign, date and mail your proxy card without indicating how you wish to vote, your vote will be counted as a vote **FOR** the adoption of the merger agreement.

If you fail to vote by proxy or in person, the effect will be that your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and, if a quorum is present, will have the same effect as a vote against the adoption of the merger agreement. If you are a stockholder of record and wish to vote in person at the special meeting, you may withdraw your proxy and vote in person.

Stockholders of Michaels who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares if the merger is completed, but only if they submit a written demand for appraisal to Michaels before the vote is taken on the merger agreement and comply with all requirements of Delaware law, which are summarized in the accompanying proxy statement under the caption *Appraisal Rights* beginning on page 63.

By order of the board of directors,

Mark V. Beasley
Secretary

[], 2006

TABLE OF CONTENTS

<u>SUMMARY</u>	1
<u>QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER</u>	10
<u>CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS</u>	13
<u>THE PARTIES TO THE MERGER AGREEMENT</u>	14
<u>THE SPECIAL MEETING</u>	15
<u>Time, Place and Purpose of the Special Meeting</u>	15
<u>Record Date and Quorum</u>	15
<u>Required Vote</u>	15
<u>Proxies; Revocation</u>	15
<u>Adjournments and Postponements</u>	16
<u>Solicitation of Proxies</u>	16
<u>THE MERGER</u>	17
<u>Background of the Merger</u>	17
<u>Reasons for the Merger</u>	20
<u>Recommendation of Our Board of Directors</u>	22
<u>Opinion of JPMorgan</u>	22
<u>Opinion of Goldman Sachs</u>	28
<u>Financing</u>	35
<u>Interests of Our Directors and Executive Officers in the Merger</u>	36
<u>Appraisal Rights</u>	42
<u>Delisting and Deregistration of Our Common Stock</u>	42
<u>Material United States Federal Income Tax Consequences of the Merger</u>	42
<u>Regulatory Approvals</u>	44
<u>Litigation Concerning the Merger</u>	
<u>THE MERGER AGREEMENT</u>	45
<u>Effective Time; The Marketing Period</u>	45
<u>Structure</u>	46
<u>Treatment of Stock and Options</u>	47
<u>Exchange and Payment Procedures</u>	47
<u>Representations and Warranties</u>	48
<u>Conduct of Our Business Pending the Merger</u>	50
<u>Stockholders Meeting</u>	53
<u>No Solicitation of Transactions</u>	53
<u>Employee Benefits</u>	55
<u>Agreement to Use Reasonable Best Efforts</u>	56
<u>Financing Commitments; Cooperation of Michaels</u>	56
<u>Conditions to the Merger</u>	58
<u>Termination</u>	59
<u>Fees and Expenses</u>	60
<u>Amendment and Waiver</u>	62
<u>Specific Performance</u>	62
<u>APPRAISAL RIGHTS</u>	63
<u>MARKET PRICE OF OUR STOCK</u>	65
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	66
<u>MULTIPLE STOCKHOLDERS SHARING ONE ADDRESS</u>	68
<u>SUBMISSION OF STOCKHOLDER PROPOSALS</u>	68
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	69

<u>ANNEX A</u>	<u>Agreement and Plan of Merger, dated as of June 30, 2006, among Bain Paste Mergerco, Inc., Blackstone Paste Mergerco, Inc., Bain Paste Finco, LLC, Blackstone Paste Finco, LLC and Michaels Stores, Inc.</u>
<u>ANNEX B</u>	<u>First Amendment to Agreement and Plan of Merger, dated as of September 1, 2006, among Bain Paste Mergerco, Inc., Blackstone Paste Mergerco, Inc., Bain Paste Finco, LLC, Blackstone Paste Finco, LLC and Michaels Stores, Inc.</u>
<u>ANNEX C</u>	<u>Opinion of J.P. Morgan Securities Inc.</u>
<u>ANNEX D</u>	<u>Opinion of Goldman, Sachs & Co.</u>
<u>ANNEX E</u>	<u>Section 262 of the General Corporation Law of the State of Delaware</u>

Table of Contents

SUMMARY

This summary highlights selected information from this proxy statement and may not contain all of the information that is important to you. To understand the merger fully, and for a more complete description of the legal terms of the merger, you should carefully read this entire proxy statement, the annexes attached to this proxy statement and the documents referred to or incorporated by reference in this proxy statement. We have included page references in parentheses to direct you to the appropriate place in this proxy statement for a more complete description of the topics presented in this summary. In this proxy statement, the terms Michaels, we, us and our refer to Michaels Stores, Inc.

The Parties to the Merger Agreement (page 14)

Michaels Stores, Inc.
8000 Bent Branch Drive
Irving, TX 75063
(972) 409-1300

Michaels, a Delaware corporation, is the largest arts and crafts specialty retailer in the United States. As of July 21, 2006, we operate 902 Michaels retail stores in 48 states and Canada and 165 Aaron Brothers stores in 11 states, offering framing supplies and services and a wide selection of art supplies. Recollections, our scrapbooking/paper crafting retail concept, operates 11 stores located in Arizona, Maryland, Texas, and Virginia as of July 21, 2006. In addition, we own and operate four Star Decorators Wholesale stores located in Arizona, California, Georgia, and Texas as of July 21, 2006, offering merchandise primarily to interior decorators/designers, wedding/event planners, florists, hotels, restaurants and commercial display companies.

Bain Paste Mergerco, Inc.
Bain Paste Finco, LLC
c/o Bain Capital Partners, LLC
111 Huntington Avenue
Boston, MA 02199
(617) 516-2000

Bain Paste Mergerco, Inc. is a Delaware corporation formed by a private equity fund sponsored by Bain Capital Partners, LLC (Bain) in anticipation of the merger. Subject to the terms and conditions of the merger agreement and in accordance with Delaware law, at the effective time of the merger, Bain Paste Mergerco, Inc. will merge with and into Michaels Stores, Inc. Bain Paste Mergerco, Inc. has de minimis assets and no operations. Bain Paste Finco, LLC is a Delaware limited liability company formed by a private equity fund sponsored by Bain in anticipation of the merger. Bain is part of Bain Capital, LLC, a global private investment firm that manages several pools of capital including private equity, venture capital, public equity, and leveraged debt assets with more than \$38 billion in assets under management. Since its inception in 1984, Bain has made private equity investments and add-on acquisitions in over 230 companies around the world, including such leading retailers and consumer companies as Toys R Us, Burger King, Staples, Burlington Coat Factory, Shopper s Drug Mart, Brookstone, Domino s Pizza, Dollarama, Sealy Corp., Sports Authority and Duane Reade. Headquartered in Boston, Bain has offices in New York, London, Munich, Hong Kong, Shanghai and Tokyo.

Blackstone Paste Mergerco, Inc.
Blackstone Paste Finco, LLC
c/o The Blackstone Group
345 Park Avenue, 31st Floor
New York, NY 10154
(212) 583-5000

Blackstone Paste Mergerco, Inc. is a Delaware corporation formed by a private equity fund sponsored by The Blackstone Group (Blackstone) in anticipation of the merger. Subject to the terms and conditions of the

Table of Contents

merger agreement and in accordance with Delaware law, at the effective time of the merger, Blackstone Paste Mergerco, Inc. will merge with and into Michaels Stores, Inc. Blackstone Paste Mergerco, Inc. has de minimis assets and no operations. Blackstone Paste Finco, LLC is a Delaware limited liability company formed by a private equity fund sponsored by Blackstone in anticipation of the merger. Blackstone, a global private investment and advisory firm, was founded in 1985. The firm has raised a total of more than \$63 billion for alternative asset investing since its formation, of which approximately \$30 billion has been for private equity investing. Blackstone's private equity group is currently investing its fifth general private equity fund with commitments of \$15.6 billion, and has over 60 experienced professionals with broad sector expertise. 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.

The Special Meeting

Time, Place and Date (page 15)

The special meeting will be held on October 5, 2006, beginning at 9:30 a.m., central daylight time, at 8000 Bent Branch Drive, Irving, Texas 75063.

Purpose (page 15)

You will be asked to consider and vote on a proposal to adopt an Agreement and Plan of Merger, dated as of June 30, 2006 (as amended, the merger agreement), among Bain Paste Mergerco, Inc. (Bain Mergerco), Blackstone Paste Mergerco, Inc. (Blackstone Mergerco) and, together with Bain Mergerco, the Mergercos), Bain Paste Finco, LLC (Bain Finco), Blackstone Paste Finco, LLC (Blackstone Finco) and, together with Bain Finco, the Fincos; the Mergercos and Fincos, collectively, the Sponsor Entities) and Michaels. The merger agreement provides that the Mergercos will be merged with and into Michaels (the merger), with Michaels being the surviving corporation in the merger (the surviving corporation). Each outstanding share of Michaels common stock (other than shares held in our treasury or owned by any of the Sponsor Entities, shares held by stockholders who properly demand statutory appraisal rights and rollover shares) will be converted into the right to receive \$44.00 in cash, without interest.

The persons named in the accompanying proxy card will also have discretionary authority to vote upon other business, if any, that properly comes before the special meeting and any adjournments or postponements of the special meeting.

Record Date and Quorum (page 15)

You are entitled to vote at the special meeting if you owned shares of our common stock at the close of business on September 1, 2006, the record date for the special meeting. You will have one vote for each share of Michaels common stock that you owned on the record date. As of the record date, there were [] shares of our common stock entitled to be voted.

The holders of a majority of the outstanding shares of our common stock at the close of business on the record date represented in person or by proxy will constitute a quorum for purposes of the special meeting.

Required Vote (page 15)

Completion of the merger requires the adoption of the merger agreement by the affirmative vote of the holders of a majority of the outstanding shares of our common stock at the close of business on the record date for the special meeting. A failure to vote your shares of our common stock or an abstention will have the same effect as voting against the merger.

Table of Contents

Share Ownership of Directors and Executive Officers (page 66)

As of the record date for the special meeting, the directors and executive officers of Michaels beneficially owned, in the aggregate, [] shares of our common stock, or approximately []% of the outstanding shares of our common stock. The directors and executive officers have informed us that they intend to vote all of their shares of Michaels common stock **FOR** the adoption of the merger agreement and **FOR** any adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.

Voting and Proxies (page 15)

Any Michaels stockholder of record entitled to vote may submit a proxy by returning a signed proxy card by mail, or may vote in person by appearing at the special meeting. If your shares are held in street name by your broker, you should instruct your broker on how to vote your shares using the instructions provided by your broker. If you do not provide your broker with instructions, your shares will not be voted and that will have the same effect as voting against the merger.

Revocability of Proxy (page 15)

Any Michaels stockholder of record who executes and returns a proxy card may revoke the proxy at any time before it is voted in any one of the following ways:

filing with Computershare Investor Services, L.L.C., 3020 Legacy Drive, Suite 100-307, Plano, Texas 75023, at or before the special meeting, a written notice of revocation that is dated a later date than the proxy;

sending a later-dated proxy card relating to the same shares to Computershare Investor Services, L.L.C., at or before the special meeting; or

attending the special meeting and voting in person.

Simply attending the special meeting will not constitute revocation of a proxy. If you have instructed your broker to vote your shares, the above-described options for revoking your proxy do not apply and instead you must follow the directions provided by your broker to change your vote.

When the Merger Will be Completed (page 45)

We are working to complete the merger as soon as possible. We anticipate completing the merger by the end of 2006, subject to adoption of the merger agreement by our stockholders and the satisfaction of the other closing conditions. In addition, the Mergercos are not obligated to complete the merger until the expiration of a 30 consecutive calendar day marketing period throughout which the Fincos shall have the financial information that we are required to provide pursuant to the merger agreement to complete the debt financing of the merger. So long as we have provided all required financial information to the Fincos for purposes of them completing their debt financing, the marketing period will begin to run on the later of (i) the adoption of the merger agreement by our stockholders and (ii) September 4, 2006.

Effects of the Merger (page 46)

If the merger agreement is adopted by our stockholders and the other conditions to closing are satisfied, the Mergercos will merge with and into Michaels. The separate corporate existences of the Mergercos will cease, and Michaels will continue as the surviving corporation, wholly owned by entities sponsored by or co-investors with Bain and Blackstone. Upon completion of the merger, our common stock will be converted into the right to receive \$44.00 per share, without interest and less any required withholding taxes. The surviving corporation will be a

Table of Contents

privately held corporation, and you will cease to have any ownership interest in the surviving corporation or any rights as its stockholder.

Recommendation of Our Board of Directors (page 22)

After careful consideration, our board of directors unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and unanimously declared that the merger agreement, the merger and the other transactions contemplated by the merger agreement are advisable and in the best interests of our stockholders. **ACCORDINGLY, OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ADOPTION OF THE MERGER AGREEMENT.**

In reaching its decision, our board of directors evaluated a variety of business, financial and market factors and consulted with our management team and legal and financial advisors. In considering the recommendation of our board of directors with respect to the merger, you should be aware that certain of our directors and executive officers have interests in the merger that differ from, or are in addition to, your interests as a stockholder. See *The Merger Interests of Our Directors and Executive Officers in the Merger* beginning on page 36.

For the factors considered by our board of directors in reaching its decision to approve the merger agreement and the merger, see *The Merger Reasons for the Merger* beginning on page 20.

Opinion of JPMorgan (page 22 and Annex C)

J.P. Morgan Securities Inc. (JPMorgan) delivered its opinion to our board of directors that, as of the date of its opinion and based upon and subject to the factors and assumptions set forth in its opinion, the merger consideration of \$44.00 in cash per share to be received by our stockholders in the merger was fair, from a financial point of view, to such stockholders.

The full text of the written opinion of JPMorgan, dated June 30, 2006, which sets forth the assumptions made, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex C to this proxy statement. Our stockholders are urged to read the opinion carefully in its entirety. JPMorgan's written opinion is addressed to our board of directors, and is directed only to the consideration to be received in the merger and does not constitute a recommendation to any of our stockholders as to how such stockholder should vote at the special meeting. Pursuant to an engagement letter between our board of directors and JPMorgan, we have agreed to pay JPMorgan a transaction fee of 0.40% of the aggregate consideration to be paid in the transaction, or approximately \$24 million, all of which is payable upon consummation of the transaction.

Opinion of Goldman Sachs (page 28 and Annex D)

Goldman, Sachs & Co. (Goldman Sachs) delivered its opinion to the special advisory committee of our board of directors and our board of directors that, as of the date of its opinion and based upon and subject to the factors and assumptions set forth in its opinion, the merger consideration of \$44.00 in cash per share to be received by our stockholders in the merger was fair, from a financial point of view, to such stockholders.

The full text of the written opinion of Goldman Sachs, dated June 30, 2006, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this proxy statement. Goldman Sachs provided its opinion for the information and assistance of the special advisory committee of our board of directors and our board of directors in connection with their consideration of the transaction. Goldman Sachs' opinion is not a recommendation as to how any holder of our common stock should vote at the special meeting. Pursuant to an engagement letter between the special advisory committee of our board of directors and Goldman Sachs, we have agreed to pay Goldman Sachs a transaction fee of 0.15% of the aggregate consideration paid in the transaction, or approximately \$9.0 million, with one-third of the transaction fee payable upon signing of the merger agreement, one-third of the transaction fee payable upon the stockholder vote for the transaction and the remainder of the transaction fee payable upon consummation of the transaction.

Table of Contents**Financing (page 35)**

The Sponsor Entities estimate the total amount of funds necessary to complete the merger and the related transactions to be approximately \$6.164 billion, which includes approximately \$5.920 billion to be paid out to our stockholders and holders of other equity-based interests in Michaels, with the remainder to be applied to pay related fees and expenses in connection with the merger, the financing arrangements and the related transactions. These payments are expected to be funded by a combination of equity contributions by entities sponsored by or co-investors with Bain and Blackstone and debt financing, as well as our available cash.

In connection with the execution and delivery of the merger agreement, Bain Finco, Blackstone Finco, Bain Capital Fund IX, LLC and Blackstone Capital Partners V L.P. have obtained commitments to provide up to \$4.8 billion in debt financing, consisting of (1) a senior secured asset-based revolving facility with a maximum availability of \$1.0 billion, (2) a senior secured term loan facility in an aggregate principal amount of \$2.4 billion, (3) a senior unsecured bridge loan facility in an aggregate principal amount of up to \$700 million and (4) a senior subordinated unsecured bridge loan facility in an aggregate principal amount of up to \$700 million, to finance, in part, the payment of the merger consideration, the repayment or refinancing of certain of our debt outstanding on the closing date of the merger and to pay fees and expenses in connection with the merger, financing and related transactions and, in the case of the asset-based revolving facility, for general corporate purposes after the closing date of the merger. The Sponsor Entities have agreed to use their reasonable best efforts to arrange the debt financing on the terms and conditions described in the commitments. In addition, the Mergercos have obtained an aggregate of \$2.18 billion in equity commitments from Bain Capital Fund IX, LLC and Blackstone Capital Partners V L.P. and their respective affiliates. The facilities and notes contemplated by the debt financing commitments are subject to various conditions, as described in further detail under *The Merger Financing Debt Financing* beginning on page 35.

The closing of the merger is not conditioned on the receipt of the debt financing by the Fincos. The Mergercos, however, are not required to consummate the merger until after the completion of the marketing period, as described above under *When the Merger Will be Completed* and in further detail under *The Merger Agreement Effective Time; The Marketing Period* beginning on page 45.

Treatment of Stock Options and Restricted Stock (page 36)

Each outstanding option to purchase shares of our common stock (other than rollover options), whether or not then exercisable, will be canceled and converted into the right to receive a cash payment equal to the excess (if any) of the \$44.00 per share cash merger consideration over the exercise price per share of the option, multiplied by the number of shares subject to the option, without interest and less any applicable withholding taxes, and all outstanding shares of restricted stock (other than rollover shares) will be converted into the right to receive \$44.00 per share in cash, without interest and less any applicable withholding taxes.

Interests of Our Directors and Executive Officers in the Merger (page 36)

Our directors and executive officers may have interests in the merger that are different from, or in addition to, yours, including the following:

- our directors and executive officers will receive cash consideration for their vested and unvested stock options in connection with the merger;

- each of our current executive officers (other than those executive officers who are also members of our board of directors) is a party to a change in control severance agreement with us that provides for (1) continued employment in an equivalent position for two years following completion of the merger, unless earlier terminated, (2) base compensation, cash bonus awards, long-term incentive opportunities and retirement, welfare and fringe benefits at levels at least equal to the compensation and benefits received by the executive immediately prior to completion of the merger for two years following completion of the merger (unless earlier terminated), (3) comprehensive officer liability insurance coverage and continued indemnification rights, (4) severance benefits (including cash severance payments and continued welfare and fringe benefits or cash in lieu thereof) if the executive's employment with us is

Table of Contents

terminated in anticipation of the completion of the merger or if, during the two-year period after completion of the merger, the executive is terminated without cause or resigns for good reason, (5) gross-ups in respect of certain golden parachute excise taxes payable by the executive and certain other taxes, interest and penalties that may be imposed on nonqualified deferred compensation and (6) reimbursement of certain legal fees and related expenses;

each of our current executive officers (other than those executive officers who are also members of our board of directors) is eligible to receive a change in control retention bonus equal to \$125,000 if he is still employed on the first anniversary of the completion of the merger or he is terminated without cause prior to such date;

each of our current executive officers (other than those executive officers who are also members of our board of directors) will be entitled to a guaranteed payout under our Fiscal Year 2006 Bonus Plan at one level below target and will be eligible to receive an additional bonus payment of up to 75% of each individual's target annual bonus, provided that he is still employed on the date that bonuses are paid;

within 30 days following the completion of the merger, we will terminate our nonqualified deferred compensation plan and will cause all accounts thereunder to be paid out to participants in cash;

the merger agreement provides that, during the two-year period following completion of the merger, the surviving corporation will maintain certain benefit plans and will continue to provide certain compensation and benefits;

the merger agreement provides for indemnification and liability insurance arrangements for each of our current and former directors and officers; and

while no agreements, arrangements or understandings have been entered into as of the date of this proxy statement, members of our management may enter into employment agreements with the surviving corporation and may participate in the equity of the surviving corporation, as described more fully under *Merger Agreement Arrangements with the Sponsor Entities* beginning on page 42.

Our board of directors was aware of these interests and considered them, among other matters, in making its decisions.

Material United States Federal Income Tax Consequences of the Merger (page 42)

For U.S. federal income tax purposes, the merger will be treated as a sale of the shares of our common stock for cash by each of our stockholders. As a result, in general, each stockholder will recognize gain or loss equal to the difference, if any, between the amount of cash received in the merger and such stockholder's adjusted tax basis in the shares surrendered. Such gain or loss will be capital gain or loss if the shares of common stock surrendered are held as a capital asset in the hands of the stockholder, and will be long-term capital gain or loss if the shares of common stock have a holding period of more than one year at the time of the merger. **Stockholders are urged to consult their own tax advisors as to the particular tax consequences to them of the merger.**

Regulatory Approvals (page 44)

The Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the Hart-Scott-Rodino Act), provides that transactions such as the merger may not be completed until certain information has been submitted to the Federal Trade Commission and the Antitrust Division of the U.S. Department of Justice and certain waiting period requirements have been satisfied. Michaels and an entity to be formed to invest in the Mergercos filed notification reports with the Department of Justice and the Federal Trade Commission under the Hart-Scott-Rodino Act on August 28, 2006 and August 24, 2006, respectively.

Except as noted above with respect to the required filings under the Hart-Scott-Rodino Act and the filing of a certificate of merger in Delaware at or before the effective date of the merger, we are unaware of any material

Table of Contents

federal, state or foreign regulatory requirements or approvals required for the execution of the merger agreement or completion of the merger.

Procedure for Receiving Merger Consideration (page 47)

Within two business days after the effective time of the merger, a paying agent will mail a letter of transmittal and instructions to you and the other Michaels stockholders. The letter of transmittal and instructions will tell you how to surrender your stock certificates in exchange for the merger consideration. **You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the paying agent without a letter of transmittal.**

No Solicitation of Transactions (page 53)

The merger agreement restricts our ability to solicit or engage in discussions or negotiations with a third party regarding specified transactions involving Michaels. Notwithstanding these restrictions, under certain limited circumstances required for our board of directors to comply with its fiduciary duties, our board of directors may respond to a bona fide written proposal for an alternative acquisition or terminate the merger agreement and enter into an agreement with respect to a superior proposal after paying the termination fee specified in the merger agreement.

Conditions to Closing (page 58)

Before we can complete the merger, a number of conditions must be satisfied. These include:

the adoption of the merger agreement by our stockholders;

the expiration or termination of the waiting period under the Hart-Scott-Rodino Act;

the absence of governmental judgments or orders that have the effect of enjoining or otherwise prohibiting the consummation of the merger;

performance by each of the parties of its material obligations under the merger agreement in all material respects;

the accuracy of the representations and warranties of each of the parties to the merger agreement, except to the extent the failure of such representations and warranties to be true and correct would not constitute a material adverse effect; and

the delivery of closing certificates by each of the parties with respect to the satisfaction of the conditions relating to its representations and warranties and material obligations.

Other than the conditions pertaining to the stockholder approval, the absence of governmental orders and the expiration or termination of the Hart-Scott-Rodino Act waiting period, either Michaels, on the one hand, or the Mergercos (on behalf of themselves and the Fincos), on the other hand, may elect to waive conditions to their respective performance and complete the merger.

Termination of the Merger Agreement (page 59)

The merger agreement may be terminated at any time prior to the effective time of the merger, whether before or after stockholder approval has been obtained, as follows:

by mutual written consent of the Mergercos and Michaels;

by either the Mergercos or Michaels, if:

our stockholders do not adopt the merger agreement at the special meeting or any postponement or adjournment thereof;

Table of Contents

a final, non-appealable governmental order prohibits the merger;

the merger has not been consummated on or before December 19, 2006, provided that if the closing shall not have occurred prior to such date solely as a result of the failure of the marketing period to have been completed prior to such date, then such date is extended to March 31, 2007; or

there is a breach by the non-terminating party of any of its representations or warranties or failure to perform any of its covenants or agreements in the merger agreement such that the closing conditions would not be satisfied and which cannot be cured prior to the termination date set forth above;

by the Mergercos, if our board of directors withdraws or adversely modifies its recommendation or approval of the merger agreement or recommends or approves another takeover proposal; or

by Michaels, if

prior to adoption of the merger agreement by our stockholders, our board of directors determines that the failure to take such action would be inconsistent with its fiduciary duties under applicable law, but only after our board of directors has given proper notice to the Mergercos and taken into account any changes to the financial terms of the merger agreement proposed by the Sponsor Entities to us in response to such notice or otherwise; or

all of the mutual conditions to closing and all of the conditions to the Sponsor Entities' obligations to close have been satisfied (other than those conditions that by their terms are to be satisfied at the closing) and, on or after the last day of the marketing period, neither the Fincos nor the surviving corporation has received the proceeds of the debt financing.

Termination Fees and Expenses (page 60)

Under certain circumstances, in connection with the termination of the merger agreement, we will be required to pay to the Mergercos an aggregate termination fee of \$120 million.

The Sponsor Entities have agreed to pay us a termination fee of \$200 million if we terminate the merger agreement in certain circumstances related to the failure of the Fincos to receive the proceeds of the debt financing. If, in the event that the Sponsor Entities become obligated to pay this termination fee, none of the Sponsor Entities is otherwise in breach of the merger agreement such that the conditions to our obligation to close have been satisfied, then our termination of the merger agreement in these circumstances and receipt of payment of such termination fee shall be our sole and exclusive remedy against the Sponsor Entities for any loss or damage suffered as a result of any breach of the merger agreement by the Sponsor Entities and the failure of the merger to be consummated.

The parties have agreed that the aggregate liability of Michaels and our subsidiaries, as a group, on the one hand, or the Sponsor Entities, Bain Capital Fund IX, LLC and Blackstone Capital Partners V L.P., as a group, on the other hand, arising from any breach of the merger agreement (other than breaches related to fraud) shall be capped at \$600 million.

Specific Performance (page 62)

The parties to the merger agreement are entitled to an injunction or injunctions to prevent breaches of merger agreement and to enforce specifically the terms and provisions of the merger agreement in any court of the State of Delaware or any Federal court sitting in the State of Delaware.

Market Price of Our Stock (page 65)

Our common stock is listed on the New York Stock Exchange (the "NYSE") under the trading symbol "MIK". The closing sale price of our common stock on the NYSE on March 17, 2006, which was the last trading

Table of Contents

day before we announced that our board of directors was exploring strategic alternatives, including a potential sale of Michaels, was \$33.96. The closing sale price of our common stock on the NYSE on June 30, 2006, which was the last trading day before we announced the merger, was \$41.24. On [], 2006, the last trading day before the date of this proxy statement, the closing price of our common stock on the NYSE was \$[].

Appraisal Rights (page 63 and Annex E)

Pursuant to section 262 of the Delaware General Corporation Law, referred to as the DGCL, our stockholders have the right to dissent from the merger and receive a cash payment for the judicially determined fair value of their shares of our common stock. The judicially determined fair value under section 262 could be greater than, equal to or less than the \$44.00 per share that our stockholders are entitled to receive in the merger. Stockholders that wish to exercise their appraisal rights must not vote in favor of the adoption of the merger agreement and must strictly comply with all of the procedures required by the DGCL. A copy of section 262 of the DGCL is attached to this proxy statement as Annex E.

Table of Contents

QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

The following questions and answers are intended to address some commonly asked questions regarding the special meeting and the merger. These questions and answers may not address all questions that may be important to you as our stockholder. Please refer to the more detailed information contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to or incorporated by reference in this proxy statement.

Q: What is the proposed transaction?

A: The proposed transaction is the merger of Michaels with affiliates of Bain and Blackstone pursuant to the merger agreement. Once the merger agreement has been adopted by the Michaels stockholders and the other closing conditions under the merger agreement have been satisfied or waived, the Mergercos will merge with and into Michaels. Michaels will be the surviving corporation in the merger and will become wholly owned by entities sponsored by or co-investors with Bain and Blackstone.

Q: What will I receive in the merger?

A: Upon completion of the merger, you will receive \$44.00 in cash, without interest and less any required withholding taxes, for each share of our common stock that you own. For example, if you own 100 shares of our common stock, you will receive \$4,400.00 in cash in exchange for your shares of our common stock, less any required withholding taxes. You will not own shares in the surviving corporation.

Q: Where and when is the special meeting?

A: The special meeting will take place at 8000 Bent Branch Drive, Irving, Texas 75063, on October 5, 2006, at 9:30 a.m., central daylight time.

Q: What vote of our stockholders is required to adopt the merger agreement?

A: For us to complete the merger, holders of a majority of the outstanding shares of our common stock at the close of business on the record date must vote their shares **FOR** the adoption of the merger agreement. Accordingly, failure to vote or an abstention will have the same effect as a vote against adoption of the merger agreement.

Q: How does our board of directors recommend that I vote on the merger agreement?

A: Our board of directors unanimously recommends that our stockholders vote **FOR** the adoption of the merger agreement. You should read *The Merger Reasons for the Merger* beginning on page 20 for a discussion of the factors that our board of directors considered in deciding to recommend the adoption of the merger agreement.

Q: What do I need to do now?

A: We urge you to read this proxy statement carefully, including its annexes, and to consider how the merger affects you. If you are a stockholder of record, then you can ensure that your shares are voted at the special meeting by completing, signing, dating and mailing each proxy card and returning it in the envelope provided. If you hold your shares in street name, you can ensure that your shares are voted at the special meeting by instructing to your broker on how to vote, as discussed below.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: Yes, but only if you provide instructions to your broker on how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. Without those instructions, your shares will not be voted, which will have the same effect as voting against adoption of the merger agreement.

Table of Contents

Q: Can I change my vote?

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting. If you are a registered stockholder, you may revoke your proxy by notifying Computershare Investor Services, L.L.C., 3020 Legacy Drive, Suite 100-307, Plano, Texas 75023 in writing or by submitting by mail a new proxy dated after the date of the proxy being revoked. In addition, your proxy may be revoked by attending the special meeting and voting in person (you must vote in person, as simply attending the special meeting will not cause your proxy to be revoked).

Please note that if you hold your shares in street name and you have instructed your broker to vote your shares, the above-described options for changing your vote do not apply, and instead you must follow the directions received from your broker to change your vote.

Q: How do I vote my Michaels Stores, Inc. 401(k) shares?

A: If you participate in the Michaels Stores, Inc. Common Stock Fund under the Michaels Stores, Inc. Employees 401(k) Plan, which we refer to as the 401(k) Plan, you may give voting instructions to State Street Bank and Trust Company, as trustee of the 401(k) Plan, by completing and returning the 401(k) Plan proxy card accompanying this proxy statement. Your instructions will tell the trustee how to vote the number of shares of our common stock reflecting your proportionate interest in the Michaels Stores, Inc. Common Stock Fund and any such instruction will be kept confidential. The trustee will vote your shares in accordance with your duly executed 401(k) Plan proxy card received by [], 2006. If you do not give the trustee of the 401(k) Plan voting instructions, the number of shares reflecting your proportionate interest will not be voted.

You may also revoke previously given voting instructions by [], 2006, by filing with the trustee of the 401(k) Plan either a written notice of revocation or a properly completed and signed 401(k) Plan proxy card bearing a later date. Your voting instructions will be kept confidential by the trustee.

Q: What does it mean if I get more than one proxy card or vote instruction card?

A: If your shares are registered differently or are in more than one account, you will receive more than one proxy card or, if you hold your shares in street name, more than one vote instruction card. Please complete and return all of the proxy cards or vote instruction cards you receive to ensure that all of your shares are voted.

Q: Should I send in my stock certificates now?

A: No. Shortly after the merger is completed, you will receive a letter of transmittal with instructions informing you how to send in your stock certificates to the paying agent in order to receive the merger consideration. You should use the letter of transmittal to exchange stock certificates for the merger consideration to which you are entitled as a result of the merger. **DO NOT SEND ANY STOCK CERTIFICATES WITH YOUR PROXY.**

Q: What happens if I sell my shares before the special meeting?

A: The record date of the special meeting is earlier than the special meeting and the date that the merger is expected to be completed. If you transfer your shares of our common stock after the record date but before the special meeting, you will retain your right to vote at the special meeting, but will have transferred the right to receive \$44.00 per share in cash to be received by our stockholders in the merger. In order to receive the

\$44.00 per share, you must hold your shares through completion of the merger.

Table of Contents

Q: Am I entitled to exercise appraisal rights instead of receiving the merger consideration for my shares?

A: Yes. As a holder of our common stock, you are entitled to appraisal rights under Delaware law in connection with the merger if you meet certain conditions, which conditions are described in this proxy statement under the caption *Appraisal Rights* beginning on page 63.

Q: Who can help answer my other questions?

A: If you have more questions about the merger, please contact our Investor Relations Department at (972) 409-1300. If you need assistance in submitting your proxy or voting your shares or need additional copies of this proxy statement or the enclosed proxy card, you should contact our proxy solicitation agent, Morrow & Co., Inc., at (631) 918-4031. If your broker holds your shares, you should call your broker for additional information.

Table of Contents

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This proxy statement, and the documents to which we refer you in this proxy statement, contain forward-looking statements about our plans, objectives, expectations and intentions. Forward-looking statements include information concerning possible or assumed future results of operations of our company, the expected completion and timing of the merger and other information relating to the merger. Generally these forward-looking statements can be identified by the use of forward-looking terminology such as anticipate, believe, estimate, expect, may, should, project and similar expressions. For each of these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You should read statements that contain these words carefully. They discuss our future expectations or state other forward-looking information, and may involve known and unknown risks over which we have no control. Those risks include, without limitation:

the satisfaction of the conditions to consummation of the merger, including the adoption of the merger agreement by our stockholders;

the occurrence of any event, change or other circumstance that could give rise to the termination of the merger agreement, including a termination under circumstances that could require us to pay a \$120.0 million termination fee to the Mergercos;

the amount of the costs, fees, expenses and charges related to the merger;

the effect of the announcement of the merger on our business relationships, operating results and business generally, including our ability to retain key employees;

the risk that the merger may not be completed in a timely manner or at all, which may adversely affect our business and the price of our common stock;

the potential adverse effect on our business, properties and operations because of certain covenants we agreed to in the merger agreement;

the risk that we may be subject to litigation, including the litigation described under *The Merger Litigation Concerning the Merger* beginning on page 44, in connection with the merger;

risks related to diverting management's attention from our ongoing business operations; and

other risks detailed in our filings with the Securities and Exchange Commission (the SEC), including Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended January 28, 2006. See *Where You Can Find More Information* on page 69.

We believe that the assumptions on which our forward-looking statements are based are reasonable. However, we cannot assure you that the actual results or developments we anticipate will be realized or, if realized, that they will have the expected effects on our business or operations. All subsequent written and oral forward-looking statements concerning the merger or other matters addressed in this proxy statement and attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Forward-looking statements speak only as of the date of this proxy statement or the date of any document incorporated by reference in this document. Except as required by applicable law or regulation, we do not undertake to release the results of any revisions of these forward-looking statements to reflect future events or circumstances.

Table of Contents

THE PARTIES TO THE MERGER AGREEMENT

Michaels Stores, Inc.

Michaels is the largest arts and crafts specialty retailer in the United States. As of July 21, 2006, we operate 902 Michaels retail stores in 48 states and Canada, and we also operate 165 Aaron Brothers stores in 11 states, offering framing supplies and services and a wide selection of art supplies. Recollections, our scrapbooking/paper crafting retail concept, operates 11 stores located in Arizona, Maryland, Texas, and Virginia as of July 21, 2006. In addition, we own and operate four Star Decorators Wholesale stores located in Arizona, California, Georgia, and Texas as of July 21, 2006, offering merchandise primarily to interior decorators/designers, wedding/event planners, florists, hotels, restaurants and commercial display companies.

Michaels is incorporated in the state of Delaware with its principal executive offices at 8000 Bent Branch Drive, Irving, Texas 75063, and its telephone number is (972) 409-1300.

Bain Paste Mergerco, Inc.

Bain Paste Finco, LLC

Bain Paste Mergerco, Inc. is a Delaware corporation formed by a private equity fund sponsored by Bain in anticipation of the merger. Subject to the terms and conditions of the merger agreement and in accordance with Delaware law, at the effective time of the merger Bain Paste Mergerco, Inc. will merge with and into Michaels Stores, Inc. Bain Paste Mergerco, Inc. has de minimis assets and no operations. Bain Paste Finco, LLC is a Delaware limited liability company formed by a private equity fund sponsored by Bain in anticipation of the merger. Bain Paste Mergerco, Inc. and Bain Paste Finco, LLC each have their principal executive offices at c/o Bain Capital Partners, LLC, 111 Huntington Avenue, Boston, Massachusetts 02199, and its telephone number is (617) 516-2000. Bain is part of Bain Capital, LLC, a global private investment firm that manages several pools of capital, including private equity, venture capital, public equity, and leveraged debt assets, with more than \$38&nb