Eaton Vance Floating-Rate Income Trust
Form N-CSRS
January 27, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form N-CSR
CERTIFIED SHAREHOLDER REPORT OF REGISTERED MANAGEMENT INVESTMENT COMPANIES
Investment Company Act File Number: 811-21574
Eaton Vance Floating-Rate Income Trust
(Exact Name of registrant as Specified in Charter)
The Eaton Vance Building, 255 State Street, Boston, Massachusetts 02109
(Address of Principal Executive Offices)
Maureen A. Gemma
The Eaton Vance Building, 255 State Street, Boston, Massachusetts 02109
(Name and Address of Agent for Services)
(617) 482-8260
(registrant s Telephone Number)
May 31
Date of Fiscal Year End
November 30, 2008
Date of Reporting Period

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Item 1. Reports to Stockholders

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IMPORTANT NOTICES REGARDING PRIVACY, DELIVERY OF SHAREHOLDER DOCUMENTS, PORTFOLIO HOLDINGS AND PROXY VOTING

Privacy. The Eaton Vance organization is committed to ensuring your financial privacy. Each of the financial institutions identified below has in effect the following policy (Privacy Policy) with respect to nonpublic personal information about its customers:

Only such information received from you, through application forms or otherwise, and information about your Eaton Vance fund transactions will be collected. This may include information such as name, address, social security number, tax status, account balances and transactions.

None of such information about you (or former customers) will be disclosed to anyone, except as permitted by law (which includes disclosure to employees necessary to service your account). In the normal course of servicing a customer s account, Eaton Vance may share information with unaffiliated third parties that perform various required services such as transfer agents, custodians and broker/dealers.

Policies and procedures (including physical, electronic and procedural safeguards) are in place that are designed to protect the confidentiality of such information.

We reserve the right to change our Privacy Policy at any time upon proper notification to you. Customers may want to review our Policy periodically for changes by accessing the link on our homepage: www.eatonvance.com.

Our pledge of privacy applies to the following entities within the Eaton Vance organization: the Eaton Vance Family of Funds, Eaton Vance Management, Eaton Vance Investment Counsel, Boston Management and Research, and Eaton Vance Distributors, Inc.

In addition, our Privacy Policy only applies to those Eaton Vance customers who are individuals and who have a direct relationship with us. If a customer s account (i.e., fund shares) is held in the name of a third-party financial adviser/broker-dealer, it is likely that only such adviser s privacy policies apply to the customer. This notice supersedes all previously issued privacy disclosures.

For more information about Eaton Vance s Privacy Policy, please call 1-800-262-1122.

Delivery of Shareholder Documents. The Securities and Exchange Commission (the SEC) permits funds to deliver only one copy of shareholder documents, including prospectuses, proxy statements and shareholder reports, to fund investors with multiple accounts at the same residential or post office box address. This practice is often called householding and it helps eliminate duplicate mailings to shareholders.

Eaton Vance, or your financial adviser, may household the mailing of your documents indefinitely unless you instruct Eaton Vance, or your financial adviser, otherwise.

If you would prefer that your Eaton Vance documents not be householded, please contact Eaton Vance at 1-800-262-1122, or contact your financial adviser.

Your instructions that householding not apply to delivery of your Eaton Vance documents will be effective within 30 days of receipt by Eaton Vance or your financial adviser.

Portfolio Holdings. Each Eaton Vance Fund and its underlying Portfolio (if applicable) will file a schedule of its portfolio holdings on Form N-Q with the SEC for the first and third quarters of each fiscal year. The Form N-Q will be available on the Eaton Vance website www.eatonvance.com, by calling Eaton Vance at 1-800-262-1122 or in the EDGAR database on the SEC s website at www.sec.gov. Form N-Q may also be reviewed and copied at the SEC s public reference room in Washington, D.C. (call 1-800-732-0330 for information on the operation of the public reference room).

Proxy Voting. From time to time, funds are required to vote proxies related to the securities held by the funds. The Eaton Vance Funds or their underlying Portfolios (if applicable) vote proxies according to a set of policies and procedures approved by the Funds and Portfolios Boards. You may obtain a description of these policies and procedures and information on how the Funds or Portfolios voted proxies relating to portfolio securities during the most recent 12 month period ended June 30, without charge, upon request, by calling 1-800-262-1122. This description is also available on the SEC s website at www.sec.gov.

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

INVESTMENT UPDATE

Economic and Market Conditions

Scott H. Page, CFA
Co-Portfolio Manager

Ralph H. Hinckley, Jr., CFA
Co-Portfolio Manager

During the six months ended November 30, 2008, credit markets experienced unprecedented volatility, and the bank loan market and high-yield bond market were no exception. The subprime crisis of 2007 expanded in 2008 to include nearly all credit instruments, which in turn, caused the world economy to slip into recession. The period was a roller-coaster for the credit markets and for the Trust. The total return for the S&P/LSTA Leveraged Loan Index (the Index) through the first three months of the period was -0.64%, disappointing, but, given the environment, not especially bad compared to other markets. However, September 2008 brought a series of events that rattled the markets more deeply: the bailouts of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, the rescue of American International Group, Inc. and a litany of unprecedented steps by the U.S. Treasury and the Federal Reserve to stabilize the credit markets. In the Trust s second fiscal quarter, the Index declined -25.52%, by far its worst quarterly showing ever. The average loan price in the Trust was 65.2% of par at November 30, 2008. Although statistics vary with respect to the recovery rates of loans in default, the historical rate has been approximately 70% of par. As such, bank loan prices at year-end were approaching levels that implied near universal default. At year-end, 1.2% of the loan investments of the Trust were in default versus 2.0% for the Index.

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value or share price (as applicable) with all distributions reinvested. The Trust s performance at share price will differ from its results at NAV. Although share price performance generally reflects investment results over time, during shorter periods, returns at share price can also be affected by factors such as changing perceptions about the Trust, market conditions, fluctuations in supply and demand for the Trust s shares, or changes in Trust distributions. Investment return and principal value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Performance is for the stated time period only; due to market volatility, the Trust s current performance may be lower or higher than the quoted return. Absent an expense waiver by the investment adviser, returns would be lower. For performance as of the most recent month end, please refer to www.eatonvance.com.

Trust shares are not insured by the FDIC and are not deposits or other obligations of, or guaranteed by, any depository institution. Shares are subject to investment risks, including possible loss of principal invested.

While there is little doubt that a recession would bring higher default rates, it is difficult to reconcile recent trading levels with market fundamentals. A range of credit statistics and criteria used to monitor creditworthiness suggested that overall credit quality appeared to be in line with historical patterns. Despite this, bank loans traded below historical recovery levels, thus implying a near 100% default rate. The most compelling, albeit obvious, explanation for the market s depressed trading level was that there were more sellers of bank loans than buyers, especially during the Trust s second quarter. Some selling was forced, especially by hedge funds and structured investment vehicles unable to meet margin requirements. Some selling was voluntary, as redemptions from mutual funds were significant throughout the year. In addition, many hard-pressed banks and investment banks that typically make markets in bank loans were hesitant to own loans and bonds, making trading more volatile. Later in the period, there were signs that many institutional investors were attracted to the asset class by record low loan prices. However, selling clearly outweighed buying, pushing prices lower.

Management Discussion

The Trust is a closed-end fund and trades on the New York Stock Exchange under the symbol EFT . The Trust s investment objective is to provide a high level of current income. As a secondary objective, it may also seek preservation of capital to the extent

Eaton Vance Floating-Rate Income Trust
Total Return Performance 5/31/08 11/30/08

NYSE Symbol		**EFT**
At Net Asset Value (NAV)[1]		-43.24%
At Share Price[1]		-44.76%
S&P/LSTA Leveraged Loan Index[2]		-25.96%
Premium/Discount to NAV as of 11/30/08		-9.57%
Total Distributions per common share		$ 0.582
Distribution Rate[3]	*At NAV*	13.12%
	At Share Price	14.51%

Please refer to page 3 for additional performance information.

1 *Performance results reflect the effects of leverage.*

2 *It is not possible to invest directly in an Index. The Index s total return reflects changes in value of the loans constituting the Index and accrual of interest and does not reflect the commissions or expenses that would have been incurred if an investor individually purchased or sold the loans represented in the Index. Unlike the Trust, the Index s return does not reflect the effect of leverage.*

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The Distribution Rate is based on the Trust s most recent monthly distribution per share (annualized) divided by the Trust s NAV or share price at the end of the period. The Trust s monthly distributions may be comprised of ordinary income, net realized capital gains and return of capital.

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

INVESTMENT UPDATE

consistent with its primary goal of high current income. Under normal market conditions, the Trust invests at least 80% of its total assets in senior, secured floating-rate loans (senior loans). In managing the Trust, the investment adviser seeks to invest in a portfolio of senior loans that it believes will be less volatile over time than the general loan market. The Trust may also invest in second lien loans and high yield bonds, and, as discussed below, may employ leverage, which may increase risk.

The Trust s performance for the six months ended November 30, 2008 was negatively affected by the issues that influenced the broader market. The effect of leverage was the primary factor contributing to the Trust s underperformance relative to the Index. In addition, the Trust had approximately 9% of its assets invested in European loans, and loan prices in Europe have underperformed relative to their U.S. counterparts.

At November 30, 2008, the Trust s investments included senior loans to 411 borrowers spanning 38 industries, with an average loan size of 0.24% of total investments, and no industry constituting more than 10% of total investments. Healthcare, business equipment and services, publishing, leisure goods/activities/ movies and cable and satellite television were the top industry weightings.

The Trust continues to have less than 1% exposure to home builders. The Trust did not have any exposure to subprime or prime mortgage lenders during the six months ended November 30, 2008.

As of November 30, 2008, the Trust had outstanding leverage of approximately 48.9% of its total net assets.[1] The Trust s leverage consists of auction preferred shares issued by the Trust (APS) and borrowings under a revolving credit and security agreement with conduit lenders and a bank. Pursuant to applicable law and provisions of the Trust s governing documents relating to the use of leverage, the Trust may not declare dividends or other distributions on common shares if it does not maintain asset coverage in certain prescribed amounts. As a result of the sharp declines in the value of the Trust s investments in recent months, the Trust sold investments to reduce outstanding leverage and maintain the required asset coverage. During the six months ended November 30, 2008, the Trust s outstanding borrowings were reduced by $121.5 million for this reason. If credit markets remain volatile, additional actions may be required to maintain the Trust s asset coverage, including additional sales of investments and possibly a reduction in dividend payment rates. In the event of an improvement in asset coverage, the Trust has the ability to increase borrowings under the revolving credit and security agreement.

The views expressed throughout this report are those of the portfolio managers and are current only through the end of the period of the report as stated on the cover. These views are subject to change at any time based upon market or other conditions, and the investment adviser disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a fund are based on many factors, may not be relied on as an indication of trading intent on behalf of any Eaton Vance fund. Portfolio information provided in the report may not be representative of the Trust s current or future investments and may change due to active management.

1 In the event of a rise in long-term interest rates or a decline in bank loan prices due to market conditions, the value of the

Trust s investment portfolio could decline, which would reduce the asset coverage for its Auction Preferred Shares and borrowings.

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

TRUST PERFORMANCE

Portfolio Composition

Top Ten Holdings[1]

By total investments

SunGard Data Systems, Inc.	1.1%
HCA, Inc.	1.0
NRG Energy, Inc.	0.9
Health Management Association, Inc.	0.9
UPC Broadband Holding B.V.	0.9
Georgia-Pacific Corp.	0.8
Community Health Systems, Inc.	0.8
Rite Aid Corp.	0.8
Centennial Cellular Operating Co., LLC	0.7
Alltel Communications	0.7

1 Reflects the Trust s investments as of 11/30/08. Holdings are shown as a percentage of the Trust s total investments.

Top Five Industries[2]

By total investments

Healthcare	9.9%
Business Equipment and Services	7.3
Publishing	6.4
Leisure Goods/Activities/Movies	6.1
Cable and Satellite Television	6.0

2 Reflects the Trust s investments as of 11/30/08. Industries are shown as a percentage of the Trust s total investments.

Credit Quality Ratings for Total Loan Investments[3]

By total loan investments

Baa	1.3%
Ba	46.4

B	36.0
Caa	4.3
Non-Rated[4]	12.0

[3] Credit Quality Ratings are those provided by Moody s Investor Services, Inc., a nationally recognized bond rating service. Reflects the Trust s total loan investments as of 11/30/08. Although the investment adviser considers ratings when making investment decisions, it performs its own credit and investment analysis and does not rely primarily on the ratings assigned by the rating services. Credit quality can change from time to time, and recently issued credit ratings may not fully reflect the actual risks posed by a particular security or the issuer s current financial condition.

[4] Certain loans in which the Trust

invests are not rated by a rating agency. In management s opinion, such securities are comparable to securities rated by a rating agency in the categories listed above.

Trust Performance [5]

New York Stock Exchange Symbol

Average Annual Total Return (by share price, NYSE)	EFT
Six Months	-44.76%
One Year	-44.10
Life of Trust (6/29/04)	-11.16

Average Annual Total Return (at net asset value)	
Six Months	-43.24%
One Year	-44.54
Life of Trust (6/29/04)	-9.12

[5] Performance results reflect the effects of leverage.

Past performance is no guarantee of future results. Returns are historical and are calculated by determining the percentage change in net asset value or share price (as applicable) with all distributions reinvested. The Trust s performance at share price will differ from its results at NAV. Although share price performance generally reflects investment results over time, during shorter periods, returns at share price can also be affected by factors such as changing perceptions about the Trust, market conditions, fluctuations in supply and demand for the Trust s shares, or changes in Trust distributions. Investment return and principal value will fluctuate so that shares, when sold, may be worth more or less than their original cost. Performance is for the stated time period only; due to market volatility, the Trust s current performance may be lower or higher than the quoted return. Absent an expense waiver by the investment adviser, the returns would be lower. For performance as of the most recent month end, please refer to www.eatonvance.com.

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited)

Senior Floating-Rate Interests 171.2%[(1)]

Principal Amount*	Borrower/Tranche Description	Value	
Aerospace and Defense 3.7%			
CACI International, Inc.			
2,113,556	Term Loan, 3.54%, Maturing May 3, 2011	$	1,907,484
Colt Defense, LLC			
981,420	Term Loan, 6.10%, Maturing July 9, 2014		780,229
DAE Aviation Holdings, Inc.			
459,575	Term Loan, 6.28%, Maturing July 31, 2014		273,447
454,194	Term Loan, 7.17%, Maturing July 31, 2014		270,245
Evergreen International Aviation			
1,468,273	Term Loan, 9.00%, Maturing October 31, 2011		954,377
Hawker Beechcraft Acquisition			
208,002	Term Loan, 5.76%, Maturing March 26, 2014		112,767
3,551,294	Term Loan, 5.76%, Maturing March 26, 2014		1,925,309
Hexcel Corp.			
371,124	Term Loan, 5.39%, Maturing March 1, 2012		324,733
IAP Worldwide Services, Inc.			
970,694	Term Loan, 9.06%, Maturing December 30, 2012		611,537
Spirit AeroSystems, Inc.			
1,275,772	Term Loan, 6.50%, Maturing December 31, 2011		1,078,027
TransDigm, Inc.			
1,800,000	Term Loan, 5.21%, Maturing June 23, 2013		1,395,000
Vought Aircraft Industries, Inc.			
1,273,412	Term Loan, 3.94%, Maturing December 17, 2011		993,261
748,238	Term Loan, 7.50%, Maturing December 22, 2011		594,849
Wesco Aircraft Hardware Corp.			
1,264,250	Term Loan, 3.69%, Maturing September 29, 2013		992,436
		$	**12,213,701**
Air Transport 0.7%			
Delta Air Lines, Inc.			
1,333,125	Term Loan Second Lien, 5.83%, Maturing April 30, 2014	$	683,893
Northwest Airlines, Inc.			

	2,100,786	DIP Loan, 3.54%, Maturing August 21, 2009		1,560,884
			$	**2,244,777**

Automotive 7.3%

Accuride Corp.				
	1,797,212	Term Loan, 5.56%, Maturing January 31, 2012	$	1,217,611
Adesa, Inc.				
	4,402,722	Term Loan, 6.02%, Maturing October 18, 2013		2,689,328
Affina Group, Inc.				
	1,210,323	Term Loan, 6.42%, Maturing November 30, 2011		756,452
Allison Transmission, Inc.				
	4,236,339	Term Loan, 5.00%, Maturing September 30, 2014		2,590,220
AxleTech International Holding, Inc.				
	1,950,000	Term Loan Second Lien, 10.39%, Maturing April 21, 2013		1,530,750
Chrysler Financial				
	3,184,449	Term Loan, 6.82%, Maturing August 1, 2014		1,740,833
CSA Acquisition Corp.				
	259,203	Term Loan, 6.31%, Maturing December 23, 2011		120,530
	647,643	Term Loan, 6.31%, Maturing December 23, 2011		301,154
	486,250	Term Loan, 6.31%, Maturing December 23, 2012		218,812
Dayco Products, LLC				
	1,920,501	Term Loan, 8.00%, Maturing June 21, 2011		585,753
Delphi Corp.				
	138,644	DIP Loan, 8.50%, Maturing December 31, 2008		37,665
	1,361,357	DIP Loan, 8.50%, Maturing December 31, 2008		369,836
Federal-Mogul Corp.				
	1,668,411	Term Loan, 3.91%, Maturing December 27, 2014		870,355
	2,286,664	Term Loan, 3.66%, Maturing December 27, 2015		1,192,877
Ford Motor Co.				
	1,940,438	Term Loan, 4.43%, Maturing December 15, 2013		793,154
General Motors Corp.				
	5,561,361	Term Loan, 5.80%, Maturing November 29, 2013		2,219,912
Goodyear Tire & Rubber Co.				
	2,675,000	Term Loan Second Lien, 3.15%, Maturing April 30, 2010		1,722,031
HLI Operating Co., Inc.				
EUR	87,273	Term Loan, 4.32%, Maturing May 30, 2014		74,750
EUR	1,490,036	Term Loan, 6.42%, Maturing May 30, 2014		1,139,151
Keystone Automotive Operations, Inc.				
	1,432,388	Term Loan, 5.35%, Maturing January 12, 2012		787,813
LKQ Corp.				
	1,136,733	Term Loan, 3.66%, Maturing October 12, 2014		858,234
TriMas Corp.				
	262,500	Term Loan, 4.88%, Maturing August 2, 2011		165,375
	2,109,674	Term Loan, 5.01%, Maturing August 2, 2013		1,329,095
United Components, Inc.				
	1,180,271	Term Loan, 4.39%, Maturing June 30, 2010		861,598

				$	**24,173,289**
Beverage and Tobacco 0.4%					
Culligan International Co.					
EUR	1,075,000	Term Loan	Second Lien, 9.49%, Maturing May 31, 2013	$	272,813
Southern Wine & Spirits of America, Inc.					
	239,191	Term Loan, 5.26%, Maturing May 31, 2012			206,103

See notes to financial statements

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*	Borrower/Tranche Description	Value
Beverage and Tobacco (continued)		
Van Houtte, Inc.		
871,183	Term Loan, 6.26%, Maturing July 11, 2014	607,650
118,798	Term Loan, 6.26%, Maturing July 11, 2014	82,861
		$ 1,169,427
Building and Development 4.6%		
Beacon Sales Acquisition, Inc.		
1,249,500	Term Loan, 6.02%, Maturing September 30, 2013	$ 812,175
Brickman Group Holdings, Inc.		
780,557	Term Loan, 3.44%, Maturing January 23, 2014	480,042
Capital Automotive (REIT)		
1,372,138	Term Loan, 4.60%, Maturing December 16, 2010	628,439
Epco/Fantome, LLC		
1,564,000	Term Loan, 4.06%, Maturing November 23, 2010	1,470,160
Forestar USA Real Estate Group, Inc.		
1,700,000	Revolving Loan, 5.42%, Maturing December 1, 2010(2)	1,504,500
1,700,000	Term Loan, 5.42%, Maturing December 1, 2010	1,504,500
Hovstone Holdings, LLC		
961,912	Term Loan, 6.09%, Maturing February 28, 2009	580,514
LNR Property Corp.		
1,430,000	Term Loan, 6.69%, Maturing July 3, 2011	718,575
Metroflag BP, LLC		
500,000	Term Loan Second Lien, 12.00%, Maturing January 2, 2009	75,000
Mueller Water Products, Inc.		
1,421,690	Term Loan, 4.95%, Maturing May 24, 2014	1,037,834
NCI Building Systems, Inc.		
373,123	Term Loan, 4.12%, Maturing June 18, 2010	317,154
November 2005 Land Investors		
304,148	Term Loan, 5.44%, Maturing May 9, 2011	190,093
Panolam Industries Holdings, Inc.		
1,039,225	Term Loan, 6.51%, Maturing September 30, 2012	831,380

Re/Max International, Inc.			
	785,111	Term Loan, 6.76%, Maturing December 17, 2012	553,503
	492,679	Term Loan, 10.76%, Maturing December 17, 2012	347,338
South Edge, LLC			
	843,750	Term Loan, 6.25%, Maturing October 31, 2009(4)	126,562
TRU 2005 RE Holding Co.			
	5,075,000	Term Loan, 5.85%, Maturing December 9, 2008	3,057,687
United Subcontractors, Inc.			
	930,451	Term Loan Second Lien, 12.42%, Maturing June 27, 2013(3)	353,571
Wintergames Acquisition ULC			
	971,182	Term Loan, 8.94%, Maturing April 24, 2009	636,124
			$ 15,225,151

Business Equipment and Services 13.1%

ACCO Brands Corp.			
	1,063,950	Term Loan, 5.00%, Maturing August 17, 2012	$ 641,030
Activant Solutions, Inc.			
	1,729,835	Term Loan, 6.07%, Maturing May 1, 2013	1,089,796
	955,890	Term Loan, 6.88%, Maturing May 1, 2013	602,211
Acxiom Corp.			
	1,357,125	Term Loan, 4.94%, Maturing September 15, 2012	922,845
Affiliated Computer Services			
	899,562	Term Loan, 3.44%, Maturing March 20, 2013	749,207
Affinion Group, Inc.			
	2,619,470	Term Loan, 4.64%, Maturing October 17, 2012	1,920,944
Allied Barton Security Service			
	1,100,000	Term Loan, 7.50%, Maturing February 21, 2015	973,500
Education Management, LLC			
	3,851,494	Term Loan, 5.56%, Maturing June 1, 2013	2,592,537
Info USA, Inc.			
	656,556	Term Loan, 5.77%, Maturing February 14, 2012	508,831
Intergraph Corp.			
	1,000,000	Term Loan Second Lien, 8.20%, Maturing November 29, 2014	782,500
iPayment, Inc.			
	2,735,460	Term Loan, 5.12%, Maturing May 10, 2013	1,983,208
ista International GmbH			
EUR	1,188,822	Term Loan, 7.12%, Maturing May 14, 2015	897,555
EUR	236,178	Term Loan, 7.12%, Maturing May 14, 2015	178,313
Kronos, Inc.			
	1,225,446	Term Loan, 6.01%, Maturing June 11, 2014	821,049
Language Line, Inc.			
	3,376,443	Term Loan, 7.02%, Maturing June 11, 2011	2,886,859
Mitchell International, Inc.			
	992,443	Term Loan, 5.81%, Maturing March 28, 2014	791,474
	1,000,000	Term Loan Second Lien, 9.06%, Maturing March 28, 2015	600,000

N.E.W. Holdings I, LLC		
2,586,654	Term Loan, 5.70%, Maturing May 22, 2014	1,849,458
Protection One, Inc.		
2,217,826	Term Loan, 3.69%, Maturing March 31, 2012	1,685,548
Quantum Corp.		
296,875	Term Loan, 7.26%, Maturing July 12, 2014	237,500
Quintiles Transnational Corp.		
1,875,000	Term Loan Second Lien, 7.77%, Maturing March 31, 2014	1,218,750
Sabre, Inc.		
7,377,363	Term Loan, 5.25%, Maturing September 30, 2014	3,016,522
Serena Software, Inc.		
1,003,768	Term Loan, 5.00%, Maturing March 10, 2013	677,543
Sitel (Client Logic)		
1,957,921	Term Loan, 6.36%, Maturing January 29, 2014	1,174,753

See notes to financial statements

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*		Borrower/Tranche Description	Value	
Business Equipment and Services (continued)				
Solera Holdings, LLC				
EUR	837,061	Term Loan, 6.70%, Maturing May 15, 2014	$	796,610
SunGard Data Systems, Inc.				
	8,629,333	Term Loan, 4.00%, Maturing February 11, 2013		6,122,779
TDS Investor Corp.				
	994,962	Term Loan, 3.69%, Maturing August 23, 2013		513,649
	1,500,739	Term Loan, 6.01%, Maturing August 23, 2013		724,642
	301,124	Term Loan, 6.01%, Maturing August 23, 2013		145,400
EUR	1,054,228	Term Loan, 7.39%, Maturing August 23, 2013		827,708
Valassis Communications, Inc.				
	340,774	Term Loan, 5.52%, Maturing March 2, 2014		201,909
	1,475,829	Term Loan, 5.52%, Maturing March 2, 2014		874,429
VWR International, Inc.				
	1,825,000	Term Loan, 3.94%, Maturing June 28, 2013		1,209,062
WAM Acquisition, S.A.				
EUR	276,689	Term Loan, 6.48%, Maturing May 4, 2014		168,451
EUR	167,556	Term Loan, 6.48%, Maturing May 4, 2014		102,010
EUR	276,689	Term Loan, 6.98%, Maturing May 4, 2015		168,451
EUR	167,556	Term Loan, 6.98%, Maturing May 4, 2015		102,010
West Corp.				
	3,224,911	Term Loan, 4.21%, Maturing October 24, 2013		2,044,797
			$	**42,803,840**
Cable and Satellite Television 10.8%				
Atlantic Broadband Finance, LLC				
	3,910,458	Term Loan, 6.02%, Maturing February 10, 2011	$	3,558,516
Bragg Communications, Inc.				
	2,098,788	Term Loan, 5.31%, Maturing August 31, 2014		1,825,945
Bresnan Broadband Holdings, LLC				
	550,000	Term Loan, 6.06%, Maturing March 29, 2014		419,833
	1,325,000	Term Loan Second Lien, 7.60%, Maturing March 29, 2014		993,750
Cequel Communications, LLC				

	1,491,171	Term Loan, 6.16%, Maturing November 5, 2013	1,007,783
Charter Communications Operating, Inc.			
	2,197,501	Term Loan, 5.06%, Maturing April 28, 2013	1,492,011
CSC Holdings, Inc.			
	3,856,133	Term Loan, 4.57%, Maturing March 29, 2013	3,220,943
CW Media Holdings, Inc.			
	693,000	Term Loan, 7.01%, Maturing February 15, 2015	519,750
Foxco Acquisition Sub., LLC			
	725,000	Term Loan, 7.25%, Maturing July 2, 2015	482,125
Insight Midwest Holdings, LLC			
	3,999,375	Term Loan, 4.85%, Maturing April 6, 2014	3,156,651
Kabel BW GmbH and Co.			
EUR	500,000	Term Loan, 6.45%, Maturing June 9, 2013	406,048
EUR	500,000	Term Loan, 6.95%, Maturing June 9, 2014	406,048
MCC Iowa, LLC			
	1,012,500	Term Loan, 2.59%, Maturing March 31, 2010	888,469
Mediacom Broadband Group			
	3,891,077	Term Loan, 2.84%, Maturing January 31, 2015	2,789,902
Mediacom Illinois, LLC			
	4,026,408	Term Loan, 2.59%, Maturing January 31, 2015	2,805,065
NTL Investment Holdings, Ltd.			
GBP	1,800,000	Term Loan, Maturing March 30, 2012(8)	2,092,223
GBP	515,211	Term Loan, 9.63%, Maturing March 30, 2012	598,853
GBP	261,972	Term Loan, 9.63%, Maturing March 30, 2012	304,502
Orion Cable GmbH			
EUR	706,774	Term Loan, 7.69%, Maturing October 31, 2014	549,866
EUR	706,774	Term Loan, 8.41%, Maturing October 31, 2015	549,866
ProSiebenSat.1 Media AG			
EUR	409,546	Term Loan, 7.53%, Maturing March 2, 2015	62,794
EUR	11,076	Term Loan, 5.95%, Maturing June 26, 2015	6,857
EUR	272,924	Term Loan, 5.95%, Maturing June 26, 2015	168,951
EUR	409,546	Term Loan, 7.78%, Maturing March 2, 2016	62,794
EUR	565,165	Term Loan Second Lien, 8.90%, Maturing September 2, 2016	50,200
EUR	398,985	Term Loan, 12.15%, Maturing March 2, 2017	35,439
UPC Broadband Holding B.V.			
EUR	4,500,000	Term Loan, 6.48%, Maturing October 16, 2011	3,871,534
	2,175,000	Term Loan, 4.60%, Maturing December 31, 2014	1,568,175
YPSO Holding SA			
EUR	541,621	Term Loan, 5.89%, Maturing July 28, 2014	369,932
EUR	209,021	Term Loan, 5.89%, Maturing July 28, 2014	142,763
EUR	249,358	Term Loan, 5.89%, Maturing July 28, 2014	170,314
EUR	1,000,000	Term Loan, 6.14%, Maturing July 28, 2015	689,330
			$ 35,267,232

Chemicals and Plastics 9.7%

Arizona Chemical, Inc.

	500,000	Term Loan Second Lien, 6.94%, Maturing February 28, 2014	$ 281,250
Brenntag Holding GmbH and Co. KG			
	432,000	Term Loan, 5.07%, Maturing December 23, 2013	313,200
	1,768,000	Term Loan, 5.07%, Maturing December 23, 2013	1,281,800
	1,600,000	Term Loan Second Lien, 7.79%, Maturing December 23, 2015	1,024,000
Celanese Holdings, LLC			
	4,629,500	Term Loan, 5.55%, Maturing April 2, 2014	3,564,715
Cognis GmbH			
EUR	823,361	Term Loan, 6.96%, Maturing September 15, 2013	680,140
EUR	201,639	Term Loan, 6.96%, Maturing September 15, 2013	166,565
First Chemical Holding			
EUR	965,273	Term Loan, 8.16%, Maturing December 18, 2014	812,473

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*		Borrower/Tranche Description	Value
Chemicals and Plastics (continued)			
Foamex, L.P.			
	1,528,766	Term Loan, 7.72%, Maturing February 12, 2013	550,356
Georgia Gulf Corp.			
	735,421	Term Loan, 6.03%, Maturing October 3, 2013	554,936
Hexion Specialty Chemicals, Inc.			
	493,750	Term Loan, 6.06%, Maturing May 5, 2012	237,000
	1,051,915	Term Loan, 6.06%, Maturing May 5, 2013	573,294
	4,842,435	Term Loan, 6.19%, Maturing May 5, 2013	2,639,127
INEOS Group			
EUR	750,000	Term Loan Second Lien, 8.46%, Maturing December 14, 2012	256,952
	2,519,053	Term Loan, 5.95%, Maturing December 14, 2013	1,245,357
	2,423,038	Term Loan, 6.45%, Maturing December 14, 2014	1,223,634
Innophos, Inc.			
	1,829,955	Term Loan, 6.76%, Maturing August 10, 2010	1,573,761
ISP Chemco, Inc.			
	2,962,500	Term Loan, 3.41%, Maturing June 4, 2014	2,226,813
Kleopatra			
	900,000	Term Loan, 6.82%, Maturing January 3, 2016	472,500
EUR	625,000	Term Loan, 7.88%, Maturing January 3, 2016	395,871
Kranton Polymers, LLC			
	2,413,257	Term Loan, 5.31%, Maturing May 12, 2013	1,488,176
Lucite International Group Holdings			
	651,418	Term Loan, 3.69%, Maturing July 7, 2013	559,405
	230,668	Term Loan, 3.69%, Maturing July 7, 2013	200,681
MacDermid, Inc.			
	601,927	Term Loan, 5.76%, Maturing April 12, 2014	389,748
EUR	801,817	Term Loan, 7.39%, Maturing April 12, 2014	643,522
Millenium Inorganic Chemicals			
	397,000	Term Loan, 6.01%, Maturing April 30, 2014	244,155
	1,075,000	Term Loan Second Lien, 9.51%, Maturing October 31, 2014	483,750
Momentive Performance Material			
	1,807,374	Term Loan, 3.69%, Maturing December 4, 2013	1,245,582
Propex Fabrics, Inc.			
	983,333	Term Loan, 4.13%, Maturing January 23, 2009(2)	796,500
	881,154	Term Loan, 8.00%, Maturing July 31, 2012	242,317
Rockwood Specialties Group, Inc.			

	4,248,375	Term Loan, 3.55%, Maturing December 10, 2012		3,448,266
Schoeller Arca Systems Holding				
EUR	221,709	Term Loan, 8.40%, Maturing November 16, 2015		184,269
EUR	206,030	Term Loan, 8.40%, Maturing November 16, 2015		171,238
EUR	72,261	Term Loan, 8.40%, Maturing November 16, 2015		60,059
Solo Cup Co.				
	1,695,742	Term Loan, 5.98%, Maturing February 27, 2011		1,403,934
Wellman, Inc.				
	728,333	Term Loan, 6.74%, Maturing February 10, 2009(3)(4)	$	345,230
			$	**31,980,576**

Clothing/Textiles 1.0%

Hanesbrands, Inc.				
	1,394,643	Term Loan, 5.26%, Maturing September 5, 2013	$	1,124,867
	950,000	Term Loan Second Lien, 7.27%, Maturing March 5, 2014		737,834
St. John Knits International, Inc.				
	594,167	Term Loan, 4.40%, Maturing March 23, 2012		430,771
The William Carter Co.				
	1,059,633	Term Loan, 3.85%, Maturing July 14, 2012		895,390
			$	**3,188,862**

Conglomerates 5.1%

Amsted Industries, Inc.				
	1,886,629	Term Loan, 6.56%, Maturing October 15, 2010	$	1,273,474
Blount, Inc.				
	276,658	Term Loan, 3.37%, Maturing August 9, 2010		239,309
Doncasters (Dunde HoldCo 4 Ltd.)				
	473,032	Term Loan, 3.95%, Maturing July 13, 2015		335,064
	473,032	Term Loan, 4.45%, Maturing July 13, 2015		335,064
GBP	550,000	Term Loan Second Lien, 8.01%, Maturing January 13, 2016		443,072
GenTek, Inc.				
	559,130	Term Loan, 6.30%, Maturing February 25, 2011		493,432
Jarden Corp.				
	2,386,077	Term Loan, 5.51%, Maturing January 24, 2012		1,887,387
	941,686	Term Loan, 5.51%, Maturing January 24, 2012		744,874
	992,464	Term Loan, 6.26%, Maturing January 24, 2012		799,429
Johnson Diversey, Inc.				
	1,814,531	Term Loan, 5.19%, Maturing December 16, 2011		1,442,553
Polymer Group, Inc.				
	2,575,053	Term Loan, 5.73%, Maturing November 22, 2012		1,969,916
RBS Global, Inc.				

343,875	Term Loan, 5.76%, Maturing July 19, 2013		268,222
2,425,000	Term Loan, 6.02%, Maturing July 19, 2013		1,940,000
RGIS Holdings, LLC			
148,184	Term Loan, 3.94%, Maturing April 30, 2014		89,898
2,963,679	Term Loan, 4.24%, Maturing April 30, 2014		1,797,966
The Manitowoc Company, Inc.			
1,400,000	Term Loan, 6.50%, Maturing August 21, 2014		1,010,800
US Investigations Services, Inc.			
1,573,596	Term Loan, 5.95%, Maturing February 21, 2015		1,073,979
Vertrue, Inc.			
940,500	Term Loan, 6.77%, Maturing August 16, 2014		705,375
		$	**16,849,814**

Containers and Glass Products 4.9%

Berry Plastics Corp.			
1,909,899	Term Loan, 4.18%, Maturing April 3, 2015	$	1,281,223

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*	Borrower/Tranche Description		Value
Containers and Glass Products (continued)			
Consolidated Container Co.			
1,000,000	Term Loan Second Lien, 7.48%, Maturing September 28, 2014		225,000
Crown Americas, Inc.			
679,000	Term Loan, 3.16%, Maturing November 15, 2012		585,637
Graham Packaging Holdings Co.			
5,146,568	Term Loan, 5.51%, Maturing October 7, 2011		3,957,346
Graphic Packaging International, Inc.			
2,568,225	Term Loan, 5.30%, Maturing May 16, 2014		1,924,564
1,478,179	Term Loan, 6.78%, Maturing May 16, 2014		1,155,444
JSG Acquisitions			
2,055,000	Term Loan, 6.16%, Maturing December 31, 2013		1,318,626
2,055,000	Term Loan, 6.41%, Maturing December 13, 2014		1,318,626
Owens-Brockway Glass Container			
1,723,500	Term Loan, 2.91%, Maturing June 14, 2013		1,393,881
Smurfit-Stone Container Corp.			
717,807	Term Loan, 3.83%, Maturing November 1, 2011		543,141
1,566,747	Term Loan, 4.88%, Maturing November 1, 2011		1,181,915
804,789	Term Loan, 4.90%, Maturing November 1, 2011		608,957
690,806	Term Loan, 5.13%, Maturing November 1, 2011		521,127
		$	**16,015,487**
Cosmetics/Toiletries 0.9%			
American Safety Razor Co.			
491,806	Term Loan, 5.65%, Maturing July 31, 2013	$	390,986
1,050,000	Term Loan Second Lien, 7.69%, Maturing July 31, 2014		761,250
KIK Custom Products, Inc.			
1,075,000	Term Loan Second Lien, 8.54%, Maturing November 30, 2014		302,792
Prestige Brands, Inc.			
1,829,198	Term Loan, 5.26%, Maturing April 7, 2011		1,481,650

			$	**2,936,678**

Drugs 1.5%

Graceway Pharmaceuticals, LLC				
	937,783	Term Loan, 6.51%, Maturing May 3, 2012	$	618,937
	1,000,000	Term Loan Second Lien, 10.26%, Maturing May 3, 2013		370,000
	275,000	Term Loan, 12.01%, Maturing November 3, 2013		68,750
Pharmaceutical Holdings Corp.				
	438,099	Term Loan, 4.69%, Maturing January 30, 2012		361,432
Stiefel Laboratories, Inc.				
	713,546	Term Loan, 7.00%, Maturing December 28, 2013		556,566
	932,896	Term Loan, 7.00%, Maturing December 28, 2013		727,659
Warner Chilcott Corp.				
	701,921	Term Loan, 5.76%, Maturing January 18, 2012		598,388
	1,870,743	Term Loan, 5.76%, Maturing January 18, 2012		1,594,809
			$	**4,896,541**

Ecological Services and Equipment 1.6%

Allied Waste Industries, Inc.				
	872,180	Term Loan, 2.61%, Maturing January 15, 2012	$	845,703
	623,389	Term Loan, 3.14%, Maturing January 15, 2012		604,465
Blue Waste B.V. (AVR Acquisition)				
EUR	1,000,000	Term Loan, 6.89%, Maturing April 1, 2015		988,156
Cory Environmental Holdings				
GBP	500,000	Term Loan Second Lien, 9.88%, Maturing September 30, 2014		514,041
Kemble Water Structure, Ltd.				
GBP	1,500,000	Term Loan, 10.16%, Maturing October 13, 2013		1,559,385
Sensus Metering Systems, Inc.				
	718,723	Term Loan, 4.36%, Maturing December 17, 2010		628,882
			$	**5,140,632**

Electronics/Electrical 4.8%

Aspect Software, Inc.				
	1,255,000	Term Loan, 6.25%, Maturing July 11, 2011	$	953,800
	2,000,000	Term Loan Second Lien, 9.19%, Maturing July 11, 2013		1,100,000
FCI International S.A.S.				
	241,266	Term Loan, 4.33%, Maturing November 1, 2013		188,791
	232,273	Term Loan, 4.33%, Maturing November 1, 2013		181,753

232,273	Term Loan, 4.33%, Maturing November 1, 2013	181,753
241,266	Term Loan, 4.33%, Maturing November 1, 2013	188,791
Freescale Semiconductor, Inc.		
940,750	Term Loan, 4.60%, Maturing December 1, 2013	549,457
Infor Enterprise Solutions Holdings		
1,492,443	Term Loan, 6.52%, Maturing July 28, 2012	828,306
3,206,332	Term Loan, 7.52%, Maturing July 28, 2012	1,787,530
1,672,870	Term Loan, 7.52%, Maturing July 28, 2012	932,625
500,000	Term Loan Second Lien, 9.26%, Maturing March 2, 2014	90,625
183,333	Term Loan Second Lien, 10.01%, Maturing March 2, 2014	33,229
316,667	Term Loan Second Lien, 10.01%, Maturing March 2, 2014	62,937
Network Solutions, LLC		
758,727	Term Loan, 5.11%, Maturing March 7, 2014	398,332
Open Solutions, Inc.		
2,934,479	Term Loan, 5.96%, Maturing January 23, 2014	1,027,068
Sensata Technologies Finance Co.		
3,825,021	Term Loan, 5.26%, Maturing April 27, 2013	2,258,675

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*	Borrower/Tranche Description	Value	
Electronics/Electrical (continued)			
Spectrum Brands, Inc.			
64,767	Term Loan, 2.70%, Maturing March 30, 2013		39,249
1,767,616	Term Loan, 6.39%, Maturing March 30, 2013		1,071,175
SS&C Technologies, Inc.			
772,840	Term Loan, 5.63%, Maturing November 23, 2012		575,766
VeriFone, Inc.			
786,250	Term Loan, 4.20%, Maturing October 31, 2013		668,312
Vertafore, Inc.			
2,957,132	Term Loan, 4.66%, Maturing January 31, 2012		2,232,635
950,000	Term Loan Second Lien, 8.16%, Maturing January 31, 2013		513,000
		$	**15,863,809**
Equipment Leasing 0.9%			
AWAS Capital, Inc.			
2,020,230	Term Loan Second Lien, 9.25%, Maturing March 22, 2013	$	939,407
The Hertz Corp.			
444,444	Term Loan, 3.20%, Maturing December 21, 2012		296,543
2,445,659	Term Loan, 3.35%, Maturing December 21, 2012		1,631,797
		$	**2,867,747**
Farming/Agriculture 0.3%			
Central Garden & Pet Co.			
1,274,509	Term Loan, 2.92%, Maturing February 28, 2014	$	857,107
		$	**857,107**

Financial Intermediaries 3.0%

Citco III, Ltd.				
	3,190,118	Term Loan, 5.13%, Maturing June 30, 2014	$	2,193,206
Grosvenor Capital Management				
	1,496,683	Term Loan, 4.70%, Maturing December 5, 2013		898,010
INVESTools, Inc.				
	426,667	Term Loan, 4.79%, Maturing August 13, 2012		358,400
Jupiter Asset Management Group				
GBP	462,299	Term Loan, 5.86%, Maturing June 30, 2015		414,098
LPL Holdings, Inc.				
	4,421,275	Term Loan, 5.51%, Maturing December 18, 2014		3,404,382
Nuveen Investments, Inc.				
	1,741,250	Term Loan, 5.24%, Maturing November 2, 2014		824,605
Oxford Acquisition III, Ltd.				
	902,907	Term Loan, 5.58%, Maturing May 24, 2014		487,570
RJO Holdings Corp. (RJ O Brien)				
	1,017,237	Term Loan, 4.96%, Maturing July 31, 2014(3)		732,411
Travelex America Holdings, Inc.				
	375,000	Term Loan, 5.93%, Maturing October 31, 2013		241,250
	375,000	Term Loan, 6.43%, Maturing October 31, 2014		241,250
			$	**9,795,182**

Food Products 5.6%

Acosta, Inc.				
	3,276,462	Term Loan, 5.37%, Maturing July 28, 2013	$	2,268,950
Advantage Sales & Marketing, Inc.				
	2,363,961	Term Loan, 4.89%, Maturing March 29, 2013		1,572,034
Black Lion Beverages III B.V.				
EUR	147,059	Term Loan, 5.85%, Maturing December 31, 2013		125,770
EUR	852,941	Term Loan, 6.44%, Maturing December 31, 2014		729,468
Dean Foods Co.				
	4,784,693	Term Loan, 5.24%, Maturing April 2, 2014		3,877,310
Dole Food Company, Inc.				
	321,508	Term Loan, 3.67%, Maturing April 12, 2013		230,682
	181,395	Term Loan, 4.69%, Maturing April 12, 2013		130,151
	1,197,844	Term Loan, 5.17%, Maturing April 12, 2013		859,453
Michael Foods, Inc.				
	474,778	Term Loan, 3.99%, Maturing November 21, 2010		422,552
Pinnacle Foods Finance, LLC				
	5,115,275	Term Loan, 6.42%, Maturing April 2, 2014		3,512,490
Provimi Group SA				
	270,433	Term Loan, 3.68%, Maturing June 28, 2015		207,557

	219,753	Term Loan, 3.68%, Maturing June 28, 2015		168,660
EUR	489,842	Term Loan, 5.64%, Maturing June 28, 2015		477,047
EUR	284,233	Term Loan, 5.64%, Maturing June 28, 2015		276,810
EUR	470,091	Term Loan, 5.64%, Maturing June 28, 2015		457,813
EUR	640,786	Term Loan, 5.64%, Maturing June 28, 2015		624,050
EUR	29,018	Term Loan Second Lien, 7.64%, Maturing June 28, 2015		24,854
	338,551	Term Loan Second Lien, 2.99%, Maturing December 28, 2016(2)		228,522
EUR	836,935	Term Loan Second Lien, 3.63%, Maturing December 28, 2016(2)		716,841
Reddy Ice Group, Inc.				
	2,190,000	Term Loan, 6.50%, Maturing August 9, 2012		1,374,225
			$	**18,285,239**

Food Service 2.8%

AFC Enterprises, Inc.				
	546,817	Term Loan, 6.06%, Maturing May 23, 2009	$	426,517
Aramark Corp.				
	58,703	Term Loan, 4.49%, Maturing January 26, 2014		47,021
	920,440	Term Loan, 5.64%, Maturing January 26, 2014		737,273
GBP	1,228,125	Term Loan, 8.38%, Maturing January 27, 2014		1,540,576

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*		Borrower/Tranche Description	Value	
Food Service (continued)				
Buffets, Inc.				
	1,108,550	DIP Loan, 12.25%, Maturing January 22, 2009		1,080,837
	503,308	Term Loan, 8.69%, Maturing January 22, 2009		156,026
	50,144	Term Loan, 8.69%, Maturing January 22, 2009		15,545
	155,610	Term Loan, 3.66%, Maturing May 1, 2013		49,536
	1,046,925	Term Loan, 8.69%, Maturing November 1, 2013		333,271
CBRL Group, Inc.				
	1,938,556	Term Loan, 4.70%, Maturing April 27, 2013		1,360,221
Denny s, Inc.				
	135,667	Term Loan, 3.70%, Maturing March 31, 2012		101,072
	501,058	Term Loan, 4.40%, Maturing March 31, 2012		373,288
NPC International, Inc.				
	412,656	Term Loan, 4.92%, Maturing May 3, 2013		284,733
OSI Restaurant Partners, LLC				
	154,525	Term Loan, 2.64%, Maturing May 9, 2013		70,000
	1,881,599	Term Loan, 3.75%, Maturing May 9, 2014		852,364
QCE Finance, LLC				
	1,225,559	Term Loan, 6.06%, Maturing May 5, 2013		697,343
	1,050,000	Term Loan Second Lien, 9.51%, Maturing November 5, 2013		517,125
Sagittarius Restaurants, LLC				
	381,335	Term Loan, 9.50%, Maturing March 29, 2013		138,234
Selecta				
EUR	741,246	Term Loan Second Lien, 9.12%, Maturing December 28, 2015		505,555
			$	**9,286,537**
Food/Drug Retailers 3.5%				
General Nutrition Centers, Inc.				
	2,755,930	Term Loan, 6.14%, Maturing September 16, 2013	$	1,860,252
Iceland Foods Group, Ltd.				
GBP	1,625,000	Term Loan, 5.12%, Maturing May 2, 2014		2,067,096
GBP	1,625,000	Term Loan, 6.12%, Maturing May 2, 2015		2,067,096

Pantry, Inc. (The)				
	874,360	Term Loan, 3.19%, Maturing May 15, 2014		598,937
	251,715	Term Loan, 3.19%, Maturing May 15, 2014		172,424
Rite Aid Corp.				
	5,273,500	Term Loan, 5.01%, Maturing June 1, 2014		3,625,531
	1,200,000	Term Loan, 6.00%, Maturing June 4, 2014		834,000
Roundy s Supermarkets, Inc.				
	334,191	Term Loan, 5.44%, Maturing November 3, 2011	$	247,719
			$	**11,473,055**

Forest Products 2.6%

Appleton Papers, Inc.				
	1,481,250	Term Loan, 5.28%, Maturing June 5, 2014	$	1,114,641
Georgia-Pacific Corp.				
	6,711,149	Term Loan, 4.18%, Maturing December 20, 2012		5,198,342
Newpage Corp.				
	1,662,438	Term Loan, 7.00%, Maturing December 5, 2014		1,241,633
Xerium Technologies, Inc.				
	1,323,101	Term Loan, 9.26%, Maturing May 18, 2012		959,248
			$	**8,513,864**

Healthcare 17.0%

Accellent, Inc.				
	2,336,683	Term Loan, 4.69%, Maturing November 22, 2012	$	1,565,578
Advanced Medical Optics, Inc.				
	1,485,232	Term Loan, 4.76%, Maturing April 2, 2014		1,006,245
Alliance Imaging, Inc.				
	456,772	Term Loan, 5.56%, Maturing December 29, 2011		381,404
American Medical Systems				
	1,194,148	Term Loan, 3.69%, Maturing July 20, 2012		988,157
AMN Healthcare, Inc.				
	310,112	Term Loan, 5.51%, Maturing November 2, 2011		266,697
Biomet, Inc.				
	1,970,000	Term Loan, 6.76%, Maturing December 26, 2014		1,615,707
Bright Horizons Family Solutions, Inc.				
	1,072,313	Term Loan, 7.50%, Maturing May 15, 2015		786,362
Capio AB				
EUR	169,803	Term Loan, 7.16%, Maturing April 24, 2015		163,662
EUR	204,134	Term Loan, 7.16%, Maturing April 24, 2015		196,752
EUR	169,803	Term Loan, 7.29%, Maturing April 16, 2016		163,662

EUR	152,245	Term Loan, 7.29%, Maturing April 24, 2016	146,739
Cardinal Health 409, Inc.			
	2,419,375	Term Loan, 6.01%, Maturing April 10, 2014	1,506,061
Carestream Health, Inc.			
	3,517,376	Term Loan, 5.43%, Maturing April 30, 2013	2,324,985
	500,000	Term Loan Second Lien, 7.97%, Maturing October 30, 2013	188,125
Carl Zeiss Vision Holding GmbH			
	1,300,000	Term Loan, 3.94%, Maturing March 23, 2015	743,167
Community Health Systems, Inc.			
	330,764	Term Loan, 0.00%, Maturing July 25, 2014(2)	244,249
	6,464,605	Term Loan, 4.39%, Maturing July 25, 2014	4,773,710
Concentra, Inc.			
	700,000	Term Loan Second Lien, 9.27%, Maturing June 25, 2015	262,500
ConMed Corp.			
	515,333	Term Loan, 4.67%, Maturing April 13, 2013	391,653
Convatec Cidron Healthcare B			
EUR	750,000	Term Loan, 9.39%, Maturing July 30, 2016	881,886
CRC Health Corp.			
	539,000	Term Loan, 6.01%, Maturing February 6, 2013	338,222
	536,305	Term Loan, 6.01%, Maturing February 6, 2013	336,531

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Principal Amount*	**Borrower/Tranche Description**	**Value**
Healthcare (continued)		
Dako EQT Project Delphi		
500,000	Term Loan Second Lien, 7.63%, Maturing December 12, 2016	175,000
DaVita, Inc.		
622,425	Term Loan, 4.63%, Maturing October 5, 2012	532,173
DJO Finance, LLC		
893,250	Term Loan, 5.49%, Maturing May 15, 2014	685,569
Fenwal, Inc.		
500,000	Term Loan Second Lien, 7.45%, Maturing August 28, 2014	225,000
Fresenius Medical Care Holdings		
2,873,814	Term Loan, 4.91%, Maturing March 31, 2013	2,397,839
Hanger Orthopedic Group, Inc.		
800,128	Term Loan, 3.44%, Maturing May 30, 2013	642,103
HCA, Inc.		
6,868,750	Term Loan, 6.01%, Maturing November 18, 2013	5,166,591
Health Management Association, Inc.		
8,429,055	Term Loan, 5.51%, Maturing February 28, 2014	5,731,757
HealthSouth Corp.		
2,967,235	Term Loan, 4.27%, Maturing March 10, 2013	2,357,302
Iasis Healthcare, LLC		
154,022	Term Loan, 3.90%, Maturing March 14, 2014	116,768
576,139	Term Loan, 5.12%, Maturing March 14, 2014	436,786
1,665,038	Term Loan, 5.12%, Maturing March 14, 2014	1,262,307
Ikaria Acquisition, Inc.		
592,495	Term Loan, 5.67%, Maturing March 28, 2013	444,372
IM U.S. Holdings, LLC		
992,462	Term Loan, 4.80%, Maturing June 26, 2014	709,611
700,000	Term Loan Second Lien, 7.25%, Maturing June 26, 2015	476,000
Invacare Corp.		
724,500	Term Loan, 5.23%, Maturing February 12, 2013	619,447
inVentiv Health, Inc.		
933,271	Term Loan, 5.52%, Maturing July 6, 2014	739,617
Leiner Health Products, Inc.		
86,243	Term Loan, 8.75%, Maturing May 27, 2011(3)(4)	81,931
LifePoint Hospitals, Inc.		
2,296,933	Term Loan, 3.82%, Maturing April 15, 2012	1,920,236
MultiPlan Merger Corp.		

	1,609,966	Term Loan, 4.00%, Maturing April 12, 2013		1,191,375
	1,145,509	Term Loan, 4.00%, Maturing April 12, 2013		847,677
Mylan, Inc.				
	645,125	Term Loan, 6.90%, Maturing October 2, 2014		522,282
National Mentor Holdings, Inc.				
	68,600	Term Loan, 2.44%, Maturing June 29, 2013		57,967
	1,130,381	Term Loan, 5.77%, Maturing June 29, 2013		955,172
National Rental Institutes, Inc.				
	906,199	Term Loan, 6.06%, Maturing March 31, 2013		566,374
Nyco Holdings				
EUR	484,850	Term Loan, 7.42%, Maturing December 29, 2014		356,318
EUR	484,850	Term Loan, 8.17%, Maturing December 29, 2015		356,318
Physiotherapy Associates, Inc.				
	843,129	Term Loan, 8.50%, Maturing June 27, 2013		495,338
RadNet Management, Inc.				
	614,066	Term Loan, 7.06%, Maturing November 15, 2012		475,901
	650,000	Term Loan Second Lien, 11.81%, Maturing November 15, 2013		406,250
ReAble Therapeutics Finance, LLC				
	2,758,060	Term Loan, 5.76%, Maturing November 16, 2013		1,999,594
Renal Advantage, Inc.				
	934	Term Loan, 5.32%, Maturing October 5, 2012		654
Select Medical Holdings Corp.				
	2,281,037	Term Loan, 4.15%, Maturing February 24, 2012		1,714,580
Sunrise Medical Holdings, Inc.				
	429,058	Term Loan, 5.76%, Maturing May 13, 2010		307,806
Vanguard Health Holding Co., LLC				
	1,324,305	Term Loan, 5.04%, Maturing September 23, 2011		1,095,863
Viant Holdings, Inc.				
	592,500	Term Loan, 6.02%, Maturing June 25, 2014		322,912
			$	**55,664,844**

Home Furnishings 1.6%

Hunter Fan Co.				
	484,111	Term Loan, 4.74%, Maturing April 16, 2014	$	271,102
Interline Brands, Inc.				
	1,091,188	Term Loan, 2.90%, Maturing June 23, 2013		717,456
	755,652	Term Loan, 2.90%, Maturing June 23, 2013		496,841
National Bedding Co., LLC				
	1,483,674	Term Loan, 4.93%, Maturing August 31, 2011		870,423
	2,050,000	Term Loan Second Lien, 8.00%, Maturing August 31, 2012		927,625
Simmons Co.				
	3,107,786	Term Loan, 5.50%, Maturing December 19, 2011	$	2,004,522

1,000,000	Term Loan, 8.35%, Maturing February 15, 2012		40,000
		$	**5,327,969**

Industrial Equipment 4.2%

Brand Energy and Infrastructure Services, Inc.			
891,000	Term Loan, 6.96%, Maturing February 7, 2014	$	686,070
CEVA Group PLC U.S.			
1,170,707	Term Loan, 5.03%, Maturing January 4, 2014		747,301
2,258,500	Term Loan, 5.05%, Maturing January 4, 2014		1,441,675
846,843	Term Loan, 6.76%, Maturing January 4, 2014		540,568
EPD Holdings (Goodyear Engineering Products)			
151,977	Term Loan, 4.46%, Maturing July 13, 2014		94,985

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*	Borrower/Tranche Description	Value
Industrial Equipment (continued)		
1,061,156	Term Loan, 4.46%, Maturing July 13, 2014	663,223
850,000	Term Loan Second Lien, 8.75%, Maturing July 13, 2015	417,563
FR Brand Acquisition Corp.		
738,750	Term Loan, 5.96%, Maturing February 7, 2014	513,431
Generac Acquisition Corp.		
1,909,161	Term Loan, 6.65%, Maturing November 7, 2013	1,172,225
500,000	Term Loan Second Lien, 10.15%, Maturing April 7, 2014	175,000
Gleason Corp.		
145,941	Term Loan, 5.09%, Maturing June 30, 2013	113,105
633,988	Term Loan, 5.09%, Maturing June 30, 2013	491,341
Jason, Inc.		
485,294	Term Loan, 5.50%, Maturing April 30, 2010	376,103
John Maneely Co.		
3,014,317	Term Loan, 7.63%, Maturing December 8, 2013	1,956,292
KION Group GmbH		
250,000	Term Loan, 3.43%, Maturing December 23, 2014	139,250
250,000	Term Loan, 3.93%, Maturing December 23, 2015	139,250
Polypore, Inc.		
3,838,229	Term Loan, 5.14%, Maturing July 3, 2014	2,590,805
Sequa Corp.		
795,043	Term Loan, 6.35%, Maturing November 30, 2014	556,530
TFS Acquisition Corp.		
1,960,000	Term Loan, 7.26%, Maturing August 11, 2013	1,029,000
		$ 13,843,717

Insurance 3.7%

Alliant Holdings I, Inc.			
846,250	Term Loan, 6.76%, Maturing August 21, 2014	$	550,063
AmWINS Group, Inc.			
994,962	Term Loan, 4.36%, Maturing June 8, 2013	$	646,725
500,000	Term Loan Second Lien, 6.93%, Maturing June 8, 2014		275,000
Applied Systems, Inc.			
1,422,955	Term Loan, 6.23%, Maturing September 26, 2013		1,173,938
CCC Information Services Group, Inc.			
1,640,954	Term Loan, 6.02%, Maturing February 10, 2013		1,271,739
Conseco, Inc.			
3,852,694	Term Loan, 3.77%, Maturing October 10, 2013		2,533,147
Crawford & Company			
1,352,929	Term Loan, 6.52%, Maturing October 31, 2013		1,149,989
Crump Group, Inc.			
1,092,425	Term Loan, 4.44%, Maturing August 4, 2014		764,697
Getty Images, Inc.			
1,300,000	Term Loan, 8.05%, Maturing July 2, 2015		1,122,875
Hub International Holdings, Inc.			
439,482	Term Loan, 6.26%, Maturing June 13, 2014		273,577
1,955,832	Term Loan, 6.26%, Maturing June 13, 2014		1,217,505
U.S.I. Holdings Corp.			
1,900,937	Term Loan, 6.52%, Maturing May 4, 2014		1,083,534
		$	**12,062,789**

Leisure Goods/Activities/Movies 10.9%

24 Hour Fitness Worldwide, Inc.			
826,009	Term Loan, 5.36%, Maturing June 8, 2012	$	541,036
AMC Entertainment, Inc.			
3,037,135	Term Loan, 3.16%, Maturing January 26, 2013		2,349,224
AMF Bowling Worldwide, Inc.			
1,200,000	Term Loan Second Lien, 9.07%, Maturing December 8, 2013		240,000
Bombardier Recreational Products			
2,027,848	Term Loan, 6.08%, Maturing June 28, 2013		1,333,310
Butterfly Wendel US, Inc.			
311,780	Term Loan, 5.63%, Maturing June 22, 2013		227,599
311,880	Term Loan, 5.38%, Maturing June 22, 2014		227,673
Carmike Cinemas, Inc.			
1,581,902	Term Loan, 6.47%, Maturing May 19, 2012		1,182,472
Cedar Fair, L.P.			
2,305,912	Term Loan, 3.44%, Maturing August 30, 2012		1,600,303
Cinemark, Inc.			
3,993,500	Term Loan, 3.66%, Maturing October 5, 2013		3,063,586

Deluxe Entertainment Services			
62,008	Term Loan, 6.01%, Maturing January 28, 2011		37,205
1,187,655	Term Loan, 5.34%, Maturing January 28, 2011		712,593
114,510	Term Loan, 6.01%, Maturing January 28, 2011		68,706
Easton-Bell Sports, Inc.			
1,346,151	Term Loan, 5.29%, Maturing March 16, 2012	$	969,229
Fender Musical Instruments Corp.			
660,535	Term Loan, 5.17%, Maturing June 9, 2014		412,834
333,612	Term Loan, 6.02%, Maturing June 9, 2014		208,508
HRP Myrtle Beach Operations, LLC/HRP Myrtle Beach Capital Corp.			
10,000	DIP Loan, 18.50%, Maturing October 31, 2008(2)(3)		10,000
Mega Blocks, Inc.			
1,765,687	Term Loan, 8.75%, Maturing July 26, 2012		534,120
Metro-Goldwyn-Mayer Holdings, Inc.			
8,736,540	Term Loan, 7.01%, Maturing April 8, 2012		4,046,888
National CineMedia, LLC			
2,850,000	Term Loan, 4.57%, Maturing February 13, 2015		1,860,642
Regal Cinemas Corp.			
5,404,924	Term Loan, 5.51%, Maturing November 10, 2010		4,098,732

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*	Borrower/Tranche Description	Value
Leisure Goods/Activities/Movies (continued)		
Revolution Studios Distribution Co., LLC		
1,165,186	Term Loan, 5.19%, Maturing December 21, 2014	803,978
900,000	Term Loan, 8.44%, Maturing June 21, 2015	292,500
Six Flags Theme Parks, Inc.		
2,456,250	Term Loan, 4.34%, Maturing April 30, 2015	1,532,086
Southwest Sports Group, LLC		
2,000,000	Term Loan, 6.31%, Maturing December 22, 2010	1,550,000
Ticketmaster		
1,950,000	Term Loan, 6.64%, Maturing July 22, 2014	1,560,000
Universal City Development Partners, Ltd.		
1,924,945	Term Loan, 6.45%, Maturing June 9, 2011	1,645,828
WMG Acquisition Corp.		
5,226,360	Term Loan, 4.39%, Maturing February 28, 2011	4,146,244
Zuffa, LLC		
987,500	Term Loan, 3.44%, Maturing June 20, 2016	622,125
		$ 35,877,421
Lodging and Casinos 3.6%		
Ameristar Casinos, Inc.		
1,191,313	Term Loan, 5.77%, Maturing November 10, 2012	$ 762,440
Harrah s Operating Co.		
995,000	Term Loan, 5.85%, Maturing January 28, 2015	586,740
Isle of Capri Casinos, Inc.		
1,466,728	Term Loan, 5.51%, Maturing November 30, 2013	932,594
442,246	Term Loan, 5.51%, Maturing November 30, 2013	281,195
586,692	Term Loan, 5.51%, Maturing November 30, 2013	373,038
LodgeNet Entertainment Corp.		
2,853,861	Term Loan, 5.77%, Maturing April 4, 2014	1,526,815

New World Gaming Partners, Ltd.			
1,116,563	Term Loan, 6.26%, Maturing June 30, 2014		523,389
225,000	Term Loan, 6.55%, Maturing June 30, 2014		105,469
Penn National Gaming, Inc.			
4,056,750	Term Loan, 4.04%, Maturing October 3, 2012	$	3,350,624
Venetian Casino Resort/Las Vegas Sands, Inc.			
957,600	Term Loan, 5.52%, Maturing May 14, 2014		477,736
3,792,000	Term Loan, 5.52%, Maturing May 23, 2014		1,891,787
VML US Finance, LLC			
225,402	Term Loan, 6.02%, Maturing May 25, 2012		129,913
524,598	Term Loan, 6.02%, Maturing May 25, 2013		302,360
Wimar OpCo, LLC			
1,954,381	Term Loan, 7.25%, Maturing January 3, 2012		568,725
		$	**11,812,825**

Nonferrous Metals/Minerals 1.9%

Alpha Natural Resources, LLC			
909,188	Term Loan, 5.56%, Maturing October 26, 2012	$	768,263
Euramax International, Inc.			
649,548	Term Loan, 7.50%, Maturing June 28, 2012		316,655
501,316	Term Loan Second Lien, 11.75%, Maturing June 28, 2013		187,993
248,684	Term Loan Second Lien, 11.75%, Maturing June 28, 2013		93,257
Murray Energy Corp.			
943,250	Term Loan, 6.94%, Maturing January 28, 2010		820,628
Noranda Aluminum Acquisition			
1,341,618	Term Loan, 4.24%, Maturing May 18, 2014		811,679
Novelis, Inc.			
702,051	Term Loan, 5.77%, Maturing June 28, 2014		445,802
1,544,512	Term Loan, 5.77%, Maturing June 28, 2014		980,765
Oxbow Carbon and Mineral Holdings			
226,753	Term Loan, 5.76%, Maturing May 8, 2014		159,105
2,532,830	Term Loan, 5.76%, Maturing May 8, 2014		1,777,203
		$	**6,361,350**

Oil and Gas 2.8%

Atlas Pipeline Partners, L.P.

1,700,000	Term Loan, 3.94%, Maturing July 20, 2014	$	1,334,500
Big West Oil, LLC			
453,750	Term Loan, 5.25%, Maturing May 1, 2014		272,250
360,938	Term Loan, 5.25%, Maturing May 1, 2014		216,563
Dresser, Inc.			
1,577,187	Term Loan, 4.45%, Maturing May 4, 2014		1,094,174
1,000,000	Term Loan Second Lien, 7.99%, Maturing May 4, 2015		593,750
Dynegy Holdings, Inc.			
2,310,134	Term Loan, 2.94%, Maturing April 2, 2013		1,727,788
188,344	Term Loan, 2.94%, Maturing April 2, 2013	$	140,866
Enterprise GP Holdings, L.P.			
1,325,000	Term Loan, 5.64%, Maturing October 31, 2014		1,096,438
Niska Gas Storage			
58,471	Term Loan, 4.84%, Maturing May 13, 2011		46,338
82,341	Term Loan, 4.84%, Maturing May 13, 2011		65,255
121,556	Term Loan, 4.85%, Maturing May 13, 2011		96,333
752,710	Term Loan, 4.85%, Maturing May 12, 2013		596,523
Targa Resources, Inc.			
1,410,000	Term Loan, 5.76%, Maturing October 31, 2012		1,028,125
1,065,308	Term Loan, 5.97%, Maturing October 31, 2012		776,788
		$	**9,085,691**

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*		Borrower/Tranche Description	Value	
Publishing 11.5%				
American Media Operations, Inc.				
	1,953,871	Term Loan, 7.56%, Maturing January 31, 2013	$	1,162,553
Aster Zweite Beteiligungs GmbH				
	850,000	Term Loan, 6.13%, Maturing September 27, 2013		401,625
CanWest MediaWorks, Ltd.				
	886,500	Term Loan, 4.20%, Maturing July 10, 2014		523,035
Dex Media West, LLC				
	2,490,000	Term Loan, 7.54%, Maturing October 24, 2014		1,269,900
GateHouse Media Operating, Inc.				
	1,525,000	Term Loan, 4.20%, Maturing August 28, 2014		388,875
	650,000	Term Loan, 4.94%, Maturing August 28, 2014		165,750
	750,000	Term Loan, 5.07%, Maturing August 28, 2014		191,250
Idearc, Inc.				
	11,036,285	Term Loan, 5.67%, Maturing November 17, 2014		3,712,926
Laureate Education, Inc.				
	505,875	Term Loan, 4.65%, Maturing August 17, 2014		326,289
	3,380,510	Term Loan, 4.65%, Maturing August 17, 2014		2,180,429
Local Insight Regatta Holdings, Inc.				
	1,870,313	Term Loan, 7.77%, Maturing April 23, 2015		1,424,555
MediaNews Group, Inc.				
	1,136,802	Term Loan, 5.82%, Maturing August 25, 2010		554,191
	777,090	Term Loan, 7.07%, Maturing August 2, 2013		365,232
Mediannuaire Holding				
EUR	500,000	Term Loan, 5.45%, Maturing October 24, 2013		369,567
EUR	704,593	Term Loan, 6.20%, Maturing October 10, 2014		366,564
EUR	704,593	Term Loan, 6.70%, Maturing October 10, 2015		366,564
Merrill Communications, LLC				
	5,331,173	Term Loan, 4.72%, Maturing February 9, 2009		3,411,951
Nebraska Book Co., Inc.				
	1,414,770	Term Loan, 6.38%, Maturing March 4, 2011		848,862

Nelson Education, Ltd.				
	495,000	Term Loan, 6.26%, Maturing July 5, 2014	$	358,875
Nielsen Finance, LLC				
	5,520,990	Term Loan, 4.23%, Maturing August 9, 2013		3,707,693
Philadelphia Newspapers, LLC				
	778,884	Term Loan, 6.75%, Maturing June 29, 2013		218,088
R.H. Donnelley Corp.				
	6,672,158	Term Loan, 6.86%, Maturing June 30, 2010		4,092,255
Reader s Digest Association, Inc. (The)				
	4,580,250	Term Loan, 4.47%, Maturing March 2, 2014		1,717,594
SGS International, Inc.				
	701,455	Term Loan, 6.27%, Maturing December 30, 2011		487,511
Source Interlink Companies, Inc.				
	1,989,924	Term Loan, 5.45%, Maturing August 1, 2014		1,283,501
Source Media, Inc.				
	1,195,304	Term Loan, 8.77%, Maturing November 8, 2011		657,417
Trader Media Corp.				
GBP	2,528,500	Term Loan, 8.26%, Maturing March 23, 2015		1,447,672
Tribune Co.				
	2,479,203	Term Loan, 7.08%, Maturing May 17, 2009		1,038,166
	1,989,950	Term Loan, 6.00%, Maturing May 17, 2014		419,879
	2,256,326	Term Loan, 6.00%, Maturing May 17, 2014		656,214
Xsys, Inc.				
	1,988,834	Term Loan, 6.13%, Maturing September 27, 2013		939,724
	2,031,126	Term Loan, 6.13%, Maturing September 27, 2014		959,707
Yell Group, PLC				
	2,900,000	Term Loan, 4.43%, Maturing February 10, 2013		1,660,250
			$	**37,674,664**

Radio and Television 7.2%

Block Communications, Inc.				
	923,875	Term Loan, 5.27%, Maturing December 22, 2011	$	706,764
Cequel Communications, LLC				
	1,800,000	Term Loan Second Lien, 7.69%, Maturing May 5, 2014		1,017,000
	4,190,328	Term Loan Second Lien, 9.13%, Maturing May 5, 2014		2,309,918
Citadel Broadcasting Corp.				
	1,000,000	Term Loan, 5.02%, Maturing June 12, 2014		390,000
CMP KC, LLC				
	966,188	Term Loan, 7.34%, Maturing May 5, 2013		556,621
CMP Susquehanna Corp.				
	2,475,412	Term Loan, 3.64%, Maturing May 5, 2013		798,320
Emmis Operating Co.				

858,748	Term Loan, 4.90%, Maturing November 2, 2013		429,374
Gray Television, Inc.			
1,251,291	Term Loan, 4.78%, Maturing January 19, 2015		553,696
HIT Entertainment, Inc.			
969,945	Term Loan, 4.71%, Maturing March 20, 2012	$	504,371
NEP II, Inc.			
689,494	Term Loan, 6.01%, Maturing February 16, 2014		482,645
Nexstar Broadcasting, Inc.			
1,981,915	Term Loan, 5.51%, Maturing October 1, 2012		1,189,149
1,875,519	Term Loan, 5.51%, Maturing October 1, 2012		1,125,311
NextMedia Operating, Inc.			
162,260	Term Loan, 5.44%, Maturing November 15, 2012		94,516
72,114	Term Loan, 5.45%, Maturing November 15, 2012		42,007
PanAmSat Corp.			
1,561,091	Term Loan, 6.65%, Maturing January 3, 2014		1,211,797
1,560,619	Term Loan, 6.65%, Maturing January 3, 2014		1,211,431
1,560,619	Term Loan, 6.65%, Maturing January 3, 2014		1,211,431

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Principal Amount*		Borrower/Tranche Description	Value	
Radio and Television (continued)				
Paxson Communications Corp.				
	2,775,000	Term Loan, 8.00%, Maturing January 15, 2012		1,248,750
Raycom TV Broadcasting, LLC				
	1,125,000	Term Loan, 3.88%, Maturing June 25, 2014		928,125
SFX Entertainment				
	1,195,067	Term Loan, 7.02%, Maturing June 21, 2013		962,029
Sirius Satellite Radio, Inc.				
	495,000	Term Loan, 5.43%, Maturing December 19, 2012		304,425
Spanish Broadcasting System, Inc.				
	972,292	Term Loan, 5.52%, Maturing June 10, 2012		371,902
Tyrol Acquisition 2 SAS				
EUR	875,000	Term Loan, 5.39%, Maturing January 19, 2015		673,859
EUR	875,000	Term Loan, 7.40%, Maturing January 19, 2016		673,859
Univision Communications, Inc.				
	4,332,413	Term Loan Second Lien, 3.94%, Maturing March 29, 2009		3,574,240
Young Broadcasting, Inc.				
	975,000	Term Loan, 5.26%, Maturing November 3, 2012		546,975
	788,513	Term Loan, 5.25%, Maturing November 3, 2012		442,356
			$	**23,560,871**
Rail Industries 1.0%				
Kansas City Southern Railway Co.				
	2,199,375	Term Loan, 4.95%, Maturing April 26, 2013	$	1,821,815
Rail America, Inc.				
	104,880	Term Loan, 7.88%, Maturing August 14, 2009		87,575
	1,620,120	Term Loan, 7.88%, Maturing August 13, 2010		1,352,800
			$	**3,262,190**

Retailers (Except Food and Drug) 4.6%

American Achievement Corp.				
	1,126,602	Term Loan, 5.07%, Maturing March 25, 2011	$	1,002,675
Amscan Holdings, Inc.				
	566,375	Term Loan, 4.81%, Maturing May 25, 2013		417,702
Claire s Stores, Inc.				
	395,000	Term Loan, 4.89%, Maturing May 24, 2014		167,505
Cumberland Farms, Inc.				
	1,706,889	Term Loan, 5.18%, Maturing September 29, 2013		1,425,252
Educate, Inc.				
	500,000	Term Loan Second Lien, 6.01%, Maturing June 14, 2014		262,500
FTD, Inc.				
	1,625,000	Term Loan, 7.52%, Maturing July 31, 2014		1,446,250
Harbor Freight Tools USA, Inc.				
	1,807,309	Term Loan, 9.75%, Maturing July 15, 2010		1,084,386
Josten s Corp.				
	2,102,724	Term Loan, 5.17%, Maturing October 4, 2011		1,634,868
Mapco Express, Inc.				
	538,436	Term Loan, 3.94%, Maturing April 28, 2011		282,679
Orbitz Worldwide, Inc.				
	2,296,825	Term Loan, 5.74%, Maturing July 25, 2014		1,025,916
Oriental Trading Co., Inc.				
	1,225,000	Term Loan Second Lien, 7.44%, Maturing January 31, 2013		500,208
	1,763,253	Term Loan, 4.67%, Maturing July 31, 2013		1,010,931
Rent-A-Center, Inc.				
	751,732	Term Loan, 3.78%, Maturing November 15, 2012		575,075
Rover Acquisition Corp.				
	2,407,125	Term Loan, 5.53%, Maturing October 26, 2013		1,641,659
Savers, Inc.				
	380,558	Term Loan, 5.75%, Maturing August 11, 2012		304,447
	416,328	Term Loan, 5.75%, Maturing August 11, 2012		333,062
The Yankee Candle Company, Inc.				
	2,269,495	Term Loan, 5.73%, Maturing February 6, 2014		1,242,549
Vivarte				
EUR	750,000	Term Loan, 6.25%, Maturing May 29, 2015		407,390
EUR	750,000	Term Loan, 6.75%, Maturing May 29, 2016		407,390
			$	**15,172,444**

Steel 0.4%

Algoma Acquisition Corp.				
	1,078,789	Term Loan, 5.35%, Maturing June 20, 2013	$	809,092

Niagara Corp.			
1,135,625	Term Loan, 6.40%, Maturing June 29, 2014		624,594
		$	**1,433,686**

Surface Transport 0.7%

Gainey Corp.			
1,288,011	Term Loan, 7.00%, Maturing April 20, 2012(4)	$	161,001
Oshkosh Truck Corp.			
1,913,500	Term Loan, 4.20%, Maturing December 6, 2013		1,224,640
Ozburn-Hessey Holding Co., LLC			
484,666	Term Loan, 6.61%, Maturing August 9, 2012		375,616
Swift Transportation Co., Inc.			
1,115,116	Term Loan, 6.36%, Maturing May 10, 2014		505,519
		$	**2,266,776**

Telecommunications 7.1%

Alaska Communications Systems Holdings, Inc.			
1,099,807	Term Loan, 5.51%, Maturing February 1, 2012	$	868,298

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount*		Borrower/Tranche Description	Value
Telecommunications (continued)			
Alltell Communication			
	1,488,722	Term Loan, 5.32%, Maturing May 16, 2014	1,417,801
	3,227,450	Term Loan, 4.12%, Maturing May 16, 2015	3,093,310
Asurion Corp.			
	3,175,000	Term Loan, 5.31%, Maturing July 13, 2012	2,166,938
	1,000,000	Term Loan Second Lien, 8.06%, Maturing January 13, 2013	627,500
Centennial Cellular Operating Co., LLC			
	4,594,820	Term Loan, 5.39%, Maturing February 9, 2011	4,358,513
CommScope, Inc.			
	3,270,954	Term Loan, 5.88%, Maturing November 19, 2014	2,436,861
FairPoint Communications, Inc.			
	2,725,000	Term Loan, 5.75%, Maturing March 31, 2015	1,741,275
Intelsat Subsidiary Holding Co.			
	1,078,000	Term Loan, 6.65%, Maturing July 3, 2013	894,740
IPC Systems, Inc.			
	1,111,967	Term Loan, 6.01%, Maturing May 31, 2014	569,883
	500,000	Term Loan Second Lien, 9.01%, Maturing May 31, 2015	150,000
Macquarie UK Broadcast Ventures, Ltd.			
GBP	827,948	Term Loan, 5.27%, Maturing December 26, 2014	989,359
NTelos, Inc.			
	1,291,458	Term Loan, 3.69%, Maturing August 24, 2011	1,102,583
Palm, Inc.			
	915,750	Term Loan, 7.27%, Maturing April 24, 2014	473,901
Stratos Global Corp.			
	1,104,500	Term Loan, 6.26%, Maturing February 13, 2012	900,168
Trilogy International Partners			
	950,000	Term Loan, 7.26%, Maturing June 29, 2012	403,750
Windstream Corp.			
	1,394,326	Term Loan, 6.05%, Maturing July 17, 2013	1,167,748
			$ 23,362,628

Utilities 4.2%

AEI Finance Holding, LLC			
301,657	Revolving Loan, 6.76%, Maturing March 30, 2012	$	193,061
2,175,381	Term Loan, 6.76%, Maturing March 30, 2014		1,261,721
Astoria Generating Co.			
1,000,000	Term Loan Second Lien, 6.96%, Maturing August 23, 2013		711,667
BRSP, LLC			
1,902,915	Term Loan, 5.86%, Maturing July 13, 2009		1,234,992
Covanta Energy Corp.			
626,804	Term Loan, 3.95%, Maturing February 9, 2014		512,935
1,254,098	Term Loan, 4.41%, Maturing February 9, 2014		1,026,270
Electricinvest Holding Co.			
EUR 476,616	Term Loan, 7.93%, Maturing October 24, 2012		471,727
GBP 480,000	Term Loan, 7.69%, Maturing October 24, 2012		575,112
NRG Energy, Inc.			
2,118,560	Term Loan, 5.26%, Maturing June 1, 2014		1,774,294
4,296,134	Term Loan, 5.26%, Maturing June 1, 2014		3,598,012
Pike Electric, Inc.			
1,136,438	Term Loan, 2.94%, Maturing July 1, 2012		1,034,159
308,512	Term Loan, 3.00%, Maturing December 10, 2012		280,746
TXU Texas Competitive Electric Holdings Co., LLC			
479,975	Term Loan, 5.28%, Maturing October 10, 2014		326,683
1,373,462	Term Loan, 5.55%, Maturing October 10, 2014		936,530
		$	**13,937,909**

Total Senior Floating-Rate Interests (identified cost $856,643,703)	$	561,756,321

Corporate Bonds & Notes 12.1%

Principal Amount* (000 s omitted)	**Security**	**Value**

Aerospace and Defense 0.1%

Alion Science and Technologies Corp.			
155	10.25%, 2/1/15	$	86,025
Bombardier, Inc.			
145	8.00%, 11/15/14(5)		122,525
DRS Technologies, Inc., Sr. Sub. Notes			
90	7.625%, 2/1/18		89,775
Hawker Beechcraft Acquisition			
165	9.75%, 4/1/17		54,450
Vought Aircraft Industries, Inc., Sr. Notes			
95	8.00%, 7/15/11	$	66,025
		$	**418,800**

Automotive 0.3%

Allison Transmission, Inc.			
130	11.00%, 11/1/15(5)	$	64,350
Altra Industrial Motion, Inc.			
375	9.00%, 12/1/11		339,375
American Axle & Manufacturing, Inc.			
150	7.875%, 3/1/17		38,250
Commercial Vehicle Group, Inc., Sr. Notes			
110	8.00%, 7/1/13		69,850
Ford Motor Credit Co., Sr. Notes			
495	5.70%, 1/15/10		287,096
General Motors Corp., Sr. Notes			
85	7.20%, 1/15/11		23,162

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount* (000 s omitted)		Security	Value	
Automotive (continued)				
Tenneco, Inc., Sr. Notes				
	50	8.125%, 11/15/15		21,750
			$	**843,833**
Broadcast Radio and Television 0.0%				
Warner Music Group, Sr. Sub. Notes				
	90	7.375%, 4/15/14	$	54,450
XM Satellite Radio Holdings, Inc., Sr. Notes				
	235	13.00%, 8/1/13(5)		61,100
			$	**115,550**
Brokers/Dealers/Investment Houses 0.0%				
Nuveen Investments, Inc., Sr. Notes				
	135	10.50%, 11/15/15(5)	$	42,019
			$	**42,019**
Building and Development 0.5%				
Grohe Holding GmbH, Variable Rate				
EUR	2,000	8.193%, 1/15/14	$	1,256,211
Panolam Industries International, Sr. Sub. Notes				
	470	10.75%, 10/1/13		213,850

Ply Gem Industries, Inc., Sr. Notes				
	275	11.75%, 6/15/13(5)		164,312
Texas Industries Inc., Sr. Notes				
	135	7.25%, 7/15/13(5)		103,275
			$	**1,737,648**

Business Equipment and Services 0.7%

Affinion Group, Inc.				
	110	10.125%, 10/15/13	$	75,900
	235	11.50%, 10/15/15		138,650
Ceridian Corp., Sr. Notes				
	305	11.25%, 11/15/15(5)	$	160,887
Education Management, LLC, Sr. Notes				
	475	8.75%, 6/1/14		346,750
Education Management, LLC, Sr. Sub. Notes				
	655	10.25%, 6/1/16		458,500
Hertz Corp.				
	25	8.875%, 1/1/14		13,031
	425	10.50%, 1/1/16		172,125
MediMedia USA, Inc., Sr. Sub. Notes				
	180	11.375%, 11/15/14(5)		141,300
Rental Service Corp.				
	475	9.50%, 12/1/14		235,125
Ticketmaster, Sr. Notes				
	220	10.75%, 8/1/16(5)		111,100
Travelport, LLC				
	420	9.875%, 9/1/14		149,100
	34	11.875%, 9/1/16		8,330
West Corp.				
	425	9.50%, 10/15/14		227,375
			$	**2,238,173**

Cable and Satellite Television 0.5%

Cablevision Systems Corp., Sr. Notes, Series B				
	160	8.00%, 4/15/12	$	132,000
CCH II Holdings, LLC, Sr. Notes				
	75	10.25%, 10/1/13		34,500

60	10.25%, 10/1/13(5)		25,800
CCO Holdings, LLC/CCO Capital Corp., Sr. Notes			
1,785	8.75%, 11/15/13		1,026,375
Charter Communications Holdings, Sr. Notes			
30	8.375%, 4/30/14		20,550
Charter Communications, Inc., Sr. Notes			
205	10.875%, 9/15/14(5)		148,112
Kabel Deutschland GmbH			
220	10.625%, 7/1/14		177,375
Mediacom Broadband Group Corp., LLC, Sr. Notes			
140	8.50%, 10/15/15		100,100
National Cable PLC			
40	8.75%, 4/15/14		29,100
		$	**1,693,912**

Chemicals and Plastics 0.2%

CII Carbon, LLC			
195	11.125%, 11/15/15(5)	$	153,075
INEOS Group Holdings PLC, Sr. Sub. Notes			
345	8.50%, 2/15/16(5)	$	62,962
Nova Chemicals Corp., Sr. Notes, Variable Rate			
215	5.72%, 11/15/13		116,100
Reichhold Industries, Inc., Sr. Notes			
500	9.00%, 8/15/14(5)		342,500
		$	**674,637**

Clothing/Textiles 0.5%

Levi Strauss & Co., Sr. Notes			
615	9.75%, 1/15/15	$	372,075
85	8.875%, 4/1/16		48,025

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount* (000 s omitted)	Security		Value
Clothing/Textiles (continued)			
Oxford Industries, Inc., Sr. Notes			
1,355	8.875%, 6/1/11		968,825
Perry Ellis International, Inc., Sr. Sub. Notes			
400	8.875%, 9/15/13		230,000
		$	**1,618,925**
Conglomerates 0.1%			
RBS Global & Rexnord Corp.			
195	9.50%, 8/1/14	$	137,475
175	11.75%, 8/1/16		102,375
		$	**239,850**
Containers and Glass Products 0.5%			
Berry Plastics Corp., Sr. Notes, Variable Rate			
1,000	9.503%, 2/15/15	$	745,000
Intertape Polymer US, Inc., Sr. Sub. Notes			
865	8.50%, 8/1/14		661,725
Pliant Corp. (PIK)			
271	11.625%, 6/15/09		107,078
Smurfit-Stone Container Enterprises, Inc., Sr. Notes			
375	8.00%, 3/15/17		101,250
Solo Cup Co.			
25	8.50%, 2/15/14		15,625
Stone Container Corp., Sr. Notes			
45	8.375%, 7/1/12		12,825

		$	**1,643,503**

Ecological Services and Equipment 0.1%

Waste Services, Inc., Sr. Sub. Notes			
570	9.50%, 4/15/14	$	436,050
		$	**436,050**

Electronic/Electric 0.5%

Advanced Micro Devices, Inc., Sr. Notes			
230	7.75%, 11/1/12	$	143,175
Amkor Technologies, Inc., Sr. Notes			
50	7.125%, 3/15/11		36,437
50	7.75%, 5/15/13		30,187
225	9.25%, 6/1/16		132,750
Avago Technologies Finance			
195	10.125%, 12/1/13		159,169
240	11.875%, 12/1/15		186,300
First Data Corp.			
15	9.875%, 9/24/15		8,700
NXP BV/NXP Funding, LLC, Variable Rate			
875	7.503%, 10/15/13		219,844
SunGard Data Systems, Inc., Sr. Notes			
880	10.625%, 5/15/15[5]		682,000
		$	**1,598,562**

Financial Intermediaries 0.2%

Ford Motor Credit Co.			
380	7.375%, 10/28/09	$	232,052
Ford Motor Credit Co., Sr. Notes			
465	7.875%, 6/15/10		237,093
20	9.875%, 8/10/11		9,405
General Motors Acceptance Corp., Variable Rate			
125	3.399%, 5/15/09		81,406

		$	**559,956**
Food Products 0.2%			
ASG Consolidated, LLC/ASG Finance, Inc., Sr. Disc. Notes			
580	11.50%, 11/1/11	$	498,800
		$	**498,800**
Food Service 0.2%			
Aramark Services, Inc.			
160	8.50%, 2/1/15	$	133,600
El Pollo Loco, Inc.			
410	11.75%, 11/15/13		305,450
NPC International, Inc., Sr. Sub. Notes			
385	9.50%, 5/1/14		263,725
		$	**702,775**
Food/Drug Retailers 0.3%			
General Nutrition Center, Sr. Notes, Variable Rate (PIK)			
755	7.584%, 3/15/14	$	437,900
General Nutrition Center, Sr. Sub. Notes			
430	10.75%, 3/15/15		249,400
Rite Aid Corp.			
30	10.375%, 7/15/16		20,250
515	7.50%, 3/1/17		296,125
		$	**1,003,675**
Forest Products 0.2%			
Jefferson Smurfit Corp., Sr. Notes			
105	8.25%, 10/1/12	$	29,925

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount* (000 s omitted)	Security		Value
Forest Products (continued)			
85	7.50%, 6/1/13		25,075
NewPage Corp.			
610	10.00%, 5/1/12		332,450
385	12.00%, 5/1/13		134,750
NewPage Corp., Variable Rate			
155	9.443%, 5/1/12		82,150
Verso Paper Holdings, LLC/Verso Paper, Inc.			
305	11.375%, 8/1/16		114,375
		$	**718,725**
Healthcare 1.6%			
Accellent, Inc.			
320	10.50%, 12/1/13	$	225,600
Advanced Medical Optics, Inc., Sr. Sub. Notes			
80	7.50%, 5/1/17		44,400
AMR HoldCo, Inc./EmCare HoldCo, Inc., Sr. Sub. Notes			
355	10.00%, 2/15/15		331,925
Biomet, Inc.			
760	11.625%, 10/15/17		573,800
Community Health Systems, Inc.			
180	8.875%, 7/15/15		145,350
DJO Finance, LLC/DJO Finance Corp.			
220	10.875%, 11/15/14		161,700
HCA, Inc.			
291	8.75%, 9/1/10		270,630
34	7.875%, 2/1/11		29,410
150	9.125%, 11/15/14		122,250

465	9.25%, 11/15/16		378,975
MultiPlan Inc., Sr. Sub. Notes			
540	10.375%, 4/15/16(5)		450,900
National Mentor Holdings, Inc.			
355	11.25%, 7/1/14		296,425
Res-Care, Inc., Sr. Notes			
220	7.75%, 10/15/13	$	199,100
US Oncology, Inc.			
440	9.00%, 8/15/12		368,500
1,940	10.75%, 8/15/14		1,464,700
		$	**5,063,665**

Home Furnishings 0.0%

Interline Brands, Inc., Sr. Sub. Notes			
125	8.125%, 6/15/14	$	94,375
		$	**94,375**

Industrial Equipment 0.1%

Chart Industries, Inc., Sr. Sub. Notes			
215	9.125%, 10/15/15	$	156,950
ESCO Corp., Sr. Notes			
160	8.625%, 12/15/13(5)		124,000
ESCO Corp., Sr. Notes, Variable Rate			
160	6.694%, 12/15/13(5)		104,800
		$	**385,750**

Insurance 0.1%

Alliant Holdings I, Inc.			
115	11.00%, 5/1/15(5)	$	82,513
Hub International Holdings, Inc.			
140	9.00%, 12/15/14(5)		93,275
U.S.I. Holdings Corp., Sr. Notes, Variable Rate			
115	6.024%, 11/15/14(5)		47,869

			$	**223,657**
Leisure Goods/Activities/Movies 0.4%				
AMC Entertainment, Inc.				
	760	11.00%, 2/1/16	$	543,400
HRP Myrtle Beach Operations, LLC/HRP Myrtle Beach Capital Corp.				
	220	12.50%, 4/1/13(4)(5)		42,900
HRP Myrtle Beach Operations, LLC/HRP Myrtle Beach Capital Corp., Variable Rate				
	405	0.00%, 4/1/12(4)(5)		180,225
Marquee Holdings, Inc., Sr. Disc. Notes				
	515	9.505%, 8/15/14		293,550
Royal Caribbean Cruises, Sr. Notes				
	105	7.00%, 6/15/13		63,525
	40	6.875%, 12/1/13		24,200
	25	7.25%, 6/15/16		14,375
	50	7.25%, 3/15/18		28,750
Universal City Development Partners, Sr. Notes				
	280	11.75%, 4/1/10	$	182,700
			$	**1,373,625**
Lodging and Casinos 1.0%				
Buffalo Thunder Development Authority				
	535	9.375%, 12/15/14(5)	$	173,875
CCM Merger, Inc.				
	370	8.00%, 8/1/13(5)		209,050
Chukchansi EDA, Sr. Notes, Variable Rate				
	310	6.095%, 11/15/12(5)		144,150
Fontainebleau Las Vegas Casino, LLC				
	525	10.25%, 6/15/15(5)		70,875

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount* (000 s omitted)	Security	Value
Lodging and Casinos (continued)		
Galaxy Entertainment Finance		
320	9.875%, 12/15/12(5)	120,000
Greektown Holdings, LLC, Sr. Notes		
110	10.75%, 12/1/13(4)(5)	23,100
Host Hotels and Resorts, LP, Sr. Notes		
280	6.75%, 6/1/16	187,600
Indianapolis Downs, LLC & Capital Corp., Sr. Notes		
150	11.00%, 11/1/12(5)	72,000
Inn of the Mountain Gods, Sr. Notes		
565	12.00%, 11/15/10	189,275
Majestic HoldCo, LLC		
150	12.50%, 10/15/11(5)	938
MGM Mirage, Inc.		
20	7.50%, 6/1/16	10,400
Mohegan Tribal Gaming Authority, Sr. Sub. Notes		
165	8.00%, 4/1/12	104,775
240	7.125%, 8/15/14	136,800
260	6.875%, 2/15/15	140,400
OED Corp./Diamond Jo, LLC		
125	8.75%, 4/15/12	86,875
Park Place Entertainment		
805	7.875%, 3/15/10	422,625
Pinnacle Entertainment, Inc., Sr. Sub. Notes		
25	8.25%, 3/15/12	18,375
155	7.50%, 6/15/15	86,025
Pokagon Gaming Authority, Sr. Notes		
112	10.375%, 6/15/14(5)	95,200
San Pasqual Casino		
125	8.00%, 9/15/13(5)	93,125
Scientific Games Corp.		
65	7.875%, 6/15/16(5)	47,125
Seminole Hard Rock Entertainment, Variable Rate		
195	5.319%, 3/15/14(5)	104,325
Trump Entertainment Resorts, Inc.		

55	8.50%, 6/1/15(4)	$	8,250
Tunica-Biloxi Gaming Authority, Sr. Notes			
345	9.00%, 11/15/15(5)		293,250
Waterford Gaming, LLC, Sr. Notes			
347	8.625%, 9/15/14(5)		237,176
Wynn Las Vegas, LLC			
435	6.625%, 12/1/14		309,938
		$	**3,385,527**

Nonferrous Metals/Minerals 0.2%

Aleris International, Inc., Sr. Notes (PIK)			
560	9.00%, 12/15/14	$	36,400
FMG Finance PTY, Ltd.			
785	10.625%, 9/1/16(5)		447,450
Freeport-McMoran C and G, Sr. Notes			
220	8.375%, 4/1/17		156,408
		$	**640,258**

Oil and Gas 1.1%

Allis-Chalmers Energy, Inc., Sr. Notes			
445	9.00%, 1/15/14	$	262,550
Cimarex Energy Co., Sr. Notes			
135	7.125%, 5/1/17		105,975
Clayton Williams Energy, Inc.			
205	7.75%, 8/1/13		124,025
Compton Pet Finance Corp.			
410	7.625%, 12/1/13		170,150
Denbury Resources, Inc., Sr. Sub. Notes			
55	7.50%, 12/15/15		37,950
El Paso Corp., Sr. Notes			
245	9.625%, 5/15/12		215,458
Encore Acquisition Co., Sr. Sub. Notes			
175	7.25%, 12/1/17		114,625
Forbes Energy Services, Sr. Notes			
350	11.00%, 2/15/15		229,250
OPTI Canada, Inc., Sr. Notes			
110	7.875%, 12/15/14		42,350
200	8.25%, 12/15/14		79,000
Parker Drilling Co., Sr. Notes			
110	9.625%, 10/1/13		91,300

Petrohawk Energy Corp., Sr. Notes			
890	9.125%, 7/15/13		685,300
140	7.875%, 6/1/15(5)		99,400
Petroleum Development Corp., Sr. Notes			
135	12.00%, 2/15/18		93,150
Petroplus Finance, Ltd.			
510	7.00%, 5/1/17(5)	$	318,750
Plains Exploration & Production Co.			
195	7.00%, 3/15/17		131,625
Quicksilver Resources, Inc.			
25	8.25%, 8/1/15		16,250
320	7.125%, 4/1/16		185,600
Sandridge Energy, Inc., Sr. Notes			
335	8.00%, 6/1/18(5)		216,075
SemGroup L.P., Sr. Notes			
605	8.75%, 11/15/15(4)(5)		15,125
SESI, LLC, Sr. Notes			
65	6.875%, 6/1/14		45,825

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Eaton Vance Floating-Rate Income Trust as of November 30, 2008

PORTFOLIO OF INVESTMENTS (Unaudited) CONT D

Principal Amount* (000 s omitted)	Security		Value
Oil and Gas (continued)			
Stewart & Stevenson, LLC, Sr. Notes			
465	10.00%, 7/15/14		290,625
VeraSun Energy Corp.			
115	9.875%, 12/15/12		66,700
		$	**3,637,058**
Publishing 0.4%			
Dex Media West/Finance, Series B			
90	9.875%, 8/15/13	$	20,025
Harland Clarke Holdings			
40	9.50%, 5/15/15		17,800
Laureate Education, Inc.			
100	10.00%, 8/15/15(5)		65,500
Laureate Education, Inc. (PIK)			
1,059	10.25%, 8/15/15(5)		574,281
Local Insight Regatta Holdings, Inc.			
100	11.00%, 12/1/17		47,500
Nielsen Finance, LLC			
705	10.00%, 8/1/14		511,125
165	12.50%, (0% until 8/1/11), 8/1/16		61,875
Reader s Digest Association, Inc. (The), Sr. Sub. Notes			
505	9.00%, 2/15/17		119,306
		$	**1,417,412**

Radio and Television 0.1%

Rainbow National Services, LLC, Sr. Sub. Debs.

$	335	10.375%, 9/1/14[5]	$	291,450
			$	**291,450**

Compensation program

The principal objectives of our compensation program are:

- attracting and retaining highly qualified individuals whose contributions result in Michaels meeting or exceeding its financial and strategic goals;

- motivating officers to achieve exceptional levels of operating and financial performance; and

- aligning officer 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 Named Executive Officers, consists of three main components: base salary, annual cash incentive bonuses and long-term equity-based incentive compensation awards. The strategy of the cash incentive

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compensation program for our officers is to provide higher annual cash incentive compensation for exceptional corporate and business financial performance. We also believe that by placing a significant equity opportunity in the hands of executives who are capable of driving and sustaining growth, our stockholders will benefit along with the executives who helped create stockholder value. The table immediately below includes the principal components of our pay-for-performance approach.

Component	**Purpose**	**Form**	**Pay for performance**
Base Salary	Provide sufficient competitive pay to attract and retain experienced and successful executives; reward good performance and business results.	Cash	Adjustments to base salary are based on individual performance, contributions to the business, competitive practices and internal comparisons.
Annual Bonuses	Provide financial incentives to members of management who were in positions to make important contributions to our success.	Cash	The potential award amount varies with the degree to which we achieve our annual financial objectives, as well as the Named Executive Officer's individual job performance.
Long-Term Equity-Based Compensation	Encourage and reward building long-term stockholder value and employment retention; engage executives in innovation and align them with stockholder interests. We currently provide two equity award types to balance specific objectives.		
	Stock Options: Reward absolute stock price appreciation	Stock Options	The potential appreciation in our stock price above the option exercise price motivates our Named Executive Officers to build stockholder value. Named Executive Officers may realize value only if our stock price appreciates over the option term.
	Restricted Stock Awards: Create retention values even during periods of short-term market volatility	Restricted Stock Awards	Retain certain Named Executive Officers and align them with stockholders' interests by awarding a fixed number of common shares upon vesting, which creates retention value even during periods of short-term market volatility.

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Compensation strategy: policies and procedures

Role of Compensation Committee and Chief Executive Officer in compensation decisions

The Compensation Committee reviews and recommends to the Board for approval 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. Under our certificate of incorporation, equity-based plans must also be approved by a majority of our stockholders. Both the Compensation Committee and the Board receive recommendations with respect to compensation-related decisions regarding our 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, the competitive market salary at comparable companies, 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 the attainment of planned financial and strategic initiatives given greater weight with respect to executive bonuses. 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 other portfolio companies, has experience regarding compensation programs for executive officers. Approvals by the Compensation Committee and recommendations to the Board by the Compensation Committee are based on a number of factors, including a review of competitive market data (as described below) and executive performance (as described below), the experience of the members of the Compensation Committee and alignment of compensation with the overall strategic direction and goals of the Company.

Competitive market data and use of compensation consultants

As part of the compensation review process, management and our human resources department provide the Compensation Committee with market survey data on executive total compensation levels and general information regarding executive compensation practices in our industry, including information provided by The Hay Group, Inc., a compensation consulting firm engaged by the Company. The Hay Group's work in 2013 included a review of total compensation of our executive officers in light of amounts paid and compensation targets at comparable companies gathered from its internal sources as well as from published executive compensation surveys. During fiscal 2013, The Hay Group additionally evaluated our equity compensation program and made recommendations to the Compensation Committee and senior management. The Compensation Committee did not aim to set total compensation, or any compensation element, at a specified level as compared to the survey and other data that it reviewed, but rather used the data above, as well as that gathered through its members' involvement in other portfolio companies, as guidelines for the overall executive compensation program. As further described below under " Changes to Compensation Post-IPO", the Company has further retained The Hay Group to advise on executive compensation matters related to our initial public offering and transition to a public company.

Changes to compensation post-IPO

As noted above, the Company has retained, with approval of the Compensation Committee, The Hay Group to advise on certain aspects of executive compensation related to our initial public offering and transition to a public company. The Hay Group has developed, and our Compensation Committee has approved, a peer group of companies against which to assess the appropriateness of the following key components of our Named Executive Officers' compensation following this offering: base salary, annual cash bonuses and long term equity incentives.

The Compensation Committee may request that The Hay Group (or another compensation consultant) provide periodic market data on our peer group of companies. Our Compensation Committee may make adjustments in executive compensation levels in the future as a result of more formal market comparison processes.

Highlights of 2013 performance

The highlights of our fiscal 2013 performance include the following:

- Net sales increased to $4,570 million, a 3.7% improvement over fiscal 2012, which included a 53rd week, driven by a 2.9% increase in comparable store sales and the opening of 56 new Michaels stores and Aaron Brothers stores, including the relocation of 14 Michaels and 2 Aaron Brothers stores.

- We reported record operating income of $610 million, an increase of 3.0% from fiscal 2012.

- Net income increased by $43 million to $243 million.

- Adjusted EBITDA, a non-GAAP measure that is a required calculation in our debt agreements, improved by 6.0%, from $747 million in fiscal 2012 to $792 million in fiscal 2013 (see "Prospectus summary Summary consolidated financial and operating data.").

Throughout this Compensation Discussion and Analysis, we refer to our Adjusted EBITDA, a non-GAAP financial measure. A reconciliation of Adjusted EBITDA to the most directly comparable GAAP financial measure is contained in "Prospectus summary Summary consolidated financial and operating data."

Compensation elements

Base salaries

Base salaries for our executive officers are established based on the scope of their responsibilities, individual performance and prior experience, our 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 for officers at the level of Executive Vice President and above at a level designed to attract and retain highly qualified individuals who make contributions that result in the Company meeting its operating and financial goals. Base salaries are reviewed and adjusted annually as deemed appropriate by the Compensation Committee and the Board, as applicable, based on performance and business results, among other factors. The Compensation Committee and the Board have discretion to adjust base salary during the fiscal year and exercised that discretion in fiscal 2013, as described below.

Effective March 18, 2013, Mr. Rubin was named Chief Executive Officer of the Company. Pursuant to his negotiated employment agreement, Mr. Rubin's base salary was set at $1,100,000, subject to increase at the Board's discretion. In setting Mr. Rubin's base salary, the Compensation Committee considered Mr. Rubin's compensation at his prior employer, the compensation of John B. Menzer, who was Mr. Rubin's predecessor as Chief Executive Officer the Company, and the level of compensation needed to recruit Mr. Rubin to the Company. In the opinion of the members of the Compensation Committee, based on their

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experience with other companies, including other portfolio companies, this salary level represented a competitive market level for the position.

In March 2013, the Compensation Committee reviewed recommendations regarding 2013 annual base salary rates for the executive officer group based on the criteria set forth under " Compensation Strategy: Policies and Procedures". Merit guidelines are determined by reviewing surveys of market data provided by our management and human resources department, as well as giving consideration to the Company's overall budget for associate compensation. Based upon this information, the Company applied an annual merit rate budget of 3.0%, which provided for median merit based increases at 3.0%, for fiscal 2013 for its corporate support center associates, including our Named Executive Officers.

Annual base salary rates for the Named Executive Officers (other than Mr. Klessel) for fiscal 2013 and 2012, which reflect increases between the two fiscal years, are shown below.

	Base salary	
Executive	2013	2012
Carl S. Rubin(1)	$ 1,100,000	$
Lewis S. Klessel(2)		
Charles M. Sonsteby	711,109	687,061
Thomas C. DeCaro	393,437	381,978
Philo T. Pappas	431,897	419,318
Paula A. Puleo(3)	362,000	328,952
Nicholas E. Crombie(4)	362,187	355,085
Weizhong "Wilson" Zhu(5)	387,777	376,483

(1) Pursuant to Mr. Rubin's employment agreement his base salary was set at $1,100,000, subject to increase at the Board's discretion

(2) Mr. Klessel is a managing director of, and receives compensation and benefits through, Bain Capital. Effective May 16, 2012, Mr. Klessel was appointed, along with the Company's Chief Administrative Officer and Chief Financial Officer, Charles M. Sonsteby, to the Office of the CEO. Effective as of such date, Mr. Klessel was also appointed to the newly-created position of interim Chief Operating Officer of the Company. The Office of the CEO was discontinued, effective March 18, 2013, Mr. Rubin's start date with the Company and the date Mr. Klessel resigned from his position as interim Chief Operating Officer. Mr. Klessel received no compensation from the Company for his service as Member of the Office of the CEO and Interim Chief Operating Officer.

(3) Ms. Puleo received a base salary increase of 10.0% in connection with her promotion to the position of Executive Vice President Chief Marketing Officer on February 3, 2013, and therefore did not receive an additional base salary adjustment in March 2013.

(4) Mr. Crombie left the Company on July 27, 2013.

(5) Mr. Zhu left the Company on November 15, 2013.

Annual bonuses

In March 2013, the Compensation Committee recommended that the Board approve the Company's Bonus Plan for executive officers, including the Named Executive Officers (other than Mr. Klessel), for fiscal 2013 (the "Bonus Plan") to provide financial incentives to these individuals and those 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 Members of the Interim Office of the CEO and the Senior Vice President Human Resources and were reviewed by the Compensation Committee. For each of Messrs. Rubin and Sonsteby, the Bonus Plan tied 80% of his respective bonus opportunity to Michaels' attainment of a financial objective

(EBITDA, less an inventory charge), and 20% to individual job performance. For each of Mr. DeCaro, Mr. Pappas and Mr. Zhu, and Ms. Puleo, the Bonus Plan tied 50% of his or her respective bonus opportunity to our attainment of a financial objective (EBITDA, less an inventory charge), 15% to a business unit sales objective (sales for all U.S. Michaels stores), 15% to a business unit buyer contribution objective (generally margin, plus entitlements, less an inventory charge), and 20% to individual job performance. For Mr. Crombie, the Bonus Plan tied 50% of his bonus opportunity to our attainment of a financial objective (EBITDA, less an inventory charge), 15% to a business unit sales objective (U.S. and Canada sales for all of our stores), 15% to an objective relating to the Company's operating income, and 20% to individual job performance. Individual management business objectives for Mr. Rubin were reviewed with the Compensation Committee prior to the commencement of his employment with the Company on March 18, 2013. Individual management business objectives for Mr. Sonsteby were reviewed with and approved by the Compensation Committee in the early part of fiscal year 2013. Individual management business objectives for Messrs. Crombie, Pappas and Zhu, and Ms. Puleo, were reviewed with and approved by the Members of the Interim Office of the CEO. For Mr. DeCaro, these objectives were reviewed and approved by the Chief Administrative Officer and Chief Financial Officer.

Under the 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) was required to meet the threshold established by the Compensation Committee, which represented approximately 93% of target. 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 threshold, target and 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 retained 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. In the Compensation Committee's view, taking into account comparative data provided to the Committee by management and our human resources department, the compensation payable to the Named Executive Officers upon reaching target levels of performance, when added to their base salaries, creates a level of total cash compensation competitive with that paid by comparable companies for similar positions. Additional information regarding the targets and objectives is set forth below.

The target percentages set for fiscal 2013 and the threshold, target and maximum payments, for each of the Named Executive Officers for fiscal 2013 were as follows:

	Carl S. Rubin(1)	Lewis S. Klessel(2)	Charles M. Sonsteby	Thomas C. DeCaro	Philo T. Pappas	Paula A. Puleo(3)	Nicholas E. Crombie(4)	Weizhong Wilson Zhu(5)
Percentage of Base Salary								
Target	100%		70%	50%	50%	50%	50%	50%
Threshold	18%		13%	9%	9%	9%	9%	9%
Maximum	200%		140%	100%	100%	100%	100%	100%
Financial Weightings								
Overall Company Results	80%		80%	50%	50%	50%	50%	50%
Company Sales				15%	15%	15%	15%	15%
Buyer Contribution Less Inventory Charge				15%	15%	15%		15%
Company Operating Income							15%	
Individual Performance	20%		20%	20%	20%	20%	20%	20%

(1) Pursuant to Mr. Rubin's employment agreement his target bonus for fiscal 2013 was set at 100% of base salary, as if he had been employed for the full fiscal year (with a maximum bonus at 200% of his base salary).

(2) Mr. Klessel received no compensation from the Company for his service as Member of the Interim Office of the CEO and Interim Chief Operating Officer and did not participate in the Bonus Plan.

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(3) Ms. Puleo separated from the Company on March 9, 2014. Pursuant to the Bonus Plan, Ms. Puleo received her full earned bonus for fiscal 2013.

(4) Mr. Crombie retired from the Company on July 27, 2013, and is not eligible for a bonus for fiscal 2013.

(5) Mr. Zhu left the Company on November 15, 2013. In connection with his departure, the Company entered into an agreement with Mr. Zhu, whereby Mr. Zhu received his earned pro-rated bonus for fiscal year 2013 pursuant to the Bonus Plan, under established bonus criteria associated with the Bonus Plan, on the same terms as bonuses paid to other executive officers of the Company.

Company objective measures

In March 2014, the Compensation Committee reviewed the Company's financial results as applicable to the pre-established fiscal 2013 Bonus Plan objectives 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 2013, the Compensation Committee established, and the Board approved, the EBITDA, less an inventory charge, goal for target-level bonuses at $690.8 million, with a maximum at $768.6 million and a threshold at $642.6 million. For the fiscal year, the Company achieved financial performance of $662.1 million, which was between threshold and target. As a result, bonuses above threshold, but below target, were earned for the Company performance element of the plan.

At the beginning of fiscal 2013, the Compensation Committee approved a business unit sales objective goal for target level bonuses for each of Messrs. DeCaro, Pappas, Crombie and Zhu and Ms. Puleo at $4,463.3 million, with a maximum at $4,686.4 million and a threshold at $4,351.7 million. The Compensation Committee also approved a business unit buyer contribution objective goal for target level bonuses for Messrs. DeCaro, Pappas and Zhu and Ms. Puleo at $2,244.9 million, with a maximum at $2,357.1 million and a threshold at $2,188.8 million, and a Company operating income objective goal for a target level bonus for Mr. Crombie at $552.4 million, with a maximum at $607.7 million and a threshold at $519.3 million. For the fiscal year, the Company achieved business unit sales of $4,430.3 million, which was between threshold and target, a business unit buyer contribution of $2,187.8 million, which was below threshold, and Company operating income of $519.0 million, which was below threshold. As a result, bonuses below target were earned for the business unit sales objective element of the plan, and bonuses were not earned for the business unit buyer contribution element of the plan and the Company operating income element of the plan.

Company subjective measures

Since the financial objective threshold that is applicable to all Named Executive Officers was met, in March 2014 the Compensation Committee, based upon input and recommendations by Messrs. Rubin and Sonsteby, as applicable, evaluated the individual performance of each of the Named Executive Officers for purposes of determining bonuses based on individual performance. The individual management business objectives are both quantitative and subjective, and are assessed in the aggregate to determine the individual's level of performance and bonus achieved. No specified weight is given to a single measure within the group of individual management business objectives, and the Compensation Committee's assessment of achievement reflects a generalized view of overall achievement of the group of measures. In addition, the individual management business objectives for all executives included an assessment of the executive's job knowledge and skills, communication skills, interpersonal skills, effectiveness of management, judgment and decision-making, drive and commitment, leadership and customer satisfaction.

For fiscal 2013, Mr. Rubin's group of individual management business objectives were focused primarily on EBITDA, margin improvement and year-over-year comparable sales growth, as well as solidifying the Company's leadership team and defining its appropriate long-term strategy. The Compensation Committee determined that Mr. Rubin achieved his individual objectives at 200% of target. Mr. Sonsteby's group of individual management business objectives were focused primarily on new store growth and performance, increasing profitability and cash flow, effective use of capital and development of future strategies. The Compensation Committee determined that Mr. Sonsteby achieved his individual objectives at 100% of target. Mr. DeCaro's group of individual management business objectives focused primarily on increasing profitability and cash flow, improvement in inventory turnover and in-stocks, supply chain cost management, and growth in private brand sales and gross margin. The Compensation Committee determined that Mr. DeCaro achieved his individual objectives at 50% of target. For Mr. Pappas, his group of individual management business objectives focused primarily on increasing profitability and cash flow, store offering competiveness, pricing improvement, new business development, and growth in private brand sales and gross margin. The Compensation Committee determined that Mr. Pappas achieved his individual objectives at 100% of target.

Ms. Puleo left the Company on March 9, 2014. Pursuant to the terms of the Bonus Plan, she received her full earned bonus for fiscal 2013. Ms. Puleo was credited as achieving her individual objectives component at a fixed 50% of target, in accordance with the terms of the Bonus Plan. Mr. Crombie retired from the Company on July 27, 2013, and was not eligible to receive a bonus for fiscal 2013 in accordance with the terms of the Bonus Plan. Mr. Zhu left the Company on November 15, 2013. In connection with Mr. Zhu's departure, the Company entered into an agreement with him, whereby he received his earned pro-rated bonus for fiscal year 2013 pursuant to the Bonus Plan, under established bonus criteria associated with the Bonus Plan, on the same terms as bonuses paid to other executive officers of the Company. Mr. Zhu was credited as achieving his individual objectives component at a fixed 50% of target, in accordance with the terms of the Bonus Plan.

Actual payouts

Actual payouts for the Named Executive Officers, as a percentage of target level bonuses, were as follows:

	Carl S. Rubin	**Lewis S. Klessel(1)**	**Charles M. Sonsteby**	**Thomas C. DeCaro**	**Philo T. Pappas**	**Paula A. Puleo(2)**	**Nicholas E. Crombie(3)**	**Weizhong Wilson Zhu(4)**
Percent of Target	77%	N/A	57%	44%	54%	44%	N/A	44%

(1) Mr. Klessel received no compensation from the Company for his service as Member of the Interim Office of the CEO and Interim Chief Operating Officer and did not participate in the Bonus Plan.

(2) Ms. Puleo separated from the Company on March 9, 2014. Pursuant to the Bonus Plan, Ms. Puleo received her full earned bonus for fiscal 2013.

(3) Mr. Crombie retired from the Company on July 27, 2013, and is not eligible for a bonus for fiscal 2013.

(4) Mr. Zhu left the Company on November 15, 2013. In connection with his departure, the Company entered into an agreement with Mr. Zhu, whereby Mr. Zhu will receive his earned pro-rated bonus for fiscal year 2013 pursuant to the Bonus Plan, under established bonus criteria associated with the Bonus Plan, on the same terms as bonuses paid to other executive officers of the Company.

Actual amounts paid to the Named Executive Officers for fiscal 2013 are listed in the Summary Compensation Table.

Bonus opportunities for our Named Executive Officers for fiscal 2014 will be administered pursuant to the Company's Bonus Plan for fiscal 2014 (the "2014 Bonus Plan"). See "Executive Compensation Bonus Plan for Fiscal 2014" for additional details.

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Long term equity-based compensation

On February 15, 2007, our Board and stockholders approved the Michaels Stores, Inc. 2006 Equity Incentive Plan (as amended, the "Equity Incentive Plan" or the "Plan"), as well as certain specific grants under the Equity Incentive Plan to officers. In addition, the stockholders granted the Board authority to make Equity Incentive Plan grants to other eligible participants in the future. The Equity Incentive Plan was established to advance the interests of Michaels and its affiliates by providing for the grant of equity-based awards to eligible officers, associates, directors of, and consultants and advisors to, Michaels or its affiliates. Awards under the Equity Incentive Plan are intended to align the long term incentives of our executives and stockholders. Grants are typically awarded when an executive is hired and may be awarded for subsequent promotions. All stock option grants made in fiscal 2013 were at exercise prices set at or above the grant date fair market value of the underlying stock as determined by our Board. In connection with the Reorganization in July 2013, the Equity Incentive Plan was assumed by The Michaels Companies, Inc., and the stock underlying outstanding awards became, and the stock upon which future awards will be based will be, the Common Stock of The Michaels Companies, Inc. In connection with our initial public offering, we amended and restated the Equity Incentive Plan, which is described in more detail below under "Executive Compensation 2014 Omnibus Plan".

Historically, the majority of outstanding options under the Equity Incentive Plan were divided into tranches with escalating exercise prices. The tranche structure of the option awards, with increasing exercise prices in each tranche, was designed to incentivize long term performance by tying the value of the options to long term increases in the value of our Common Stock. These grants were not made on an annual basis; rather, each initial grant was intended to incentivize the executive for a five-year period based on the vesting and exercise structure of the grant. For these options, 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 Stockholders Agreement).

Beginning in 2013, the Company began issuing annual option grants that will vest over four years and accelerate in full on a Change of Control. The Company made the first of such grants in July 2013. Detail regarding option grants made to our Named Executive Officers in fiscal year 2013 and awards outstanding at the end of fiscal year 2013 is provided, respectively, in the Grants of Plan-Based Awards for Fiscal 2013 table and the Outstanding Equity Awards at Fiscal Year-End 2013 table that follow this Compensation Discussion and Analysis.

In July 2013, we paid a cash dividend to equity holders. In accordance with the terms of the Equity Incentive Plan, we also made cash payments and exercise price adjustments to outstanding equity awards to take account of the decreased fair value of our Common Stock as a result of the cash dividend.

Other benefits and perquisites

Our Named Executive Officers also receive certain other benefits and perquisites. During fiscal 2013, these benefits included contributions to 401(k) accounts, the payment of life insurance premiums, certain Company-paid medical benefits, car allowances and, in some cases, tax gross-ups and reimbursement for income taxes on taxable benefits. Additionally, our Chief Executive Officer, Mr. Rubin, was 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 executives' 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 5 to the Summary Compensation Table.

Employment and severance agreements

We entered into an employment agreement with Mr. Rubin, which became effective on March 18, 2013, the date he commenced employment, which includes certain severance benefits in the event of termination other than for cause or by Mr. Rubin for good reason, as such terms are defined in the agreement. The specific terms of Mr. Rubin's employment agreement, are discussed in the section entitled "Rubin Employment Agreement" following the Grants of Plan-Based Awards Table and under "Executive 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 and was further amended on May 20, 2014. 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 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 Compensation Potential Payments upon Termination or Change of Control".

Ms. Puleo's employment with the Company ended on March 9, 2014, and her severance benefits under the OSPP were triggered. Ms. Puleo executed a Severance Agreement and Release, which included, in addition to a release of all claims against the Company, a forfeiture of all outstanding unvested stock options and a confidentiality, non-solicitation, non-compete and non-interference agreement. Pursuant to her Severance Agreement and Release under the OSPP, Ms. Puleo is receiving: (i) eighteen months of base salary continuation in accordance with the Company's regular payroll practices; (ii) her earned bonus for fiscal 2013; (iii) a prorated target annual bonus for fiscal 2014; and (iv) the continuation of group medical and dental benefits for the eighteen month salary continuation period. The actual amounts payable to Ms. Puleo in connection with her separation are set forth under "Executive and Director Compensation Potential Payments upon a Termination or Change in Control".

Tax and accounting considerations

Deductibility of executive compensation. While the Compensation Committee takes into account tax and accounting considerations in structuring the components of the Company's compensation program, these considerations are secondary to the primary objectives of the program. Section 162(m) of the Code ("Section 162(m)") disallows a U.S. federal income tax deduction to any publicly held corporation for compensation exceeding $1 million in any taxable year to any of the corporation's chief executive officer or other three most highly paid named executive officers other than its chief financial officer, except as to compensation that qualifies as performance-based or is otherwise exempt under Section 162(m). Following our initial public offering and for awards made under a plan established before our initial public offering concluded, the Company expects to be able to claim the benefit of a special exemption that applies to compensation paid (or compensation in respect of stock options or restricted stock granted) during a transition period that may extend until the Company's annual meeting of stockholders scheduled to be held in 2018, unless the transition period is terminated earlier under the Section 162(m) post-offering transition rules. At such time as we are subject to the deduction limitations of Section 162(m), we expect that the Compensation Committee will take the deductibility limitations of Section 162(m) into account in its compensation decisions. However, the Compensation Committee may, in its judgment, authorize compensation payments that are not exempt under Section 162(m) when it believes that such payments are appropriate to attract or retain talent.

The Company's compensation policies and practices as they relate to risk management

In accordance with the applicable disclosure requirements, to the extent that risks may arise from the Company's compensation policies and practices that are reasonably likely to have a material adverse effect on the Company, the Company is required to discuss those policies and practices for compensating the employees of the Company (including employees that are not Named Executive Officers) as they relate to the Company's risk management practices and the possibility of incentivizing risk-taking.

The Compensation Committee has evaluated the policies and practices of compensating the Company's employees in light of the relevant factors, including the following:

- the financial performance targets of the Company's annual cash incentive program are the budgeted objectives that are reviewed and approved by the Board and/or the Compensation Committee

- bonus payouts are not based solely on Company performance, but also require achievement of individual performance objectives

- bonus awards generally are not contractual entitlements, but are reviewed by the Compensation Committee and/or the Board and can be modified at their discretion

- the financial opportunity in the Company's long-term equity-based compensation is best realized through long term appreciation of the Company's stock price, which mitigates excessive short-term risk-taking

- the allocation of compensation between cash and equity awards and the focus on stock-based compensation, including options and restricted stock awards generally vesting over a period of years, thereby mitigating against short-term risk taking

Based on such evaluation, the Compensation Committee has determined that the Company's policies and practices are not reasonably likely to have a material adverse effect on the Company.

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Executive and director compensation

Summary compensation table

According to SEC rules, the Summary Compensation Table must include specific information for each of the Named Executive Officers previously identified in the Compensation Discussion and Analysis above.

Name and principal position	Year	Salary ($)(1)	Bonus ($)	Stock awards ($)(2)	Option awards ($)(3)	Non-equity incentive plan compensation ($)(4)	All other compensation ($)(5)	Total ($)
Carl S. Rubin *Chief Executive Officer(6)*	2013	$ 930,769	$	$ 6,099,187	$ 10,657,671	$ 847,660(7)	$ 2,142,407	$ 20,677,694
Lewis S. Klessel *Former Member of the*	2013							
Interim Office of the Chief Executive Officer and Interim Chief Operating Officer(8)	2012							
Charles M. Sonsteby *Chief Administrative*	2013	706,484		450,026	558,709	284,017	765,464	2,764,700
Officer and	2012	683,213				382,899	26,469	1,092,581
Chief Financial Officer	2011	662,181				538,576	36,057	1,236,814
Thomas C. DeCaro	2013	389,720		183,464	227,771	86,871	1,136,701	2,024,527
Executive Vice	2012	380,537				105,731	34,987	521,255
President Supply Chain	2011	369,473				181,851	39,579	590,903
Philo T. Pappas	2013	429,478		2,573,624	344,671	116,958	1,083,175	4,547,906
Executive Vice	2012	416,591				116,067	32,872	565,530
President Category Management	2011	399,986				257,506	41,945	699,437
Paula A. Puleo *Former Executive Vice President Chief Marketing Officer(9)*	2013	360,729		277,624	471,494	79,930(10)	450,682	1,640,459
Nicholas E. Crombie *Former Executive Vice President Store Operations(11)*	2013	186,693		183,464	227,771		1,189,311	1,787,239
Weizhong "Wilson" Zhu	2013	318,490		183,464	227,771	71,351(13)	1,117,184	1,918,260
Former Executive Vice	2012	374,717				104,210	34,743	513,670
President Private Brands & Global Sourcing(12)	2011	360,546				196,726	35,853	593,125

(1) The amounts in this column represent actual base salary paid during fiscal 2013.

(2) 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 8 to our Consolidated Financial Statements for the year ended February 1, 2014. Because the Company was a privately-held company, and there was no public market for our Common Stock, the fair market value of our Common Stock was determined by our Board based on available information that was material to the value of our Common Stock at the time such determination was made, 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) Represents the aggregate grant date fair value of option awards on the date of the grant as calculated in accordance with ASC 718, based on the assumptions set forth in Note 8 to our Consolidated Financial Statements for the year ended February 1, 2014. Because the Company was a privately-held company, and there was no public market for our Common Stock, the fair market value of our Common Stock was determined by our Board based on available information that was material to the value of our Common Stock and at the time such determination was made, 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 for fiscal 2013 reflect the cash awards to Named Executive Officers under the Bonus Plan, which are discussed in further detail in the preceding section " Compensation Elements Annual Bonuses". The amounts in this column for fiscal 2012 reflect the cash awards to Named Executive Officers under the Company's bonus plan for executive officers for fiscal 2012. The amounts in this column for fiscal 2011 reflect the cash awards to Named Executive Officers under the Company's bonus plan for executive officers for fiscal 2011.

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(5) The table below reflects the fiscal 2013 components of this column.

	Carl S. Rubin	Lewis S. Kressel	Charles M. Sonsteby	Thomas C. DeCaro	Philo T. Pappas	Paula A. Puleo	Nicholas E. Crombie	Weizhong Wilson Zhu
Medical Benefits(a)	$ 22,293	$	$ 8,776	$ 18,810	$ 18,977	$ 3,334	$ 6,098	$ 15,446
Insurance Premiums	3,382		7,051	6,527	4,849	2,941	5,734	7,536
Company Contributions to 401(k) and Group Universal Life Plan				2,550	2,465	2,550	2,550	2,550
Tax Reimbursement(b)	161,972		700	807	735	380	453	807
Relocation	223,642							
Car Allowance/company owned or Leased Automobile	10,022		7,200	7,200	7,200	7,200	3,600	5,816
Equity Bonus(c)			741,637	1,100,707	1,048,849	434,177	1,095,876	1,085,029
Consulting fees(d)	63,459						75,000	
Other(e)	1,657,637		100	100	100	100		
Total Other	$ 2,142,407	$	$ 765,464	$ 1,136,701	$ 1,083,175	$ 450,682	$ 1,189,311	$ 1,117,184

(a) The amounts in this row for all executive officers include Company-paid medical benefits, including executive and spouse physicals, and for Mr. Rubin the amounts also include reimbursement for COBRA medical coverage payments made by Mr. Rubin to his previous employer before he commenced employment with the Company.

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

(c) The amounts in this row reflect dividend equivalent payments made to equity award holders in July 2013 related to the dividend paid in July 2013 to our equity holders.

(d) The amounts in this row for Mr. Rubin include payments for consulting services provided to the Company by Mr. Rubin prior to the commencement of his employment. The amounts in this row for Mr. Crombie include payments for consulting services provided to the Company by Mr. Crombie following his retirement from the Company

(e) The amounts in this row for Mr. Rubin include a price protection payment equal to $1,641,515 provided to Mr. Rubin in connection with the sale of 130,000 shares of Ulta stock held by him, as more fully described under the section entitled " Employment Agreement with certain Named Executive Officers Rubin Employment Agreement" following the Grants of Plan-Based Awards Table and $16,122 for legal expenses incurred by Mr. Rubin in connection with the review and negotiation of his employment agreement with the Company. The amounts in this row for Messrs. Sonsteby, DeCaro and Pappas and Ms. Puleo reflect the cost attributable to executive gifts.

(6) Mr. Rubin became our Chief Executive Officer on March 18, 2013, and his base salary for fiscal 2013 reflects a partial fiscal year.

(7) Pursuant to Mr. Rubin's employment agreement, he was deemed to have provided a full year of employment during the fiscal year for purposes of his fiscal 2013 bonus.

(8) Mr. Klessel received no compensation from the Company for his service as Member of the Interim Office of the CEO and Interim Chief Operating Officer and did not participate in the Bonus Plan.

(9) Ms. Puleo separated from the Company on March 9, 2014.

(10) Pursuant to the Bonus Plan, Ms. Puleo received her full earned bonus for fiscal 2013.

(11) Mr. Crombie retired from the Company on July 27, 2013.

(12) Mr. Zhu left the Company on November 15, 2013.

(13) In connection with Mr. Zhu's departure, the Company entered into an agreement with Mr. Zhu, whereby Mr. Zhu received his earned pro-rated bonus for fiscal year 2013 pursuant to the Bonus Plan, under established bonus criteria associated with the Bonus Plan, on the same terms as bonuses paid to other executive officers of the Company.

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Grants of plan-based awards for fiscal 2013

The following table sets forth the plan-based awards granted to Named Executive Officers pursuant to Company plans during fiscal 2013.

Grants of plan-based awards

Name and principal position	Grant date	Estimated future payouts under non-equity incentive plan awards(1) Threshold ($)	Target ($)	Maximum ($)	All other stock awards: number shares of stock(2)(3) (#)	All other option awards: number of securities underlying options(2) (#)	Exercise or base price of options awards(3) ($/Sh)	Grant date fair value of stock and option awards(4)
Carl S. Rubin	N/A	198,000	1,100,000	2,200,000				
Chief Executive Officer(5)	3/18/2013				334,288			
Lewis S. Klessel	3/18/2013					1,845,000	$ 18.25	$ 10,657,671
	N/A							
Former Member of the Interim Office of the Chief Executive Officer and Interim Chief Operating Officer(6)								
Charles M. Sonsteby	N/A	89,600	497,776	995,552				
Chief Administrative Officer and	7/3/2013				24,619			
Chief Financial Officer(7)	7/3/2013					123,098	$ 18.28	$ 558,709
Thomas C. DeCaro	N/A	35,409	196,718	393,437				
Executive Vice	7/3/2013				10,036			
President Supply Chain(8)	7/3/2013					50,184	$ 18.28	$ 227,771
Philo T. Pappas	N/A	38,871	215,949	431,897				
Executive Vice President	7/3/2013				15,188			
Category	7/3/2013					75,940	$ 18.28	$ 344,671
Management(9)	1/22/2014				147,600		$ 15.56	
Paula A. Puleo	N/A	32,580	181,000	362,000				
Former Executive Vice President	2/11/2013					20,664	$ 17.41	$ 126,823
Chief Marketing	7/3/2013				15,188			
Officer(10)	7/3/2013					75,940	$ 18.28	$ 344,671
Nicholas E. Crombie	N/A	32,597	181,093	362,187				
Former Executive Vice President	7/3/2013				10,036			

Store Operations(11)	7/3/2013					50,184	$ 18.28	$ 227,771
Weizhong "Wilson" Zhu	N/A	34,900	193,889	387,777				
Former Executive Vice President	7/3/2013				10,036			
Private Brands & Global Sourcing(12)	7/3/2013					50,184	$ 18.28	$ 227,771

(1) The threshold, target and maximum amounts in these columns show the range of payouts targeted for fiscal 2013 for performance under the Bonus Plan as discussed in further detail in " Compensation Elements Annual Bonuses." Bonuses were recommended by the Compensation Committee, and approved by the Board, as applicable, in March 2014 and were paid in April 2014, 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 Equity Incentive Plan. In connection with the Reorganization in July 2013, we assumed the Equity Incentive Plan and the stock underlying outstanding awards became, and the stock upon which future awards will be based will be, the Common Stock of The Michaels Companies.

(3) All grants of stock options under the Equity Incentive Plan have an exercise price determined by us to be equal to or greater than the fair market value of our Common Stock on the date of grant. Because we were privately-held and there was no public market for our Common Stock at the time of the grants shown in this column, the fair market value of our Common Stock was determined by our Board based on available information that was 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 restricted stock awards as calculated in accordance with ASC 718.

(5) Stock options were granted to Mr. Rubin effective March 18, 2013 vesting at the rate of 20% per year on each of the first through fifth anniversaries of March 18, 2013, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or Change of Control"). Mr. Rubin's restricted stock awards vest 20% on each of the first through fifth anniversaries of March 18, 2013, or immediately upon a Change of Control. Mr. Rubin 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.

(6) Mr. Klessel received no compensation from the Company for his service as Member of the Interim Office of the CEO and Interim Chief Operating Officer and did not participate in the Bonus Plan.

(7) Stock options were granted to Mr. Sonsteby effective July 3, 2013 vesting at the rate of 25% per year on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or Change of Control").
Mr. Sonsteby's restricted stock awards vest 25% on each of the first through fourth anniversaries of July 3, 2013; or immediately upon a Change of Control. 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.

(8) Stock options were granted to Mr. DeCaro effective July 3, 2013 vesting at the rate of 25% per year on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or Change of Control").
Mr. DeCaro's restricted stock awards vest 25% on each of the first through fourth anniversaries of July 3, 2013; or immediately upon a Change of Control. Mr. DeCaro 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.

(9) Stock options were granted to Mr. Pappas effective July 3, 2013 vesting at the rate of 25% per year on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or Change of Control").
Mr. Pappas's restricted stock awards with respect to 15,188 unvested shares of Common Stock vest 25% on each of the first through fourth anniversaries of July 3, 2013; or immediately upon a Change of Control. Mr. Pappas's restricted stock awards with respect to 73,800 unvested shares of Common Stock vest 40% on the second anniversary of January 22, 2014, and the remaining 60% on the third anniversary of January 22, 2014. Mr. Pappas's restricted stock awards with respect to 73,800 additional unvested shares of Common Stock vest as follows: (a)(i) 24,599 shares on March 31, 2015, so long as the Company achieves the numerical earnings before interest and taxes, less an inventory charge ("EBIT") plan designated by the Board in its business plan for fiscal year 2014 (the "Fiscal 2014 EBIT Number"); (ii) 24,600 shares on March 31, 2016, so long as Company has achieved at least ten percent (10%) growth in its EBIT in fiscal year 2015 as compared to fiscal year 2014; and (iii) 24,600 shares on March 31, 2017, so long as the Company has achieved at least ten percent (10%) growth in its EBIT in fiscal year 2016 as compared to fiscal year 2015; and (b) with respect to any shares that otherwise remain unvested pursuant to (a), Mr. Pappas will be able to vest in such shares contingent on the Company's achievement of certain cumulative EBIT metrics. All of Mr. Pappas's restricted stock awards will vest immediately upon a Change of Control. 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.

(10) Stock options were granted to Ms. Puleo effective February 11, 2013 vesting at the rate of 20% per year on each of the first through fifth anniversaries of February 11, 2013, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or Change of Control").
Additional stock options were granted to Ms. Puleo effective July 3, 2013 vesting at the rate of 25% per year on each

of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control. Ms. Puleo's restricted stock awards were scheduled to vest 25% on each of the first through fourth anniversaries of July 3, 2013; or immediately upon a Change of Control. Ms. Puleo was entitled to receive all dividends and distributions, if any, paid with respect to the shares of restricted stock she held, but if any such dividends or distributions were paid in shares of our capital stock, such shares would have been subject to the same restrictions on transferability as were the shares of restricted stock with respect to which they were paid. Ms. Puleo separated from the Company on March 9, 2014. Pursuant to the terms of the Equity Incentive Plan, she had 60 days from that date to exercise any of her vested stock options; her unvested stock options and shares of restricted stock terminated on her separation date.

(11) Stock options were granted to Mr. Crombie effective July 3, 2013 vesting at the rate of 25% per year on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or Change of Control"). Mr. Crombie's restricted stock awards were scheduled to vest 25% on each of the first through fourth anniversaries of July 3, 2013; or immediately upon a Change of Control. Mr. Crombie was entitled to receive all dividends and distributions, if any, paid with respect to the shares of restricted stock he held, but if any such dividends or distributions were paid in shares of our capital stock, such shares would have been subject to the same restrictions on transferability as were the shares of restricted stock with respect to which they were paid. Mr. Crombie retired from the Company on July 27, 2013. Pursuant to the terms of the Equity Incentive Plan, he had 60 days from that date to exercise any of his vested stock options; his unvested stock options and shares of restricted stock terminated on his separation date.

(12) Stock options were granted to Mr. Zhu effective July 3, 2013 vesting at the rate of 25% per year on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or Change of Control"). Mr. Zhu's restricted stock awards were scheduled to vest 25% on each of the first through fourth anniversaries of July 3, 2013; or immediately upon a Change of Control. Mr. Zhu was entitled to receive all dividends and distributions, if any, paid with respect to the shares of restricted stock he held, but if any such dividends or distributions were paid in shares of our capital stock, such shares would have been subject to the same restrictions on transferability as were the shares of restricted stock with respect to which they were paid. Mr. Zhu left the Company on November 15, 2013. Pursuant to the terms of the Equity Incentive Plan, he had 60 days from that date to exercise any of his vested stock options; his unvested stock options and shares of restricted stock terminated on his separation date.

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Employment agreements with certain named executive officers

Rubin employment agreement

We entered into an employment agreement with Mr. Rubin, our current Chief Executive Officer, which became effective on March 18, 2013, the date he commenced employment. The agreement provides for an annual base salary of $1,100,000, subject to increase in the Board's discretion. Mr. Rubin will be eligible to earn an annual incentive bonus at a target of 100% of his annual base salary and a maximum bonus of 200% of his annual base salary, based on performance criteria established by the Board for each fiscal year during his employment. Mr. Rubin receives no additional compensation for his service as a director of the Company.

In connection with the commencement of his employment, Mr. Rubin was granted an option to purchase 1,845,000 shares of the Company's Common Stock at an exercise price of $18.25 (which was adjusted to $13.86 in connection with the payment of a dividend to holders of our Common Stock in July 2013). The option will vest pro rata on each of the first five anniversaries of the date of grant. Mr. Rubin also was granted 334,288 restricted shares of the Company's Common Stock that will vest pro rata on the first through fifth anniversaries of the date of grant.

Due to the timing of Mr. Rubin's joining the Company and typical trading window restrictions at Ulta, the Company agreed to make Mr. Rubin whole for a period of 90 days (subject to extension for any blackout period) after Mr. Rubin's effective resignation date with Ulta, for any decline in the price of Ulta stock realized upon sale of up to 130,000 shares of Ulta stock held by him below an agreed threshold. The Company paid Mr. Rubin $1,641,515 in connection with such price protection, which amount is subject to claw back in the event that Mr. Rubin voluntarily terminates his employment or is terminated for cause on or before March 18, 2015.

For more information about the payments and benefits payable to Mr. Rubin upon a termination of his employment, please see "Executive Compensation Potential Payments upon Termination or Change of Control" below.

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Outstanding equity awards at fiscal year-end 2013

The following table sets forth information regarding equity awards held by our Named Executive Officers as of February 1, 2014.

	Option awards(1)				Stock awards(1)	
Name and principal position	**Number of securities underlying unexercised options exercisable (#)**	**Number of securities underlying unexercised options unexercisable (#)**	**Option exercise price(2) ($)**	**Option expiration date**	**Number of shares or units of stock that have not vested (#)**	**Value of shares or units stock that have not vested(3) ($)**
Carl S. Rubin					334,288	$ 5,358,588
Chief Executive Officer(4)		1,845,000	$ 13.86	3/17/2021		
Lewis S. Klessel	N/A	N/A	N/A	N/A	N/A	
Former Member of the Interim Office of the Chief Executive Officer and Interim Chief Operating Officer(5)						
Charles M. Sonsteby					47,173	$ 756,174
Chief Administrative Officer and	167,568	111,714	$ 6.23	1/4/2019		
Chief Financial Officer(6)	167,568	111,714	$ 6.55	1/4/2019		
	167,568	111,714	$ 11.14	1/4/2019		
		123,098	$ 13.90	7/2/2021		
Thomas C. DeCaro					10,036	$ 160,888
Executive Vice President Supply	178,767	44,693	$ 3.48	7/1/2017		
Chain(7)	106,270		$ 7.39	2/15/2015		
	93,754	23,438	$ 7.39	7/1/2017		
	106,270		$ 11.38	2/15/2015		
	93,754	23,438	$ 11.38	7/1/2017		
		50,184	$ 13.90	7/2/2021		
Philo T. Pappas					166,244	$ 2,664,873
Executive Vice President	178,767	44,693	$ 3.48	7/1/2017		
Category Management(8)	9,312		$ 7.22	4/16/2017		
	171,320	42,830	$ 7.22	7/1/2017		
	9,312		$ 11.31	4/16/2017		
	171,320	42,830	$ 11.31	7/1/2017		
		75,940	$ 13.90	7/2/2021		
Paula A. Puleo					15,188	$ 243,461
Former Executive Vice President	83,798	55,866	$ 4.95	7/1/2017		
Chief Marketing Officer(9)	83,798	55,866	$ 6.94	5/22/2015		
	83,798	55,866	$ 11.29	6/3/2016		
		20,664	$ 13.02	7/1/2017		
		75,940	$ 13.90	7/2/2021		
Nicholas E. Crombie	N/A	N/A	N/A	N/A	N/A	
Former Executive Vice President						
Store Operations(10)						
Weizhong "Wilson" Zhu	N/A	N/A	N/A	N/A	N/A	
Former Executive Vice President						
Private Brands & Global Sourcing(11)						

(1) In connection with the Reorganization in July 2013, we assumed the Equity Incentive Plan and the stock underlying outstanding awards became, and the stock upon which future awards will be based will be, the Common Stock of The Michaels Companies.

(2) In July 2013, we paid a cash dividend to equity holders. In accordance with the terms of the Equity Incentive Plan, we also made cash payments and exercise price adjustments to outstanding equity awards to take account of the decreased fair value of our Common Stock by

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the amount of the cash dividend of $4.38 per share. Exercises prices for outstanding stock option awards were adjusted to reflect the dividend for each Named Executive Officer with stock options outstanding at fiscal year end as follows:

Name and principal position	Option expiration date		Option exercise price at grant ($)		Post-dividend option exercise price($)
Carl S. Rubin *Chief Executive Officer*	3/17/2021	$	18.25	$	13.86
Charles M. Sonsteby	1/4/2019	$	9.80	$	6.23
Chief Administrative Officer and Chief	1/4/2019	$	10.16	$	6.55
Financial Officer	1/4/2019	$	15.24	$	11.14
	7/2/2021	$	18.28	$	13.90
Thomas C. DeCaro	7/1/2017	$	5.08	$	3.48
Executive Vice President Supply Chain	2/15/2015	$	10.16	$	7.39
	7/1/2017	$	10.16	$	7.39
	2/15/2015	$	15.24	$	11.38
	7/1/2017	$	15.24	$	11.38
	7/2/2021	$	18.28	$	13.90
Philo T. Pappas	7/1/2017	$	5.08	$	3.48
Executive Vice President Category Management	4/16/2017	$	10.16	$	7.22
	7/1/2017	$	10.16	$	7.22
	4/16/2017	$	15.24	$	11.31
	7/1/2017	$	15.24	$	11.31
	7/2/2021	$	18.28	$	13.90
Paula A. Puleo	7/25/2018	$	7.83	$	4.95
Former Executive Vice President Chief	7/25/2018	$	10.16	$	6.94
Marketing Officer	7/25/2018	$	15.24	$	11.29
	2/10/2021	$	17.41	$	13.02
	7/2/2021	$	18.28	$	13.90

(3) Because we were privately-held and there was no public market for our Common Stock at the time of the grants shown in this column, the fair market value of our Common Stock was determined by our Board based on available information that was 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 $16.03, which was the fair market value of our Common Stock on February 1, 2014, the last day of fiscal 2013.

(4) Stock options were granted to Mr. Rubin effective March 18, 2013, vesting at the rate of 20% per year on each of the first through fifth anniversaries of March 18, 2013, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or a Change of Control"). Mr. Rubin 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) Mr. Klessel does not participate in the Equity Incentive Plan.

(6) Stock options were granted to Mr. Sonsteby effective 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 and below under "   Potential Payments upon Termination or a Change of Control"). Additional stock options were granted to Mr. Sonsteby effective July 3, 2013, vesting at the rate of 25% per year on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control.
Mr. Sonsteby's restricted stock awards with respect to 22,553 unvested shares of Common Stock vest 50% on each of the fourth and fifth anniversaries of October 4, 2010 (vesting of the shares would accelerate upon a Change of Control or in the event of Mr. Sonsteby's death, disability or termination by the Company without cause). Mr. Sonsteby's restricted stock awards with respect to 24,619 unvested shares of Common Stock vest 25% on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control. 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.

(7) Stock options were granted to Mr. DeCaro on July 2, 2009, in connection with the Company's Exchange Offer (as defined below), with 212,541 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 their term. The remaining options vest at the rate of 20% on each of the first through fifth anniversaries of July 2, 2009, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under "   Potential Payments upon Termination or a Change of Control"). On June 3, 2009, the Company announced an offer to exchange certain employee stock options issued under the Equity Incentive Plan ("Exchange Offer") for new stock options granted on an one-for-one basis. On July 2, 2009, employees exchanged 11.8 million outstanding stock options under the following terms: (i) outstanding vested or unvested options to purchase shares of Common Stock that had an exercise price per share of $20.33, $25.41, $30.49 or $35.57 for an equal number of new options to purchase shares of Common Stock with an exercise price equal to $5.08 and a new five-year vesting schedule that commenced on July 2, 2009 and an eight-year term; and (ii) outstanding options that had an exercise price per share of $10.16 and $15.24 were exchanged for an equal number of new options with

the same exercise price. A portion of the new options were vested based on the period of time that the exchanged options had been held in relation to the total term of the option and have identical terms and conditions to the previously issued options, and the remaining new options have a new five-year vesting schedule that commenced on July 2, 2009 and an eight-year term. Additional stock options were granted to Mr. DeCaro effective July 3, 2013, vesting at the rate of 25% per year on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control. Mr. DeCaro's restricted stock awards vest 25% on each of the first through fourth anniversaries of July 3, 2013 or immediately upon a Change of Control. Mr. DeCaro 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.

(8) Stock options were granted to Mr. Pappas on July 2, 2009 in connection with the Company's Exchange Offer, with 18,624 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. The remaining options vest at the rate of 20% on each of the first through fifth anniversaries of July 2, 2009, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or Change of Control"). Additional stock options were granted to Mr. Pappas effective July 3, 2013, vesting at the rate of 25% per year on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control. Mr. Pappas's restricted stock awards with respect to 3,456 unvested shares of Common Stock fully vest on the fifth anniversary of April 17, 2009 (vesting of the shares would accelerate upon Change of Control or in the event of Mr. Pappas's death, disability or termination by the Company without cause). Mr. Pappas's restricted stock awards with respect to 15,188 unvested shares of Common Stock vest 25% on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control. Mr. Pappas's restricted stock awards with respect to 73,800 unvested shares of Common Stock vest 40% on the second anniversary of January 22, 2014, and the remaining 60% on the third anniversary of January 22, 2014. Mr. Pappas's restricted stock awards with respect to 73,800 additional unvested shares of Common Stock vest as follows: (a)(i) 24,599 shares on March 31, 2015, so long as the Company achieves the numerical earnings before interest and taxes, less an inventory charge ("EBIT") plan designated by the Board in its business plan for fiscal year 2014 (the "Fiscal 2014 EBIT Number"); (ii) 24,600 shares on March 31, 2016, so long as Company has achieved at least ten percent (10%) growth in its EBIT in fiscal year 2015 as compared to fiscal year 2014, and (iii) 24,600 shares on March 31, 2017, so long as the Company has achieved at least ten (10%) percent growth in its EBIT in fiscal year 2016 as compared to fiscal year 2015; and (b) with respect to any shares that otherwise remain unvested pursuant to (a), Mr. Pappas will be able to vest in such shares contingent on the Company's achievement of certain cumulative EBIT metrics. All of Mr. Pappas's restricted stock awards will vest immediately upon a Change of Control. 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.

(9) Stock options were granted to Ms. Puleo effective July 26, 2010, and February 11, 2013, vesting at the rate of 20% per year on each of the first through fifth anniversaries of July 26, 2010, and February 11, 2013, respectively, or immediately upon a Change of Control (as defined in the Stockholders Agreement). Additional stock options were granted to Ms. Puleo effective July 3, 2013, vesting at the rate of 25% per year on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control (as defined in the Stockholders Agreement and below under " Potential Payments upon Termination or Change of Control"). Ms. Puleo's restricted stock awards were scheduled to vest 25% on each of the first through fourth anniversaries of July 3, 2013, or immediately upon a Change of Control. Ms. Puleo was entitled to receive all dividends and distributions, if any, paid with respect to the shares of restricted stock she held, but if any such dividends or distributions were paid in shares of our capital stock, such shares would have been subject to the same restrictions on transferability as are the shares of restricted stock with respect to which they were paid. Ms. Puleo separated from the Company on March 9, 2014. Pursuant to the terms of

the Equity Incentive Plan, she had 60 days from that date to exercise any of her vested stock options; her unvested stock options and shares of restricted stock terminated on her separation date.

(10) Mr. Crombie retired from the Company on July 27, 2013. Pursuant to the terms of the Equity Incentive Plan, he had 60 days from that date to exercise any of his vested stock options; his unvested stock options and shares of restricted stock terminated on his separation date.

(11) Mr. Zhu left the Company on November 15, 2013. Pursuant to the terms of the Equity Incentive Plan, he had 60 days from that date to exercise any of his vested stock options; his unvested stock options and shares of restricted stock terminated on his separation date.

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Option exercises and stock vested for fiscal 2013

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 2013.

	Options awards		Stock awards	
Name and principal position	**Number of shares acquired on exercise (#)**	**Value realized on exercise ($)**	**Number of shares acquired on vesting (#)**	**Value realized on vesting ($)**
Carl S. Rubin *Chief Executive Officer*		$		$
Lewis S. Klessel *Former Member of the Interim Office of the Chief Executive Officer and Interim Chief Operating Officer*		$		$
Charles M. Sonsteby *Chief Administrative Officer and Chief Financial Officer*		$	11,276	$ 166,399(1)
Thomas C. DeCaro *Executive Vice President Supply Chain*		$		$
Philo T. Pappas *Executive Vice President Category Management*		$	3,456	$ 63,070(2)
Paula A. Puleo *Former Executive Vice President Chief Marketing Officer*		$		$
Nicholas E. Crombie *Former Executive Vice President Store Operations*	575,203	$ 3,655,589(3)		$
Weizhong "Wilson" Zhu *Former Executive Vice President Private Brands & Global Sourcing*	567,091	$ 4,569,421(4)		$

(1) The shares were valued at $14.76 per share on the October 4, 2013 vesting date for Mr. Sonsteby's restricted shares.

(2) The shares were valued at $18.25 per share on the April 17, 2013 vesting date for Mr. Pappas's restricted shares.

(3) The shares were valued at $13.90 per share on Mr. Crombie's exercise date of July 31, 2013.

(4) The shares were valued at $15.56 per share on Mr. Zhu exercise date of January 13, 2014.

Pension benefits for fiscal 2013

The Company has no defined benefit pension plans.

Nonqualified deferred compensation for fiscal 2013

The Company has no nonqualified deferred compensation plans.

Potential payments upon termination or change of control

Mr. Rubin is entitled under his employment agreement, effective March 18, 2013 (the "Rubin Agreement"), to certain benefits in the event of termination. Messrs. Sonsteby, DeCaro and Pappas participate in the

OSPP (as described below), which provides for severance payments and benefits upon certain terminations of employment. Prior to their departures during fiscal 2013, Messrs. Crombie and Zhu were entitled to participate in the OSPP but were not eligible for severance benefits under the plan in connection with their separations from the Company. Ms. Puleo was entitled to, and received, severance payments under the OSPP in connection with her separation effective March 9, 2014.

In addition, in the event of a Corporate Transaction (as defined in the Equity Incentive Plan), the Equity Incentive Plan provides for a range of possible adjustments to outstanding equity awards, including acceleration of vesting. In the event of a transaction that constitutes a Change of Control (as defined in the Stockholders Agreement and set forth below), each Named Executive Officer, except for Mr. Klessel who was not granted equity awards, would be entitled to acceleration of his equity awards. In addition, our Named Executive Officers, except for Mr. Klessel, may also be entitled to accelerated vesting of their respective equity awards upon a termination of employment, depending on the specific circumstance as set forth below. The payments for which the Named Executive Officers are eligible under various circumstances related to a Corporate Transaction, Change of Control, or termination of employment are detailed below; except for (i) Mr. Klessel who was not an employee of the Company and was not entitled to any compensation or severance from the Company and does not participate in the Company's equity plan; (ii) Ms. Puleo whose actual payments received upon her separation from the Company are described below; (iii) Mr. Crombie, who did not receive any separation payments in connection with his voluntary retirement from the Company on July 27, 2013; and (iv) Mr. Zhu whose actual payments received upon his separation from the Company are described below.

The Equity Incentive Plan defines a "Corporate Transaction" as any of the following: any sale of all or substantially all of the assets of the Company, change in the ownership of the capital stock of the Company, reorganization, recapitalization, merger (whether or not the Company is the surviving entity), consolidation, exchange of capital stock of the Company or other restructuring involving the Company.

The Stockholders Agreement defines a "Change of Control" as the occurrence of any of the following: (i) any consolidation or merger of the Company with or into any other corporation or other person, or any other corporate reorganization or transaction (including the acquisition of capital stock of the Company), whether or not the Company is a party thereto, in which the stockholders of the Company immediately prior to such consolidation, merger, reorganization or transaction, own capital stock either (A) representing directly, or indirectly through one or more entities, less than fifty percent (50%) of the economic interests in or voting power of the Company or other surviving entity immediately after such consolidation, merger, reorganization or transaction or (B) that does not directly, or indirectly through one or more entities, have the power to elect a majority of the entire Board of the Company or other surviving entity immediately after such consolidation, merger, reorganization or transaction; (ii) any stock sale or other transaction or series of related transactions, whether or not the Company is a party thereto, after giving effect to which in excess of fifty percent (50%) of the Company's voting power is owned directly, or indirectly through one or more entities, by any person and its affiliates or associates, other than the Sponsors and their affiliates and the affiliates of Highfields Capital Management LP, excluding, in any case, the Company's initial public offering or any bona fide primary or secondary public offering following the occurrence of the initial public offering; or (iii) a sale, lease or other disposition of all or substantially all of the assets of the Company.

Rights and potential payments on termination for cause, death, disability and voluntary resignation

Cause. Each of the Rubin Agreement and the OSPP provides that no payments or benefits are due to a Named Executive Officer in the event of a termination for cause except amounts accrued and payable to

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such executive through the termination date. Under the Equity Incentive Plan, all stock options (whether vested or unvested) will immediately terminate on a termination of employment for cause.

Death. Each Named Executive Officer is provided a life insurance policy by the Company with a $1,000,000 benefit, which would be payable to the executive's beneficiaries upon such executive's death. The Rubin Agreement provides that his beneficiaries would be further entitled to an amount equal to his pro-rated bonus for the year in which death occurs. Under the Equity Incentive Plan, the executive's Legal Representative (as defined in each option agreement) has the option within the one-year period following the executive's termination of employment (or through the option's expiration date, if earlier) to exercise any vested stock options held by the Named Executive Officer prior to his death. Under the Stockholders Agreement, prior to the initial public offering, upon any termination of a Named Executive Officer's employment by reason of the executive's death, the executive's representative or estate had 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 were repurchased. In addition, pursuant to their restricted stock agreements executed prior to fiscal 2013, all of Messrs. Sonsteby's and Pappas's unvested restricted stock would vest. Assuming the executive's death on February 1, 2014, the last day of our fiscal year, and that the executive's Legal Representative 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 $16.03, the following amounts for his or her shares (based on the spread, if any, of the fair market value of the Common Stock as of fiscal year end $16.03 over the value of the applicable exercise prices for the vested options): Carl S. Rubin $0; Charles M. Sonsteby, $4,953,413; Thomas C. DeCaro, $5,532,747; Philo T. Pappas, $4,964,062; and Paula A. Puleo $2,089,012. As noted above, Mr. Crombie retired from the Company on July 27, 2013 and Mr. Zhu left the Company on November 15, 2013, and in each case exercised their vested stock options prior to the end of fiscal year 2013.

Disability. The Company provides each Named Executive Officer with an executive long term disability policy for the benefit of such executive, which would afford such executive a right to 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. Under the Rubin Agreement, Mr. Rubin would be further entitled to an amount equal to his pro-rated bonus for the year in which his termination due to disability occurs. During the one-year period following the executive's termination of employment due to disability (or through the option's expiration date, if earlier), the executive may exercise any vested stock options held by him prior to his termination. Under the Stockholders Agreement, prior to the initial public offering, upon any termination of a Named Executive Officer's employment by reason of the executive's disability, the executive or the executive's representative had 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 were repurchased. In addition, pursuant to their restricted stock agreements executed prior to fiscal 2013, upon disability all of Messrs. Sonsteby's and Pappas's unvested restricted stock would vest. Assuming the executive exercised his option to exercise any vested stock options held by him at such time and to sell to the Company all of the shares owned by the Named Executive Officer upon disability on the last day of fiscal 2013, the Named Executive Officer would have received, based on the fair market value of the Common Stock as of fiscal year end $16.03, the following amounts for his or her shares (based on the spread, if any, of the fair market value of the Common Stock as of fiscal year end $16.03 over the value of the applicable exercise prices for the vested options): Carl S. Rubin $0;

Charles M. Sonsteby, $4,953,413; Thomas C. DeCaro, $5,532,747; Philo T. Pappas, $4,964,062; and Paula A. Puleo $2,089,012. As noted above Mr. Crombie retired from the Company on July 27, 2013, and Mr. Zhu left the Company on November 15, 2013, and in each case exercised their vested stock options prior to the end of fiscal year 2013.

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. The executive may exercise any vested options held by him prior to his resignation for up to 60 days following termination (or through the option's expiration date, if earlier).

Rights and potential payment upon a change of control or termination without cause or with good reason

Rubin employment agreement

Pursuant to the Rubin Agreement, if Mr. Rubin's employment is terminated by the Company without cause or by Mr. Rubin for good reason, then, for the two-year period following the date of termination, he would be entitled, subject to signing an effective release of claims, to receive a severance benefit equal to (i) his base salary at the annual 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 and dental benefits at the Company's expense. Mr. Rubin's severance entitlements are also subject to his compliance with certain restrictive covenants, including non-competition, non-hire, and non-solicitation obligations during, and for two years following his employment.

Pursuant to the Rubin Agreement, "cause" means the following events or conditions, as determined by the Board in its reasonable judgment: (i) the willful failure to perform (other than by reason of disability), or gross negligence in the performance of, his material duties and responsibilities to the Company or any of its Affiliates (as defined in the Rubin Agreement), or willful failure to follow or carry out any lawful and reasonable direction of the Board, and the continuance of such willful failure or gross negligence for a period of 25 days after written notice; (ii) the willful material breach of any provision of this Agreement or any other material agreement between Mr. Rubin and the Company or any of its Affiliates and the continuance of such material breach for a period of 25 days after delivery of written notice to the executive; (iii) fraud, embezzlement, theft or other dishonesty with respect to the Company or any of its Affiliates; (iv) the conviction of, or a plea of nolo contendere to, any felony or any other crime involving dishonesty or moral turpitude; and (v) any other conduct that involves a willful and material breach of fiduciary obligation.

The term "good reason" means any of the following, if occurring without Mr. Rubin's consent or other than for tax or other regulatory reasons: (i) removal of Mr. Rubin from the position of CEO or director of the Company (or a successor corporation), or his removal from a director or officer position of an Immediate Affiliate; (ii) material diminution in the nature or scope of his responsibilities, duties or authority, including the appointment or election of a Board Chairman who is also an executive officer of the Company, other than Mr. Rubin, a change in his direct reporting to the full Board or a change in reporting relationships resulting from the direct or indirect control of the Company (or a successor corporation) by another corporation or other entity or resulting from an acquisition by a person or entity of at least 50% of the equity, property or other assets of the Company or any of its Affiliates; provided, however, that any material diminution of the business of the Company or any of its Affiliates shall not constitute "good reason"; (iii) the material failure of the Company to provide him the base salary and annual bonus opportunity in accordance with the terms of the Rubin Agreement; or (iv) relocation of Mr. Rubin's office to an area outside of a 50-mile radius from the Company's current headquarters in Irving, Texas. To qualify as a termination for good reason under the Rubin Agreement, notice to the Company must have been given by Mr. Rubin and the Company must have failed to cure the good reason within 30 days of receiving notice.

In addition to the Rubin Agreement, Mr. Rubin entered into agreements providing for his restricted stock grants and his stock option grant. These agreements provide that in the event of a Change of Control (as defined in the Stockholders Agreement and above under " Potential Payments upon Termination or Change of Control"), all of Mr. Rubin's restricted stock and stock options will immediately vest.

The Rubin Agreement provides no change of control severance benefits.

Zhu Agreement

In connection with Mr. Zhu's departure, the Company entered into a separation agreement with Mr. Zhu on November 15, 2013, whereby Mr. Zhu received (i) his earned pro-rated bonus for fiscal year 2013 pursuant to the Bonus Plan, under established bonus criteria associated with the Bonus Plan, on the same terms as that paid to other executive officers of the Company; and (ii) a cash amount, less any applicable withholdings, equal to: (x) the difference between the per share fair market value of the Company's common stock on July 2, 2014, and $14.76 per share, (y) multiplied by 103,296.4, such payment subject to a $250,000 cap and payable in July 2014. As consideration for the Company's entry into such agreement, the agreement contained a release of claims against the Company by Mr. Zhu, as well as other typical restrictive covenants relating to his departure.

Officer Severance Pay Plan

In April 2008, the Board approved the OSPP, which was amended in July 2008 and was further amended on May 20, 2014 (the "2014 OSPP Amendment") and December 9, 2014 (the "Second 2014 OSPP Amendment"). 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 refusal or 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 or moral turpitude, breach of a fiduciary duty to the Company or violation of Company policy that could expose the Company to liability or could damage the Company's business or reputation) and other than a result of death or disability;

- the executive is not offered and has not 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 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

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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 pro-rated target annual bonus for the year of termination (or, following the 2014 OSPP Amendment, a pro-rated earned annual bonus for the year of termination); and

the continuation of group medical and dental benefits for the salary continuation period (or, following the Second 2014 OSPP Amendment, cash welfare benefit payments to be paid at a rate equal to (i) the Company-paid portion of the group medical and dental plan premiums in effect for the executive (and his/her spouse and dependents, as applicable) immediately prior to the termination date, as pro-rated for each payroll period, multiplied by (ii) 130%).

In order to obtain severance benefits under the OSPP, an executive must first execute a severance agreement and release with the Company that includes a waiver and release of any and all claims against the Company and a commitment that, for one year following termination (or, following the 2014 OSPP Amendment, for the greater of twelve months and the severance period), the executive will not solicit or hire any associate or distributor or vendor of the Company or its subsidiaries and will not directly or indirectly compete with, or join an organization that directly or indirectly competes with, the Company. 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 under any other severance pay plan or under any employment agreement or other agreement with the Company or any of its affiliates.

Equity plans

Each of the Named Executive Officers currently employed with the Company has entered into a stock option agreement and a restricted stock award agreement that provides for vesting upon a Change of Control (as defined in the Stockholders Agreement and above under " Potential Payments upon Termination or a Change of Control"). Had a Change of Control occurred on the last day of fiscal 2013, each Named Executive Officer would have realized the following values for their options, including those vesting in the Change of Control, (based on the spread, if any, of the fair market value of the Common Stock as of fiscal year end $16.03 over the value of the applicable exercise prices for the options): Carl S. Rubin $4,000,000; Charles M. Sonsteby $7,012,045; Thomas C. DeCaro, $5,881,383; Philo T. Pappas, $5,989,339; and Paula A. Puleo $3,702,606. Had a Change of Control occurred on the last day of fiscal 2013, each Named Executive Officer would have realized the following values for their unvested restricted

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shares, including those vesting in the Change of Control: Carl S. Rubin $5,358,588; Charles M. Sonsteby $756,174; Thomas C. DeCaro, $160,888; Philo T. Pappas, $2,664,873; and Paula A. Puleo $243,461.

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 to (i) Mr. Rubin under his employment agreement, and (ii) each of the other Named Executive Officers, other than Messrs. Klessel (who was not an employee of the Company and was not entitled to any compensation or severance from the Company and does not participate in the Company's equity plan), Crombie (who did not receive any separation payments in connection with his voluntary retirement from the Company on July 31, 2013) and Zhu and Ms. Puleo, under the OSPP described above and, in the case of Messrs. Sonsteby and Pappas, their restricted stock agreements entered into prior to fiscal 2013 (solely in respect of an involuntary termination without cause). The amounts shown in the table for the Named Executive Officers, other than Messrs. Klessel, Crombie and Zhu and Ms. Puleo, assume that the executive's termination was effective as of the last day of the fiscal year, February 1, 2014, and have been determined, where applicable, using a price of $16.03 per share of Common Stock, the fair market value of our Common Stock on such date. 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. For Ms. Puleo, the amounts shown are the actual amounts she was paid, or entitled to, as a result of her separation, effective as of March 9, 2014, as well as amounts expected to be paid pursuant to the OSPP for continuing benefits during her 18 month severance period. For Mr. Zhu, the

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amounts shown are the actual amounts he was paid, or entitled to, in connection with his separation agreement with the Company.

Executive		Executive payments and benefits upon termination without cause or by executive with good reason ($)
Carl S. Rubin		
Salary	$	2,200,000
Bonus		1,100,000
Welfare Benefits		30,557(2)
Total	$	3,330,557
Charles M. Sonsteby		
Salary	$	1,066,663
Bonus		497,776
Restricted Stock		361,524
Welfare Benefits		14,754(2)
Total	$	1,940,717
Thomas C. DeCaro		
Salary	$	590,155
Bonus		196,718
Welfare Benefits		22,917(2)
Total	$	809,790
Philo T. Pappas		
Salary	$	647,846
Bonus		215,949
Restricted Stock		55,412
Welfare Benefits		22,917(2)
Total	$	942,124
Paula A. Puleo		
Salary	$	543,000
Bonus		14,281(3)
Welfare Benefits		6,013(2)
Total	$	563,294
Weizhong "Wilson" Zhu(1)		
Salary	$	
Bonus		71,351(4)
Welfare Benefits		
Totals	$	71,351

(1) In connection with Mr. Zhu's separation agreement with the Company, Mr. Zhu was additionally entitled to receive a cash amount, less any applicable withholdings, equal to: (x) the difference between the per share fair market value of the Company's common stock on July 2, 2014, and $14.76 per share, (y) multiplied by 103,296.4, such payment subject to a $250,000 cap and payable in July 2014.

(2) Represents the estimated value of the Company paid portion of the premium for executive's medical and dental for the salary continuation period.

(3) Represents Ms. Puleo's pro-rated targeted annual bonus for fiscal 2014 Pursuant to the Bonus Plan. Ms. Puleo received her full earned bonus for fiscal 2013 under the terms of Bonus Plan.

(4) Represents Mr. Zhu's earned pro-rated bonus for fiscal year 2013 pursuant his separation agreement with the Company.

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. The Company's repurchase rights described herein expired on the earlier of a Change of Control or an initial public offering, and as a result expired upon our initial public offering.

Assuming the Company exercised its option to repurchase at fair market value, the vested or purchased shares held by the Named Executive Officers on the last day of fiscal 2013, the Named Executive Officers would have received, based on the fair market value of the Common Stock as of fiscal year end $16.03, the following amounts for their shares: Carl S. Rubin $0; Charles M. Sonsteby $542,287; Thomas C. DeCaro $630,941; Philo T. Pappas $221,647; Paula A. Puleo $0; Nicholas E. Crombie $126,179; and Weizhong "Wilson" Zhu $3,035,980.

Director compensation

Non-independent directors are not paid any fees by the Company for services as directors, and they do not receive reimbursement for their expenses from the Company.

Our Board adopted a director compensation program effective upon the completion of our initial public offering. Pursuant to this program, each member of our Board who is an independent director receives compensation for his or her service as a director as follows: An annual retainer of $50,000 for Board services, $10,000, if applicable, for Audit Committee services $10,000, if applicable, for Compensation Committee services, and $7,500, if applicable, for Nominating Committee services. The chair of the Audit Committee receives an additional annual retainer of $10,000, the chair of the Compensation Committee receives an additional annual retainer of $10,000, and the chair of the Nominating Committee receives an additional annual retainer of $7,500. Each independent director will also receive $1,500 and $750 for in person and telephonic attendance, respectively, at Board and committee meetings in excess of ten aggregate meetings in a fiscal year. Additionally each independent director will receive an annual restricted stock grant valued at $100,000 on the date of grant, to be fully vested on the one year anniversary of the date of grant, for shares of the Common Stock. While we are a "controlled company" for purposes of rules of The NASDAQ Stock Market, none of the directors affiliated with the Sponsors will be compensated for Board service.

Compensation committee interlocks and insider participation

Peter F. Wallace and Matthew S. Levin are the current members of our Compensation Committee and served in this role for all of fiscal 2013. Each of the members of our Compensation Committee is affiliated with our Sponsors and has not been deemed an independent director. None of our executive officers serves as a member of the board of directors or compensation committee of any other entity (other than a subsidiary) that has one or more executive officers who serve on our Board or Compensation Committee.

2014 Omnibus Plan

Prior to our initial public offering, on May 20, 2014, our Board amended and restated our Equity Incentive Plan under the name The Michaels Companies, Inc. 2014 Omnibus Long-Term Incentive Plan (the "2014 Omnibus Plan") and following such adoption all equity-based awards are granted under the 2014 Omnibus Plan. The 2014 Omnibus Plan also permits grants of cash bonuses beginning in fiscal year 2014. The following summary describes the material terms of the 2014 Omnibus Plan.

Purpose. The purpose of the 2014 Omnibus Plan is to advance the Company's interests by providing for the grant to participants of equity and other incentive awards.

Plan administration. The 2014 Omnibus Plan is administered by the Compensation Committee whereas the Equity Incentive Plan had been administered by the Board. The Compensation Committee has the authority to, among other things, interpret the 2014 Omnibus Plan, determine eligibility for, grant and determine the terms of awards under the 2014 Omnibus Plan, and to do all things necessary to carry out the purposes of the 2014 Omnibus Plan. The Compensation Committee's determinations under the 2014 Omnibus Plan will be conclusive and binding.

Authorized shares. Subject to adjustment, the maximum number of shares of our Common Stock that may be delivered in satisfaction of awards under the 2014 Omnibus Plan, excluding shares already issued under the Equity Incentive Plan, but including shares issuable, but not yet issued, under outstanding awards granted under the Equity Incentive Plan, as well as shares available for future awards, is 9,759,414 shares. Shares of Common Stock to be issued under the 2014 Omnibus Plan may be authorized but unissued shares of Common Stock or previously-issued shares acquired by the Company. Any shares of Common Stock underlying awards that are settled in cash or otherwise expire, terminate, are forfeited prior to the issuance of stock thereunder, or are withheld to cover the exercise price or any applicable tax withholding will again be available for issuance under the 2014 Omnibus Plan.

Individual limits. The maximum number of shares for which stock options may be granted and the maximum number of shares of stock subject to stock appreciation rights to any person in any calendar year will each be 7,380,000 shares. The maximum number of shares subject to other awards granted to any person in any calendar year will be 7,380,000 shares. The maximum amount payable to any person in any calendar year under cash awards will be $10 million.

Eligibility. The Compensation Committee will select participants from among the key associates, directors, consultants and advisors of the Company and its affiliates who are in a position to make a significant contribution to our success. Eligibility for stock options intended to be incentive stock options (ISOs) is limited to employees of the Company or certain affiliates.

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Types of awards. The 2014 Omnibus Plan provides for grants of stock options, stock appreciation rights, restricted and unrestricted stock and stock units, performance awards, cash awards, and other awards convertible into or otherwise based on shares of our stock. Dividend equivalents may also be provided in connection with an award under the 2014 Omnibus Plan.

Stock options and stock appreciation rights: The exercise price of an option, and the base price against which a stock appreciation right is to be measured, are not permitted to be less than the fair market value (or, in the case of an ISO granted to a ten-percent shareholder, 110% of the fair market value) of a share of Common Stock on the date of grant. The Compensation Committee will determine the time or times at which stock options or stock appreciation rights become exercisable and the terms on which such awards remain exercisable.

Restricted and unrestricted stock: A restricted stock award is an award of Common Stock subject to forfeiture restrictions, while an unrestricted stock award is not subject to restrictions under the 2014 Omnibus Plan.

Stock units: A stock unit award is denominated in shares of Common Stock and entitles the participant to receive stock or cash measured by the value of the shares in the future. The delivery of stock or cash under a stock unit may be subject to the satisfaction of performance conditions or other vesting conditions.

Performance awards: A performance award is an award the vesting, settlement or exercisability of which is subject to specified performance criteria. Performance awards may be stock-based or cash-based.

Cash awards: A cash award is an award that is settled in cash.

Vesting. The Compensation Committee has the authority to determine the vesting schedule applicable to each award, and to accelerate the vesting or exercisability of any award.

Termination of employment. The Compensation Committee will determine the effect of termination of employment or service on an award. Unless otherwise provided by the Compensation Committee or in an award agreement, upon a termination of employment all unvested options and other awards requiring exercise will terminate, all other unvested awards will be forfeited and vested options will terminate if not exercised within post-termination exercise windows set forth in the Equity Incentive Plan.

Performance criteria. The 2014 Omnibus Plan provides that grants of performance awards, including cash-denominated awards and stock-based awards, will be made based upon, and subject to achieving, "performance objectives" over a performance period, which may be one or more periods of not less than 12 months' duration. Performance objectives with respect to those awards that are intended to qualify as "performance-based compensation" for purposes of Section 162(m) are limited to an objectively determinable measure or objectively determinable measures of performance relating to any or any combination of the following (measured either absolutely or by reference to an index or indices and determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; net sales; comparable store sales; sales by location or store type; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, and/or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; operating efficiencies; operating income; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; buyer contribution; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings.

To the extent consistent with the requirements for satisfying the performance-based compensation exception under Section 162(m), the Compensation Committee may provide in the case of any award intended to qualify for such exception that one or more of the performance objectives applicable to an award will be adjusted to reflect events (for example, the impact of charges for restructurings, discontinued operations, mergers, acquisitions, extraordinary items, and other unusual or non-recurring items, and the cumulative effects of tax or accounting changes, each as defined by generally accepted accounting principles) occurring during the performance period of such award that affect the applicable performance objectives.

Transferability. Awards under the 2014 Omnibus Plan may not be transferred except by will or by the laws of descent and distribution, unless (for awards other than ISOs) otherwise provided by the Compensation Committee.

Corporate transactions. In the event of a consolidation, merger or similar transaction, a sale or transfer of all or substantially all of the Company's assets or a dissolution or liquidation of the Company, the Compensation Committee may, among other things, provide for continuation or assumption of outstanding awards, for new grants in substitution of outstanding awards, for the accelerated vesting or delivery of shares under awards, or in the plan, as amended and restated, for a cash-out of outstanding awards, in each case on such terms and with such restrictions as it deems appropriate. Except as the Compensation Committee may otherwise determine, awards not assumed will terminate upon the consummation of such corporate transaction.

Adjustment. In the event of certain corporate transactions (including a stock dividend, stock split or combination of shares, recapitalization or other change in the Company's capital structure that constitutes an equity restructuring within the meaning of ASC 718), the Compensation Committee will make appropriate adjustments to the maximum number of shares that may be delivered under and the individual limits included in the 2014 Omnibus Plan, and will also make appropriate adjustments to the number and kind of shares of stock or securities subject to awards, the exercise prices of such awards or any other terms of awards affected by such change. The Compensation Committee will also make the types of adjustments described above to take into account distributions and other events other than those listed above if it determines that such adjustments are appropriate to avoid distortion and preserve the value of awards.

Amendment and termination. The Compensation Committee may amend the 2014 Omnibus Plan or outstanding awards, or terminate the 2014 Omnibus Plan as to future grants of awards, except that the Compensation Committee cannot alter the terms of an award if it would affect materially and adversely a participant's rights under the award without the participant's consent (unless expressly provided in the 2014 Omnibus Plan or reserved by the Compensation Committee). Stockholder approval will be required for any amendment to the extent such approval is required by law, including the Code or applicable stock exchange requirements.

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Equity compensation plan information

On July 22, 2013, in connection with the Reorganization the Board of Directors and stockholders approved The Michaels Companies, Inc. 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. Prior to our initial public offering, our Board adopted our 2014 Omnibus Plan, and all subsequent equity-based awards are granted under the 2014 Omnibus Plan. The following table gives information about equity awards under the above-mentioned plan as of November 1, 2014.

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	11,910,318	$ 10.23	8,128,368
Equity compensation not approved by security holders	N/A	N/A	N/A
Total	11,910,318	$ 10.23	8,128,368

Bonus Plan for fiscal 2014

Each of our named executive officers is entitled to participate in our 2014 Bonus Plan. The terms of the 2014 Bonus Plan, as they apply to our named executive officers and our other senior executives, are generally the same as the terms that applied for fiscal 2013, as described above under "Executive Compensation Compensation Elements Annual Bonuses." Cash bonus awards payable in respect of fiscal 2014 will be determined based on the achievement of pre-established corporate and individual performance goals. The corporate performance goal for fiscal 2014 under our 2014 Bonus Plan is based on EBIT, minus an inventory charge (compared to our fiscal 2013 performance goal of EBITDA, minus an inventory charge). For fiscal 2014 the individual performance goals for the Named Executive Officers currently employed with the Company are as follows: Mr. Rubin's group of individual management business objectives are focused primarily on increasing EBITDA, margin enhancement and year-over-year comparable sales growth, as well as directing the Company's strategy. Mr. Sonsteby's group of individual management business objectives are focused primarily on new store growth and performance, increasing profitability and cash flow, effective use of capital and development of future strategies. Mr. DeCaro's group of individual management business objectives focus primarily on increasing profitability and cash flow, improvement in inventory turnover and in-stocks, supply chain cost management, and margin enhancement. For Mr. Pappas, his group of individual management business objectives focus primarily on increasing profitability and cash flow, store offering competiveness, pricing improvement, new business development, and margin enhancement.

Annual Incentive Plan

In connection with our initial public offering, our Board adopted The Michaels Companies, Inc. Annual Incentive Plan (the "Annual Plan"). Starting with fiscal 2015, annual award opportunities for executive

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officers, including our named executive officers, and other key associates will be granted under the Annual Plan. The Company expects that the structure of the annual bonus program under the Annual Plan following this offering will remain consistent with the bonus program in effect during fiscal 2014. For fiscal 2015, each named executive officer can receive a cash award, which will be determined based on the achievement of a pre-established corporate performance measure and a qualitative assessment of each participating executive's performance. The following summary describes the material terms of the Annual Plan. This summary is not a complete description of all provisions of the Annual Plan and is qualified in its entirety by reference to the Annual Plan, which is filed as an exhibit to the registration statement of which this prospectus is a part.

Administration. The Annual Plan is administered by our compensation committee. Our compensation committee has authority to interpret the Annual Plan, and any interpretation or decision by the compensation committee with regard to any questions arising under the Annual Plan will be final and conclusive on all participants.

Eligibility. Executive officers and other key associates of the Company and our subsidiaries will be selected from time to time by the compensation committee to participate in the Annual Plan.

Awards. Award opportunities under the Annual Plan will be granted by our compensation committee prior to, or within a specified period of time following the beginning of, the fiscal year of the Company (or other performance period selected by the compensation committee). The compensation committee will establish the performance criteria applicable to the award, the amount or amounts payable if the performance criteria are achieved, and such other terms and conditions as the compensation committee deems appropriate. The Annual Plan permits the grant of awards that are intended to qualify as exempt performance- based compensation under Section 162(m) as well as awards that are not intended to so qualify. Any awards that are intended to qualify as performance- based compensation will be administered in accordance with the requirements of Section 162(m).

Performance criteria. Awards under the Annual Plan will be made based on, and subject to achieving, "performance criteria" established by our compensation committee, which may relate to Company and/or individual performance. Performance criteria for awards intended to qualify as performance-based compensation for purposes of Section 162(m) are limited to the objectively determinable measures of performance relating to any or any combination of the following (measured absolutely, by reference to an index or indices, or relative to a peer group, and determined either on a consolidated basis or, as the context permits, on a divisional, subsidiary, line of business, project or geographical basis or in combinations thereof): sales; net sales; comparable store sales; sales by location or store type; revenues; assets; expenses; earnings before or after deduction for all or any portion of interest, taxes, depreciation, and/or amortization, whether or not on a continuing operations or an aggregate or per share basis; return on equity, investment, capital or assets; one or more operating ratios; borrowing levels, leverage ratios or credit rating; market share; capital expenditures; cash flow; operating efficiencies; operating income; stock price; stockholder return; sales of particular products or services; customer acquisition or retention; buyer contribution; acquisitions and divestitures (in whole or in part); joint ventures and strategic alliances; spin-offs, split-ups and the like; reorganizations; or recapitalizations, restructurings, financings (issuance of debt or equity) or refinancings.

To the extent consistent with the requirements for satisfying the performance-based compensation exception under Section 162(m), the compensation committee may provide that in the case of any award intended to qualify as exempt performance-based compensation under Section 162(m), that one or more of the performance criteria applicable to such award be adjusted in an objectively determinable manner to

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reflect events (for example, but without limitation, acquisitions or dispositions) occurring during the performance period of such award that affect the applicable performance criteria.

Payment. A participant will be entitled to payment under an award only if all conditions to payment have been satisfied in accordance with the Annual Plan and the terms of the award. Following the close of the performance period, our compensation committee will determine (and, to the extent required by Section 162(m), certify) whether and to what extent the applicable performance criteria have been satisfied. Our compensation committee will then determine the actual payment, if any, under each award. Our compensation committee has the sole and absolute discretion to reduce (including to zero) the actual payment to be made under any award. Our compensation committee will determine the payment dates for awards under the Annual Plan. Our compensation committee may permit a participant to defer payment of an award.

Payment limits. The maximum payment to any participant under the Annual Plan in any fiscal year will in no event exceed $10 million.

Recovery of compensation. Awards under the Annual Plan will be subject to forfeiture, termination and rescission, and a participant who receives a payment pursuant to the Annual Plan will be obligated to return to the Company such payment, to the extent provided by our compensation committee in an award agreement, pursuant to Company policy relating to the recovery of erroneously-paid incentive compensation, or as otherwise required by law or applicable stock exchange listing standards.

Amendment and termination. Our compensation committee may amend the Annual Plan at any time, provided that any amendment will be approved by the Company's stockholders if required by Section 162(m). Our compensation committee may terminate the Annual Plan at any time.

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Certain relationships and related party transactions

Management agreements with the Sponsors and others

In connection with the completion of the Merger, we entered into management agreements with the Sponsors pursuant to which the Sponsors provided management services to us until December 31, 2016, with evergreen extensions thereafter. Pursuant to these agreements, the Sponsors received an aggregate annual management fee in the amount of $12.0 million and reimbursement for out-of-pocket expenses in connection with the provisions of services pursuant to the agreements. In fiscal 2013, fiscal 2012 and fiscal 2011, we recognized $12.7 million, $12.3 million and $12.2 million, respectively, of expense related to annual management fees and reimbursements. We recognized $35.7 million and $9.7 million in expense related to management fees and reimbursements for the nine months ended November 1, 2014 and November 2, 2013, respectively. The management agreements also provided that the Sponsors are entitled to receive fees in connection with certain subsequent financing, acquisition, disposition and change of control transactions, including our initial public offering, of 1% of the gross value of any such transaction. The management agreements contained customary exculpation and indemnification provisions in favor of the Sponsors. The management agreements were terminable by the Sponsors at any time and terminated automatically upon an initial public offering or a change of control unless we and the Sponsors determined otherwise.

Also, in connection with the completion of the Merger, we entered into a management agreement with Highfields, that provided for an annual management fee of $1.0 million. The management agreement with Highfields was terminable by the Company at any time and terminated automatically upon an initial public offering or a change of control unless we and Highfields determined otherwise.

Upon termination, each provider of management services was 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. As a result, in connection with our initial public offering, these management agreements were terminated upon our payment of approximately $14 million, $14 million and $2 million to affiliates of Bain Capital, The Blackstone Group and Highfields, respectively.

Transactions with certain affiliates of Bain Capital and The Blackstone Group

We are party to 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 The Blackstone Group, in consideration for 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 The Blackstone Group. Payments remitted by CPG to an affiliate of The Blackstone Group as a result of our purchases under the agreement were approximately $0.1 million during each of fiscal 2013, fiscal 2012 and fiscal 2011, and $0.1 million during the nine months ended November 1, 2014.

Investment funds advised by Bain Capital Partners, LLC own an approximate 14% equity position in Sungard, an external vendor we utilize for certain integrated software and processing services. The Blackstone Group owns an approximate 13% equity position in Sungard. Payments associated with this

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vendor during each of fiscal 2013 and fiscal 2012 were $0.3 million and payments associated with this vendor were $0.2 million in fiscal 2011. Payments associated with this vendor during the nine months ended November 1, 2014 were less than $0.1 million and $0.3 million for the nine months ended November 2, 2013. We currently anticipate that our payments to this vendor in the remainder of fiscal 2014 will be commensurate with those in fiscal 2013.

The Blackstone Group owns an approximate 92% equity position in RGIS, an external vendor we utilize to count our store inventory. Payments associated with this vendor during each of fiscal 2013 and fiscal 2012 were $5.6 million and payments associated with this vendor were $6.3 million in fiscal 2011. Payments associated with this vendor during the nine months ended November 1, 2014 and November 2, 2013 were $5.8 million and $5.4 million, respectively. We currently anticipate that our payments to this vendor in the remainder of fiscal 2014 will be commensurate with those in fiscal 2013.

The Blackstone Group owns an approximate 67% equity position in Vistar, an external vendor we utilize for all of the candy-type items in our stores. Payments associated with this vendor during fiscal 2013, fiscal 2012 and fiscal 2011 were $24.0 million, $24.1 million and $20.3 million, respectively. Payments associated with this vendor during the nine months ended November 1, 2014 and November 2, 2013 were $15.5 million and $17.1 million, respectively. We currently anticipate that our payments to this vendor in the remainder of fiscal 2014 will be commensurate with those in fiscal 2013.

The Blackstone Group owns an approximate 66% equity position in Brixmor Properties Group, a vendor we utilize to lease certain properties. Payments associated with this vendor during fiscal 2013, fiscal 2012 and fiscal 2011 were $3.8 million, $4.7 million and $3.2 million, respectively. Payments associated with this vendor during the nine months ended November 1, 2014 and November 2, 2013 were $2.5 million and $2.8 million, respectively. We currently anticipate that our payments to this vendor in the remainder of fiscal 2014 will be commensurate with those in fiscal 2013.

The Company is a party to an employer health program agreement with Equity Healthcare, LLC ("Equity Healthcare"), an affiliate of The Blackstone Group. 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 $2.50 per participating employee per month ("PEPM Fee"). As we had approximately 6,240 employees enrolled in health and welfare benefit plans as of November 1, 2014, the annual amount paid under the agreement would be approximately $0.2 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.

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The Blackstone Group owns an approximate 66% equity position in Hilton Hotels, an external vendor we utilize for hospitality services. Payments associated with this vendor during fiscal 2013, fiscal 2012 and fiscal 2011 were $0.1 million, $1.1 million and $1.3 million, respectively. Payments associated with this vendor during the nine months ended November 1, 2014 and November 2, 2013 were $1.4 million and $0.1 million, respectively. We currently anticipate that our payments to this vendor in the remainder of fiscal 2014 will be commensurate with those in fiscal 2012.

Our current directors (other than Beryl B. Raff, Jill A. Greenthal, John J. Mahoney, James A. Quella and Carl S. Rubin) are affiliates of Bain Capital or The Blackstone Group. As such, some or all of such directors may have an indirect material interest in payments with respect to debt securities of the Company that have been purchased by affiliates of Bain Capital and The Blackstone Group. As of November 1, 2014, affiliates of The Blackstone Group held $56 million of our Restated Term Loan Credit Facility.

Prior to our initial public offering, the Company had 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 above were on an arms-length basis and in the best interests of the stockholder.

As discussed in "Management Directors", each of the members of our Board (other than Beryl B. Raff, Jill Greenthal, John J. Mahoney, James A. Quella and Carl S. Rubin) is affiliated with the Sponsors, and our Board has determined Messrs. Mahoney and Quella, and Mses. Raff and Greenthal, are independent, as such term is defined under the rules of The NASDAQ Stock Market.

The Company periodically provides officers of the Company the opportunity to purchase shares of our Common Stock. There were no shares sold to, or repurchased from, officers during fiscal 2013, fiscal 2012, or fiscal 2011. During the nine months ended November 1, 2014, the Company repurchased 7,871 shares of Common Stock previously purchased. In addition, the Company repurchased 3,777,244, 614,923, and 628,815 shares during fiscal 2013, fiscal 2012, and fiscal 2011, respectively, related to awards under our Equity Incentive Plan. During the nine months ended November 1, 2014, the Company repurchased 694,728 shares related to awards under the Equity Incentive Plan and 2014 Omnibus Plan.

Other arrangements and relationships with the Sponsors

Investor agreement

In connection with our initial public offering, we entered into an investor agreement with the Sponsors. The investor agreement granted each of the Sponsors the right, subject to certain conditions, to name representatives to our Board and committees of our Board. Each Sponsor has the right to designate three nominees for election to our Board until such time as that Sponsor owns less than 25% of our outstanding Common Stock, two nominees if that Sponsor's ownership level is 10% or more but less than 25% of our outstanding Common Stock and one nominee if that Sponsor's ownership level is 3% or more but less than 10% of our outstanding Common Stock. Subject to the terms of the investor agreement, each Sponsor agreed to vote its shares in favor of the election of the director nominees designated by the other Sponsors pursuant to the investor agreement. In addition, the investor agreement provides each of the Sponsors with certain indemnification rights.

Amended and restated registration rights agreement

In connection with the Merger, we entered into a registration rights agreement with the Sponsors and certain other stockholders. In connection with our initial public offering, the registration rights agreement was amended and restated. The amended and restated registration rights agreement provides the Sponsors

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with demand registration rights in respect of the shares of our Common Stock held by them. In addition, in the event that we register additional shares of Common Stock for sale to the public, we are required to give notice of such registration to the Sponsors and the other stockholders party to the agreement of our intention to effect such a registration, and, subject to certain limitations, the Sponsors and such holders have piggyback registration rights providing them with the right to require us to include shares of Common Stock held by them in such registration. We are required to bear the registration expenses, other than underwriting discounts and commissions and transfer taxes, associated with any registration of shares by the Sponsors or other holders described above. The amended and restated registration rights agreement also contains certain restrictions on the sale of shares by the Sponsors. The amended and restated registration rights agreement includes customary indemnification provisions.

Other relationships

Upon completion of this offering, we estimate that our Sponsors will own approximately 72% of our outstanding Common Stock. For as long as our Sponsors continue to directly or indirectly own shares of our Common Stock representing more than 50% of the voting power of our Common Stock, our Sponsors will be able to direct the election of a majority of the members of our Board and could exercise a controlling influence over our business and affairs, including any determinations with respect to mergers or other business combinations, the acquisition or disposition of assets, the incurrence of indebtedness, the issuance of any additional Common Stock or other equity securities, the repurchase or redemption of Common Stock and the payment of dividends. Similarly, our Sponsors will have the power to determine matters submitted to a vote of our stockholders without the consent of our other stockholders, will have the power to prevent a change in our control and could take other actions that might be favorable to them.

In addition to the amended and restated registration rights agreement and the investor agreement discussed above, our Sponsors have agreed, subject to certain exceptions, not to sell or otherwise dispose of any shares of our Common Stock or other securities exercisable for or convertible into our Common Stock for a period of at least 90 days after the date of this prospectus without the prior written consent of J.P. Morgan Securities LLC and Goldman, Sachs & Co. Except for this period, there can be no assurance as to the period of time during which our Sponsors will maintain their ownership of our Common Stock following the offering.

Related person transactions policy

In accordance with the amended and restated charter of our Audit Committee and our policy with respect to related person transactions, our Audit Committee is be responsible for reviewing and approving related person transactions.

The policy with respect to related person transactions will apply to transactions, arrangements and relationships (or any series of similar transactions, arrangements or relationships) where the aggregate amount involved will, or may be expected to, exceed $120,000 in any calendar year, and where we (or our subsidiaries) are a participant and in which a related person has or will have a direct or indirect material interest. A related person is: (1) any person who is, or at any time since the beginning of our fiscal year was, a director or executive officer of the company, or a nominee for director or executive officer of the company; (2) any person who is known to be the beneficial owner of more than 5% of any class of our voting securities; (3) any immediate family member of the foregoing persons and (4) any firm, corporation or other entity in which any of the foregoing persons has a position or relationship, or in which such person, together with his or her immediate family members, has a 10% or greater beneficial ownership.

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In the course of its review and approval of related person transactions, our Audit Committee will consider the relevant facts and circumstances to decide whether to approve such transactions. In particular, our policy with respect to related person transactions will require our Audit Committee to consider, among other factors it deems appropriate:

- the benefits to the Company;
- the impact on a director's independence in the event the related person is a director, an immediate family member of a director or an entity in which a director has a position or relationship;
- the availability of other sources for comparable products or services;
- the terms of the transaction; and
- the terms available to unrelated third parties or to employees generally.

The Audit Committee may only approve those transactions that are in, or are not inconsistent with, our best interests and those of our stockholders, as the Audit Committee determines in good faith.

Description of certain indebtedness

Restated term loan credit facility

General

On October 31, 2006, MSI executed a Senior Secured Term Loan Facility with Deutsche Bank and other lenders. The full amount was initially borrowed on October 31, 2006, with the balance payable on October 31, 2013.

On January 28, 2013, MSI entered into the Amended Credit Agreement to amend various terms of its Senior Secured Term Loan Facility, as amended. On June 10, 2014, MSI entered into the First Amendment to effect the additional $850 million in aggregate principal amount of the Additional Term Loans that mature in January 2020. The Amended Credit Agreement (as amended by the First Amendment), together with related security, guarantee and other agreements, is referred to as the "Restated Term Loan Credit Facility."

As of November 1, 2014, the Restated Term Loan Credit Facility provides for senior secured financing of $2,460 million. MSI has the right under the Restated Term Loan Credit Facility to request additional term loans in an aggregate amount of up to (a) $500 million and (b) at MSI's option, an amount of term loans so long as MSI's Consolidated Secured Debt Ratio (as defined in the Amended Credit Agreement) is no more than 3.25 to 1.00 on a pro forma basis as of the last day of the most recently-ended four fiscal quarter-period for which internal financial statements are available. The lenders under the Restated Term Loan Credit Facility will not be under any obligation to provide any such additional term loans, and the incurrence of any additional term loans is subject to customary conditions precedent.

On November 1, 2014, the outstanding principal amount of term loans under the Restated Term Loan Credit Facility was approximately $2,460 million.

Amortization and maturity

Under the Restated Term Loan Credit Facility, MSI is required to make scheduled quarterly payments, each equal to 0.25% of the original principal amount of the term loans, subject to adjustments relating to the incurrence of additional term loans under the Restated Term Loan Credit Facility, for the first six years and three quarters, with the balance payable on January 28, 2020.

Interest rate and fees

Borrowings under the Restated Term Loan Credit Facility bear interest at a rate per annum equal to, at MSI's option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Deutsche Bank, (2) the federal funds effective rate plus $^1/_2$ of 1%, subject to a 2% floor, in the case of Additional Term Loans, and (3) LIBOR, subject to certain adjustments and a 1% floor, plus 1%, or (b) LIBOR, subject to certain adjustments and a 1% floor, in each case plus an applicable margin. The applicable margin is 1.75% (2.00%, with respect to the Additional Term Loans) with respect to base rate borrowings and 2.75% (3.00%, with respect to the Additional Term Loans) with respect to LIBOR borrowings. In addition, the applicable margin is subject to a 0.25% decrease based on MSI's Consolidated Secured Debt Ratio, but such decrease will not apply to the Additional Term Loans.

Prepayments

The Restated Term Loan Credit Facility requires MSI to prepay outstanding term loans with (x) 100% of the net proceeds of any debt issued by MSI or its subsidiaries (with exceptions for certain debt permitted to be incurred under the Restated Term Loan Credit Facility) and (y) 50% (which percentage will be reduced to 25% if MSI's Consolidated Total Leverage Ratio (as defined in the Amended Credit Agreement) is less than 6.00:1.00 and will be reduced to 0% if MSI's Consolidated Total Leverage Ratio is less than 5.00:1.00) of MSI's annual Excess Cash Flow (as defined in the Amended Credit Agreement).

MSI must 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.

MSI may voluntarily prepay outstanding loans under the Restated Term Loan Credit Facility at any time without premium or penalty other than customary "breakage" costs with respect to LIBOR loans.

Guarantees and security

All obligations under the Restated Term Loan Credit Facility are unconditionally guaranteed by Holdings, and each of MSI's wholly-owned domestic subsidiaries that guarantees obligations under the Restated Revolving Credit Facility. All obligations under the Restated Term Loan Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the assets of Holdings, MSI and the Subsidiary Guarantors (as defined below), including:

- a first-priority pledge of MSI's capital stock and all of the capital stock held directly by MSI 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 Holdings, MSI and each Subsidiary Guarantor, including substantially all of MSI's and its subsidiaries' owned real property and equipment, but excluding, among other things, the collateral described in the following bullet point

- a second-priority security interest in personal property consisting of inventory and related accounts, cash, deposit accounts, all payments received by Holdings, MSI 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 Holdings, MSI and the Subsidiary Guarantors, and certain related assets and proceeds of the foregoing

Covenants and other matters

The Restated Term Loan Facility contains a number of negative covenants that are substantially similar to, but more restrictive in certain respects than, those governing the 2020 Senior Subordinated Notes as well as certain other customary representations and warranties, affirmative and negative covenants and events of default. As of November 1, 2014, MSI was in compliance with all covenants.

5$^{7}/_{8}$% senior subordinated notes due 2020

General

On December 19, 2013, MSI issued $260 million in principal amount of its 2020 Senior Subordinated Notes. Interest is payable semi-annually in arrears on each June 15 and December 15, commencing on June 15, 2014.

On June 16, 2014, MSI issued $250 million aggregate principal amount of Additional 2020 Senior Subordinated Notes under the indenture governing the 2020 Senior Subordinated Notes. The Additional

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2020 Senior Subordinated Notes were issued at a price of 102% of face value, resulting in an effective interest rate of approximately 5.76%. The Additional 2020 Senior Subordinated Notes form a single class with the existing 2020 Senior Subordinated Notes under the indenture governing the 2020 Senior Subordinated Notes and have the same terms as the existing 2020 Senior Subordinated Notes, except that interest on the Additional 2020 Senior Subordinated Notes accrues from and including June 15, 2014.

Guarantees and security

The 2020 Senior Subordinated Notes are guaranteed, jointly and severally, fully and unconditionally, on an unsecured senior subordinated basis, by each of MSI's subsidiaries that guarantee indebtedness under the Senior Secured Credit Facilities.

Ranking

The 2020 Senior Subordinated Notes and the guarantees thereof are MSI's and the guarantors' unsecured senior subordinated obligations and (i) are subordinated in right of payment to all of MSI's and the guarantors' existing and future senior debt, including the Senior Secured Credit Facilities; (ii) rank equally in right of payment to all of MSI's and the guarantors' future senior subordinated debt; (iii) are effectively subordinated to all of MSI's and the guarantors' existing and future secured debt (including the Senior Secured Credit Facilities) to the extent of the value of the assets securing such debt; (iv) rank senior in right of payment to all of MSI's and the guarantors' existing and future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the 2020 Senior Subordinated Notes; and (v) are structurally subordinated to all obligations of MSI's subsidiaries that are not guarantors of the 2020 Senior Subordinated Notes.

Prepayments

At any time prior to December 15, 2016, MSI may redeem all or a part of the 2020 Senior Subordinated Notes at a redemption price equal to 100% of the principal amount of the 2020 Senior Subordinated Notes redeemed plus a make- whole premium, as provided in the indenture governing the 2020 Senior Subordinated Notes ("2020 Senior Subordinated Notes Indenture"), and accrued and unpaid interest to, but not including, 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 December 15, 2016, MSI may redeem all or part of the 2020 Senior Subordinated Notes, upon notice, at the redemption prices (expressed as percentages of principal amount of the 2020 Senior Subordinated Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon to the applicable date of redemption if redeemed during the twelve-month period beginning on December 15 of each of the years indicated below:

Year	**Percentage**
2016	102.938%
2017	101.469%
2018 and thereafter	100.000%

In addition, until December 15, 2016, MSI may, at its option, on one or more occasions redeem up to 40% of the aggregate principal amount of the 2020 Senior Subordinated Notes with the aggregate principal amount of 2020 Senior Subordinated Notes to be redeemed (the "Equity Offering Redemption Amount") not to exceed an amount equal to the aggregate gross proceeds from one or more Equity Offerings (as defined in the 2020 Senior Subordinated Notes Indenture), at a redemption price equal to 105.875% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon to, but not including, 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; provided that (i) each such redemption occurs within 120 days of the date of closing of each such Equity Offering; (ii) proceeds in an amount equal to or exceeding the applicable Equity Offering Redemption Amount shall be received by, or contributed to the capital of, MSI or any of its restricted subsidiaries and (iii) at least 50% of the sum of the aggregate principal amount of 2020 Senior Subordinated Notes originally issued under the 2020 Senior Subordinated Notes Indenture and any 2020 Senior Subordinated Notes that are issued under the 2020 Senior Subordinated Notes Indenture after the original issue date remains outstanding immediately after the occurrence of each such redemption.

Upon a change in control, MSI is required to offer to purchase all of the 2020 Senior Subordinated Notes at a price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest.

Certain covenants and events of default

The 2020 Senior Subordinated Indenture contains covenants limiting, among other things, MSI's ability and the ability of MSI's restricted subsidiaries to:

- incur or guarantee additional debt;
- pay dividends or distributions on MSI's capital stock or repurchase MSI's capital stock or prepay debt subordinated to the 2020 Senior Subordinated Notes;
- issue stock of subsidiaries;
- make certain investments, loans, advances and acquisitions;
- create liens on MSI's or the guarantors' assets to secure debt;
- enter into transactions with affiliates;
- merge or consolidate with another company; and
- sell or otherwise transfer assets.

As of November 1, 2014, MSI was in compliance with all covenants.

The 2020 Senior Subordinated Indenture also provides for events of default, which, if certain of them occur, would permit the trustee under the 2020 Senior Subordinated Indenture or holders of at least 25% in aggregate principal amount of the then outstanding 2020 Senior Subordinated Notes (including the aggregate principal amount of the 2020 Senior Subordinated Notes issued after December 19, 2013) to declare the principal, premium, if any, interest and any other monetary obligations on all the then outstanding 2020 Senior Subordinated Notes to be due and payable immediately.

Restated Revolving Credit Facility

General

On February 18, 2010, MSI entered into an agreement to amend and restate various terms of the then existing senior secured asset-based Revolving Credit Facility, dated as of October 31, 2006. On September 17, 2012, MSI entered into a second amended and restated credit agreement with Wells Fargo

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and other lenders to amend various terms of the senior secured asset-based Revolving Credit Facility. On June 6, 2014, MSI amended its second amended and restated credit agreement to, among other things, permit the incurrence of the Additional Term Loans and the refinancing of the 2018 Senior Notes with the net proceeds of the Additional 2020 Senior Subordinated Notes and the Additional Term Loans.

The Restated Revolving Credit Facility provides for senior secured financing of up to $650 million, subject to a borrowing base, maturing on September 17, 2017. The borrowing base under the Restated Revolving Credit Facility equals the sum of (i) 90% of eligible credit card receivables and debit card receivables, plus (ii) 90% of the appraised net orderly liquidation value of eligible inventory, plus (iii) the lesser of (x) 90% of the appraised net orderly liquidation value of inventory supported by eligible letters of credit and (y) 90% of the face amount of eligible letters of credit, minus (iv) certain reserves.

As of November 1, 2014, the Restated Revolving Credit Facility provided for an aggregate amount of $650 million in commitments, of which we had no outstanding borrowings, supported $62 million of outstanding standby letters of credit and provided $588 million of unused borrowing capacity.

The Restated Revolving Credit Facility provides MSI with the right to request up to $200 million of additional commitments under the Restated Revolving Credit Facility. The lenders under the Restated Revolving Credit Facility will not be under any obligation to provide any such additional commitments, and any increase in commitments is subject to customary conditions precedent. If MSI were to request any such additional commitments, and the existing lenders or new lenders were to agree to provide such commitments, the facility size could be increased to up to $850 million, but MSI's ability to borrow under the Restated Revolving Credit Facility would still be limited by the borrowing base.

If, at any time, the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the Restated Revolving Credit Facility exceeds the lesser of (i) the commitment amount and (ii) the Loan Cap, MSI 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 excess availability under the Restated Revolving Credit Facility is less than (i) 12.5% of the Loan Cap, for five consecutive business days or (ii) $65 million, at any time, or if certain events of default have occurred, MSI will be required to repay outstanding loans and cash collateralize letters of credit with the cash MSI is required to deposit daily in a collection account maintained with the agent under the Restated Revolving Credit Facility. Excess availability under the Restated Revolving Credit Facility means the Loan Cap minus the outstanding credit extensions. MSI 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 Restated Revolving Credit Facility; the principal amount of the loans outstanding is due and payable in full on the ABL Maturity Date.

Interest rate and fees

Borrowings under the Restated Revolving Credit Facility bear interest at a rate per annum equal to, at MSI's option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Wells Fargo, (2) the federal funds effective rate plus 0.50% and (3) LIBOR subject to certain adjustments plus 1.00% or (b) LIBOR subject to certain adjustments, in each case plus an applicable margin. The initial applicable margin is (a) 0.75% for prime rate borrowings and 1.75% for LIBOR borrowings. The applicable margin is subject to adjustment each fiscal quarter based on the excess availability under the Restated Revolving Credit Facility. Same-day borrowings bear interest at the base rate plus the applicable margin.

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MSI is required to pay a commitment fee on the unutilized commitments under the Restated Revolving Credit Facility, which initially is 0.375% per annum. The commitment fee is subject to adjustment each fiscal quarter. If average daily excess availability is less than or equal to 50% of the total commitments, the commitment fee will be 0.25% per annum, and if average daily excess availability is greater than 50% of the total commitments, the commitment fee will be 0.375%. MSI must also pay customary letter of credit fees and agency fees.

Guarantees and security

All obligations under the Restated Revolving Credit Facility are unconditionally guaranteed, jointly and severally by Holdings and all of MSI's existing domestic material subsidiaries and are required to be guaranteed by certain of MSI's future domestic wholly-owned material subsidiaries (the "Subsidiary Guarantors"). All obligations under the Restated Revolving Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the assets of Holdings, MSI and 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 Holdings, MSI 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 Holdings, MSI and the Subsidiary Guarantors, and certain related assets and proceeds of the foregoing;

- a second-priority pledge of all of MSI's capital stock and the capital stock held directly by MSI and the 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 Holdings, MSI and each Subsidiary Guarantor, including substantially all of MSI's owned real property and equipment.

Covenants and other matters

The Restated Revolving Credit Facility contains a number of covenants that, among other things and subject to certain exceptions, restrict MSI's ability and the ability of its restricted subsidiaries to:

- incur or guarantee additional indebtedness;
- pay dividends on MSI's capital stock or redeem, repurchase or retire MSI's capital stock;
- make investments, loans, advances and acquisitions;
- create restrictions on the payment of dividends or other amounts to MSI from its restricted subsidiaries;
- engage in transactions with affiliates of MSI;
- sell assets, including capital stock of MSI's subsidiaries;
- prepay or redeem indebtedness;
- 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 MSI must meet certain specified excess availability requirements and minimum consolidated fixed charge coverage ratios, to be tested on a pro forma and 6 months projected basis. Adjusted EBITDA is used in the calculation of

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the consolidated fixed charge coverage ratios. The Restated Revolving Credit Facility also contains certain customary affirmative covenants and events of default. As of November 1, 2014, MSI was in compliance with all covenants.

From the time when MSI has excess availability less than the greater of (a) 10% of the Loan Cap and (b) $50 million, until the time when MSI has excess availability greater than the greater of (a) 10% of the Loan Cap and (b) $50 million for 30 consecutive days, the Restated Revolving Credit Facility will require MSI to maintain a consolidated fixed charge coverage ratio of at least 1.0 to 1.0.

7.50/8.25% PIK toggle notes due 2018

General

On July 29, 2013, FinCo Holdings and FinCo Inc. (together, the "Holdco Issuers") issued $800 million aggregate principal amount of their Holdco Notes maturing on August 1, 2018. Interest is payable semi-annually in arrears on each February 1 and August 1, commencing on February 1, 2014 at a rate of 7.50% per annum with respect to cash interest and 8.25% per annum with respect to PIK Interest (as defined below), which is the cash interest rate plus 75 basis points.

The Holdco Issuers are required to pay interest on the Holdco Notes entirely in cash, unless certain conditions are satisfied, in which case, the Holdco Issuers are entitled to pay all or a portion of the interest for such interest period by increasing the principal amount of the notes or by issuing new notes (such increase or issuance, "PIK Interest"). Interest for the first two interest periods ending after the issue date are payable entirely in cash. Interest for the final interest period ending at stated maturity shall be payable entirely in cash.

Guarantees and security

The Holdco Notes are not guaranteed but may, under certain limited circumstances, be guaranteed by certain subsidiaries of FinCo Holdings in the future.

Ranking

The Holdco Notes are the Holdco Issuers' unsecured senior obligations and (i) rank senior in right of payment to all of the Holdco Issuers' existing and future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the Holdco Notes; (ii) rank equally in right of payment to all of the Holdco Issuers' existing and future debt and other obligations that are not, by their terms, expressly subordinated in right of payment to the Holdco Notes; (iii) are effectively subordinated in right of payment to all of the Holdco Issuers' existing and future secured debt, to the extent of the value of the assets securing such debt; and (iv) are structurally subordinated to all existing and future obligations of the Holdco Issuers' subsidiaries (other than FinCo Inc.) that are not guarantors of the Holdco Notes, including MSI's Senior Secured Credit Facilities and 2020 Senior Subordinated Notes.

Prepayments

At any time prior to August 1, 2014, the Holdco Issuers could redeem all or a part of the Holdco Notes at a redemption price equal to 100% of the principal amount of the Holdco Notes redeemed plus a make-whole premium, as provided in the indenture governing the Holdco Notes (the "Holdco Indenture"), and accrued and unpaid interest to, but not including, 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 August 1, 2014, the Holdco Issuers may redeem the Holdco Notes, in whole or in part, upon notice, at the redemption prices (expressed as percentages of principal amount of the Holdco Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon to the applicable date of redemption if redeemed during the twelve-month period beginning on August 1 of each of the years indicated below:

Year	Percentage
2014	102.000%
2015	101.000%
2016 and thereafter	100.000%

In addition, until August 1, 2015, the Holdco Issuers may, at their option, on one or more occasions redeem up to 100% of the aggregate principal amount of the Holdco Notes with the aggregate principal amount of Holdco Notes to be redeemed not to exceed an amount equal to the aggregate gross proceeds from one or more Equity Offerings (as defined in the Holdco Indenture), at a redemption price equal to (i) prior to August 1, 2014, 102% of the aggregate principal amount thereof, and (ii) from August 1, 2014 to August 1, 2015, 101% of the aggregate principal amount thereof, in each case, plus accrued and unpaid interest thereon to, but not including, 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; provided that each such redemption occurs within 120 days of the date of closing of each such Equity Offering; and provided further that proceeds in an amount equal to or exceeding the applicable Equity Offering Redemption Amount shall be received by, or contributed to the capital of FinCo Holdings or any of its restricted subsidiaries.

Upon a change in control the Holdco Issuers are required, subject to certain exceptions, to offer to purchase all of the Holdco Notes at a price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest to, but not including, the date of repurchase.

We redeemed $439 million in principal amount of the Holdco Notes with the proceeds from our initial public offering, and in December 2014, we redeemed an additional $180 in million principal amount of the Holdco Notes with cash on hand.

Certain covenants and events of default

The Holdco Indenture contains restrictive covenants and events of default substantially similar to, but less restrictive than, those of the 2020 Senior Subordinated Notes described above. FinCo Holdings and all of its restricted subsidiaries, including MSI and its subsidiaries, are subject to the restrictive covenants in the Holdco Indenture. As of November 1, 2014, the Holdco Issuers were in compliance with all covenants.

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Principal and selling stockholders

The following table presents information regarding the number of shares of Common Stock beneficially owned as of January 3, 2015 (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 Common Stock.

Unless otherwise indicated by footnote, the address for each listed director, officer and stockholder is c/o The Michaels Companies, Inc., 8000 Bent Branch Drive, Irving, Texas 75063 and each 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, and beneficial owners of 5% or more of Common Stock is calculated based on 204,303,715 shares of Common Stock outstanding as of January 3, 2015, 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. The beneficial ownership information set forth below was provided by or on behalf of our executive officers, our Directors, our Sponsors, and Highfields, and the Company has not independently verified the accuracy or completeness of the information so provided.

Name and address of beneficial owner(1)	Shares owned before offering		Shares owned after offering (no option exercise)		Shares owned after offering (full option exercise)	
	Number	Percent	Number	Percent	Number	Percent
Beneficial Owners of 5% or More of Our Common Stock:						
Bain Capital Investors, LLC and related funds(2)	81,455,630	39.9%	74,415,630	36.4%	73,359,630	35.9%
Affiliates of The Blackstone Group L.P.(5)	81,455,630	39.9%	71,783,630	35.1%	70,332,830	34.4%
Highfields Capital Management LP and related funds(6)	10,823,883	5.3%	8,735,883	4.3%	8,422,683	4.1%
Directors and Named Executive Officers:						
Joshua Bekenstein(3)						
Todd M. Cook(4)						
Nadim El Gabbani(7)						
Jill A. Greenthal(7)(8)	5,479	*	5,479	*	5,479	*
Lewis S. Klessel(4)						
Matthew S. Levin(4)						
John J. Mahoney(9)	12,255	*	12,255	*	12,255	*
James A. Quella(7)(10)	5,479	*	5,479	*	5,479	*
Beryl B. Raff(11)	5,479	*	5,479	*	5,479	*
Peter F. Wallace(7)						
Carl S. Rubin(12)	1,063,353	*	1,063,353	*	1,063,353	*
Charles M. Sonsteby(13)	811,837	*	811,837	*	811,837	*
Thomas C. DeCaro(14)	741,121	*	741,121	*	741,121	*
Philo T. Pappas(15)	881,534	*	881,534	*	881,534	*
Paula A. Puleo(16)	109,411	*	109,411	*	109,411	*
Nicholas E. Crombie(17)						
Weizhong "Wilson" Zhu(18)	189,396	*	189,396	*	189,396	*
All current directors and executive officers as a group (20 persons)(19)	4,744,285	2.3%	4,744,285	2.3%	4,744,285	2.3%
Other selling stockholders:						
Combined Jewish Philanthropies of Greater Boston, Inc.(21)(22)	253,941	*				
Edgerley Family Foundation(21)(23)	99,090	*				
Fidelity Investments Charitable Gift Fund(21)(24)	80,394	*				

Umsizi Fund(21)(25)	3,192	*

* Less than one percent.

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(1) Pursuant to Rule 13d-3 under the Exchange Act, 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 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 January 3, 2015 by the person indicated.

(2) The shares included in this table consist of: (i) 81,217,899 shares of Common Stock held by Bain Capital Integral Investors 2006, LLC, whose administrative member is Bain Capital Investors, LLC ("BCI"); and (ii) 237,731 shares of Common Stock held by BCIP TCV, LLC, whose administrative member is BCI. Assuming no exercise of the underwriters' option to purchase additional shares, in this offering: (i) Bain Capital Integral Investors 2006, LLC ("Integral 06") will sell 7,019,454 shares of Common Stock; and (ii) BCIP TCV, LLC ("TCV") will sell 20,546 shares of Common Stock. Assuming full exercise of the underwriters' option to purchase additional shares, in this offering: (i) Integral 06 will sell 8,072,372 shares of Common Stock; and (ii) TCV will sell 23,628 shares of Common Stock. As a result of the relationships described above, BCI may be deemed to share beneficial ownership of the shares held by each of Integral 06 and TCV (collectively, the "Bain Capital Entities"). The governance, investment strategy and decision-making process with respect to investments held by the Bain Capital Entities is directed by BCI's Global Private Equity Board ("GPEB"), which is comprised of the following individuals: Steven Barnes, Joshua Bekenstein, John Connaughton, Paul Edgerley, Stephen Pagliuca, Michel Plantevin, Dwight Poler, Jonathan Zhu and Stephen Zide. By virtue of the relationships described in this footnote, GPEB may be deemed to exercise voting and dispositive power with respect to the shares held by the Bain Capital Entities. Each of the members of GPEB disclaims beneficial ownership of such shares to the extent attributed to such member solely by virtue of serving on GPEB. Certain partners and other employees of the Bain Capital Entities may make a contribution of shares of common stock to one or more charities prior to this offering. In such case, a recipient charity, if it chooses to participate in this offering, will be the selling shareholder with respect to the donated shares. Each of the Bain Capital Entities has an address c/o Bain Capital Partners, LLC, 200 Clarendon Street, Boston, Massachusetts 02116.

(3) Does not include shares indirectly held by the Bain Capital Entities. Mr. Bekenstein is a Managing Director of BCI and a member of GPEB and as a result, by virtue of the relationships described in footnote 2 above, may be deemed to share beneficial ownership of the common shares indirectly held by each of the Integral 06 and TCV. The address of Mr. Bekenstein is c/o Bain Capital Partners, LLC, John Hancock Tower, 200 Clarendon Street, Boston, MA 02116.

(4) Does not include shares indirectly held by the Bain Capital Entities. Each of Messrs. Cook, Klessel and Levin is a Managing Director of BCI and as a result, by virtue of the relationships described in footnote 2 above, may be deemed to share beneficial ownership of the common shares indirectly held by each of Integral 06 and TCV. The address of Messrs. Cook, Klessel and Levin is c/o Bain Capital Partners, LLC, John Hancock Tower, 200 Clarendon Street, Boston, MA 02116.

(5) Includes 61,499,301 shares of our Common Stock owned by Blackstone Capital Partners V L.P. ("BCP V"), 14,065,576 shares of our Common Stock owned by BCP V-S L.P. ("BCP V-S"), 880,838 shares of our Common Stock owned by Blackstone Family Investment Partnership V L.P. ("Family"), 186,965 shares of our Common Stock owned by Blackstone Participation Partnership V L.P. ("Participation"), 2,742,216 shares of our Common Stock owned by BCP V Co-Investors L.P. ("BCP Co-Investors") and 2,080,734 shares of our Common Stock owned by Blackstone Family Investment Partnership V-SMD L.P. ("Family-SMD") (collectively, "the "Blackstone Funds"). Assuming no exercise of the underwriters' option to purchase additional shares, in this offering: (i) BCP V will sell 7,302,396 shares of Common Stock; (ii) BCP V-S will sell 1,670,139 shares of Common Stock; (iii) Family will sell

104,591 shares of Common Stock; (iv) Participation will sell 22,200 shares of Common Stock; (v) BCP Co-Investors will sell 325,609 shares of Common Stock; and (vi) Family-SMD will sell 247,065 shares of Common Stock. Assuming full exercise of the underwriters' option to purchase additional shares, in this offering: (i) BCP V will sell 8,397,755 shares of Common Stock; (ii) BCP V-S will sell 1,920,660 shares of Common Stock; (iii) Family will sell 120,280 shares of Common Stock; (iv) Participation will sell 25,530 shares of Common Stock; (v) BCP Co-Investors will sell 374,450 shares of Common Stock; and (vi) Family-SMD will sell 284,125 shares of Common Stock. The general partner of BCP V, BCP V-S and BCP Co-Investors is Blackstone Management Associates V L.L.C. BMA V L.L.C. is the sole member of Blackstone Management Associates V L.L.C. BCP V Side-by-Side GP L.L.C. is the general partner of Family and Participation. Blackstone Holdings III L.P. is the managing member and majority in interest owner of BMA V L.L.C. and the sole member of BCP V Side-by-Side GP L.L.C. The general partner of Blackstone Holdings III L.P. is Blackstone Holdings III GP L.P. The general partner of Blackstone Holdings III G.P. is Blackstone Holdings III GP Management L.L.C. The sole member of Blackstone Holdings III GP Management L.L.C. is The Blackstone Group L.P. The general partner of The Blackstone Group L.P. is Blackstone Group Management L.L.C. Blackstone Group Management L.L.C. is wholly owned by Blackstone's senior managing directors and controlled by its founder, Stephen A. Schwarzman. The general partner of Family-SMD is Blackstone Family GP L.L.C., which is controlled by its founder Mr. Schwarzman. As a result of his control of Blackstone Group Management L.L.C. and Blackstone Family GP L.L.C., Mr. Schwarzman has voting and investment power with respect to the shares held by the Blackstone Funds. Each of such Blackstone entities and Mr. Schwarzman may be deemed to beneficially own the shares beneficially owned by the Blackstone Funds directly or indirectly controlled by it or him, but each (other than the Blackstone Funds to the extent of their direct holdings) disclaims beneficial ownership of such shares. The address for each of the Blackstone Funds, Blackstone Management Associates V L.L.C., BMA V L.L.C., BCP V Side-by-Side GP L.L.C., Blackstone Holdings III L.P., Blackstone Holdings III GP L.P., Blackstone Holdings III GP Management L.L.C., The Blackstone Group L.P., Blackstone Group Management L.L.C., Blackstone Family GP L.L.C. and Mr. Schwarzman is c/o The Blackstone Group L.P., 345 Park Avenue, New York, New York 10154.

(6) Includes 1,459,558 shares of our Common Stock owned by Highfields Capital I LP ("HC I"), 3,503,674 shares of our Common Stock owned by Highfields Capital II LP ("HC II") and 5,860,651 shares of our Common Stock owned by Highfields Capital III L.P. ("HC III" and together with HC I and HC II, the "Highfields Funds"). Assuming no exercise of the underwriters' option to purchase additional shares, (i) HC I will sell 281,559 shares of Common Stock; (ii) HC II will sell 675,882 shares of Common Stock; and (iii) HCIII will sell 1,130,559 shares of Common Stock. Assuming full exercise of the underwriters' option to purchase additional shares, (i) HC I will sell 323,793 shares of Common Stock; (ii) HC II will sell 777,264 shares of Common Stock; and (iii) HCIII will sell 1,300,143 shares of Common Stock. Highfields Capital Management LP acts as the investment manager of the Highfields Funds and in such capacity has voting and investment power with respect to the shares held thereby. Jonathon S. Jacobson is the Chief Executive Officer and Chief Investment Officer of Highfields Capital Management LP. Mr. Jacobson disclaims beneficial ownership of any shares owned by the Highfields Funds. The address of Mr. Jacobson, Highfields Capital Management LP and the Highfields Funds is 200 Clarendon Street, 59th Floor, Boston, Massachusetts 02116.

(7) Mr. El Gabbani and Mr. Wallace are each employees of, and Ms. Greenthal and Mr. Quella are each senior advisors to, affiliates of The Blackstone Group L.P., but each disclaims beneficial ownership of the shares beneficially owned by the Blackstone Funds. The addresses of Mr. El Gabbani, Ms. Greenthal, Mr. Quella and Mr. Wallace are 345 Park Avenue, New York, New York 10154.

(8) Includes 5,479 shares of unvested restricted stock for which Ms. Greenthal holds voting rights.

(9) The address of Mr. Mahoney is 35 Draper Road, Dover, Massachusetts 02030. Includes 5,479 shares of unvested restricted stock for which Mr. Mahoney holds voting rights.

(10) Includes 5,479 shares of unvested restricted stock for which Mr. Quella holds voting rights.

(11) The address of Ms. Raff is 1825 Swift Avenue, North Kansas City, MO 64116. Includes 5,479 shares of unvested restricted stock for which Ms. Raff holds voting rights.

(12) Includes 369,000 stock options that vested on March 18, 2014 and 369,000 stock options that will vest on March 18, 2015. Includes 267,431 shares of unvested restricted stock for which Mr. Rubin holds voting rights.

(13) Includes 167,568 stock options that vested on October 4, 2011, 167,568 stock options that vested on October 4, 2012, 167,568 stock options that vested on October 4, 2013,30,774 stock options that vested on July 3, 2014 and 167,568 stock options that vested on October 4, 2014. Includes 49,533 shares of unvested restricted stock for which Mr. Sonsteby holds voting rights.

(14) Includes 212,541 stock options that vested on July 2, 2009, 91,566 stock options that vested on July 2, 2010, 91,569 stock options that vested on July 2, 2011, 91,569 stock options that vested on July 2, 2012, 91,569 stock options that vested on July 2, 2013, 191,569 stock options that vested on July 2, 2014 and 12,546 stock options that vested on July 3, 2014. Includes 16,322 shares of unvested restricted stock for which Mr. DeCaro holds voting rights.

(15) Includes 18,624 stock options that vested on July 2, 2009, 130,350 stock options that vested on July 2, 2010, 130,352 stock options that vested on July 2, 2011, 130,352 stock options that vested on July 2, 2012, 130,352 stock options that vested on July 2, 2013, 130,352 stock options that vested on July 2, 2014 and 18,985 stock options that vested on July 3, 2014. Includes 171,084 shares of unvested restricted stock for which Mr. Pappas holds voting rights.

(16) Ms. Puleo separated from the Company on March 9, 2014.

(17) Mr. Crombie retired from the Company on July 27, 2013.

(18) Mr. Zhu left the Company on November 15, 2013.

(19) Consistent with the disclaimers of beneficial ownership of Messrs. Bekenstein, Cook, El Gabbani, Klessel, Levin, Quella and Wallace and Ms. Greenthal contained in notes (2), (3), (4), (5) and (7) above, this number does not include the 162,911,260 shares of 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 3,849,544 vested options or options that will vest within 60 days of January 3, 2015 held by executive officers of the Company and 672,566 shares of unvested restricted stock for which executive officers of the Company hold voting rights.

(21) Represents shares received by such entities as a result of charitable contributions by certain partners and other employees of Bain Capital entities on January 22, 2015.

(22) The address of Combined Jewish Philanthropies of Greater Boston, Inc. is 126 High Street, Boston, MA 02110.

(23) The address of the Edgerley Family Foundation is c/o Bain Capital Investors, LLC, 200 Clarendon Street, Boston, MA 02116.

(24) The address of Fidelity Investments Charitable Gift Fund is 200 Seaport Boulevard, Z3B, Boston, MA 02210.

(25) The address of the Umsizi Fund is 501 Silverside Rd., Suite 123 Wilmington, DE 19809.

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Description of capital stock

As of November 1, 2014, the total amount of our authorized Common Stock consisted of 350,000,000 shares of Common Stock, par value $0.06775 per share, and we had 204,241,913 shares of Common Stock issued and outstanding, of which 162,911,260 shares were held by our Sponsors, and no shares of preferred stock were issued or outstanding. As of November 1, 2014, we had 84 stockholders of record of Common Stock and had unvested restricted stock awards and outstanding options to purchase 12,852,798 shares of Common Stock.

The discussion set forth below describes our capital stock, certificate of incorporation and bylaws. We urge you to read the full text of our certificate of incorporation and bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part.

Common Stock

Except as required by law or matters relating solely to the terms of preferred stock, each outstanding share of Common Stock will be entitled to one vote on all matters submitted to a vote of stockholders. Holders of shares of our Common Stock shall have no cumulative voting rights.

Our shares of Common Stock are listed on The NASDAQ Global Select Market under the symbol "MIK".

Preferred stock

Our Board may, without further action by our stockholders, from time to time, direct the issuance of shares of preferred stock in series and may, at the time of issuance, determine the designations, powers, preferences, privileges, and relative participating, optional or special rights as well as the qualifications, limitations or restrictions thereof, including dividend rights, conversion rights, voting rights, terms of redemption and liquidation preferences, any or all of which may be greater than the rights of the Common Stock. Satisfaction of any dividend preferences of outstanding shares of preferred stock would reduce the amount of funds available for the payment of dividends on shares of our Common Stock. Holders of shares of preferred stock may be entitled to receive a preference payment in the event of our liquidation before any payment is made to the holders of shares of our Common Stock. Under specified circumstances, the issuance of shares of preferred stock may render more difficult or tend to discourage a merger, tender offer or proxy contest, the assumption of control by a holder of a large block of our securities or the removal of incumbent management. Our Board, without stockholder approval, may issue shares of preferred stock with voting and conversion rights, which could adversely affect the holders of shares of our Common Stock and the market value of our Common Stock. Subject to the rights of the holders of shares of preferred stock, the number of authorized shares of preferred stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the voting power of the outstanding shares of capital stock of the Company entitled to vote generally in the election of directors, voting together as a single class. There are no shares of preferred stock outstanding, and we have no present intention to issue any shares of preferred stock although we may in the future decide to do so.

Anti-takeover effects of our certificate of incorporation and bylaws

Our certificate of incorporation and our bylaws contain provisions that may delay, defer or discourage another party from acquiring control of us. We expect that these provisions, which are summarized below, will discourage coercive takeover practices or inadequate takeover bids. These provisions are also designed

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to encourage persons seeking to acquire control of us to first negotiate with the Board, which we believe may result in an improvement of the terms of any such acquisition in favor of our stockholders; however, these provisions also give the Board the power to discourage acquisitions that some stockholders may favor.

Authorized but unissued capital stock

The General Corporation Law of the State of Delaware (the "DGCL") does not require stockholder approval for any issuance of authorized shares. However, the listing requirements of The NASDAQ Stock Market, which would apply as long as our Common Stock is listed on The NASDAQ Global Select Market, require stockholder approval of certain issuances equal to or exceeding 20% of the then outstanding voting power or then outstanding number of shares of Common Stock. These additional shares may be used for a variety of corporate purposes, including future public offerings, to raise additional capital or to facilitate acquisitions.

One of the effects of the existence of authorized but unissued Common Stock or preferred stock may be to enable our Board to issue shares to persons friendly to current management, which issuance could render more difficult or discourage an attempt to obtain control of our company by means of a merger, tender offer, proxy contest or otherwise, and thereby protect the continuity of our management and possibly deprive the stockholder of opportunities to sell their shares of Common Stock at prices higher than prevailing market prices.

Board of Directors

Our certificate of incorporation provides that the authorized number of directors may be changed only by resolution of the Board. Our certificate of incorporation and our bylaws also provide that a director may be removed without cause as long as investment funds affiliated with our Sponsors hold a majority of our outstanding Common Stock, and when this ceases to be the case, only for cause by the affirmative vote of the holders of at least 75% of our voting stock. Any vacancy on our Board, including a vacancy resulting from an enlargement of our Board, may be filled only by vote of a majority of our directors then in office.

Action by written consent

The DGCL provides that, unless otherwise stated in a corporation's certificate of incorporation, the stockholders may act by written consent without a meeting. Our certificate of incorporation provides that after the investment funds associated with the Sponsors collectively own less than majority of our outstanding Common Stock, any action required or permitted to be taken by our stockholders may be effected only at a duly called annual or special meeting of our stockholders and may not be effected by any consent in writing by our stockholders. As a result, investments funds associated with the Sponsors will be able to act by written consent so long as they collectively own at least a majority of our outstanding Common Stock.

Special meeting of stockholders and advance notice requirements for stockholder proposals

Our certificate of incorporation and bylaws provide that, except as otherwise required by law and subject to any rights of the holders of preferred stock, special meetings of the stockholders can only be called by (a) our chairman or any vice chairman of the Board, (b) the Board pursuant to a written resolution adopted by a majority of the total number of directors that our Board would have if there were no vacancies or (c) our secretary at the request of 25% of our common stockholders as long as investment funds affiliated with the Sponsors hold a majority of our Common Stock.

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In addition, our bylaws require advance notice procedures for stockholder proposals to be brought before an annual meeting of the stockholders, including the nomination of directors. Stockholders at an annual meeting may only consider the proposals specified in the notice of meeting or brought before the meeting by or at the direction of the Board, or by a stockholder of record on the record date for the meeting who is entitled to vote at the meeting, who has delivered a timely written notice in proper form to our secretary of the stockholder's intention to bring such business before the meeting, who attends (or has a qualified representative attend) the stockholder meeting and who has otherwise complied with the provisions of our bylaws and applicable law.

These provisions could have the effect of delaying any stockholder actions until the next stockholder meeting, even if they are favored by the holders of a majority of our outstanding voting stock.

Amendment to certificate of incorporation and bylaws

The DGCL provides generally that the affirmative vote of a majority of the outstanding stock entitled to vote on amendments to a corporation's certificate of incorporation or bylaws is required to approve such amendment, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our bylaws may be altered, amended or repealed by a majority vote of our Board or, in addition to any other vote otherwise required by law, the affirmative vote of the holders of a majority of the voting power of our outstanding shares of Common Stock so long as investment funds affiliated with the Sponsors collectively beneficially own a majority of our outstanding shares of Common Stock, and when this ceases to be the case, a vote of at least 75% of our outstanding Common Stock will be required. Additionally, so long as the investment funds affiliated with the Sponsors collectively beneficially own a majority of our outstanding shares of Common Stock, the affirmative vote of the holders of a majority of the voting power of our outstanding shares of Common Stock and, from and after the date on which the investment funds affiliated with the Sponsors cease collectively to beneficially own a majority of our outstanding shares of Common Stock, the affirmative vote of at least 75% of the voting power of our outstanding shares of Common Stock, in each case entitled to vote on the adoption, alteration, amendment or repeal of our certificate of incorporation, voting as a single class, is required to amend or repeal or to adopt any provision inconsistent with the "Board of Directors", "Director Liability", "Action by Written Consent", "Special Meetings of Stockholders", "Amendments to the Certificate of Incorporation and Bylaws", "Business Combinations", "Renouncement of Corporate Opportunity" and "Exclusive Jurisdiction of Certain Actions" provisions described in our certificate of incorporation. These provisions may have the effect of deferring, delaying or discouraging the removal of any anti-takeover defenses provided for in our certificate of incorporation and our bylaws.

Business combinations

We have elected in our certificate of incorporation not to be subject to Section 203 of the DGCL, an antitakeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with a person or group owning 15% or more of the corporation's voting stock for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Accordingly, we are not subject to any anti-takeover effects of Section 203. However, our certificate of incorporation contains provisions that have the same effect as Section 203, except that they provide that our Sponsors and their respective affiliates will not be deemed to be "interested stockholders", regardless of the percentage of our voting stock owned by them and accordingly will not be subject to such restrictions.

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Renouncement of corporate opportunity

Our certificate of incorporation provides that we renounce any interest or expectancy in, or in being offered an opportunity to participate in, any business opportunity that may from time to time be presented to the Sponsors or any of their respective officers, directors, agents, stockholders, members, partners, affiliates and subsidiaries (other than us and our subsidiaries) and that may be a business opportunity for the Sponsors, even if the opportunity is one that we might reasonably have pursued or had the ability or desire to pursue if granted the opportunity to do so. No such person will be liable to us for breach of any fiduciary or other duty, as a director or officer or otherwise, by reason of the fact that such person, acting in good faith, pursues or acquires any such business opportunity, directs any such business opportunity to another person or fails to present any such business opportunity, or information regarding any such business opportunity, to us unless, in the case of any such person who is our director or officer, any such business opportunity is expressly offered to such director or officer solely in his or her capacity as our director or officer. None of the Sponsors, any of the investment funds associated with the Sponsors or any of their respective representatives has any duty to refrain from engaging directly or indirectly in the same or similar business activities or lines of business as us or any of our subsidiaries.

Exclusive jurisdiction of certain actions

Our certificate of incorporation requires, to the fullest extent permitted by law, that (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Company to the Company or our stockholders, (iii) any action asserting a claim against the Company arising pursuant to any provision of the DGCL or our certificate of incorporation or the bylaws or (iv) any action asserting a claim against the Company governed by the internal affairs doctrine will have to be brought only in the Court of Chancery in the State of Delaware. Although we believe this provision benefits the Company by providing increased consistency in the application of Delaware law in the types of lawsuits to which it applies, the provision may have the effect of discouraging lawsuits against our directors and officers.

Limitations on liability and indemnification of officers and directors

Our certificate of incorporation and bylaws limit the liability of our directors to the fullest extent permitted by applicable law and provide that we will indemnify them to the fullest extent permitted by such law. We have entered into indemnification agreements with our current directors and executive officers and expect to enter into a similar agreement with any new directors or executive officers.

Transfer agent and registrar

The transfer agent and registrar for our Common Stock is Wells Fargo Bank, National Association. Its address is 1110 Centre Point Curve, Suite 101, Mendota Heights, MN 55120-4101. Its telephone number is (800) 689-8788.

Material U.S. federal income and estate tax considerations for Non-U.S. Holders of shares of our Common Stock

The following is a summary of material U.S. federal income and estate tax considerations relating to the purchase, ownership and disposition of shares of our Common Stock issued pursuant to this offering by Non-U.S. Holders (defined below). This summary does not purport to be a complete analysis of all the potential tax considerations relevant to Non-U.S. Holders of shares of our Common Stock. This summary is based upon the Code, the Treasury regulations promulgated or proposed thereunder and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change or differing interpretations at any time, possibly with retroactive effect.

This summary assumes that shares of our Common Stock are held by a Non-U.S. Holder as "capital assets" within the meaning of Section 1221 of the Code. This summary does not purport to deal with all aspects of U.S. federal income and estate taxation that might be relevant to particular Non-U.S. Holders in light of their particular investment circumstances or status, nor does it address specific tax considerations that may be relevant to particular persons who are subject to special treatment under U.S. federal income tax laws (including, for example, financial institutions, broker-dealers, insurance companies, partnerships or other pass-through entities, certain U.S. expatriates or former long term residents of the United States, tax-exempt organizations, pension plans, "controlled foreign corporations", "passive foreign investment companies", corporations that accumulate earnings to avoid U.S. federal income tax, persons in special situations, such as those who have elected to mark securities to market or those who hold shares of our Common Stock as part of a straddle, hedge, conversion transaction, synthetic security or other integrated investment, persons that have a "functional currency" other than the U.S. dollar, or holders subject to the alternative minimum tax or the 3.8% tax on net investment income). In addition, except as explicitly addressed herein with respect to estate tax, this summary does not address certain estate and any gift tax considerations or considerations arising under the tax laws of any state, local or non-U.S. jurisdiction.

For purposes of this summary, a "Non-U.S. Holder" means a beneficial owner of shares of our Common Stock that, for U.S. federal income tax purposes, is an individual, corporation, estate or trust other than:

- an individual who is a citizen or resident of the United States;
- a corporation, or any other organization taxable as a corporation for U.S. federal income tax purposes, that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is included in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if (1) a U.S. court is able to exercise primary supervision over the trust's administration and one or more United States persons (as defined in the Code) have the authority to control all of the trust's substantial decisions or (2) the trust has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

A modified definition of Non-U.S. Holder applies for U.S. federal estate tax purposes (as discussed below).

If an entity that is classified as a partnership for U.S. federal income tax purposes holds shares of our Common Stock, the tax treatment of persons treated as its partners for U.S. federal income tax purposes will generally depend upon the status of the partner and the activities of the partnership. Partnerships and other entities that are classified as partnerships for U.S. federal income tax purposes that hold shares of our Common Stock and their investors are urged to consult their own tax advisors.

There can be no assurance that the Internal Revenue Service ("IRS") will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling from the IRS or an opinion of counsel with respect to the U.S. federal income or estate tax consequences to a Non-U.S. Holder of the purchase, ownership or disposition of shares of our Common Stock.

THIS SUMMARY IS FOR GENERAL INFORMATION ONLY AND IS NOT INTENDED TO BE TAX ADVICE. PROSPECTIVE INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS CONCERNING THE U.S. FEDERAL INCOME AND ESTATE TAXATION, STATE, LOCAL AND NON-U.S. TAXATION AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF SHARES OF OUR COMMON STOCK, AS WELL AS THE APPLICATION OF STATE, LOCAL AND NON-U.S. INCOME AND OTHER TAX LAWS.

Distributions on shares of our Common Stock

As discussed under "Dividend policy" above, we do not currently pay, and do not anticipate paying in the foreseeable future, cash dividends on shares of our Common Stock. In the event that we do make a distribution of cash or property with respect to shares of our Common Stock, any such distributions generally will constitute dividends for U.S. federal income tax purposes to the extent of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles, and will be subject to withholding as described in the next paragraph below. If a distribution exceeds our current or accumulated earnings and profits, the excess will be treated as a tax-free return of the Non-U.S. Holder's investment, up to such holder's adjusted tax basis in its shares of our Common Stock. Any remaining excess will be treated as capital gain, subject to the tax treatment described below in " Gain on sale, exchange or other taxable disposition of our shares of Common Stock". Any distribution described in this paragraph would also be subject to the discussion below in " Additional withholding and information reporting requirements for shares of our Common Stock held by or through non-U.S. entities".

Any dividends paid to a Non-U.S. Holder with respect to shares of our Common Stock generally will be subject to a 30% U.S. federal withholding tax unless such Non-U.S. Holder provides us or our agent, as the case may be, with an appropriate IRS Form W-8 (which may be required to be updated periodically), prior to the payment of dividends, such as:

- IRS Form W-8BEN or W-8BEN-E, as appropriate (or successor form), certifying, under penalties of perjury, that such Non-U.S. Holder is entitled to a reduction in withholding under an applicable income tax treaty; or

- IRS Form W-8ECI (or successor form) certifying, under penalties of perjury, that a dividend paid on shares of our Common Stock is not subject to withholding tax because it is effectively connected with conduct of a trade or business in the United States of the Non-U.S. Holder (in which case such dividend generally will be subject to regular graduated U.S. federal income tax rates on a net income basis as described below)

The certification requirement described above also may require a Non-U.S. Holder that provides an IRS form or that claims treaty benefits to provide its U.S. taxpayer identification number. Special certification and other requirements apply in the case of certain Non-U.S. Holders that are intermediaries or pass-through entities for U.S. federal income tax purposes.

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Each Non-U.S. Holder is urged to consult its own tax advisor about the specific methods for satisfying these requirements. A claim for exemption will not be valid if the person receiving the applicable form has actual knowledge or reason to know that the statements on the form are false.

If dividends are effectively connected with the conduct of a trade or business in the United States of the Non-U.S. Holder (and, if required by an applicable income tax treaty, are attributable to a permanent establishment or fixed base maintained by such Non-U.S. Holder in the United States), the Non-U.S. Holder, although exempt from the withholding tax described above (provided that the certifications described above are satisfied), will generally be subject to U.S. federal income tax on such dividends on a net income basis in the same manner as if it were a resident of the United States. In addition, if such Non-U.S. Holder is taxable as a corporation for U.S. federal income tax purposes, such Non-U.S. Holder may be subject to an additional "branch profits tax" equal to 30% of its effectively connected earnings and profits for the taxable year, unless an applicable income tax treaty provides otherwise.

If a Non-U.S. Holder is eligible for a reduced rate of U.S. federal withholding tax pursuant to an applicable income tax treaty, such holder may obtain a refund or credit of any excess amount withheld by timely filing an appropriate claim for refund with the IRS.

Gain on sale, exchange or other taxable disposition of shares of our Common Stock

Subject to the discussion below under " Additional withholding and information reporting requirements for shares of our Common Stock held by or through non-U.S. entities", in general, a Non-U.S. Holder will not be subject to U.S. federal income tax or withholding tax on any gain realized upon such holder's sale, exchange or other taxable disposition of shares of our Common Stock unless (i) such Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of disposition, and certain other conditions are met, (ii) we are or have been a "United States real property holding corporation," as defined in the Code (a "USRPHC"), at any time within the shorter of the five-year period preceding the disposition and the Non-U.S. Holder's holding period with respect to the applicable shares of our Common Stock (the "relevant period"), or (iii) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business in the United States (and, if required by an applicable income tax treaty, is attributable to a permanent establishment or fixed base maintained by such Non-U.S. Holder in the United States).

If the first exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax at a rate of 30% (unless an applicable income tax treaty provides otherwise) on the amount by which such Non-U.S. Holder's capital gains allocable to U.S. sources exceed capital losses allocable to U.S. sources during the taxable year of the disposition.

With respect to the second exception above, although there can be no assurance, we believe we are not, and we do not currently anticipate becoming, a USRPHC. However, because the determination of whether we are a USRPHC depends on the fair market value of our U.S. real property relative to the fair market value of other business assets, there can be no assurance that we are not currently or will not become a USRPHC in the future. Generally, a corporation is a USRPHC only if the fair market value of its "United States real property interests" (as defined in the Code) equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus certain other assets used or held for use in a trade or business. Even if we are or become a USRPHC, a Non-U.S. Holder would not be subject to U.S. federal income tax on a sale, exchange or other taxable disposition of shares of our Common Stock by reason of our status as a USRPHC so long as (i) our Common Stock is regularly traded on an established securities market (within the meaning of Code Section 897(c)(3)) during the calendar year in which such sale, exchange or other taxable disposition of shares of our Common Stock occurs and (ii) such Non-U.S. Holder does not own and is not deemed to own (directly, indirectly or constructively) more than 5% of our Common Stock at any time during the relevant period. If we are a USRPHC and the requirements of (i) or (ii) are not met, gain on the disposition of shares of our Common Stock generally will be taxed in the same manner as gain that is effectively connected with the conduct of a U.S. trade or business, except that the "branch profits tax" will not apply. Prospective investors are urged to consult their own tax advisors regarding the possible consequences to them if we are, or were to become, a USRPHC.

If the third exception applies, the Non-U.S. Holder generally will be subject to U.S. federal income tax on a net income basis with respect to such gain in the same manner as if such holder were a resident of the United States, unless otherwise provided in an applicable income tax treaty, and a Non-U.S. Holder that is a corporation for U.S. federal income tax purposes may also be subject to a "branch profits tax" on its effectively connected earnings and profits at a rate of 30%, unless an applicable income tax treaty provides otherwise.

Additional withholding and information reporting requirements for shares of our Common Stock held by or through non-U.S. entities

Legislation enacted in March 2010 and related Treasury guidance (commonly referred to as "FATCA") generally will impose a U.S. federal withholding tax of 30% on payments to certain non-U.S. entities (including certain intermediaries), including dividends on and the gross proceeds from a sale or other disposition of shares of our Common Stock, unless such persons comply with a complicated U.S. information reporting, disclosure and certification regime. This new regime requires, among other things, a broad class of persons to enter into agreements with the IRS to obtain, disclose and report information about their investors and account holders. An intergovernmental agreement between the United States and an applicable foreign country may, however, modify these requirements and these requirements are different from and in addition to the certification requirements described elsewhere in this discussion. The FATCA withholding rules currently apply to dividend payments on our Common Stock and will apply to payments of gross proceeds from the sale or other disposition of shares of our Common Stock occurring after December 31, 2016. Prospective investors should consult their own tax advisors regarding the possible impact of these rules on their investment in our Common Stock, and the entities through which they hold our Common Stock, including, without limitation, the process and deadlines for meeting the applicable requirements to prevent the imposition of this 30% withholding tax under FATCA.

Backup withholding and information reporting

We must report annually to the IRS and to each Non-U.S. Holder the gross amount of the distributions on shares of our Common Stock paid to such holder and the tax withheld, if any, with respect to such distributions. These information reporting requirements apply even if withholding was not required. Subject to the discussion above under " Additional withholding and information reporting requirements for shares of our Common Stock held by or through non-U.S. entities", a Non-U.S. Holder may have to comply with specific certification procedures to establish that the holder is not a United States person (as defined in the Code) or otherwise establish an exemption in order to avoid backup withholding at the applicable rate with respect to dividends on our Common Stock. Dividends paid to Non-U.S. Holders subject to the U.S. federal withholding tax, as described above in " Distributions on shares of our Common Stock", generally will be exempt from U.S. backup withholding.

Information reporting and backup withholding will generally apply to the payment of the proceeds of a disposition of shares of our Common Stock by a Non-U.S. Holder effected by or through the U.S. office of

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any broker, U.S. or non-U.S., unless the holder certifies that it is not a United States person (as defined in the Code) and satisfies certain other requirements, or otherwise establishes an exemption. For information reporting purposes, dispositions effected through a non-U.S. office of a broker with substantial U.S. ownership or operations generally will be treated in a manner similar to dispositions effected through a U.S. office of a broker, and dispositions otherwise effected through a non-U.S. office generally will not be subject to information reporting. Generally, backup withholding will not apply to a payment of disposition proceeds to a Non-U.S. Holder where the transaction is effected through a non-U.S. office of a U.S. broker or non-U.S. office of a non-U.S. broker. Prospective investors are urged to consult their own tax advisors regarding the application of the information reporting and backup withholding rules to them.

Copies of information returns may be made available to the tax authorities of the country in which the Non-U.S. Holder resides or is incorporated under the provisions of a specific treaty or agreement.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment made to a Non-U.S. Holder can be refunded or credited against such Non-U.S. Holder's U.S. federal income tax liability, if any, provided that an appropriate claim is timely filed with the IRS.

Federal estate tax

Shares of our Common Stock held (or treated as held) by an individual who is not a U.S. citizen or resident (as specifically determined for U.S. federal estate tax purposes) at the time of such individual's death will be included in such individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

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Certain ERISA considerations

The following discussion is a summary of certain considerations associated with the purchase of our Common Stock by (i) employee benefit plans that are subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code, and (iii) entities whose underlying assets are considered to include 'plan assets' of any such plan, account or arrangement (each, an "ERISA Plan").

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving 'plan assets' with persons or entities who are 'parties in interest,' within the meaning of ERISA, or "disqualified persons," within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. A prohibited transaction within the meaning of ERISA and the Code may result if our Common Stock is acquired by an ERISA Plan to which we or an underwriter is a party in interest and such acquisition is not entitled to an applicable exemption, of which there are many.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing our Common Stock on behalf of, or with the assets of, any ERISA Plan, consult with their counsel regarding the matters described herein.

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Underwriting

The selling stockholders are offering the shares of Common Stock described in this prospectus through a number of underwriters. J.P. Morgan Securities LLC, Goldman, Sachs & Co., Barclays Capital Inc., Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Credit Suisse Securities (USA) LLC, Morgan Stanley & Co. LLC, Wells Fargo Securities, LLC, Guggenheim Securities, LLC and Macquarie Capital (USA) Inc. are acting as joint book-running managers of the offering and J.P. Morgan Securities LLC and Goldman, Sachs & Co. are acting as representatives of the underwriters. We and the selling stockholders have entered into an underwriting agreement with the underwriters. Subject to the terms and conditions of the underwriting agreement, the selling stockholders have agreed to sell to the underwriters, and each underwriter has severally agreed to purchase, at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus, the number of shares of Common Stock listed next to its name in the following table:

Name	Number of shares
J.P. Morgan Securities LLC	5,519,680
Goldman, Sachs & Co.	5,519,680
Barclays Capital Inc.	1,176,880
Deutsche Bank Securities Inc.	1,176,880
Merrill Lynch, Pierce, Fenner & Smith Incorporated	761,400
Credit Suisse Securities (USA) LLC	761,400
Morgan Stanley & Co. LLC	761,400
Wells Fargo Securities, LLC	761,400
Guggenheim Securities, LLC	554,600
Macquarie Capital (USA) Inc.	554,600
Nomura Securities International, Inc.	208,680
Piper Jaffray & Co.	208,680
Raymond James & Associates, Inc.	208,680
Stephens Inc.	208,680
SunTrust Robinson Humphrey, Inc.	208,680
Samuel A. Ramirez & Company, Inc.	69,560
Telsey Advisory Group LLC	69,560
The Williams Capital Group, L.P	69,560
Total	18,800,000

The underwriters are committed to purchase all the shares of common stock offered by the selling stockholders if they purchase any shares. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments of non-defaulting underwriters may also be increased or the offering may be terminated.

The underwriters propose to offer the shares of common stock directly to the public at the public offering price set forth on the cover page of this prospectus and to certain dealers at that price less a concession not in excess of $0.493920 per share. After the public offering of the shares, the offering price and other selling terms may be changed by the underwriters. Sales of shares made outside of the United States may be made by affiliates of the underwriters. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part. The underwriters have informed us that they do not intend to confirm sales to discretionary accounts that exceed 5% of the total number of shares offered by them.

The underwriters have an option to purchase up to 2,820,000 additional shares of Common Stock from the selling stockholders. The underwriters have 30 days from the date of this prospectus to exercise this option to purchase additional shares. If any shares are purchased with this option, the underwriters will purchase shares in approximately the same proportion as shown in the table above. If any additional shares of Common Stock are purchased, the underwriters will offer the additional shares on the same terms as those on which the shares are being offered.

Underwriting discounts and commissions

The underwriting fee is equal to the public offering price per share of Common Stock less the amount paid by the underwriters to us and the selling stockholders per share of Common Stock. The underwriting fee is $0.9408 per share. The following table shows the per share and total underwriting discounts and commissions to be paid to the underwriters by the selling stockholders assuming both no exercise and full exercise of the underwriters' option to purchase additional shares from the selling stockholders.

	Paid by the selling stockholders	
	Without option exercise	**With full option exercise**
Per Share	$ 0.9408	$ 0.9408
Total	$ 17,687,040	$ 20,340,096

We estimate that the total expenses of this offering, including registration, filing and listing fees, printing fees and legal and accounting expenses, but excluding the underwriting discounts and commissions, will be approximately $713,104. We have agreed to reimburse the underwriters for expenses related to the clearing of this offering with the Financial Industry Regulatory Authority, Inc. ("FINRA") in an amount up to $35,000. Such reimbursement is deemed to be underwriting compensation by FINRA.

A prospectus in electronic format may be made available on the web sites maintained by one or more underwriters, or selling group members, if any, participating in the offering. The underwriters may agree to allocate a number of shares to underwriters and selling group members for sale to their online brokerage account holders. Internet distributions will be allocated by the representatives to underwriters and selling group members that may make Internet distributions on the same basis as other allocations.

Lock-up

We have agreed that we will not (i) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any shares of our Common Stock or securities convertible into or exchangeable or exercisable for any shares of our Common Stock, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing (other than filings on Form S-8 relating to our employee benefit plans), or (ii) enter into any swap or other arrangement that transfers all or a portion of the economic consequences associated with the ownership of any shares of Common Stock or any such other securities (regardless of whether any of these transactions are to be settled by the delivery of shares of Common Stock or such other securities, in cash or otherwise), in each case without the prior written consent of J.P. Morgan Securities LLC and Goldman, Sachs & Co., for a period of 90 days after the date of this prospectus, subject to certain exceptions. Notwithstanding the foregoing, if (1) during the last 17 days of the 90 day restricted period, we issue an earnings release or announce material news or a material event relating to our Company; or (2) prior to the expiration of the 90 day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90 day period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event unless J.P. Morgan Securities LLC and Goldman, Sachs & Co. waive, in writing, such extension.

Our directors, executive officers and significant equity holders (including affiliates of the Sponsors) have entered into lock-up agreements with the underwriters prior to the commencement of this offering pursuant to which each of these persons or entities, with limited exceptions, for a period of 90 days after the date of this prospectus, may not, without the prior written consent of J.P. Morgan Securities LLC and Goldman, Sachs & Co., (1) offer, pledge, announce the intention to sell, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of our Common Stock or any securities convertible into or exercisable or exchangeable for our Common Stock (including, without limitation, Common Stock or such other securities which may be deemed to be beneficially owned by such directors, executive officers, managers and members in accordance with the rules and regulations of the SEC and securities which may be issued upon exercise of a stock option or warrant) or (2) enter into any swap or other agreement that transfers, in whole or in part, any of the economic consequences of ownership of the Common Stock or such other securities, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, or (3) make any demand for or exercise any right with respect to the registration of any shares of our Common Stock or any security convertible into or exercisable or exchangeable for our Common Stock. Notwithstanding the foregoing, if (1) during the last 17 days of the 90 day restricted period, we issue an earnings release or announce material news or a material event relating to our Company; or (2) prior to the expiration of the 90 day restricted period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90 day period, the restrictions described above shall continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or material event unless J.P. Morgan Securities LLC and Goldman, Sachs & Co. waive, in writing, such extension.

We and the selling shareholders have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

Listing

Our shares of Common Stock are listed on The NASDAQ Global Select Market under the symbol "MIK".

Price stabilization and short positions

In connection with this offering, the underwriters may engage in stabilizing transactions, which involves making bids for, purchasing and selling shares of Common Stock in the open market for the purpose of preventing or retarding a decline in the market price of the Common Stock while this offering is in progress. These stabilizing transactions may include making short sales of the Common Stock, which involves the sale by the underwriters of a greater number of shares of Common Stock than they are required to purchase in this offering, and purchasing shares of Common Stock on the open market to cover positions created by short sales. Short sales may be "covered" shorts, which are short positions in an amount not greater than the underwriters' option to purchase additional shares, or may be "naked" shorts, which are short positions in excess of that amount. The underwriters may close out any covered short position either by exercising their option to purchase additional shares, in whole or in part, or by purchasing shares in the open market. In making this determination, the underwriters will consider, among other things, the price of shares available for purchase in the open market compared to the price at which the underwriters may purchase shares through the option to purchase additional shares. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the Common Stock in the open market that could adversely affect investors who purchase in this offering. To the extent that the underwriters create a naked short position, they will purchase shares in the open market to cover the position.

The underwriters have advised us that, pursuant to Regulation M of the Securities Act of 1933, they may also engage in other activities that stabilize, maintain or otherwise affect the price of the Common Stock, including the imposition of penalty bids. This means that if the representatives of the underwriters purchase Common Stock in the open market in stabilizing transactions or to cover short sales, the representatives can require the underwriters that sold those shares as part of this offering to repay the underwriting discount received by them.

These activities may have the effect of raising or maintaining the market price of the Common Stock or preventing or retarding a decline in the market price of the Common Stock, and, as a result, the price of the Common Stock may be higher than the price that otherwise might exist in the open market. If the underwriters commence these activities, they may discontinue them at any time. The underwriters may carry out these transactions on The NASDAQ Stock Market, in the over-the-counter market or otherwise.

Notice to prospective investors in United Kingdom

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling with Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). The securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), from and including the date on which the European Union Prospectus Directive (the "EU Prospectus Directive") was implemented in that Relevant Member State (the "Relevant Implementation Date") an offer of securities described in this prospectus may not be made to the public in that Relevant Member State prior to the publication of a prospectus in relation to the shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the EU Prospectus Directive, except that, with effect from and including the Relevant Implementation Date, an offer of securities described in this prospectus may be made to the public in that Relevant Member State at any time:

- to any legal entity which is a qualified investor as defined under the EU Prospectus Directive;

to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive); or

in any other circumstances falling within Article 3(2) of the EU Prospectus Directive, provided that no such offer of securities described in this prospectus shall result in a requirement for the publication by us of a prospectus pursuant to Article 3 of the EU Prospectus Directive.

For the purposes of this provision, the expression an "offer of securities to the public" in relation to any securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe for the securities, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State. The expression "EU Prospectus Directive" means Directive 2003/71/EC (and any amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in each Relevant Member State, and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

Notice to prospective investors in Hong Kong

The shares may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), and no advertisement, invitation or document relating to the shares may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to shares which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Notice to prospective investors in Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the shares may not be circulated or distributed, nor may the shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the shares are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the shares under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Notice to prospective investors in Japan

The securities have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to prospective investors in Switzerland

The shares may not be publicly offered in Switzerland and will not be listed on the SIX Swiss Exchange ("SIX") or on any other stock exchange or regulated trading facility in Switzerland. This document has been prepared without regard to the disclosure standards for issuance prospectuses under art. 652a or art. 1156 of the Swiss Code of Obligations or the disclosure standards for listing prospectuses under art. 27 ff. of the SIX Listing Rules or the listing rules of any other stock exchange or regulated trading facility in Switzerland. Neither this document nor any other offering or marketing material relating to the shares or the offering may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this document nor any other offering or marketing material relating to the offering, the Company, the shares have been or will be filed with or approved by any Swiss regulatory authority. In particular, this document will not be filed with, and the offer of shares will not be supervised by, the Swiss Financial Market Supervisory Authority FINMA (FINMA), and the offer of shares has not been and will not be authorized under the Swiss Federal Act on Collective Investment Schemes ("CISA"). The investor protection afforded to acquirers of interests in collective investment schemes under the CISA does not extend to acquirers of shares.

Notice to prospective investors in the Dubai international financial centre

This prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This prospectus is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this prospectus nor taken steps to verify the information set forth herein and has no responsibility for the prospectus. The shares to which this prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the shares offered should conduct their own due diligence on the shares. If you do not understand the contents of this prospectus you should consult an authorized financial advisor.

Other relationships

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities.

Certain of the underwriters and their affiliates have provided in the past to us and our affiliates and may provide from time to time in the future certain commercial banking, financial advisory, investment banking and other services for us and such affiliates in the ordinary course of their business, for which they have received and may continue to receive customary fees and commissions. Each of the underwriters in this offering acted as underwriters in connection with our initial public offering. Affiliates of Barclays Capital Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC, Wells Fargo Securities, LLC and Goldman, Sachs & Co. serve in various capacities under our Restated Term Loan Facility and our Restated Revolving Credit Facility and affiliates of certain of the underwriters may also be lenders thereunder. Certain of the underwriters also acted as initial purchasers of our 2018 Senior Notes, our 2020 Senior Subordinated Notes and our Holdco Notes. In addition, from time to time, certain of the underwriters and their affiliates may effect transactions for their own account or the account of customers, and hold on behalf of themselves or their customers, long or short positions in our debt or equity securities or loans, and may do so in the future.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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Legal matters

The validity of the issuance of the shares of Common Stock to be sold in this offering will be passed upon for us by Ropes & Gray LLP, Boston, Massachusetts. Ropes & Gray LLP and some of its attorneys are members in RGIP, LP, which is an investor in certain investment funds advised by or affiliated with Bain Capital Partners, LLC and The Blackstone Group L.P. RGIP, LP has an interest in an entity that is a selling stockholder in this offering. RGIP, LP's indirect ownership of our Common Stock does not exceed 0.04% of our Common Stock. Simpson Thacher & Bartlett LLP, New York, New York will act as counsel to the underwriters.

Experts

The Consolidated Financial Statements of The Michaels Companies, Inc. as of February 1, 2014 and February 2, 2013 and for each of the three years in the period ended February 1, 2014, appearing in this prospectus and registration statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

Where you can find more information

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of our Common Stock being offered by this prospectus. This prospectus, which forms a part of the registration statement, does not contain all of the information set forth in the registration statement. For further information with respect to us and the shares of our Common Stock, reference is made to the registration statement and the exhibits and schedules filed as a part thereof. Statements contained in this prospectus as to the contents of any contract or other document are not necessarily complete. We are subject to the informational requirements of the Exchange Act and, in accordance therewith, we file reports and other information with the SEC. The registration statement, such reports and other information can be inspected and copied at the Public Reference Room of the SEC located at 100 F Street, N.E., Washington, D.C. 20549. Copies of such materials, including copies of all or any portion of the 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 website at *www.sec.gov*.

We are subject to the reporting requirements of the Exchange Act. These periodic reports and other information are available for inspection and copying at the public reference room and website of the SEC referred to above. You may access our reports and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act with the SEC free of charge on the SEC's website at *www.sec.gov* and on our website at *www.michaels.com* as soon as reasonably practicable after such information is electronically filed with, or furnished to, the SEC. Our website and the information contained therein or connected thereto is not a part of this prospectus or the registration statement of which it forms a part.

You may obtain a copy of any of our filings, at no cost, by writing or telephoning us at:

The Michaels Companies, Inc.
8000 Bent Branch Drive
Irving, TX 75063
(972) 409-1300
Attn: Corporate Secretary

Index to consolidated financial statements and supplementary data

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Report of independent registered public accounting firm

The Board of Directors and Stockholders
The Michaels Companies, Inc.

We have audited the accompanying consolidated balance sheets of The Michaels Companies, Inc. (the Company) as of February 1, 2014 and February 2, 2013, and the related consolidated statements of comprehensive income, stockholders' deficit, and cash flows for each of the three years in the period ended February 1, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Michaels Companies, Inc. at February 1, 2014 and February 2, 2013 and the consolidated results of its operations and its cash flows for each of the three years in the period ended February 1, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
Dallas, TX
May 1, 2014, except as to Note 17, which is as of June 9, 2014

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The Michaels Companies, Inc.
Consolidated balance sheets

(In millions except share data)	February 1, 2014	February 2, 2013
ASSETS		
Current assets:		
Cash and equivalents	$ 239	$ 56
Merchandise inventories	901	862
Prepaid expenses and other	95	86
Deferred income taxes	39	37
Income tax receivables	2	3
Total current assets	1,276	1,044
Property and equipment, at cost	1,600	1,502
Less accumulated depreciation and amortization	(1,242)	(1,164)
Property and equipment, net	358	338
Goodwill	94	94
Debt issuance costs, net of accumulated amortization of $56 at February 1, 2014, and $54 at February 2, 2013	52	46
Deferred income taxes	28	30
Other assets	3	3
Total non-current assets	177	173
Total assets	$ 1,811	$ 1,555
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 368	$ 263
Accrued liabilities and other	409	367
Share-based compensation liability		35
Current portion of long-term debt	16	150
Dividend payable	2	
Deferred income taxes	1	4
Income taxes payable	30	37
Total current liabilities	826	856
Long-term debt	3,678	2,891
Deferred income taxes	2	2
Share-based compensation liability		27
Other long-term liabilities	87	83
Total long-term liabilities	3,767	3,003
Total liabilities	4,593	3,859
Commitments and contingencies		
Stockholders' deficit:		
	12	12

Common stock, $0.06775 par value, 350,000,000.0 shares authorized; 175,024,037.2 shares issued and outstanding at February 1, 2014 and 174,780,137.1 shares issued and outstanding at February 2, 2013				
Additional paid-in-capital		94		37
Accumulated deficit		(2,888)		(2,359)
Accumulated other comprehensive income				6
Total stockholders' deficit		(2,782)		(2,304)
Total liabilities and stockholders' deficit	$	1,811	$	1,555

See accompanying Notes to Consolidated Financial Statements.

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The Michaels Companies, Inc.
Consolidated statements of comprehensive income

	Fiscal year		
(In millions)	**2013**	**2012**	**2011**
Net sales	$ 4,570	$ 4,408	$ 4,210
Cost of sales and occupancy expense	2,748	2,643	2,532
Gross profit	1,822	1,765	1,678
Selling, general, and administrative expense	1,170	1,132	1,090
Share-based compensation	23	15	33
Impairment of intangible assets		8	
Related party expenses	14	13	13
Store pre-opening costs	5	5	4
Operating income	610	592	538
Interest expense	215	245	254
Refinancing costs and losses on early extinguishments of debt	14	33	18
Other (income) and expense, net	2	(1)	9
Income before income taxes	379	315	257
Provision for income taxes	136	115	100
Net income	$ 243	$ 200	$ 157
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustment	(6)		(1)
Comprehensive income	$ 237	$ 200	$ 156
Earnings per share:			
Basic	$ 1.39	$ 1.14	$ 0.90
Diluted	$ 1.36	$ 1.12	$ 0.89
Pro forma basic net income per share (unaudited)	$ 1.27		
Pro forma diluted net income per share (unaudited)	$ 1.25		
Weighted average shares basic	174.8	174.7	174.6
Weighted average shares diluted	178.7	178.2	176.7

See accompanying Notes to Consolidated Financial Statements.

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The Michaels Companies, Inc.
Consolidated statements of cash flows

(In millions)	Fiscal year 2013	2012	2011
Operating activities:			
Net income	$ 243	$ 200	$ 157
Adjustments:			
Depreciation and amortization	106	97	101
Share-based compensation	34	21	41
Debt issuance costs amortization	10	14	17
Accretion of premium/(discount) of long-term debt	(1)		35
Change in fair value of contingent consideration			(4)
Change in fair value of interest rate cap			5
Refinancing costs and losses on early extinguishments of debt	14	33	18
Impairment of intangible assets		8	
Changes in assets and liabilities:			
Merchandise inventories	(38)	(21)	(19)
Prepaid expenses and other	(8)	(7)	(7)
Deferred income taxes	(4)	(2)	21
Accounts payable	102	(35)	38
Accrued interest	23	(10)	
Accrued liabilities and other	(28)	(16)	5
Income taxes	(7)	18	(9)
Other long-term liabilities	3	(1)	10
Net cash provided by operating activities	449	299	409
Investing activities:			
Additions to property and equipment	(112)	(124)	(109)
Net cash used in investing activities	(112)	(124)	(109)
Financing activities:			
Issuance of PIK Notes due 2018	800		
Borrowings on Restated Term Loan Credit Facility		1,640	
Repayments on senior secured term loan facility	(12)	(1,996)	(50)
Borrowings on asset-based revolving credit facility	389	322	145
Payments on asset-based revolving credit facility	(390)	(321)	(145)
Issuance of senior notes due 2018		213	
Repurchase of subordinated discount notes due 2016		(315)	(170)
Repurchase of senior subordinated notes due 2016	(403)		(7)
Issuance of senior subordinated notes due 2020	260		
Payment of debt issuance and refinancing costs	(21)	(25)	(7)
Payment of dividends	(766)		
Proceeds from stock options exercised	5		
Repurchase of Common stock	(8)		
Payment of capital leases	(3)	(3)	
Change in cash overdraft	(5)	(5)	(14)
Net cash used in financing activities	(154)	(490)	(248)
Net increase (decrease) in cash and equivalents	183	(315)	52
Cash and equivalents at beginning of period	56	371	319

Cash and equivalents at end of period	$	239	$	56	$	371
Supplemental Cash Flow Information:						
Cash paid for interest	$	183	$	239	$	201
Cash paid for income taxes	$	145	$	108	$	86

See accompanying Notes to Consolidated Financial Statements.

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The Michaels Companies, Inc.
Consolidated statements of stockholders' deficit
For the three years ended February 1, 2014

(in millions, except share data)	Number of shares	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at January 29, 2011	174,787,698.6	$ 12	$ 43	$ (2,716)	$ 7	$ (2,654)
Net income				157		157
Foreign currency translation and other					(1)	(1)
Reclass to share-based compensation liability			(4)			(4)
Exercise of stock options	202,330.2					
Share-based compensation			1			1
Repurchase of stock	(628,815.9)					
Issuance of stock	199,233.4					
Balance at January 28, 2012	174,560,446.3	12	40	(2,559)	6	(2,501)
Net income				200		200
Exercise of stock options	635,381.1					
Share-based compensation			(3)			(3)
Repurchase of stock	(614,923.7)					
Issuance of stock	199,233.4					
Balance at February 2, 2013	174,780,137.1	12	37	(2,359)	6	(2,304)
Net income				243		243
Dividend declared				(769)		(769)
Foreign currency translation and other			(5)		(6)	(11)
Reclass from share-based compensation liability			49			49
Exercise of stock options	4,006,411.6		5			5
Share-based compensation			13			13
Repurchase of stock	(3,777,244.9)		(5)	(3)		(8)
Issuance of stock	14,733.4					
Balance at February 1, 2014	175,024,037.2	$ 12	$ 94	$ (2,888)	$	$ (2,782)

See accompanying Notes to Consolidated Financial Statements.

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The Michaels Companies, Inc.
Notes to consolidated financial statements

Note 1. Summary of significant accounting policies

Description of business

The Michaels Companies, Inc. owns and operates a chain of specialty retail stores in 49 states and Canada featuring arts, crafts, framing, floral, home décor and seasonal merchandise for the hobbyist and do-it-yourself home decorator. Our wholly-owned subsidiary, Aaron Brothers, Inc., operates a chain of framing and art supply stores located in nine states. All expressions of the "Company", "us", "we", "our", and all similar expressions are references to The Michaels Companies, Inc. and our consolidated, wholly-owned subsidiaries, unless otherwise expressly stated or the context otherwise requires. Disclosures for the Michaels Stores, Inc. have been included to meet the disclosure requirements of Rule 12-04 of Regulation S-X as further discussed in Note 16.

Fiscal year

We report on the basis of a 52-week 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 2013 ended on February 1, 2014, fiscal 2012 ended on February 2, 2013, and fiscal 2011 ended on January 28, 2012. Fiscal 2013 contained 52 weeks, while fiscal 2012 contained 53 weeks and fiscal 2011 contained 52 weeks.

Consolidation

Our Consolidated Financial Statements include the accounts of The Michaels Companies, Inc. and all wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

Foreign currency translation

The functional currency of our Canadian operations is the Canadian dollar. Translation adjustments result from translating our Canadian subsidiary's financial statements into U.S. dollars. Balance sheet accounts are translated at exchange rates in effect at the balance sheet date. Income statement accounts are translated at average exchange rates during the year. Translation adjustments are recorded as a component of Accumulated other comprehensive income in our Consolidated Statements of Stockholders' Deficit. Transaction gains and losses are recorded as a part of Other (income) and expense, net in our Consolidated Statements of Comprehensive Income. The cumulative translation adjustment in fiscal 2013 was less than $1 million, net of deferred taxes of less than $1 million, in fiscal 2012, the cumulative translation adjustment was $7 million, net of deferred taxes of $1 million and in fiscal 2011 was $6 million, net of deferred taxes of $2 million. In fiscal 2013, fiscal 2012, and fiscal 2011, we recorded net transaction losses of $2 million, net transaction gains of $1 million and net transaction losses of $4 million, respectively, related to foreign currency exchange rates.

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Cash and equivalents

Cash and equivalents are comprised of cash, money market mutual funds, and short-term interest bearing securities with original maturities of three months or less and $25 million and $22 million of credit card clearing accounts as of February 1, 2014, and February 2, 2013, respectively. Cash equivalents are carried at cost, which approximates fair value. We record interest income earned from our cash and equivalents as a component of Other (income) and expense, net, in our financial statements. In fiscal 2013, fiscal 2012 and fiscal 2011, we had less than $1 million of interest income.

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 purchase price of an item at the time it is received by us, and also includes the cost of warehousing, handling, purchasing, and importing, 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 to 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 $102 million, or 2.2% of Net sales, in fiscal 2013, $110 million, or 2.5% of Net sales, in fiscal 2012, and $115 million, or 2.7% of Net sales, in fiscal 2011. During the three fiscal years ended February 1, 2014, the number of vendors from which vendor allowances were received ranged from approximately 620 to 660.

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, with substantially all stores open longer than one year 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.

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 support center. 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.

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.

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Property and equipment

Property and equipment is recorded at cost. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets. Amortization of property under capital leases is on a straight-line basis over the lease term and is included in depreciation expense. We expense repairs and maintenance costs as incurred. We capitalize and depreciate significant renewals or betterments that substantially extend the life of the asset. Useful lives are generally estimated as follows (in years):

Buildings	30
Leasehold improvements	10*
Fixtures and equipment	8
Computer equipment	5
Software for mobile applications	1 - 3

* We amortize leasehold improvements over the lesser of the useful life of the asset or the remaining lease term of the underlying facility.

Capitalized software costs

We capitalize certain costs related to the acquisition and development of internal use software that is expected to benefit future periods. These costs are being amortized on a straight-line basis over the estimated useful life, which is generally five years. As of February 1, 2014, and February 2, 2013, we had unamortized capitalized software costs of approximately $91 million and $86 million, respectively. These amounts are included in Property and equipment, net on the Consolidated Balance Sheets. Amortization of capitalized software costs totaled approximately $46 million, $36 million and $30 million in fiscal 2013, fiscal 2012 and fiscal 2011, respectively.

Goodwill

Under the provisions of Accounting Standards Codification ("ASC") 350, *Intangibles Goodwill and Other*, we review goodwill for impairment each year in the fourth quarter, or more frequently if required. In conducting our impairment review, we elect to first perform a qualitative assessment to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) the fair values of our reporting unit are less than its carrying value. Factors used in our qualitative assessment include, but are not limited to, macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, company and reporting unit specific events, and the margin between the fair value and carrying value in recent valuations.

If, after assessing the totality of events or circumstances such as those described above, we determine that it is more likely than not that the fair value of our reporting unit is greater than its carrying amount, no further action is required. If we determine that it is more likely than not that the fair value of our reporting unit is less than its carrying amount, we will compare the 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. There are assumptions and estimates underlying the determination of fair value and any resulting impairment loss. Significant changes in these assumptions, or another estimate using different, but still reasonable, assumptions could produce different results. During fiscal 2012, we recognized an impairment charge of $1 million for our online scrapbooking business ("ScrapHD") goodwill. See Note 10 to our Consolidated Financial Statement for further information. During fiscal 2013 and fiscal 2011, there was no impairment charge taken on our goodwill.

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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. Our evaluation compares the carrying value of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss would be recognized during that period based on the estimated fair value of the assets. Our impairment analysis contains management assumptions about key variables including sales, growth rate, gross margin, payroll and other controllable expenses. If actual results differ from these estimates, we may be exposed to additional impairment losses that may be material. During fiscal 2013, we recognized an impairment charge on existing stores of $2 million. During fiscal 2012 and 2011, the impairment charge was minimal.

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 ASC 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 Comprehensive Income.

The cost of closing a store or facility is recorded at the estimated fair value of expected cash flows which we calculate 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 generally try to time our exits as close to the lease termination date as possible to minimize any remaining lease obligation.

The following is a detail of account activity related to closed facilities:

	Fiscal year		
(In millions)	**2013**	**2012**	**2011**
Balance at beginning of fiscal year	$ 8	$ 9	$ 5
Additions charged to costs and expenses	5	5	7
Payment of rental obligations and other	(8)	(6)	(3)
Balance at end of fiscal year	$ 5	$ 8	$ 9

Insurance liabilities

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 workers' 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.

Revenue recognition

Revenue from sales of our merchandise is recognized when the customer takes possession of the merchandise. Revenue is presented net of point-of-sale coupons, discounts, and sales taxes collected. Sales

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related to custom framing are recognized when the order is picked up by the customer. We deferred 9 days of custom framing revenue at the end of fiscal 2013, 10 days of custom framing revenue at the end of fiscal 2012 and 13 days of custom framing revenue at the end of fiscal 2011. Our deferral is an estimate based on the number of days for manufacturing, in-store assembly and customer pick-up. As of February 1, 2014, and February 2, 2013, our deferred framing revenue was approximately $9 million and $8 million, respectively.

We allow for merchandise to be returned under most circumstances up to 60 days after purchase and provide a reserve for estimated returns. We use historical customer return behavior to estimate our reserve requirements. As of February 1, 2014, and February 2, 2013, 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 $3 million from $33 million at February 2, 2013, to $36 million at February 1, 2014. 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 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, that are not subject to escheatment and are based on customers' historical redemption rates and patterns, which may not be indicative of future redemption rates and patterns. We recognized revenue of approximately $3 million in fiscal 2013, $3 million in fiscal 2012 and $1 million in fiscal 2011 related to such gift card balances.

Costs of sales and occupancy expense

Costs of sales are included in merchandise inventories and expensed as the merchandise is sold. Included in our costs of sales are the following:

- purchase price of merchandise, net of vendor allowances and rebates
- inbound freight, inspection costs, duties and import agent commissions
- warehousing, handling, transportation (including internal transfer costs such as distribution center-to-store freight costs) purchasing and receiving costs
- share-based compensation costs for those employees involved in preparing inventory for sale

Included in our occupancy expenses are the following costs which are recognized as period costs as described below:

- store expenses such as rent, insurance, taxes, common area maintenance, utilities, repairs and maintenance
- amortization of store buildings and leasehold improvements
- store closure costs
- store remodel costs

We record rent expense ratably over the term of the lease beginning with the date we take possession of or control the physical access to the premises. We record leasehold improvement reimbursements as a liability and ratably adjust the liability as a reduction to rent expense over the lease term beginning with the date we take possession of or control the physical access to the premises. At times, we receive landlord reimbursements for leasehold improvements made during the lease term, which we record as a liability and ratably adjust as a reduction to rent expense over the remaining lease term.

Selling, general, and administrative expense

Included in our Selling, general, and administrative expense are store personnel costs, store operating expenses, advertising expenses, store depreciation expense and corporate overhead costs.

Advertising costs are expensed in the period in which the advertising first occurs. Our cooperative advertising allowances are accounted for as a reduction in the purchase price of merchandise since an obligation to advertise a specific product does not exist in our cooperative advertising arrangements.

Advertising expenses were $181 million, $179 million and $183 million for fiscal 2013, 2012 and 2011, respectively.

Store pre-opening costs

We expense all start-up activity costs as incurred. Rent expense incurred prior to the store opening is recorded in Cost of sales and occupancy expense on our Consolidated Statements of Comprehensive Income.

Income taxes

We record income tax expense using the liability method for taxes and are subject to income tax in many jurisdictions, including the U.S., 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 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 those 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
- 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 forecast of future profitability represents our best estimate of these future events. After conducting this assessment, the valuation allowance recorded, net of federal benefit, against our deferred tax assets was $9 million and $10 million as of February 1, 2014, and February 2, 2013, 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.

Share-based compensation

ASC 718, *Stock Compensation* ("ASC 718"), requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements. During the first two quarters of fiscal 2011 and the last quarter of fiscal 2013, the Company measured share-based compensation expense for new awards using the grant date fair value accounting guidance of ASC 718. During the last two quarters of fiscal 2011, all of fiscal 2012, and the first three quarters of fiscal 2013, the Company determined its employee stock options should be recorded under the liability accounting guidance of ASC 718. As such, we measured share-based compensation based on either the grant date fair value of the equity awards, the fair value of our option awards at the end of the period or at the fair value as most recently determined. Expense for unvested options and stock awards is recognized ratably over the requisite service period. We estimate the fair value of stock option awards using a Black-Scholes option value model.

We report excess tax benefits as a cash inflow in the financing section of our Statements of Cash Flows and would record a tax deficiency, if any, as a cash outflow from operating activities. For fiscal 2013, fiscal 2012, and fiscal 2011, the excess tax benefits were less than $1 million.

Recent accounting pronouncements

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-11, "*Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carryforward Exists."* ASU 2013-11 requires unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. ASU 2013-11, which is prospective, is effective for reporting periods beginning after December 15, 2013, with earlier adoption permitted. Beginning with the fourth quarter of fiscal year 2012, the Company has reported unrecognized tax benefits consistent with ASU No. 2013-11.

Note 2. The Michaels Companies and its subsidiaries

In July 2013, the Company's corporate structure was reorganized into a holding company structure (the "Reorganization"). The Michaels Companies, Inc. ("Parent"), Michaels FinCo Holdings, LLC ("FinCo Holdings"), Michaels FinCo, Inc. ("FinCo Inc.") and Michaels Funding, Inc. ("Holdings") and Michaels Stores MergerCo, Inc. ("MergerCo") were formed in connection with the Reorganization and (i) MergerCo was merged with and into Michaels Stores, Inc. ("MSI") with MSI being the surviving corporation; (ii) each share of MSI common stock was converted into the right to receive one share of the Company's common stock, subject to the same vesting conditions, if any, as applied to the share so converted, and each such share of MSI common stock was cancelled and retired and ceased to exist; and (iii) each option to purchase one or more shares of common stock of MSI was assumed by the Company and converted into an option to purchase an equivalent number of shares of common stock of the Company with the remaining terms of each such option remaining unchanged, except as was necessary to reflect the Reorganization. Approximately 174.8 million shares of MSI common stock were converted into the Company's common stock. MSI shares were then cancelled and retired. MSI then issued 100 shares of stock with a $0.10 par value to Holdings. As a result of the Reorganization, FinCo Holdings is wholly owned by the Company. FinCo Inc. and Holdings are wholly owned by FinCo Holdings. MSI is wholly owned by Holdings. As a result of the Merger and the Reorganization, Michaels Holdings, LLC., an entity controlled by the affiliates of two investment firms, Bain Capital Partners, LLC and The Blackstone Group L.P. (collectively, together with their applicable affiliates, the "Sponsors") acquired substantially all of the common stock of the Company, which is not publicly traded.

Subsequent to the Reorganization, on July 29, 2013, FinCo Holdings and FinCo Inc. issued $800 million aggregate principal amount of 7.50%/8.25% PIK Toggle Notes due 2018 ("PIK Notes"). The PIK Notes were issued in a private transaction. Interest payments on the PIK Notes are due February 1 and August 1 of each year until maturity. The first two interest payments and the last interest payment are required to be paid entirely in cash. All other interest payments must be made in cash, except that all or a portion of the interest on the PIK Notes may be paid by increasing the principal amount of the outstanding PIK Notes or by issuing additional PIK Notes depending on the amount of cash dividends that can be paid by the Company under our credit agreements governing our Restated Revolving Credit Facility and Restated Term Loan Facility (the "Senior Secured Credit Facilities"), the terms of the indentures governing our outstanding notes and the terms of our other indebtedness outstanding at the time. The proceeds from the debt issuance were approximately $783 million, after deducting the initial purchasers' discount and estimated fees and expenses. FinCo Holdings distributed the net proceeds to the Company and the proceeds were used to fund a cash dividend to the Company's equity and equity-award holders and pay related fees and expenses.

The PIK Notes are senior unsecured obligations of FinCo Holdings and FinCo Inc. The indenture governing the PIK Notes contains restrictive covenants that apply to FinCo Holdings and its restricted subsidiaries, including MSI, Holdings and their subsidiaries, and a breach of such covenants would cause FinCo Holdings and FinCo Inc. to be in default under the indenture governing the PIK Notes.

Note 3. Earnings per share

The Company utilizes ASC 260, *Earnings Per Share.* Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing income available to common stockholders by the weighted average shares outstanding plus dilutive potential shares from the exercise of stock options and restricted shares. Common equivalent shares are excluded from the computation if their effect is anti-dilutive.

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The following table sets forth the calculation of basic and diluted earnings per share for the years ended February 1, 2014, February 2, 2013 and January 28, 2012 as follows:

	Fiscal Year		
(in millions, except per share data)	**2013**	**2012**	**2011**
Numerator:			
Net income	$ 243	$ 200	$ 157
Income related to vested restricted shares	1		1
Income available to common stockholders	$ 242	$ 200	$ 156
Denominator:			
Denominator for basic earnings per common share weighted-average shares	174.8	174.7	174.6
Effect of dilutive securities:			
Employee stock options	3.9	3.3	1.7
Restricted shares		0.2	0.4
Denominator for dilutive earnings per common share	178.7	178.2	176.7
Basic earnings per common share	$ 1.39	$ 1.14	$ 0.90
Diluted earnings per common share	$ 1.36	$ 1.12	$ 0.89

Note 4. Detail of certain balance sheet accounts

(In millions)	**February 1, 2014**	**February 2, 2013**
Property and equipment:		
Land and buildings	$ 2	$ 2
Fixtures and equipment	897	863
Capitalized software	299	264
Leasehold improvements	402	373
	$ 1,600	$ 1,502
Accrued liabilities and other:		
Salaries, bonuses and other payroll-related costs	$ 103	$ 94
Insurance liabilities	71	71
Accrued interest	56	33
Taxes, other than income and payroll	53	51
Gift certificate and gift card liability	36	33
Other	90	85
	$ 409	$ 367

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Note 5. Debt

Debt for The Michaels Companies, Inc. and Michaels Stores, Inc. consisted of the following at the end of fiscal 2013 and fiscal 2012:

(In millions)	Interest rate	The Michaels Companies, Inc. February 1, 2014	The Michaels Companies, Inc. February 2, 2013	Michaels Stores, Inc. February 1, 2014	Michaels Stores, Inc. February 2, 2013
Senior secured term loan	Variable	$ 1,628	$ 1,640	$ 1,628	$ 1,640
Senior notes	7.750%	1,006	1,007	1,006	1,007
Senior subordinated notes	5.875%	260		260	
Senior subordinated notes	11.375%		393		393
Asset-based revolving credit facility	Variable		1		1
PIK Notes	7.50% / 8.25%	800			
Total debt		3,694	3,041	2,894	3,041
Less current portion		16	150	16	150
Long-term debt		$ 3,678	$ 2,891	$ 2,878	$ 2,891

The Company and MSI capitalized $108 million and $91 million of costs, respectively, net of write-offs, related to our issuance of various debt instruments. We amortize these deferred financing costs using the straight-line method, which produces results materially consistent with the effective interest method, 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 for The Michaels Companies, Inc. and Michaels Stores, Inc. pertaining to the deferred financing costs for each of the next five fiscal years and thereafter are as follows:

Fiscal year (In millions)	The Michaels Companies, Inc. Amount	Michaels Stores, Inc. Amount
2014	$ 12	$ 9
2015	11	8
2016	11	8
2017	11	7
2018	6	4
Thereafter	1	1
Total amortization expense	$ 52	$ 37

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The aggregate amount of scheduled maturities for The Michaels Companies, Inc. and Michaels Stores, Inc. debt for the next five years and thereafter is as follows:

Fiscal year (In millions)	**The Michaels Companies, Inc. Amount**	**Michaels Stores, Inc. Amount**
2014	$ 16	$ 16
2015	16	16
2016	17	17
2017	17	17
2018	3,362	2,562
Thereafter	260	260
Total debt payments	3,688	2,888
Plus unrealized premium amortization	9	9
Less unrealized discount accretion	(3)	(3)
Total debt balance as of February 1, 2014	$ 3,694	$ 2,894

As of February 1, 2014, and February 2, 2013, the weighted average interest rate of the Current portion of long-term debt was 3.75% and 10.69%, respectively.

Restated Term Loan Credit Facility

On January 28, 2013, MSI entered into an amended and restated credit agreement (the "Amended Credit Agreement") with Deutsche Bank AG New York Branch ("Deutsche Bank") and other lenders to amend various terms of its Senior Secured Term Loan Facility, as amended. The Amended Credit Agreement, together with related security, guarantee and other agreements, is referred to as the "Restated Term Loan Credit Facility."

The Restated Term Loan Credit Facility provides for senior secured financing of $1,640 million. MSI has the right under the Restated Term Loan Credit Facility to request additional term loans in an aggregate amount of up to (a) $500 million and (b) at MSI's option, an amount of term loans so long as MSI's Consolidated Secured Debt Ratio (as defined in the Amended Credit Agreement) is no more than 3.25 to 1.00 on a pro forma basis as of the last day of the most recently-ended four fiscal quarter-period for which internal financial statements are available. The lenders under the Restated Term Loan Credit Facility will not be under any obligation to provide any such additional term loans, and the incurrence of any additional term loans is subject to customary conditions precedent.

Borrowings under the Restated Term Loan Credit Facility bear interest at a rate per annum equal to, at MSI's option, either (a) a base rate determined by reference to the highest of (1) the prime rate of Deutsche Bank, (2) the federal funds effective rate plus $^1/_2$ of 1% and (3) London Interbank Offered Rate ("LIBOR"), subject to certain adjustments, plus 1%, or (b) LIBOR, subject to certain adjustments, in each case plus an applicable margin. The applicable margin is 1.75% with respect to base rate borrowings and 2.75% with respect to LIBOR borrowings. In addition, the applicable margin is subject to a 0.25% decrease based on MSI's Consolidated Secured Debt Ratio.

The Restated Term Loan Credit Facility requires MSI to prepay outstanding term loans with (x) 100% of the net proceeds of any debt issued by MSI or its subsidiaries (with exceptions for certain debt permitted to be incurred under the Restated Term Loan Credit Facility) and (y) 50% (which percentage will be reduced to 25% if MSI's Consolidated Total Leverage Ratio (as defined in the Amended Credit Agreement) is less than

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6.00:1.00 and will be reduced to 0% if MSI's Consolidated Total Leverage Ratio is less than 5.00:1.00 of MSI's annual Excess Cash Flow (as defined in the Amended Credit Agreement).

MSI must 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. MSI may voluntarily prepay outstanding loans under the Restated Term Loan Credit Facility at any time without premium or penalty other than customary "breakage" costs with respect to LIBOR loans.

MSI is required to make scheduled quarterly payments, each equal to 0.25% of the original principal amount of the term loans, subject to adjustments relating to the incurrence of additional term loans under the Restated Term Loan Credit Facility, for the first six years and three quarters, with the balance paid on January 28, 2020 (the "Maturity Date"); provided, however, that the Maturity Date of the term loans will automatically become July 28, 2018, if as of July 28, 2018, (i) the Consolidated Secured Debt Ratio is greater than 3.25:1.00 and (ii) the then aggregate outstanding principal amount of MSI's Senior Notes (and certain refinancings thereof requiring principal payments prior to April 28, 2020) exceeds $250 million.

All obligations under the Restated Term Loan Credit Facility are guaranteed, jointly and severally, fully and unconditionally by each of MSI's direct and indirect wholly-owned domestic subsidiaries that guarantee obligations under the Restated Revolving Credit Facility. All obligations under the Restated Term Loan Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the assets of MSI and the Subsidiary Guarantors (as defined below), including:

- a first-priority pledge of our capital stock and all of the capital stock held by us 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 MSI and each Subsidiary Guarantor, including substantially all of our and our subsidiaries' 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 MSI 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 MSI and the Subsidiary Guarantors, and certain related assets and proceeds of the foregoing.

The Restated Term Loan Facility contains a number of negative covenants that are substantially similar to, but more restrictive in certain respects than, those governing the $7^3/_4$% Senior Notes maturing on November 1, 2018 ("2018 Senior Notes"), and the $5^7/_8$% Senior Subordinated Notes due December 15, 2020 ("2020 Senior Subordinated Notes"), as well as certain other customary representations and warranties, affirmative and negative covenants, and events of default. As of February 1, 2014, MSI was in compliance with all covenants.

In accordance with ASC 470, *Debt* ("ASC 470"), in fiscal 2012, we recorded $12 million of refinancing costs related to the Restated Term Loan Credit Facility. MSI recorded a loss on early extinguishment of debt of approximately $6 million to write off debt issuance costs associated with the senior secured term loan facility, with the remaining $9 million of unamortized debt issuance costs being amortized over the revised life of the Restated Term Loan Credit Facility through July 28, 2018. In addition, we capitalized $5 million in debt issuance costs associated with the execution of the Restated Term Loan Credit Facility that is being amortized as interest expense over the life of the Restated Term Loan Credit Facility.

7$^{3}/_{4}$% Senior Notes due 2018

On October 21, 2010, we issued $800 million aggregate principal amount of 7$^{3}/_{4}$% Senior Notes that mature on November 1, 2018, at a discounted price of 99.262% of face value, resulting in an effective interest rate of 7$^{7}/_{8}$%. Interest is payable semi-annually in arrears on each May 1 and November 1, commencing on May 1, 2011.

On September 27, 2012, we issued an additional $200 million aggregate principal amount (the "Additional Senior Notes" and, together with the 2018 Senior Notes, the "Senior Notes") of our Senior Notes under the Indenture, dated as of October 21, 2010 (the "2018 Senior Indenture"), by and among the Company, the guarantors party thereto ("Guarantors") and Law Debenture Trust Company of New York, as trustee ("Trustee"), as amended on the date of such issuance by a supplemental indenture, dated as of September 27, 2012, by and among the Company, the Guarantors and the Trustee. The Additional Senior Notes were issued at a premium of 106.25% of face value, resulting in an effective interest rate of 6$^{1}/_{2}$%. The Additional Senior Notes form a single class with the 2018 Senior Notes previously issued under the 2018 Senior Indenture and have terms that are identical to the previously issued 2018 Senior Notes, except that interest on the Additional Senior Notes accrues from and including May 1, 2012, and the Additional Senior Notes are subject to a Registration Rights Agreement.

The Senior Notes are guaranteed, jointly and severally, fully and unconditionally, on an unsecured senior basis, by each of our subsidiaries that guarantee indebtedness under the Senior Secured Credit Facilities. The Senior Notes and the guarantees thereof are our and the guarantors' unsecured senior obligations and (i) 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 2020 Senior Subordinated Notes, as defined and described below; (ii) 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 Senior Notes; (iii) are effectively subordinated in right of payment to all of our and the guarantors' existing and future secured debt (including obligations under the Senior Secured Credit Facilities), to the extent of the value of the assets securing such debt; and (iv) are structurally subordinated to all obligations of our subsidiaries that are not guarantors of the Senior Notes.

At any time prior to November 1, 2014, we may redeem all or a part of the Senior Notes at a redemption price equal to 100% of the principal amount of the Senior Notes redeemed plus the Applicable Premium (as defined in the 2018 Senior Indenture) and accrued and unpaid interest and Additional Interest (as defined in the 2018 Senior Indenture), 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, 2014, the Company may redeem the Senior Notes, in whole or in part, upon notice, at the redemption prices (expressed as percentages of principal amount of the Senior Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon and Additional Interest, 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%

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

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, subject to certain exceptions, including dividends, distributions and repurchases up to an amount in excess of (i) $75 million plus (ii) a basket that builds based on 50% of the Company's Consolidated Net Income (as defined in the 2018 Senior Indenture) and certain other amounts, in each case, to the extent such payment capacity is not applied as otherwise permitted under the 2018 Senior Indenture and subject to certain conditions.
- 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
- 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 Senior Notes to declare the principal, premium, if any, interest and any other monetary obligations on all the then outstanding Senior Notes to be due and payable immediately.

In accordance with ASC 470, we are amortizing $20 million in debt issuance costs, including $4 million capitalized in fiscal 2012, as interest expense over the life of the Senior Notes.

7.50%/8.25% PIK Toggle Notes

On July 29, 2013, FinCo Holdings and FinCo Inc. issued $800 million aggregate principal amount of 7.50%/8.25% PIK Toggle Notes due 2018. The PIK Notes were issued in a private transaction. Interest payments on the PIK Notes are due February 1 and August 1 of each year until maturity. The first two interest payments and the last interest payment are required to be paid entirely in cash. All other interest payments must be made in cash, except that all or a portion of the interest on the PIK Notes may be paid by increasing the principal amount of the outstanding PIK Notes or by issuing additional PIK Notes depending on the amount of cash dividends that can be paid by Michaels Stores, Inc. under the credit agreements governing our Senior Secured Credit Facilities, the terms of the indentures governing our outstanding notes and the terms of its other indebtedness outstanding at the time. The proceeds from the debt issuance were approximately $783 million, after deducting the debt issuance fees and expenses. FinCo Holdings distributed the net proceeds to the Company, and the proceeds were used to fund a cash dividend, distribution and other payment to the Company's equity and equity-award holders and pay related fees and expenses.

The PIK Notes are senior unsecured obligations of FinCo Holdings and FinCo Inc. The PIK Notes are not guaranteed by MSI, Holdings or any of their subsidiaries, but the indenture governing the PIK Notes

contains restrictive covenants that apply to FinCo Holdings and its restricted subsidiaries, including MSI, Holdings and their subsidiaries, and a breach of such covenants would cause FinCo Holdings and FinCo Inc. to be in default under the indenture governing the PIK Notes.

On and after August 1, 2014, the Company may redeem all or part of the PIK Notes, upon notice, at the redemption prices (expressed as percentages of principal amount of the 7.50%/8.25% PIK Toggle Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon to the applicable date of redemption if redeemed during the twelve-month period beginning on August 1 of each of the years indicated below.

Year	Percentage
2014	102.000%
2015	101.000%
2016 and thereafter	100.000%

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 "2016 Senior Subordinated Notes"). Interest was payable semi-annually in arrears on each May 1 and November 1, commencing on May 1, 2007.

On January 28, 2013, we delivered to the holders of our outstanding 2016 Senior Subordinated Notes an irrevocable notice of redemption of $137 million in aggregate principal amount of 2016 Senior Subordinated Notes. On February 27, 2013, we redeemed the $137 million of 2016 Senior Subordinated Notes at a redemption price equal to 103.792%. In accordance with ASC 470, we recorded a loss on early extinguishment of debt of approximately $7 million related to the redemption of our 2016 Senior Subordinated Notes. The $7 million loss is comprised of a $5 million redemption premium and $2 million to write off related debt issuance costs.

On December 19, 2013, we issued an irrevocable notice of redemption to the holders of our remaining outstanding 2016 Senior Subordinated Notes, deposited the proceeds of the offering of our 2020 Senior Subordinated Notes with the trustee under the 2016 Senior Subordinated Notes Indenture and instructed the trustee to (a) redeem the 2016 Senior Subordinated Notes on January 21, 2014, and (b) discharge our obligations under the 2016 Senior Subordinated Notes Indenture. We redeemed $256 million of 2016 Senior Subordinated Notes at a redemption price equal 101.896%, or a total of $261 million, and recorded refinancing costs of $7 million.

5$^{7}/_{8}$% Senior Subordinated Notes due 2020

On December 19, 2013, we issued $260 million in principal amount of 5$^{7}/_{8}$% Senior Subordinated Notes that mature December 15, 2020. Interest is payable semi-annually in arrears on each June 15 and December 15, commencing on June 15, 2014. We used the net proceeds of these notes to redeem the outstanding 2016 Senior Subordinated Notes, to pay the applicable redemption premium and accrued and unpaid interest to, but not including, the applicable redemption date and to pay related fees and expenses. The 2020 Senior Subordinated Notes are guaranteed, jointly and severally, fully and unconditionally, on an unsecured senior subordinated basis, by each of the Company's subsidiaries that guarantee indebtedness under the Senior Secured Credit Facilities.

The 2020 Senior Subordinated Notes and the guarantees thereof are the Company's and the guarantors' unsecured senior subordinated obligations and (i) are subordinated in right of payment to all of the

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Company's and the guarantors' existing and future senior debt, including the Senior Secured Credit Facilities and the Senior Notes; (ii) rank equally in right of payment to all of the company's and the guarantors' future senior subordinated debt; (iii) are effectively subordinated to all of the Company's and the guarantors' existing and future secured debt (including the Senior Secured Credit Facilities) to the extent of the value of the assets securing such debt; (iv) rank senior in right of payment to all of the Company's and the guarantors' existing and future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the 2020 Senior Subordinated Notes; and (v) are structurally subordinated to all obligations of the Company's subsidiaries that are not guarantors of the 2020 Senior Subordinated Notes.

At any time prior to December 15, 2016, the Company may redeem all or a part of the 2020 Senior Subordinated Notes at a redemption price equal to 100% of the principal amount of the 2020 Senior Subordinated Notes redeemed plus a make-whole premium, as provided in the indenture governing the 2020 Senior Subordinated Notes (the "2020 Senior Subordinated Notes Indenture"), and accrued and unpaid interest to, but not including, 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 December 15, 2016, the company may redeem all or part of the 2020 Senior Subordinated Notes, upon notice, at the redemption prices (expressed as percentages of principal amount of the 2020 Senior Subordinated Notes to be redeemed) set forth below, plus accrued and unpaid interest thereon to the applicable date of redemption if redeemed during the twelve-month period beginning on December 15 of each of the years indicated below:

Year	**Percentage**
2016	102.938%
2017	101.469%
2018 and thereafter	100.000%

In addition, until December 15, 2016, the Company may, at its option, on one or more occasions redeem up to 40% of the aggregate principal amount of the 2020 Senior Subordinated Notes with the aggregate principal amount of 2020 Senior Subordinated Notes to be redeemed (the "Equity Offering Redemption Amount") not to exceed an amount equal to the aggregate gross proceeds from one or more Equity Offerings (as defined in the 2020 Senior Subordinated Notes Indenture), at a redemption price equal to 105.875% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon to, but not including, 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; provided that (i) each such redemption occurs within 120 days of the date of closing of each such Equity Offering; (ii) proceeds in an amount equal to or exceeding the applicable Equity Offering Redemption Amount shall be received by, or contributed to the capital of, the Company or any of its restricted subsidiaries and (iii) at least 50% of the sum of the aggregate principal amount of 2020 Senior Subordinated Notes originally issued under the 2020 Senior Subordinated Notes Indenture and any 2020 Senior Subordinated Notes that are issued under the 2020 Senior Subordinated Notes Indenture after the original issue date remains outstanding immediately after the occurrence of each such redemption.

Upon a change in control, we are required to offer to purchase all of the 2020 Senior Subordinated Notes at a price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest.

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The 2020 Senior Subordinated Notes Indenture contains restrictive covenants and events of default substantially similar to, but less restrictive in certain customary respects than those of the Senior Notes described above.

In accordance with ASC 470, we are amortizing $8 million in debt issuance costs, including $4 million capitalized in fiscal 2013, as interest expense over the life of the 2020 Senior Subordinated Notes.

13% Subordinated Discount Notes due 2016

On October 31, 2006, we issued $469 million in principal amount at maturity of 13% Subordinated Discount Notes due on November 1, 2016, the ("Subordinated Discount Notes"). The Subordinated Discount Notes were guaranteed, jointly and severally, fully and unconditionally, on an unsecured subordinated basis, by each of our subsidiaries that guarantee indebtedness under our Senior Secured Credit Facilities.

During fiscal 2011, we completed open market repurchases of our outstanding Subordinated Discount Notes totaling $163 million face value, or $155 million accreted value. Pursuant to the terms of the repurchases, we agreed to pay the holders of the Subordinated Discount Notes face value plus a purchase premium. In accordance with ASC 470, we recorded a loss of $18 million during fiscal 2011 related to the early extinguishment of the repurchased Subordinated Discount Notes. The $18 million loss is comprised of $11 million to recognize the unrealized interest accretion and the write off of related debt issuance costs, as well as $7 million in purchase premiums.

Beginning on November 1, 2011, cash interest began accruing on the Subordinated Discount Notes and was payable semi-annually in arrears on each May 1 and November 1 (the first cash interest payment was May 1, 2012). On May 1, 2012, as required pursuant to the indenture ("Subordinated Discount Notes Indenture") governing our Subordinated Discount Notes, we redeemed $127 million in aggregate principal amount of our Subordinated Discount Notes.

On November 1, 2012, we redeemed a portion of the Subordinated Discount Notes equal to the AHYDO Amount (as defined in the Subordinated Discount Notes Indenture) at a redemption price equal to 100% and the remaining outstanding Subordinated Discount Notes at a redemption price equal to 104.333%. In accordance with ASC 470, we recorded a loss on early extinguishment of debt of approximately $11 million related to the redemption of our Subordinated Discount Notes. The $11 million loss is comprised of an $8 million redemption premium and $3 million to write off related debt issuance costs.

Restated 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 (as so amended and restated, the "senior secured asset-based Revolving Credit Facility"). On September 17, 2012, we entered into a second amended and restated credit agreement (the "Restated Credit Agreement") with Wells Fargo Bank, National Association ("Wells Fargo") and other lenders to amend various terms of our senior secured asset-based Revolving Credit Facility. The Restated Credit Agreement, together with related security, guarantee and other agreements, is referred to as the "Restated Revolving Credit Facility".

The Restated Revolving Credit Facility provides for senior secured financing of up to $650 million, subject to a borrowing base, maturing on September 17, 2017 (the "ABL Maturity Date"). The borrowing base under the Restated Revolving Credit Facility equals the sum of (i) 90% of eligible credit card receivables and debit card receivables, plus (ii) 90% of the appraised net orderly liquidation value of eligible inventory, plus (iii) the lesser of (x) 90% of the appraised net orderly liquidation value of inventory supported by eligible letters of credit and (y) 90% of the face amount of eligible letters of credit supported by eligible letters of credit, minus (iv) certain reserves.

The Restated Revolving Credit Facility provides us with the right to request up to $200 million of additional commitments under the Restated Revolving Credit Facility. The lenders under the Restated Revolving Credit Facility will not be under any obligation to provide any such additional commitments, and any increase in commitments is subject to customary conditions precedent. If we were to request any such additional commitments, and the existing lenders or new lenders were to agree to provide such commitments, the facility size could be increased to up to $850 million, but our ability to borrow under the Restated Revolving Credit Facility would still be limited by the borrowing base.

Borrowings under the Restated 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 Wells Fargo, (2) the federal funds effective rate plus 0.50% and (3) LIBOR subject to certain adjustments plus 1.00% or (b) LIBOR subject to certain adjustments, in each case plus an applicable margin. The initial applicable margin is (a) 0.75% for prime rate borrowings and 1.75% for LIBOR borrowings. The applicable margin is subject to adjustment each fiscal quarter based on the excess availability under the Restated Revolving Credit Facility. Same-day borrowings bear interest at the base rate plus the applicable margin.

We are required to pay a commitment fee on the unutilized commitments under the Restated Revolving Credit Facility, which initially is 0.375% per annum. The commitment fee is subject to adjustment each fiscal quarter. If average daily excess availability is less than or equal to 50% of the total commitments, the commitment fee will be 0.25% per annum, and if average daily excess availability is greater than 50% of the total commitments, the commitment fee will be 0.375%. In addition, we must pay customary letter of credit fees and agency fees.

All obligations under the Restated Revolving Credit Facility are unconditionally guaranteed, jointly and severally by the Company and all of our existing domestic material subsidiaries and are required to be guaranteed by certain of our future domestic wholly-owned material subsidiaries. All obligations under the Restated Revolving Credit Facility, and the guarantees of those obligations, are secured, subject to certain exceptions, by substantially all of the assets of our and 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 our capital stock and the capital stock held by us and the 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 and our subsidiaries' owned real property and equipment.

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If, at any time, the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the Restated Revolving Credit Facility exceeds the lesser of (i) the commitment amount and (ii) the borrowing base (the "Loan Cap"), 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 excess availability under the Restated Revolving Credit Facility is less than (i) 12.5% of the Loan Cap for five consecutive business days, or (ii) $65 million at any time, 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 Restated Revolving Credit Facility. Excess availability under the Restated Revolving Credit Facility means the lesser of the Loan Cap minus the outstanding credit extensions. 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 Restated Revolving Credit Facility; the principal amount of the loans outstanding is due and payable in full on the ABL Maturity Date.

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 6 months projected basis. Adjusted EBITDA is used in the calculation of the consolidated fixed charge coverage ratios. The Restated Revolving Credit Facility also contains certain customary affirmative covenants and events of default.

From the time when we have excess availability less than the greater of (a) 10% of the Loan Cap and (b) $50 million, until the time when we have excess availability greater than the greater of (a) 10% of the Loan Cap and (b) $50 million for 30 consecutive days, the Restated Revolving Credit Facility will require us to maintain a consolidated fixed charge coverage ratio of at least 1.0 to 1.0. The Restated Revolving Credit Facility also contains certain customary representations and warranties, affirmative covenants and provisions relating to events of default (including change of control and cross-default to material indebtedness).

The Restated Revolving Credit Facility contains a number of covenants that, among other things and subject to certain exceptions, restrict our ability and the ability of our restricted subsidiaries to:

- incur or guarantee additional indebtedness
- pay dividends on our capital stock or redeem, repurchase or retire our capital stock
- make investments, loans, advances and acquisitions
- create restrictions on the payment of dividends or other amounts to us from our restricted subsidiaries
- engage in transactions with our affiliates
- sell assets, including capital stock of our subsidiaries
- prepay or redeem indebtedness
- consolidate or merge
- create liens

In accordance with ASC 470, we recorded a loss on early extinguishment of debt in fiscal 2012 of approximately $2 million to write off debt issuance costs related to the Restated Revolving Credit Facility, with the remaining $7 million of unamortized debt issuance costs being amortized over the revised life. In addition, we capitalized $4 million of debt issuance costs in fiscal 2012 associated with the execution of the

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Restated Revolving Credit Facility. These debt issuance costs are being amortized as interest expense over the life of the Restated Revolving Credit Facility.

As of February 1, 2014, and February 2, 2013, the borrowing base was $650 million and $650 million, respectively, of which we had availability of $589 million and $587 million, respectively. Borrowing capacity is available for letters of credit and borrowings on same-day notice. Outstanding letters of credit as of February 1, 2014, totaled $63 million, of which $61 million relate to standby letters of credit.

Note 6. Other comprehensive (loss) income

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

(In millions)		**Foreign currency translation & other**
Balance at January 29, 2011	$	7
Foreign currency translation adjustment		(1)
Balance at January 28, 2012		6
Foreign currency translation adjustment		
Balance at February 2, 2013		6
Foreign currency translation adjustment		(6)
Balance at February 1, 2014	$	

Note 7. Income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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Significant components of deferred tax assets and liabilities as of the respective year-end balance sheets for The Michaels Companies, Inc. and Michaels Stores, Inc. are as follows:

	Deferred tax asset (liability)			
The Michaels Companies, Inc.	**February 1, 2014**		**February 2, 2013**	
(In millions)	**Current**	**Noncurrent**	**Current**	**Noncurrent**
Net operating loss, general business credit, foreign tax credit and alternative minimum tax credit carryforwards	$	$ 9	$	$ 10
Merchandise inventories	(10)		(12)	
Accrued expenses	11	1	13	1
State income taxes	(1)	4	(1)	3
Vacation accrual	8		7	
Share-based compensation		22		29
Deferred rent	2	15	2	14
Other deferred tax assets	7	4	4	3
State valuation allowance		(9)		(10)
Bonus accrual		2		3
Gift cards	5		4	
Property and equipment		(25)		(29)
Foreign taxes			1	
Workers' compensation	19		19	
Cancellation of debt income		(40)		(39)
Original issue discount related to cancellation of debt income-		41		41
Other deferred tax (liabilities) assets	(3)	2	(4)	2
	$ 38	$ 26	$ 33	$ 28
Net deferred tax assets		$ 64		$ 61

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Michaels Stores, Inc. (In millions)	Deferred tax asset (liability) February 1, 2014 Current	Noncurrent	February 2, 2013 Current	Noncurrent
Net operating loss, general business credit, foreign tax credit and alternative minimum tax credit carryforwards	$	$ 9	$	$ 10
Merchandise inventories	(10)		(12)	
Accrued expenses	11	1	13	1
State income taxes	(1)	4	(1)	3
Vacation accrual	8		7	
Share-based compensation		22		29
Deferred rent	2	15	2	14
Other deferred tax assets	7	4	4	3
State valuation allowance		(9)		(10)
Bonus accrual		2		3
Gift cards	5		4	
Property and equipment		(25)		(29)
Foreign taxes			1	
Workers' compensation	19		19	
Cancellation of debt income		(40)		(39)
Original issue discount related to cancellation of debt income		41		41
Other deferred tax (liabilities) assets	(3)	2	(4)	2
	$ 38	$ 26	$ 33	$ 28
Net deferred tax assets		$ 64		$ 61

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The federal, state and international income tax provision for The Michaels Companies, Inc. and Michaels Stores, Inc. are as follows:

	The Michaels Companies, Inc			Michaels Stores, Inc		
	Fiscal year			Fiscal year		
	2013	2012	2011	2013	2012	2011
	(In millions)			(In millions)		
Federal:						
Current	$ 114	$ 92	$ 46	$ 125	$ 92	$ 46
Deferred	(1)	(7)	18		(7)	18
Total federal income tax provision	113	85	64	125	85	64
State:						
Current	15	10	13	15	10	13
Deferred	(4)	1	1	(4)	1	1
Total state income tax provision	11	11	14	11	11	14
International:						
Current	11	20	22	11	20	22
Deferred	1	(1)		1	(1)	
Total international income tax provision	12	19	22	12	19	22
Total income tax provision	$ 136	$ 115	$ 100	$ 148	$ 115	$ 100

The reconciliation between the actual income tax provision and the income tax provision calculated by applying the federal statutory tax rate is as follows:

	Fiscal year		
(In millions)	**2013**	**2012**	**2011**
Income tax provision at statutory rate	$ 133	$ 111	$ 91
State income taxes, net of federal income tax effect	8	6	7
Federal tax credits	(1)		(2)
Unrecognized tax benefits		(1)	1
State valuation allowance	(1)		
Other	(3)	(1)	3
Total income tax provision	$ 136	$ 115	$ 100

At February 1, 2014, we had state net operating loss carryforwards to reduce future taxable income of approximately $9 million, net of federal tax benefits, expiring at various dates between fiscal 2014 and fiscal 2032. The valuation allowance related to state net operating loss carryforwards was decreased to $9 million in fiscal 2013 due to the expiration of state net operating losses. We believe it is more likely than not that we will be unable to realize these amounts.

In fiscal 2013, we reduced our valuation allowance by $1 million and our deferred tax assets related to state net operating loss carryforwards by $1 million reflecting the unrecognized tax benefits in those respective jurisdictions.

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Uncertain tax positions

We operate in a number of tax jurisdictions and are subject to examination of our income tax returns by tax authorities in those jurisdictions who may challenge any item on these tax returns. Because the tax matters challenged by tax authorities are typically complex, the ultimate outcome of these challenges is uncertain.

In accordance with ASC 740, *Income Taxes*, we recognize the benefits of uncertain tax positions in our financial statements only after determining a more likely than not probability that the uncertain tax positions will be sustained. A reconciliation of gross unrecognized tax benefits, including reduction of deferred tax assets for state operating losses, from the end of fiscal year 2012 through the end of fiscal 2013 is as follows:

(In millions)		**Fiscal year 2013**
Balance at February 2, 2013	$	14
Additions based on tax positions related to the current year		1
Reductions for tax positions related to prior years		
Reductions for expiration of statute of limitations		(3)
Balance at February 1, 2014	$	12

Included in the balance of unrecognized tax benefits at February 1, 2014, is $6 million which, if recognized, would affect tax expense.

Our policy is to classify all income tax related interest and penalties as income tax expense. As of February 1, 2014, our accrual for potential payments of interest and penalties was $2 million.

We identified our federal return, Canadian tax return and state returns in California, Florida, Illinois, Michigan, New York, North Carolina, Pennsylvania and Texas as "major" jurisdictions. The periods subject to examination for our federal return are fiscal 2010 to present, fiscal 2007 to present for our Canadian returns, and fiscal 2009 to present for all major state tax returns. The pretax income from foreign operations for fiscal 2013, fiscal 2012, and fiscal 2011 was $39 million, $52 million, and $51 million, respectively.

Note 8. Share-based compensation

The Michaels Companies, Inc. Equity Incentive Plan provides for the grant of share-based awards exercisable for up to 21.0 million shares of common stock. Generally, awards vest ratably over four or five years and expire eight years from the grant date. Prior to third quarter 2011, we issued new shares of common stock to satisfy share issuance upon option exercises. During fiscal 2011, we satisfied option exercises with the issuance of new shares but also allowed such shares to be net cash settled at the request of the former employee. Consequently, in the third quarter of fiscal 2011, management determined that the pattern of purchasing immature shares modified the classification of outstanding awards to liability awards. Share-based compensation expense was $35 million for fiscal 2013, $21 million for fiscal 2012 and $41 million for fiscal 2011 which is recognized in Cost of sales and occupancy expense and Share-based compensation on the Consolidated Statements of Comprehensive Income.

The fair value of options issued prior to the third quarter of fiscal 2011 was recognized as compensation expense at their grant date fair value. When the options were modified to liability awards, the grant date fair value of the options outstanding prior to the third quarter of fiscal 2011 was the minimum expense recognized each period. For the years ended February 2, 2013, and January 28, 2012, the Company, under ASC 718's guidance on liability awards, recognized incremental share-based compensation expense using the Black-Scholes option valuation model's fair value as of the end of each reporting period. The following assumptions were used during the fiscal years 2013, 2012 and 2011 to estimate the fair value of options.

Assumptions(1)	2013	2012	Fiscal year 2011
Risk-free interest rates(2)	0.1% - 1.4%	0.1% - 1.1%	0.1% - 1.3%
Expected dividend yield	0.0%	0.0%	0.0%
Expected volatility rates of our common stock(3)	25.5% - 32.5%	29.0% - 35.2%	30.7% - 37.8%
Expected life of options (in years)(4)	4.0 - 5.0	1.0 - 5.0	1.0 - 5.0
Fair value of equity per share(5)	$ 14.76 - $18.28	$ 16.32 - $16.99	$ 10.31 - $12.16

(1) Forfeitures were estimated based on historical experience and anticipated events.

(2) Based on constant maturity interest rates for U.S. Treasury instruments with terms consistent with the expected lives of the awards.

(3) We considered both the historical volatility as well as implied volatilities for exchange-traded options of a peer group of companies.

(4) Expected lives were based on an analysis of historical exercise and post-vesting employment termination behavior. Since fair value was remeasured at the end of the year in fiscal 2011 and fiscal 2012, and at the end of the third quarter in fiscal 2013, the expected life was adjusted based on the remaining life of the options.

(5) The Company's fiscal 2013, 2012 and 2011 common stock valuations 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.

As of February 1, 2014, there were 11.8 million stock option awards outstanding. In addition, as of February 1, 2014, there were 826,129.0 shares of restricted stock outstanding, of which 47,657.1 are vested. Under The Michaels Companies, Inc. Equity Incentive Plan, there are 3.1 million shares of common stock remaining available for grant. The table below sets forth a summary of stock option activity for the year ended February 1, 2014. For fiscal 2013, options outstanding at the end of the fiscal third quarter were revalued under liability accounting, while options granted during the fourth fiscal quarter of 2013, are fair-valued on the date of grant.

	Number of shares (in millions)	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Outstanding at February 2, 2013	13.4	$ 10.75		
Granted	3.3	13.96		
Exercised	(4.0)	9.20		
Cancelled/Forfeited	(0.9)	10.07		
Outstanding at February 1, 2014	11.8	$ 9.37	4.6	$ 78
Vested and Exercisable at February 1, 2014	6.3	$ 7.66	3.4	$ 55

The total fair value of options that vested during fiscal 2013, fiscal 2012 and fiscal 2011 was $17 million, $30 million and $25 million, respectively. The intrinsic value for options that vested during 2013, fiscal 2012 and fiscal 2011 was $25 million, $22 million and $17 million, respectively. The intrinsic value for options exercised was $27 million in fiscal 2013, $5 million in fiscal 2012 and less than $1 million in fiscal 2011. As of the beginning of fiscal 2013, there were 4.7 million nonvested options with a weighted average fair value of $8.14 per share. As of the end of fiscal 2013, there were 5.2 million nonvested options with a weighted average fair value of $6.04 per share. The weighted-average fair value of options granted during fiscal 2013 was $4.68. During fiscal 2013, there were 3.5 million options that vested and 0.9 million options that were cancelled with a weighted-average fair value of $4.91 and $6.56 per share, respectively.

As of February 1, 2014, compensation cost not yet recognized related to nonvested awards totaled $24 million and is expected to be recognized over a weighted average period of 2.9 years. Share-based liabilities paid in fiscal 2012 were $3 million and in fiscal 2013 were $19 million. To the extent the actual forfeiture rate is different from what we have anticipated, share-based compensation related to these awards will be different from our expectations.

Note 9. Derivative instruments

We are exposed to fluctuations in interest rates on our Restated Term Loan Credit Facility. During the first quarter of fiscal 2009, we purchased an interest rate derivative with the objective to cap our exposure to interest rate increases on our senior secured term loan facility resulting from fluctuations in the three-month LIBOR (the "cap"). 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 extends to the first quarter of fiscal 2015. The interest rate cap does not qualify for cash flow hedge accounting under ASC 815, *Derivatives and Hedging*. The fair value of the cap as of February 1, 2014, and February 2, 2013, was immaterial and is included in Other assets on the Consolidated Balance Sheets. The change in fair value of the cap for the years resulted in an immaterial loss in both fiscal 2013 and fiscal 2012 and a loss of $5 million in fiscal 2011. These amounts are recorded in Other (income) and expense, net in the Consolidated Statements of Comprehensive Income.

Note 10. Fair Value Measurements

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

Level 1 Quoted prices for *identical* instruments in active markets

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

Level 3 Instruments with significant unobservable inputs

In fiscal 2009, we purchased an interest rate derivative with the objective to cap our exposure to interest rate increases on our senior secured term loan facility that result from fluctuations in the three-month LIBOR. The interest rate cap is measured using widely accepted valuation techniques including a discounted cash flow analysis on the expected cash flows. This analysis reflects the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair value of the interest rate cap is determined using the market methodology of discounting the future expected variable cash receipts that would occur if variable interest rates rise

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above the strike rate of the cap. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. These factors are considered Level 2 inputs within the fair value hierarchy. As of February 1, 2014, the fair value of the cap was immaterial. See Note 9 for additional information on our derivative instruments.

In 2010, the Company acquired ScrapHD, an online scrapbooking business. In connection with the acquisition, there was a contingent cash obligation based on operating performance through fiscal 2012. As a result of negative operating results, we estimated the fair value of ScrapHD to be zero as of February 2, 2013, which resulted in a reduction in the fair value of our contingent consideration liability from an immaterial amount as of January 28, 2012, to zero as of February 2, 2013. Due to the previously discussed factors, we recorded an impairment charge in fiscal 2012 of $7 million for long-lived assets associated with our online scrapbooking business and a goodwill impairment charge of $1 million, which represents the carrying amount of ScrapHD's goodwill.

Long-lived assets held for use consists of our stores tested for impairment as a result of our impairment review, as more fully described in Note 1. The inputs used to measure the fair value of these long-lived assets are considered Level 3 inputs within the fair value hierarchy. As a result of our impairment review, we recorded an impairment charge of $2 million in fiscal 2013, did not have an impairment charge in fiscal 2012 and recorded less than $1 million in impairment charges in fiscal 2011.

We have also performed the required impairment review related to goodwill, as more fully described in Note 1. Based on our review at February 1, 2014, we do not believe it is more likely than not that the carrying amount exceeds our fair value.

The table below provides the carrying and fair values of our senior secured term loan and notes as of February 1, 2014. The fair values of our senior secured term loan, senior subordinated notes, and PIK Notes were determined based on quoted market prices which are considered Level 2 inputs within the fair value hierarchy. The fair value of our Senior notes was determined based on recent trades which are considered Level 1 inputs within the fair value hierarchy.

(In millions)	**Carrying value**	**Fair value**
Senior secured term loan	$ 1,628	$ 1,637
Senior notes	1,006	1,075
Senior subordinated notes	260	259
PIK Notes	800	822

Note 11. Retirement plans

We sponsor a 401(k) Savings Plan for our eligible employees and certain of our subsidiaries. Participation in the 401(k) Savings Plan is voluntary and available to any employee who is at least 21 years of age and has completed 500 hours of service in a six-month eligibility period. Participants may elect to contribute up to 80% of their compensation on a pre-tax basis and up to 10% on an after-tax basis. In accordance with the provisions of the 401(k) Savings Plan, we make a matching cash contribution to the account of each participant in an amount equal to 50% of the participant's pre-tax contributions that do not exceed 6% of the participant's considered compensation for the year. Matching contributions, and the actual earnings thereon, vest to the participants based on years of service, with 100% vesting after three years. Our matching contribution expense, net of forfeitures, was $4 million in each of fiscal 2013, fiscal 2012 and fiscal 2011.

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Note 12. Commitments and contingencies

Commitments

We operate stores and use distribution centers, office facilities, and equipment that are generally leased under non-cancelable operating leases, the majority of which provide for renewal options. Future minimum annual rental commitments for all non-cancelable operating leases as of February 1, 2014, are as follows:

(In millions)		Operating leases
For the fiscal year:		
2014	$	390
2015		343
2016		294
2017		236
2018		181
Thereafter		350
Total minimum rental commitments	$	1,794

Rent expense applicable to non-cancelable operating leases was $370 million, $355 million and $345 million in fiscal 2013, 2012 and 2011, respectively.

Employee claims

Rea claim

On September 15, 2011, MSI was served with a lawsuit filed in the California Superior Court in and for the County of Orange ("Superior Court") by four former store managers as a class action proceeding on behalf of themselves and certain former and current store managers employed by MSI in California. The lawsuit alleges that MSI improperly classified store managers as exempt employees and as such failed to pay all wages, overtime, waiting time penalties and failed to provide accurate wage statements. The lawsuit also alleges that the foregoing conduct was in breach of various laws, including California's unfair competition law. On December 3, 2013, the Superior Court entered an Order certifying a class of approximately 200 members. The Company subsequently successfully removed the case to the United States District Court for the Central District of California and is challenging the class certification order. We believe we have meritorious defenses and intend to defend the lawsuits vigorously. We do not believe the resolution of the lawsuits will have a material effect on our Consolidated Financial Statements.

Consumer class action claims

Data security incident

Five putative class actions were filed relating to our recent Data Breach. The plaintiffs generally allege that the Company failed to secure and safeguard customers' private information including credit and debit card information and as such, breached an implied contract, violated the Illinois Consumer Fraud Act (and other states' similar laws) and are seeking damages including declaratory relief, actual damages, punitive damages, statutory damages, attorneys' fees, litigation costs, remedial action, pre and post judgment interest, and other relief as available. The cases, are as follows: Christina Moyer v. Michaels Stores, Inc., was filed on January 27, 2014; Michael and Jessica Gouwens v. Michaels Stores, Inc., was filed on January 29, 2014; Nancy Maize and Jessica Gordon v. Michaels Stores, Inc., was filed on February 21, 2014; and Daniel Ripes v. Michaels Stores, Inc., was filed on March 14, 2014. All four of these cases were filed in the United States District Court-Northern District of Illinois, Eastern Division. A case, Mary Jane Whalen v. Michaels Stores, Inc., was filed in the United States District Court for the Eastern District of New York on

March 18, 2014, but was voluntarily dismissed by the plaintiff on April 11, 2014, without prejudice to her right to re-file a complaint. On April 16, 2014, an order was entered consolidating the current actions. We believe we have meritorious defenses and intend to defend the lawsuits vigorously.

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

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

California zip code claims

On August 15, 2008, Linda Carson, a consumer, filed a purported class action proceeding against the Company 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 lawsuit alleges that the Company unlawfully requested and recorded personally identifiable information (i.e., her zip code) as part of a credit card transaction. The plaintiff seeks statutory penalties, costs, interest, and attorneys' fees. On February 10, 2011, the California Supreme Court ruled, in a similar matter, Williams-Sonoma v. Pineda 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.

Subsequent to the California Supreme Court decision, three additional purported class action lawsuits, seeking similar relief, 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. An order coordinating the cases has been entered and plaintiffs filed a Consolidated Complaint on April 24, 2012. The parties settled the lawsuit for an amount that will not have a material effect on our Consolidated Financial Statements. On February 14, 2014, the Court granted preliminary approval of the settlement agreement and a final Fairness Hearing is set for July 11, 2014.

Massachusetts zip code claims

Relying in part on the California Supreme Court decision, a purported class action lawsuit was filed on May 20, 2011, against the Company, Melissa Tyler v. Michaels Stores, Inc. in the U.S. District Court-District of Massachusetts, alleging violation of a Massachusetts statute regarding the collection of personally identifiable information in connection with a credit card transaction. An additional purported class action lawsuit asserting the same allegations was filed in the U.S. District Court-District of Massachusetts by Susan D'Esposito, and the two cases were consolidated. On August 12, 2013, a settlement was reached for an amount that will not have a material effect on our Consolidated Financial Statements. On February 12,

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2014, the Court granted preliminary approval of the settlement and a final Fairness Hearing is set for May 20, 2014.

Pricing and promotion

On April 30, 2012, William J. Henry, a consumer, filed a purported class action proceeding against the Company in the Court of Common Pleas, Lake County, Ohio, on behalf of himself and all similarly-situated Ohio consumers who purchased framing products and/or services from MSI during weeks where MSI was advertising a discount for framing products and/or services. The lawsuit alleges that MSI advertised discounts on its framing products and/or services without actually providing a discount to its customers. The plaintiff is claiming violation of Ohio law ORC 1345.01 et seq., unjust enrichment and fraud. The plaintiff has alleged damages, penalties and fees not to exceed $5 million, exclusive of interest and costs. We believe we have meritorious defenses and intend to defend the lawsuit vigorously. We do not believe the resolution of this lawsuit will have a material effect on our Consolidated Financial Statements.

General

In addition to the litigation discussed above, we are, and in the future, may be involved in various other lawsuits, claims and proceedings incidental to the ordinary course of business. ASC 450, *Contingencies* ("ASC 450"), governs the disclosure and recognition of loss contingencies, including potential losses from litigation and regulatory matters. It imposes different requirements for the recognition and disclosure of loss contingencies based on the likelihood of occurrence of the contingent future event or events. It distinguishes among degrees of likelihood using the following three terms: "probable", meaning that "the future event or events are likely to occur"; "remote", meaning that "the chance of the future event or events occurring is slight"; and "reasonably possible", meaning that "the chance of the future event or events occurring is more than remote but less than likely". In accordance with ASC 450, the Company accrues for a loss contingency when we conclude that the likelihood of a loss is probable and the amount of the loss can be reasonably estimated. When the loss cannot be reasonably estimated, we estimate the range of amounts, and if no amount in the range constitutes a better estimate than any other amount, we accrue for the amount at the low end of the range. We adjust our accruals from time to time as we receive additional information, but the loss we incur may be significantly greater than or less than the amount we have accrued. We disclose loss contingencies if there is at least a reasonable possibility that a material loss has been incurred. No accrual or disclosure is required for losses that are remote.

For some of the matters disclosed above, the Company is currently able to estimate a reasonably possible loss or range of loss in excess of amounts accrued (if any). For some of the matters included within this estimation, an accrual has been made because a loss is believed to be both probable and reasonably estimable, but an exposure to loss exists in excess of the amount accrued; in these cases, the estimate reflects the reasonably possible range of loss in excess of the accrued amount. For other matters included within this estimation, no accrual has been made because a loss, although estimable, is believed to be reasonably possible, but not probable; in these cases the estimate reflects the reasonably possible loss or range of loss within the ranges identified. For the various ranges identified, the aggregate of these estimated amounts is approximately $9 million as of February 1, 2014, which is also inclusive of amounts accrued by the Company.

For other matters disclosed above, the Company is not currently able to estimate the reasonably possible loss or range of loss, and has indicated such. Many of these matters remain in preliminary stages (even in some cases where a substantial period of time has passed since the commencement of the matter), with few or no substantive legal decisions by the court defining the scope of the claims, the class (if any), or the potentially available damages, and fact discovery is still in progress or has not yet begun. For all these reasons, the Company cannot at this time estimate the reasonably possible loss or range of loss, if any, for these matters.

It is the opinion of the Company's management, based on current knowledge and after taking into account its current legal accruals, the eventual outcome of all matters described in this prospectus would not be likely to have a material impact on the consolidated financial condition of the Company. Nonetheless, given the substantial or indeterminate amounts sought in certain of these matters, and the inherent unpredictability of such matters, an adverse outcome in certain of these matters could, from time to time, have a material effect on the Company's consolidated results of operations or cash flows in particular quarterly or annual periods.

Note 13. Concentration of credit risk

We periodically invest our excess cash and equivalents in money market funds and trusts, which are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other financial or government institution. We also deposit a portion of our cash and equivalents with numerous federally-insured financial institutions, the balances of which often exceed $250,000. The Federal Deposit Insurance Corporation insures each account up to a maximum of $250,000 of the aggregate account balance with each institution. We believe counterparty default risk is low as we only use financial institutions with investment grade ratings or funds and trusts that invest in securities with investment grade ratings and that possess the necessary liquidity to satisfy our redemption needs.

We invest cash balances in excess of operating requirements primarily in money market mutual funds and short-term interest-bearing securities, generally with maturities of 90 days or less. Due to the short-term nature of our investments, the fair value of our cash and equivalents at February 1, 2014, approximated carrying value.

We have market risk exposure arising from changes in interest rates on our Senior Secured Credit Facilities. The interest rates on our Senior Secured Credit Facilities will reprice periodically, which will impact our earnings and cash flow. The interest rates on our Senior Notes, PIK Notes, and 2020 Senior Subordinated Notes are fixed. Based on our overall interest rate exposure to variable rate debt outstanding as of February 1, 2014, a 1% increase or decrease in interest rates would increase or decrease Income before income taxes by approximately $16 million. A 1% increase or decrease in interest rates would decrease or increase the fair value of our long-term fixed rate debt by approximately $7 million. A change in interest rates would not materially affect the fair value of our variable rate debt as the debt reprices periodically.

Note 14. Segments and geographic information

We consider our Michaels U.S., Michaels Canada, Aaron Brothers and ScrapHD to be our operating segments for purposes of determining reportable segments based on the criteria of ASC 280, *Segment Reporting*. We determined that our Michaels U.S., Michaels Canada, and Aaron Brothers operating segments have similar economic characteristics and meet the aggregation criteria set forth in ASC 280. Therefore, we combine those operating segments into one reporting segment. The ScrapHD operating segment, which has been discontinued, is immaterial to the financial statements as a whole.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies in Note 1.

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Our sales and assets by country are as follows:

	Fiscal year		
(In millions)	**2013**	**2012**	**2011**
Net Sales:			
United States	$ 4,132	$ 3,989	$ 3,825
Canada	438	419	385
Consolidated Total	$ 4,570	$ 4,408	$ 4,210
Total Assets:			
United States	$ 1,688	$ 1,446	$ 1,744
Canada	123	109	94
Consolidated Total	$ 1,811	$ 1,555	$ 1,838

We present assets based on their physical, geographic location. Certain assets located in the U.S. are also used to support our Canadian operations, but we do not allocate these assets to Canada.

Our Consolidated Net sales by major product categories are as follows:

	Fiscal year		
(In millions)	**2013**	**2012**	**2011**
General crafts	$ 2,371	$ 2,220	$ 2,108
Home décor and seasonal	898	890	837
Framing	862	836	804
Scrapbooking	439	462	461
	$ 4,570	$ 4,408	$ 4,210

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

	Fiscal year		
(In millions)	**2013**	**2012**	**2011**
Net income	$ 243	$ 200	$ 157
Interest expense	215	245	254
Refinancing costs and losses on early extinguishments of debt	14	33	18
Provision for income taxes	136	115	100
Depreciation and amortization	106	97	101
EBITDA (excluding refinancing costs and losses on early extinguishments of debt)	$ 714	$ 690	$ 630

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Note 15. Related party transactions

We pay annual management fees to Bain Capital Partners, LLC ("Bain Capital") and The Blackstone Group L.P. ("The Blackstone Group") in the amount of $12 million and an annual management fee to Highfields Capital Management LP in the amount of $1 million. We recognized $14 million of expense in fiscal 2013 and $13 million of expense in both fiscal 2012 and fiscal 2011 related to annual management fees and reimbursement of out-of-pocket expenses.

Investment funds advised by Bain Capital own a majority equity position in Unisource, an external vendor we utilized to print our circular advertisements. During the first quarter of fiscal 2011, we stopped utilizing this vendor for these services. Payments associated with this vendor during fiscal 2011 were $6 million and are included in Selling, general, and administrative expense in the Consolidated Statements of Comprehensive Income.

Investment funds advised by Bain Capital own a minority position in LogicSource, an external vendor we utilize for print procurement services. Payments associated with this vendor during each of fiscal 2013, fiscal 2012 and fiscal 2011 were $5 million. These expenses are included in Selling, general, and administrative expense in the Consolidated Statements of Comprehensive Income.

The Blackstone Group owns a majority equity position in RGIS, an external vendor we utilize to count our store inventory. Payments associated with this vendor during each of fiscal 2013, fiscal 2012 and fiscal 2011 were $6 million, and are included in Selling, general, and administrative expense in the Consolidated Statements of Comprehensive Income.

The Blackstone Group owns a majority equity position in Vistar, an external vendor we utilize for all of the candy-type items in our stores. Payments associated with this vendor during fiscal 2013, fiscal 2012 and fiscal 2011 were $24 million, $24 million and $20 million, respectively, and are recognized in cost of sales as the sales are incurred.

The Blackstone Group owns a majority equity position in Hilton Hotels, an external vendor we utilize for hospitality services. Payments associated with this vendor during fiscal 2013 were minimal and $1 million during each of fiscal 2012 and 2011, and are included in Selling, general, and administrative expense in the Consolidated Statements of Comprehensive Income.

The Blackstone Group owns a majority equity position in Brixmor Properties Group, a vendor we utilize to lease certain properties. Payments associated with this vendor during fiscal 2013, fiscal 2012 and fiscal 2011 were $4 million, $5 million and $3 million, respectively. These expenses are included in Cost of sales and occupancy expense in the Consolidated Statements of Comprehensive Income.

Our current directors (other than Jill A. Greenthal, John J. Mahoney, James A. Quella and Carl S. Rubin) are affiliates of Bain Capital or The Blackstone Group. As such, some or all of such directors may have an indirect material interest in payments with respect to debt securities of the Company that have been purchased by affiliates of Bain Capital and The Blackstone Group. As of February 1, 2014, affiliates of The Blackstone Group held $31 million of our Restated Term Loan Credit Facility.

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Note 16. Condensed consolidated financial information of Michaels Stores, Inc.

All obligations of MSI under the Senior Notes, 2020 Senior Subordinated Notes, Restated Term Loan Credit Facility, and Restated Revolving Credit Facility are guaranteed by each of MSI's subsidiaries other than Aaron Brothers Card Services, LLC, Artistree of Canada, ULC, Michaels Stores of Puerto Rico, LLC and certain foreign and domestic subsidiary holding companies. In addition, all obligations of MSI under the Restated Term Loan Credit Facility and Restated Revolving Credit Facility are guaranteed by Holdings. As of February 1, 2014, the financial statements of Aaron Brothers Card Services, LLC, Artistree of Canada, ULC, Michaels Stores of Puerto Rico, LLC and certain foreign and domestic subsidiary holding companies were immaterial. Each subsidiary guarantor is 100% owned, directly or indirectly, by MSI and all guarantees are joint and several and full and unconditional.

The Indenture for the Senior Notes contains covenants limiting, among other things, Michaels Stores, Inc.'s ability and the ability of Michaels Stores, Inc.'s restricted subsidiaries to:

- incur additional debt

- pay dividends or distributions on Michaels Stores, Inc.'s capital stock or repurchase Michaels Stores, Inc.'s capital stock, subject to certain exceptions, including dividends, distributions and repurchases up to an amount in excess of (i) $75 million plus (ii) a basket that builds based on 50% of MSI's Consolidated Net Income (as defined in the Senior Indenture) and certain other amounts, in each case, to the extent such payment capacity is not applied as otherwise permitted under the Senior Indenture and subject to certain conditions.

The following condensed consolidated financial information represents the financial information of MSI and its wholly-owned subsidiaries. The information is presented in accordance with the requirements of Rule 12-04 under the SEC's Regulation S-X. In addition, disclosure requirements of Rule 12-04 of Regulation S-X regarding material contingencies and long-term obligations are included in Note 5. Debt, Note 7. Income taxes, Note 8. Share-based compensation and Note 12. Commitments and contingencies.

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Michaels Stores, Inc.
Supplemental condensed consolidated statement of comprehensive income

(In millions)	2013	2012	Fiscal year 2011
Net sales	$ 4,570	$ 4,408	$ 4,210
Cost of sales and occupancy expense	2,748	2,643	2,532
Gross profit	1,822	1,765	1,678
Selling, general, and administrative expense	1,169	1,132	1,090
Share-based compensation	23	15	33
Impairment of intangible assets		8	
Related party expenses	14	13	13
Store pre-opening costs	5	5	4
Operating income	611	592	538
Interest expense	183	245	254
Refinancing costs and losses on early extinguishments of debt	14	33	18
Other (income) and expense, net	2	(1)	9
Income before income taxes	412	315	257
Provision for income taxes	148	115	100
Net income	$ 264	$ 200	$ 157
Other comprehensive (loss) income, net of tax:			
Foreign currency translation adjustment	(6)		(1)
Comprehensive income	$ 258	$ 200	$ 156

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Michaels Stores, Inc.
Supplemental condensed consolidated balance sheet

(In millions)	Fiscal year 2013	2012
ASSETS		
Current assets:		
Cash and equivalents	$ 234	$ 56
Merchandise inventories	901	862
Prepaid expense and other	95	86
Receivable from parent	2	
Deferred income taxes	39	37
Income tax receivables	2	3
Total current assets	1,273	1,044
Property and equipment, net	358	338
Goodwill, net	94	94
Debt Issuance costs (net of amortization)	37	46
Deferred income taxes	28	30
Long-term receivable from Parent	8	
Other assets	3	3
Total assets	$ 1,801	$ 1,555
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 368	$ 263
Accrued liabilities and other	377	367
Share-based compensation liability		35
Current portion of long-term debt	16	150
Dividend payable to Holdings	30	
Deferred income taxes	1	4
Income taxes payable	42	37
Total current liabilities	834	856
Long-term debt	2,878	2,891
Share-based compensation		27
Other long-term liabilities	90	85
Total stockholders' deficit	(2,001)	(2,304)
Total liabilities and stockholders' deficit	$ 1,801	$ 1,555

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Michaels Stores, Inc.
Supplemental condensed consolidated statements of cash flows

(In millions)	Fiscal year 2013	2012	2011
Operating activities:			
Net cash provided by operating activities	$ 468	$ 299	$ 409
Investing activities:			
Cash paid for property and equipment	(112)	(124)	(109)
Net cash used in investing activities	(112)	(124)	(109)
Financing activities:			
Net repayments of long-term debt	(156)	(457)	(227)
Other financing activities	(22)	(33)	(21)
Net cash used in financing activities	(178)	(490)	(248)
Increase (decrease) in cash and equivalents	178	(315)	52
Beginning cash and equivalents	56	371	319
Ending cash and equivalents	$ 234	$ 56	$ 371

Note 17. Subsequent events

On June 6, 2014, our Board of Directors approved a common stock split in the ratio of 1.476 to 1.00. All share and related option information presented in these financial statements and accompanying footnotes has been retroactively adjusted to reflect the increased number of shares resulting from this action.

On June 5, 2014, MSI and its subsidiaries that are guarantors under the indenture governing the 2020 Senior Subordinated Notes entered into the Purchase Agreement relating to the sale of $250,000,000 aggregate principal amount of Additional 2020 Senior Subordinated Notes. We expect the offering of the Additional 2020 Senior Subordinated Notes to close on June 16, 2014, subject to satisfaction of customary closing conditions. We intend to use the net proceeds of the offering of the Additional 2020 Senior Subordinated Notes to redeem a portion of the outstanding 2018 Senior Notes, to pay the applicable make-whole premium and accrued and unpaid interest thereon to, but not including, the applicable redemption date and to pay related fees and expenses.

Note 18. Pro forma net income per common share (unaudited)

In connection with the closing of the Company's initial public offering, we intend to use the net proceeds, after deducting estimated offering expenses and underwriting discount, to redeem a portion of the PIK Notes, to pay the applicable redemption premium of 1% of the principal amount of the PIK Notes redeemed and related fees and expenses. The PIK Notes, which were issued on July 29, 2013, funded in part a cash dividend and equity-related award to equity and equity-award holders.

Pro forma basic and diluted net income per share attributable to common shareholders has been computed to give effect to the consummation of the offering and the stock split of the existing common shares prior to the closing of the offering and the effect to the number of shares whose proceeds are to

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be used to repay the debt. The following table sets forth the computation of the Company's unaudited pro forma basic and diluted net income per share for the fiscal year ended February 1, 2014:

	Fiscal year 2013	
(in millions, except per share data)	**Basic**	**Diluted**
Numerator:		
Income available to common stockholders	$ 242	$ 242
Pro forma adjustment to net income to reflect tax-effected interest impact	15	15
Pro forma net income	$ 257	$ 257
Denominator:		
Denominator for earnings per common share weighted-average shares	174.8	178.7
Pro forma adjustment to reflect the offering	27.8	27.8
Weighted average shares of common stock outstanding used in computing the pro forma net income per share	202.6	206.5
Pro forma net income per share	$ 1.27	$ 1.25

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The Michaels Companies, Inc.
Unaudited supplemental quarterly financial data

(In millions)	First quarter	Second quarter	Third quarter	Fourth quarter
Fiscal 2013:				
Net sales	$ 993	$ 904	$ 1,118	$ 1,555
Cost of sales and occupancy expense	584	567	665	932
Gross profit	409	337	453	623
Selling, general, and administrative expense	272	254	309	335
Share-based compensation	3	8	4	8
Operating income	128	71	135	276
Refinancing costs and losses on early extinguishments of debt(1)	7			7
Net income	46	17	47	133
Earnings per share:				
Basic	$ 0.26	$ 0.09	$ 0.28	$ 0.76
Diluted	$ 0.26	$ 0.08	$ 0.27	$ 0.74
Weighted average shares basic	174.8	174.8	174.8	174.8
Weighted average shares diluted	178.7	178.5	178.6	178.8

	First quarter	Second quarter	Third quarter	Fourth quarter
Fiscal 2012:				
Net sales	$ 978	$ 892	$ 1,014	$ 1,524
Cost of sales and occupancy expense	567	557	612	907
Gross profit	411	335	402	617
Selling, general, and administrative expense	259	251	277	345
Share-based compensation	4	3	2	6
Operating income	144	76	117	255
Refinancing costs and losses on early extinguishments of debt(2)			3	30
Net income	51	9	35	105
Earnings per share:				
Basic	$ 0.29	$ 0.05	$ 0.20	$ 0.60
Diluted	$ 0.29	$ 0.05	$ 0.20	$ 0.59
Weighted average shares basic	174.6	174.7	174.8	174.8
Weighted average shares diluted	178.0	178.4	178.1	178.4

We report on the basis of a 52-week or 53-week fiscal year, which ends on the Saturday closest to January 31. Our interim periods each contain 13 weeks, with the first quarter ending on a Saturday 13 weeks after the end of our previous fiscal year. For fiscal years that contain 53 weeks, including fiscal 2012, our fourth quarter contains 14 weeks.

(1) The refinancing costs and losses on early extinguishments of debt relate to the early extinguishment of $137 million of our 2016 Senior Subordinated Notes and the subsequent refinancing of the remaining outstanding balance of approximately $256 million of the 2016 Senior Subordinated Notes.

(2) The refinancing costs and losses on early extinguishments of debt relate to our senior secured term loan facility and a partial prepayment of our senior secured term loan, the redemption of our remaining outstanding Subordinated

Discount Notes and our asset-based revolving credit facility.

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The Michaels Companies, Inc.
Consolidated statements of comprehensive income
(In millions, except per share data)
(Unaudited)

	13 Weeks ended		39 Weeks ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Net sales	$ 1,130	$ 1,118	$ 3,130	$ 3,015
Cost of sales and occupancy expense	678	665	1,892	1,816
Gross profit	452	453	1,238	1,199
Selling, general, and administrative	304	309	856	835
Share-based compensation	4	4	10	15
Related party expenses		3	35	10
Store pre-opening costs	2	2	4	5
Operating income	142	135	333	334
Interest expense	41	62	159	154
Losses on early extinguishment of debt and refinancing costs			68	7
Other expense, net	1		1	1
Income before income taxes	100	73	105	172
Provision for income taxes	36	26	44	62
Net income	64	47	61	110
Other comprehensive income, net of tax:				
Foreign currency translation adjustment and other	(3)		(2)	(2)
Comprehensive income	$ 61	$ 47	$ 59	$ 108
Earnings per share:				
Basic	$ 0.31	$ 0.27	$ 0.32	$ 0.63
Diluted	$ 0.31	$ 0.26	$ 0.32	$ 0.62
Weighted average shares outstanding:				
Basic	203	175	188	175
Diluted	207	179	192	179

See accompanying notes to consolidated financial statements.

The Michaels Companies, Inc.
Consolidated balance sheets
(In millions, except per share data)
(Unaudited)

	November 1, 2014	February 1, 2014	November 2, 2013
ASSETS			
Current Assets:			
Cash and equivalents	$ 194	$ 239	$ 73
Merchandise inventories	1,116	901	1,119
Prepaid expenses and other	99	95	99
Deferred income taxes	37	39	38
Income tax receivables	42	2	20
Total current assets	1,488	1,276	1,349
Property and equipment, at cost	1,546	1,600	1,570
Less accumulated depreciation and amortization	(1,169)	(1,242)	(1,217)
Property and equipment, net	377	358	353
Goodwill	94	94	94
Debt issuance costs, net	46	52	53
Deferred income taxes	24	28	29
Other assets	1	3	2
Total assets	$ 2,030	$ 1,811	$ 1,880
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities:			
Accounts payable	$ 504	$ 368	$ 467
Accrued liabilities and other	369	411	361
Share-based compensation liability			21
Current portion of long-term debt	205	16	203
Deferred income taxes		1	4
Income taxes payable	1	30	
Total current liabilities	1,079	826	1,056
Long-term debt	3,131	3,678	3,678
Deferred income taxes	1	2	2
Share-based compensation liability			28
Other liabilities	88	87	86
Total liabilities	4,299	4,593	4,850
Commitments and contingencies			
Stockholders' Deficit:			

Common stock, $0.06775 par value, 350 million shares authorized; 204 million shares issued and outstanding at November 1, 2014, 175 million shares issued and outstanding at February 1, 2014, and 175 million shares issued and outstanding at November 2, 2013		14		12		12
Additional paid-in capital		549		94		32
Accumulated deficit		(2,830)		(2,888)		(3,018)
Accumulated other comprehensive (loss) income		(2)				4
Total stockholders' deficit		(2,269)		(2,782)		(2,970)
Total liabilities and stockholders' deficit	$	2,030	$	1,811	$	1,880

See accompanying notes to consolidated financial statements.

The Michaels Companies, Inc.
Consolidated statements of cash flows
(In millions)
(Unaudited)

	39 Weeks ended	
	November 1, 2014	**November 2, 2013**
Cash flows from operating activities:		
Net income	$ 61	$ 110
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	82	74
Share-based compensation	15	19
Debt issuance costs amortization	8	7
Accretion of long-term debt		(1)
Losses on early extinguishment of debt and refinancing costs	68	7
Changes in operating assets and liabilities:		
Merchandise inventories	(217)	(254)
Prepaid expenses and other	(4)	(14)
Deferred income taxes	5	
Other assets	(2)	
Accounts payable	138	211
Accrued interest	(31)	(12)
Accrued liabilities and other	(17)	(21)
Income taxes	(70)	(55)
Other long-term liabilities		(2)
Net cash provided by operating activities	36	69
Cash flows used in investing activities:		
Additions to property and equipment	(103)	(82)
Cash flows from financing activities:		
Issuance of senior subordinated notes due 2020	255	
Payments of subordinated discount notes due 2016		(142)
Payment of senior notes due 2018	(1,000)	
Redemption premium on senior notes due 2018	(57)	
Payment of PIK notes due 2018	(439)	
Redemption premium on PIK notes due 2018	(4)	
Issuance of PIK notes due 2018		800
Issuance of common stock	446	
Borrowings on senior secured term loan facility	846	
Payments on senior secured term loan facility	(14)	(8)
Borrowings on asset-based revolving credit facility	23	389

Payments on asset-based revolving credit facility		(23)		(203)
Payment of debt issuance costs		(11)		(16)
Payment of dividends		(1)		(767)
Change in cash overdraft		4		(9)
Payment to option holders				(14)
Other financing activities		(3)		
Net cash provided by financing activities		22		30
Net change in cash and equivalents		(45)		17
Cash and equivalents at beginning of period		239		56
Cash and equivalents at end of period	$	194	$	73
Supplemental cash flow information:				
Cash paid for interest	$	183	$	160
Cash paid for income taxes	$	107	$	115

See accompanying notes to consolidated financial statements.

The Michaels Companies, Inc.
Notes to consolidated financial statements
(Unaudited)

1. Basis of presentation

The consolidated financial statements include the accounts of The Michaels Companies, Inc. and our wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. All expressions of the "Company", "us," "we," "our," and all similar expressions are references to The Michaels Companies, Inc. and our consolidated, wholly-owned subsidiaries, unless otherwise expressly stated or the context otherwise requires. Disclosures for Michaels Stores, Inc. ("MSI") have been included to meet the disclosure requirements of Rule 12-04 of Regulation S-X as further discussed in Note 10.

In July 2013, the Company's corporate structure was reorganized into a holding company structure (the "Reorganization"). The Michaels Companies, Inc. ("Parent"), Michaels FinCo Holdings, LLC ("FinCo Holdings"), Michaels FinCo, Inc. ("FinCo Inc.") and Michaels Funding, Inc. ("Holdings") and Michaels Stores MergerCo, Inc. ("MergerCo") were formed in connection with the Reorganization and MergerCo was merged with and into MSI, with MSI being the surviving corporation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the audited consolidated financial statements and accompanying footnotes included in our prospectus filed with the Securities and Exchange Commission ("SEC") pursuant to Rule 424(b) under the Securities Act of 1933, as amended, on June 27, 2014 ("Prospectus"). In the opinion of management, all adjustments (consisting of normal recurring accruals and other items) considered necessary for a fair presentation have been included.

We report on the basis of a 52- or 53-week fiscal year, which ends on the Saturday closest to January 31. All references herein to "fiscal 2014" relate to the 52 weeks ending January 31, 2015 and all references to "fiscal 2013" relate to the 52 weeks ended February 1, 2014. In addition, all references herein to "the third quarter of fiscal 2014" relate to the 13 weeks ended November 1, 2014, and all references to "the third quarter of fiscal 2013" relate to the 13 weeks ended November 2, 2013. Finally, all references to "the nine months ended November 1, 2014" relate to the 39 weeks ended November 1, 2014, and the "the nine months ended November 2, 2013" relate to the 39 weeks ended November 2, 2013. Because of the seasonal nature of our business, the results of operations for the 13 and 39 weeks ended November 1, 2014 are not indicative of the results to be expected for the entire year.

Stock split

On June 6, 2014, our stockholders approved a common stock split in the ratio of 1.476 to 1.00. All share and related option information presented in these financial statements and accompanying footnotes has been retroactively adjusted to reflect the increased number of shares resulting from this action.

Initial public offering

On July 2, 2014, the Company completed an initial public offering ("IPO") in which we issued and sold 27.8 million shares of common stock at a public offering price of $17.00 per share. After deducting for underwriting fees, the net proceeds of $446 million were used to redeem $439 million of our then outstanding 7.50%/8.25% Senior PIK Toggle Notes which were due in 2018 ("PIK Notes") and to pay other expenses of the offering.

Preferred shares

During the second quarter of fiscal 2014, the Board of Directors authorized 50 million shares of preferred stock. No preferred shares have been issued as of November 1, 2014.

Recent accounting pronouncements

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

2. Earnings per share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding. Diluted earnings per share is computed by dividing income available to common stockholders by the weighted average shares outstanding plus dilutive potential shares from the exercise of stock options and restricted shares. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. There were no material anti-dilutive shares during the periods presented.

The following table presents a reconciliation of the diluted weighted average shares (in millions):

	13 Weeks ended		39 Weeks ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Basic weighted average shares	203	175	188	175
Employee stock options	4	4	4	4
Dilutive weighted average shares	207	179	192	179

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3. Debt

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

		The Michaels Companies, Inc.			Michaels Stores, Inc.		
	Interest rate	November 1, 2014	February 1, 2014	November 2, 2013	November 1, 2014	February 1, 2014	November 2, 2013
Senior secured term loan	Variable	$ 2,460	$ 1,628	$ 1,632	$ 2,460	$ 1,628	$ 1,632
Senior notes	7.75%		1,006	1,007		1,006	1,007
Senior subordinated notes	5.875%	515	260		515	260	
Senior subordinated notes	11.375%			255			255
Asset-based revolving credit facility	Variable			187			187
PIK notes	7.50% / 8.25%	361	800	800			
Total debt		3,336	3,694	3,881	2,975	2,894	3,081
Less current portion		(205)	(16)	(203)	(25)	(16)	(203)
Long-term debt		$ 3,131	$ 3,678	$ 3,678	$ 2,950	$ 2,878	$ 2,878

Senior notes, additional term loan and senior subordinated notes

On June 16, 2014, MSI issued an additional $250 million of our 5.875% Senior Subordinated Notes maturing in 2020 ("2020 Senior Subordinated Notes") at 102% of face value. On July 2, 2014, MSI also issued an additional $850 million of debt under our existing term loan facility at 99.5% of face value and maturing in 2020 ("Additional Term Loan"). The net proceeds from these borrowings were used to fully redeem the outstanding 7.75% Senior Notes due 2018 ("Senior Notes") and to pay the applicable make-whole premium and accrued interest on the Senior Notes. In accordance with Accounting Standards Codification ("ASC") 470, *Debt ("*ASC 470"), the Company capitalized $19 million of costs related to the issuance of the 2020 Senior Subordinated Notes and the Additional Term Loan. In accordance with ASC 470, we recorded a loss on the early extinguishment of debt of $56 million related to the redemption of the Senior Notes. The $56 million loss consisted of $51 million of redemption premiums and $10 million to write off related debt issuance costs. This loss was partially offset by a $5 million write off of unamortized net premiums.

PIK toggle notes

On July 2, 2014, the Company completed an IPO and received net proceeds totaling $446 million. The proceeds were used to redeem $439 million of our then outstanding PIK Notes and to pay other expenses of the offering. In accordance with ASC 470, we recorded a loss on the early extinguishment of debt of $12 million related to the redemption of the PIK Notes. The $12 million loss consisted of a $4 million redemption premium and an $8 million write off of related debt issuance costs.

On November 10, 2014, an irrevocable notice of redemption was delivered to the holders of the PIK Notes. Pursuant to the notice, $180 million in principal of the PIK Notes will be redeemed on December 10, 2014 and has been classified as current debt in the consolidated balance sheets. We expect the debt extinguishment costs related to the redemption of the PIK Notes to be approximately $7 million.

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Restated Revolving Credit Facility

As of November 1, 2014, the borrowing base of our restated senior secured asset-based revolving credit facility ("Restated Revolving Credit Facility") totaled $650 million, of which we had no outstanding borrowings, $62 million of outstanding letters of credit and $588 million of unused borrowing capacity.

Debt issuance costs

Accumulated amortization of debt issuance costs was $53 million, $56 million, and $57 million as of November 1, 2014, February 1, 2014, and November 2, 2013, respectively.

4. Accumulated other comprehensive income (loss)

The following table includes detail regarding changes in the composition of accumulated other comprehensive income (loss) (in millions):

	13 Weeks ended		39 Weeks ended	
	November 1, 2014	November 2, 2013	November 1, 2014	November 2, 2013
Beginning of period	1	4		6
Foreign currency translation adjustment and other	(3)		(2)	(2)
End of period	$ (2)	$ 4	$ (2)	$ 4

5. Fair value measurements

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

Level 1 Quoted prices for *identical* instruments in active markets;

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

Level 3 Instruments with significant unobservable inputs.

The table below provides the carrying and fair values of our senior secured term loan facility ("Restated Term Loan Credit Facility"), our 2020 Senior Subordinated Notes and our PIK Notes. The fair value of our Restated Term Loan Credit Facility was determined based on quoted market prices of similar instruments which are considered Level 2 inputs within the fair value hierarchy. The fair values of our notes were determined based on recent trades which are considered Level 1 inputs within the fair value hierarchy.

	November 1, 2014	
	Carrying value	Fair value
	(In millions)	
Senior secured term loan	$ 2,460	$ 2,427
Senior subordinated notes	515	514
PIK notes	361	367

6. Income taxes

The effective tax rate was 36.0% and 35.6% for the third quarters of fiscal 2014 and fiscal 2013, respectively. The increase in the effective tax rate in the third quarter of fiscal 2014 was due primarily to fewer credits under the Work Opportunity Tax Credit program.

The effective tax rate for the first nine months of fiscal 2014 was 41.9% compared to 36.0% in the same period in the prior year. The effective tax rate for the first nine months of fiscal 2014 is higher than the prior year primarily due to a change in status of our Canadian subsidiary, which resulted in the write off of certain deferred tax assets. In addition, the prior year includes state tax credits due to a change in tax law. We currently estimate our annualized effective tax rate for fiscal 2014 to be approximately 39%.

7. Contingencies

Rea claim

On September 15, 2011, MSI was served with a lawsuit filed in the California Superior Court in and for the County of Orange ("Superior Court") by four former store managers as a class action proceeding on behalf of themselves and certain former and current store managers employed by MSI in California. The lawsuit alleges that MSI improperly classified its store managers as exempt employees and as such failed to pay all wages, overtime and waiting time penalties and failed to provide accurate wage statements. The lawsuit also alleges that the foregoing conduct was in breach of various laws, including California's unfair competition law. On December 3, 2013, the Superior Court entered an Order certifying a class of approximately 200 members. MSI successfully removed the case to the United States District Court for the Central District of California and on May 8, 2014, the class was de-certified. As a result of the decertification, we have approximately 50 individual claims pending. We believe we have meritorious defenses and intend to defend the lawsuits vigorously. We do not believe the resolution of the lawsuits will have a material effect on our consolidated financial statements.

Data security incident

Four putative class actions were filed against MSI relating to the January 2014 data breach. The plaintiffs generally allege MSI failed to secure and safeguard customers' private information including credit and debit card information, and as such, breached an implied contract, and violated the Illinois Consumer Fraud Act (and other states' similar laws) and are seeking damages including declaratory relief, actual damages, punitive damages, statutory damages, attorneys' fees, litigation costs, remedial action, pre and post judgment interest and other relief as available. The cases are as follows: *Christina Moyer v. Michaels Stores, Inc*., was filed on January 27, 2014; *Michael and Jessica Gouwens v. Michaels Stores, Inc*., was filed on January 29, 2014; *Nancy Maize and Jessica Gordon v. Michaels Stores, Inc*., was filed on February 21, 2014; and *Daniel Ripes v. Michaels Stores, Inc*., was filed on March 14, 2014. All four of these cases were filed in the United States District Court-Northern District of Illinois, Eastern Division. On April 16, 2014, an order was entered consolidating the current actions. On July 14, 2014, the Company's motion to dismiss the consolidated complaint was granted. On August 11, 2014, plaintiffs filed a motion to alter or amend the judgment, which was denied on October 14, 2014. The deadline to file a notice of appeal expired on November 13, 2014.

On March 18, 2014, an additional putative class action was filed related to the January 2014 data breach, *Mary Jane Whalen v. Michaels Stores, Inc.*, but was voluntarily dismissed by the plaintiff on April 11, 2014 without prejudice to her right to re-file a complaint. On December 2, 2014, the plaintiff filed a new lawsuit against MSI related to the data breach in the United States District Court for the Eastern District of New York, *Mary Jane Whalen v. Michaels Stores, Inc.*, seeking damages including declaratory relief, monetary damages, statutory damages, punitive damages, attorneys' fees and costs, injunctive relief, pre and post judgment interest and other relief as available. The Company intends to defend the lawsuit vigorously. We cannot reasonably estimate the potential loss, or range of loss, related to the lawsuit, if any.

In connection with the breach, payment card companies and associations may seek to require us to reimburse them for unauthorized card charges and costs to replace cards and may also impose fines or penalties in connection with the data breach, and enforcement authorities may also impose fines or other remedies against us. We have also incurred other costs associated with the data breach, including legal fees, investigative fees, costs of communications with customers and credit monitoring services provided to our customers. In addition, state and federal agencies, including states' attorneys general and the Federal Trade Commission may investigate events related to the data breach, including how it occurred, its consequences and our responses. Although we intend to cooperate in these investigations, we may be subject to fines or other obligations, which may have an adverse effect on how we operate our business and our results of operations. We cannot reasonably estimate the potential loss or range of loss related to any reimbursement costs, fines or penalties that may be assessed, if any.

California zip code claims

On August 15, 2008, Linda Carson, a consumer, filed a purported class action proceeding against MSI 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 lawsuit alleges that MSI unlawfully requested and recorded personally identifiable information (i.e., her zip code) as part of a credit card transaction. The plaintiff seeks statutory penalties, costs, interest, and attorneys' fees. On February 10, 2011, the California Supreme Court ruled, in a similar matter, *Williams-Sonoma v. Pineda*, 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.

Subsequent to the California Supreme Court decision, three additional purported class action lawsuits seeking similar relief have been filed against MSI: *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. An order coordinating the cases has been entered and plaintiffs filed a Consolidated Complaint on April 24, 2012. The parties settled the lawsuit for an amount that will not have a material effect on our consolidated financial statements. On August 6, 2014, the Court granted final approval of the settlement.

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General

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

For some of the matters disclosed above, as well as other matters previously disclosed in the Company's filings with the SEC, the Company is able to estimate a range of losses in excess of the amounts recorded, if any, in the accompanying financial statements. The aggregate estimated loss is approximately $10 million, which includes amounts recorded by the Company.

8. Segments and geographic information

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

Our net sales by country are as follows (in millions):

	13 Weeks ended November 1, 2014	13 Weeks ended November 2, 2013	39 Weeks ended November 1, 2014	39 Weeks ended November 2, 2013
United States	$ 1,018	$ 1,013	$ 2,829	$ 2,731
Canada	112	105	301	284
Net sales	$ 1,130	$ 1,118	$ 3,130	$ 3,015

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

	13 Weeks ended November 1, 2014	13 Weeks ended November 2, 2013	39 Weeks ended November 1, 2014	39 Weeks ended November 2, 2013
Net income	$ 64	$ 47	$ 61	$ 110
Interest expense	41	62	159	154
Provision for income taxes	36	26	44	62
Losses on early extinguishments of debt and refinancing cost			68	7
Depreciation and amortization	29	24	82	74
EBITDA (excluding losses on early extinguishments of debt and refinancing costs)	$ 170	$ 159	$ 414	$ 407

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9. Related party transactions

Bain Capital Partners, LLC ("Bain Capital") and The Blackstone Group L.P. ("The Blackstone Group", together with Bain Capital, the "Sponsors") owned approximately 80% of our outstanding common stock as of November 1, 2014. Prior to our IPO on July 2, 2014, the Sponsors and another common stockholder, Highfields Capital Management LP ("Highfields"), received annual management fees of $12 million and $1 million, respectively. In connection with the IPO, the management agreement was terminated and the Company paid the Sponsors and Highfields an aggregate $30 million termination fee. We recognized no related party expenses in the third quarter of fiscal 2014 and $3 million of expenses related to management fees during the third quarter of fiscal 2013. During the nine months ended November 1, 2014 and November 2, 2013, we recognized management fees totaling $35 million and $10 million, respectively. These expenses are included in related party expenses in the consolidated statements of comprehensive income.

The Blackstone Group owns a majority equity position in Brixmor Properties Group, a vendor we utilize to lease certain properties. Payments associated with this vendor during each of the third quarters of fiscal 2014 and fiscal 2013 totaled $1 million. Payments made during the nine months ended November 1, 2014 and November 2, 2013 totaled $2 million and $3 million, respectively. These expenses are included in cost of sales and occupancy expense in the consolidated statements of comprehensive income.

The Blackstone Group owns a majority equity position in RGIS, an external vendor we utilize to count our store inventory. Payments associated with this vendor during each of the third quarters of fiscal 2014 and fiscal 2013 totaled $2 million. Payments made during the nine months ended November 1, 2014 and November 2, 2013 totaled $6 million and $5 million, respectively. These expenses are included in selling, general and administrative in the consolidated statements of comprehensive income.

The Blackstone Group owns a majority equity position in Vistar, an external vendor we utilize for all of the candy-type items in our stores. Payments associated with this vendor during the third quarters of fiscal 2014 and fiscal 2013 totaled $4 million and $5 million, respectively. Payments made during the nine months ended November 1, 2014 and November 2, 2013 totaled $15 million and $17 million, respectively. These expenses are recognized in cost of sales as merchandise is sold.

The Blackstone Group owns a majority equity position in Hilton Hotels, an external vendor we utilize for hospitality services. Payments associated with this vendor during the third quarter of fiscal 2014 and the nine months ended November 1, 2014 totaled $1 million. There were minimal payments made during fiscal 2013. These expenses are included in selling, general and administrative in the consolidated statements of comprehensive income.

Six of our current directors, Joshua Bekenstein, Todd M. Cook, Nadim El Gabban, Lewis S. Klessel, Matthew S. Levin and Peter F. Wallace, are affiliates of Bain Capital or The Blackstone Group. As such, some or all of such directors may have an indirect material interest in payments with respect to debt securities of the Company that have been purchased by affiliates of Bain Capital or The Blackstone Group. As of November 1, 2014, affiliates of The Blackstone Group held approximately $56 million of our Restated Term Loan Credit Facility.

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10. Condensed consolidated financial information

Our debt covenants restrict MSI, and certain subsidiaries of MSI, from various activities including the incurrence of additional debt, payment of dividends and the repurchase of MSI's capital stock (subject to certain exceptions), among other things. The following condensed consolidated financial information represents the financial information of MSI and its wholly-owned subsidiaries. The information is presented in accordance with the requirements of Rule 12-04 under the SEC's Regulation S-X. In addition, disclosure requirements of Rule 12-04 of Regulation S-X regarding material contingencies and long-term obligations are included in Note 3. Debt, Note 6. Income taxes, and Note 7. Contingencies, where applicable.

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Michaels Stores, Inc.
Condensed consolidated balance sheets

	November 1, 2014	February 1, 2014	November 2, 2013
		(In millions)	
ASSETS			
Current assets:			
Cash and equivalents	$ 189	$ 234	$ 68
Merchandise inventories	1,116	901	1,119
Prepaid expenses and other	99	97	100
Deferred income taxes	37	39	38
Income tax receivables	11	2	20
Total current assets	1,452	1,273	1,345
Property and equipment, net	377	358	353
Goodwill	94	94	94
Debt issuance costs, net	40	37	38
Deferred income taxes	23	28	29
Long-term receivable from Parent	8	8	5
Other assets	3	3	2
Total assets	$ 1,997	$ 1,801	$ 1,866
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	$ 504	$ 368	$ 467
Accrued liabilities and other	359	377	342
Share-based compensation liability			21
Current portion of long-term debt	25	16	203
Dividend payable to Holdings		30	
Deferred income taxes		1	4
Income taxes payable	1	42	6
Total current liabilities	889	834	1,043
Long-term debt	2,950	2,878	2,878
Share-based compensation liability			28
Other liabilities	89	90	88
Total stockholders' deficit	(1,931)	(2,001)	(2,171)
Total liabilities and stockholders' deficit	$ 1,997	$ 1,801	$ 1,866

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Michaels Stores, Inc.
Condensed consolidated statements of comprehensive income

	13 Weeks ended November 1, 2014	13 Weeks ended November 2, 2013	39 Weeks ended November 1, 2014	39 Weeks ended November 2, 2013
	(In millions)			
Net sales	$ 1,130	$ 1,118	$ 3,130	$ 3,015
Cost of sales and occupancy expense	678	665	1,892	1,816
Gross profit	452	453	1,238	1,199
Selling, general, and administrative	303	309	854	835
Share-based compensation	4	4	10	15
Related party expenses		3	35	10
Store pre-opening costs	2	2	4	5
Operating income	143	135	335	334
Interest expense	35	45	121	137
Losses on early extinguishment of debt and refinancing costs			56	7
Other expense, net	1		1	1
Income before income taxes	107	90	157	189
Provision for income taxes	39	32	63	68
Net income	68	58	94	121
Other comprehensive income, net of tax:				
Foreign currency translation adjustment and other	(3)		(2)	(2)
Comprehensive income	$ 65	$ 58	$ 92	$ 119

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Michaels Stores, Inc.
Condensed consolidated statement of cash flows

	39 Weeks ended November 1, 2014	November 2, 2013
	(In millions)	
Cash flows provided by operating activities:		
Net cash provided by operating activities	$ 101	$ 74
Cash flows used in investing activities:		
Cash paid for property and equipment	(103)	(82)
Cash flows from financing activities:		
Net repayments of debt	(1,095)	(353)
Net borrowings of debt	1,113	389
Payment of dividend to Holdings	(60)	
Other financing activities	(1)	(16)
Net cash (used in) provided by financing activities	(43)	20
Net change in cash and equivalents	(45)	12
Cash and equivalents at beginning of period	234	56
Cash and equivalents at end of period	$ 189	$ 68

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18,800,000 shares

The Michaels Companies, Inc.

Common stock

J.P. Morgan
Barclays

Goldman, Sachs & Co.

Deutsche Bank Securities

BofA Merrill Lynch **Credit Suisse** **Morgan Stanley** **Wells Fargo Securities**

Guggenheim Securities **Macquarie Capital**

Nomura
Piper Jaffray
Raymond James
Stephens Inc.
SunTrust Robinson Humphrey

Ramirez & Co., Inc. **Telsey Advisory Group** **The Williams Capital Group, L.P.**