UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended January 30, 2021

Commission file number 001-36501

THE MICHAELS COMPANIES, INC.

A Delaware Corporation

IRS Employer Identification No. 37-1737959

3939 West John Carpenter Freeway
Irving, Texas 75063

(972) 409-1300

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.06775 par value	MIK	Nasdaq Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

The Michaels Companies, Inc. is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

The Michaels Companies, Inc. (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

The Michaels Companies, Inc. has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

The Michaels Companies, Inc. is an accelerated filer.

The Michaels Companies, Inc. is not (1) a shell company, (2) a small reporting company or (3) an emerging growth company (as defined in Rule 12b-2 of the Exchange Act).

The aggregate market value of The Michaels Companies, Inc.'s common stock held by non-affiliates as of August 1, 2020 was approximately $ 530,710,971 based upon the closing sales price of $7.18 quoted on The Nasdaq Global Select Market as of July 31, 2020. For this purpose, directors and officers have been assumed to be affiliates.

The Michaels Companies, Inc. has filed a report on and attestation to management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

As of February 25, 2021, 141,610,518 shares of The Michaels Companies, Inc.'s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The registrant will incorporate by reference information required in response to Part III, items 10-14, from its definitive proxy statement for its annual meeting of shareholders, to be held on June 9, 2021.

THE MICHAELS COMPANIES, INC.
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PART I

ITEM 1. BUSINESS.

The following discussion, as well as other portions of this Annual Report on Form 10-K, contains forward-looking statements that reflect our plans, estimates and beliefs. Any statements contained herein (including, but not limited to, statements to the effect that Michaels or its management "anticipates", "plans", "estimates", "expects", "believes", "intends", and other similar expressions) that are not statements of historical fact should be considered forward-looking statements and should be read in conjunction with our consolidated financial statements and related notes contained elsewhere in this report. Specific examples of forward-looking statements include, but are not limited to, statements regarding our pending acquisition by Apollo and the expected timing of completion of the transaction, forecasts of financial performance, store openings, capital expenditures and working capital requirements. Our actual results could materially differ from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Annual Report on Form 10-K and particularly in "Item 1A. Risk Factors" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations". Unless the context otherwise indicates, references in this Annual Report on Form 10-K to "we", "our", "us", "our Company", "the Company", and "Michaels" mean The Michaels Companies, Inc., together with its subsidiaries.

General

The Michaels Companies, Inc., with $5.3 billion in sales in fiscal 2020, is the largest arts and crafts specialty retailer in North America (based on store count) providing materials, project ideas and education for creative activities. Our mission is to inspire and enable customer creativity, create a fun and rewarding place to work, foster meaningful connections with our communities and lead the industry in growth and innovation. With crafting classes, store events, store displays, mobile applications and online videos, we offer an omnichannel shopping experience that can inspire creativity and build confidence in our customers' artistic abilities.

As of January 30, 2021, we operated 1,252 Michaels retail stores in 49 states and Canada, with approximately 18,000 average square feet of selling space per store.

In March 2020, the World Health Organization declared the current COVID-19 outbreak to be a global pandemic. In response to the pandemic, many state and local jurisdictions ordered non-essential businesses closed and executed extensive stay-at-home orders. These orders resulted in the temporary closure of over 900 of our 1,252 stores which had a material adverse impact on our results of operations during the first quarter of fiscal 2020. During the second quarter of fiscal 2020, we reopened all of our stores and experienced a significant improvement in our business as net sales increased 12.4% during the preceding nine month period ending January 30, 2021 compared to the same period in the prior year. Our liquidity position, which includes cash on hand and amounts available under our senior secured asset-based revolving credit facility ("Amended Revolving Credit Facility"), increased from $1.2 billion as of February 1, 2020 to $1.7 billion as of January 30, 2021. However, there remains significant uncertainty surrounding the future impact of the COVID-19 pandemic on our results of operations, and future waves of the pandemic could require us to close stores again if certain restrictions are reinstated by state and local authorities. We intend to continue to manage our liquidity position closely and invest in our omnichannel capabilities to meet the growing customer demand for a seamless omnichannel experience.

In May 2020, the Company adopted a plan to close our Darice wholesale operations ("Darice"). As a result of the closure, we recorded a charge totaling $45.2 million in fiscal 2020, consisting primarily of a $37.3 million charge in gross profit related to the liquidation of inventory and $7.9 million included in selling, general and administrative associated with the write-off of indefinite-lived intangible assets and employee-related expenses. The closure of Darice was completed in the fourth quarter of fiscal 2020. In fiscal 2020 and fiscal 2019, Darice's net sales totaled $37.6 million and $79.9 million, respectively. Excluding the charges, Darice did not have a material impact on the Company's operating income in the periods presented.

In fiscal 2020, we recorded impairment charges totaling $28.8 million, consisting of $19.4 million related to the closure of 13 underperforming stores and $9.4 million primarily related to the relocation of our corporate offices in Irving, Texas. The impairment charges include $22.8 million related to operating lease assets and $6.0 million related to leasehold improvements and inventory.

During fiscal 2019, we identified impairment indicators within Darice that were primarily due to a deterioration in sales associated with overall declining demand from customers. These indicators led us to revise Darice's forecasted sales downward and resulted in a significantly lower operating plan in fiscal 2019. As a result, we performed impairment tests on Darice's goodwill, indefinite and definite-lived intangible assets and long-lived assets, including operating lease assets. As a result of this impairment testing, we recorded an impairment charge of $40.1 million in fiscal 2019, consisting of $17.8 million related to goodwill, $14.4 million related to long-lived assets, including operating lease assets, and $7.9 million related to indefinite and definite-lived intangible assets.

In November 2019, the Company acquired certain intangible assets from A.C. Moore Incorporated for $61.9 million, including customer relationships and tradenames totaling $55.9 million and $5.2 million, respectively. In connection with the transaction, we also leased a distribution facility in New Jersey and 17 store locations. The store locations will be reopened under the Michaels brand name during fiscal 2020 and fiscal 2021, including the relocation of certain existing Michaels stores. We believe the transaction will enable us to expand our presence in strategic markets and better serve our customers both online and in stores.

In January 2019 and March 2018, we closed our Pat Catan's and Aaron Brothers stores, respectively. As a result of the store closures, we recorded restructure charges of $8.2 million and $98.9 million in fiscal 2019 and fiscal 2018, respectively. The restructure charges in fiscal 2019 are primarily related to employee-related expenses and the impairment of an indefinite-lived intangible asset. The restructure charges in fiscal 2018 primarily related to the transfer of the rights to sell inventory and other assets to a third party to facilitate the store closures and assist with the disposition of our remaining lease obligations, the impairment of goodwill and employee-related expenses.

During fiscal 2018, Pat Catan's net sales totaled $109.6 million and Aaron Brothers net sales totaled $12.9 million. Excluding the restructure charges, Aaron Brothers and Pat Catan's did not have a material impact on the Company's operating income in all fiscal periods presented in the consolidated financial statements.

In addition, we recorded $5.3 million of employee-related charges in fiscal 2018 as a result of certain organizational changes made to streamline our operations at our corporate support center.

Pending Acquisition by Apollo

On March 2, 2021, the Company entered into an Agreement and Plan of Merger ("Merger Agreement") with certain affiliates of Apollo Global Management (such affiliates, "Apollo"), pursuant to which Apollo will acquire the Company. Under the Merger Agreement, and upon the terms and subject to the conditions thereof, Apollo will commence a tender offer to acquire all outstanding shares of Michaels for $22.00 per share in cash. If certain conditions are satisfied and the offer closes, Apollo will acquire all remaining shares not tendered in the tender offer through a second-step merger at the same price. The tender offer will initially remain open for twenty business days, subject to possible extension on the terms set forth in the Merger Agreement. The parties currently expect the acquisition to be completed during the first half of fiscal 2021. Apollo's obligations to complete the acquisition are subject to certain customary closing conditions, including a majority of the outstanding shares of Michaels common stock having been tendered and not validly withdrawn, the expiration of a twenty-five day go-shop period, compliance with certain antitrust requirements in the United States and Canada, and the completion of a specified marketing period for Apollo's debt financing of the offer price. The Merger Agreement also provides that the acquisition agreement may be terminated by us or Apollo under certain circumstances, and in certain specified circumstances upon termination of the Merger Agreement we will be required to pay Apollo a termination fee of up to $104 million. The anticipated acquisition of the Company by Apollo is described more fully in our Current Report on Form 8-K filed with the SEC on March 3, 2021. This summary of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Merger Agreement filed as Exhibit 2.1 to this Annual Report.

Merchandising

Michaels. Each Michaels store offers approximately 45,000 basic and seasonal stock-keeping units ("SKUs") in a number of product categories. The following table shows a breakdown of sales for Michaels stores by department as a percentage of total net sales:

	Fiscal Year		
	2020	**2019**	**2018**
General crafts	47 %	47 %	48 %
Home décor and seasonal	22	23	24
Custom and ready-made framing	16	16	16
Papercrafting	15	14	12
	100 %	100 %	100 %

We have category merchant, product development, sourcing and design teams focused on quality, innovation and cost mitigation. Our internal product development and global sourcing teams position us to deliver a differentiated level of innovation, quality and value to our customers. Our global sourcing network allows us to control new product introductions, maintain quality standards, monitor delivery times, and manage product costs and inventory levels to enhance profitability. In an industry with few well-known national brands, our private brands are recognized as a leader in many categories. We continue to expand our private brands and improve the selection of products we design, develop and deliver to our customers. Our Michaels' private brands totaled approximately 59% of net sales in fiscal 2020 and include, among others, Recollections®, Studio Decor®, Bead Landing®, Creatology®, Ashland®, Celebrate It®, ArtMinds®, Artist's Loft®, Craft Smart® and Loops & Threads®.

We continue to search for ways to leverage our position as a market leader by establishing strategic partnerships and exclusive product relationships to provide our customers with exciting merchandise. We have partnerships with popular brands such as Crayola, Elmer's and Cricut. We will continue to explore opportunities to form future partnerships and exclusive product associations.

E-commerce. Our e-commerce business provides an important avenue to communicate with our customers in an interactive way that reinforces the Michaels brand and drives traffic to our stores and websites. We continue to strengthen our omnichannel offering with the expansion of our buy online, pick up in store capabilities and the introduction of curbside pick-up and same-day-delivery during fiscal 2020. We also continue to enhance our existing platforms to improve discoverability, product content and personalization of customer messaging that will deliver a superior customer experience. Our online platforms, which offer over 100,000 basic and seasonal SKUs, currently include Michaels.com, Canada.Michaels.com, michaelscustomframing.com (our online custom framing solution) and our Michaels app, which connects our store and online experiences.

Purchasing and Inventory Management

We purchase merchandise from a variety of different vendors primarily through our wholly-owned subsidiary, Michaels Stores Procurement Company, Inc. We believe our buying power and ability to make centralized purchases enable us to acquire products on favorable terms. Centralized merchandising management teams negotiate with vendors in an attempt to obtain the lowest merchandise costs and to improve product mix and inventory levels. In fiscal 2020, there were no vendors who accounted for more than 10% of total purchases.

We have also developed direct sourcing capabilities through our wholly-owned subsidiary, Darice International Sourcing Group. We believe our direct sourcing operation allows us to maintain greater control over the manufacturing process, resulting in improved product quality and lower costs. In addition, our stores purchase custom frames, framing supplies and mats from our wholly-owned subsidiary, Artistree, Inc. ("Artistree"), which consists of a manufacturing facility and three regional processing centers.

The majority of the products sold in our stores are manufactured in Asia. Goods manufactured in Asia generally require long lead times and are ordered two to four months in advance of delivery. Those products are either imported directly by us or acquired from distributors based in the U.S.

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

Artistree

We own and operate Artistree, a vertically-integrated framing operation which supplies precut mats and high quality custom framing merchandise in our stores and on michaelscustomframing.com. We believe Artistree provides a competitive advantage and gives us quality control over the entire framing process. Custom framing orders are processed and shipped to our stores where the custom frame order is completed for customer pick-up.

Our moulding manufacturing plant, located in Kernersville, North Carolina, converts lumber into finished frame moulding that is used at our regional processing centers to fulfill custom framing orders for our customers. We manufacture approximately 38% of the moulding that we process and import approximately 56% from quality manufacturers in Indonesia, Malaysia, Spain and Italy. The remaining mouldings are purchased from domestic manufacturers.

We operate three regional processing centers located in DFW Airport, Texas; Kernersville, North Carolina; and Mississauga, Ontario. Combined, these facilities occupy approximately 489,000 square feet and, in fiscal 2020, processed 18.7 million linear feet of frame moulding and 2.8 million individual custom cut mats and foam boards for our customers. Our precut mats and custom frame supplies are packaged and distributed out of our DFW Airport regional processing center.

Distribution

We currently operate eight distribution centers to supply our stores with merchandise. Approximately 94% of our stores' merchandise receipts are shipped through the distribution network with the remainder shipped directly from vendors to stores. Our distribution centers are located in California, Florida, Illinois, Ohio, Pennsylvania, Texas and Washington. In fiscal 2020, we began work on additional distribution centers in California and New Jersey which are expected to begin operations in the second half of fiscal 2021. We also began to wind down operations in our Ohio distribution centers which were primarily used for our discontinued wholesale business. In fiscal 2021, we plan to operate eight distribution centers in direct support of Michaels sales channels, and sublease our Ohio distribution centers.

Our distribution facilities use warehouse management and control software systems to maintain and support the efficient movement of product through our supply chain. Store replenishment is performed using pick-to-light and radio frequency processing technologies as well as other common material handling equipment. Product is delivered to stores using both a dedicated fleet of trucks and contract carriers.

Marketing

We employ a multi-faceted marketing strategy to increase brand awareness, acquire new customers, improve customer retention and increase frequency of shopping. We communicate with our current and prospective customers through multiple channels, including direct mail, email, newspaper inserts, television and digital advertising.

We continue to develop and leverage our customer data analytic capabilities to drive a more customer-centric strategy through targeted marketing and promotions. We believe that targeted marketing and promotions play an important role in today's retail environment by improving the impact of digital media, email, coupons and promotional events. In fiscal 2020, we expanded our loyalty program, Michaels Rewards, enabling customers to earn rewards on purchases that can be redeemed for discounts on future purchases. Michaels Rewards also offers customers tailored, exclusive offers and events such as sneak peeks for new product, early alerts for big sales and receipt-free returns. Michaels Rewards continues to grow and has surpassed 46 million customers. The program adds to our customer database and, we believe, will allow

us to further target our marketing and promotions more effectively. We believe the expansion of our rewards program is an important tool to increase retention of existing customers and enhance their loyalty to the Michaels brand.

Seasonality

Our business is highly seasonal, with higher sales in the third and fourth fiscal quarters. Our fourth quarter, which includes the Holiday selling season, has on average accounted for approximately 34% of our net sales and approximately 48% of our operating income.

Our Industry

According to internal market research, approximately 53% of U.S. households participated in at least one crafting project during 2018, which represented approximately 67 million households. This research indicated that crafting activities continue to enjoy broad based popularity and market size has been stable, valued at approximately $36 billion. We believe the broad, multi-generational appeal, high personal attachment and the low-cost, project-based nature of crafting creates a loyal, resilient following.

Store Expansion and Relocation

The following table shows the number of stores open during each of the last five years:

	Fiscal Year				
	2020	2019	2018	2017	2016
Michaels stores:					
Open at beginning of period	1,274	1,258	1,238	1,223	1,196
New stores	6	21	24	17	32
Relocated stores opened	8	13	21	12	14
Closed stores	(25)	(5)	(4)	(2)	(5)
Relocated stores closed	(11)	(13)	(21)	(12)	(14)
Open at end of period	1,252	1,274	1,258	1,238	1,223
Aaron Brothers stores:					
Open at beginning of period	—	—	97	109	117
New stores	—	—	—	—	1
Closed stores	—	—	(97)	(12)	(9)
Open at end of period	—	—	—	97	109
Pat Catan's stores:					
Open at beginning of period	—	—	36	35	—
Acquired stores	—	—	—	—	32
New stores	—	—	—	1	3
Relocated stores opened	—	—	—	—	1
Closed stores	—	—	(36)	—	—
Relocated stores closed	—	—	—	—	(1)
Open at end of period	—	—	—	36	35
Total store count at end of period	1,252	1,274	1,258	1,371	1,367

We believe, based on an internal real estate and market penetration study of Michaels stores, that the combined U.S. and Canadian markets can support between 1,300 and 1,400 Michaels stores. We plan to open approximately 33 Michaels stores, including approximately 10 relocations, in fiscal 2021. We continue to pursue a store relocation program to improve the real estate location quality and performance of our store base. During fiscal 2021, we plan to close up to 15 Michaels stores. Many of our store closings are stores that have reached the end of their lease term. We believe our ongoing store evaluation process results in strong performance across our store base.

Our store operating model, which is based on historical store performance, assumes an average store size of approximately 18,000 square feet of selling space. Our fiscal 2020 average initial net investment, which varies by site and

specific store characteristics, was $0.5 million per store, including store build-out costs, pre-opening expenses and average first year inventory.

Human Capital

As of January 30, 2021, we employed approximately 45,000 team members, including approximately 41,000 who work in the United States with the remaining working in Canada and China. We employ approximately 34,000 team members on a part-time basis. Due to the seasonal nature of the retail business, the number of part-time team members substantially increases during the Holiday selling season. Of our full-time team members, approximately 4,000 are engaged in various executive, operating, administrative functions in our support center, division offices and distribution centers and the remainder are engaged in store operations. None of our team members are subject to a collective bargaining agreement. We offer a broad range of company paid benefits to our team members including medical and dental plans, paid vacation, a 401(k) plan, disability insurance, team member assistance programs, life insurance and a team member discount. The level of benefits and eligibility vary depending on the team members' full-time or part-time status, date of hire, length of service or level of pay. We believe that to succeed as a business we must maintain an inclusive culture that fosters high team member engagement and standards of ethical conduct, provides ongoing development opportunities, and provides a safe working environment. We have taken numerous measures to meet these objectives including providing ongoing learning and mentoring programs, establishing Michaels Resource Groups to raise awareness and promote education of different cultures and lifestyles, and regularly updating and distributing our Code of Business Conduct and Ethics policies to all team members. We also perform ongoing reviews of our safety protocols, including extensive efforts undertaken during the COVID-19 pandemic to ensure the health and safety of our team members by performing frequent cleanings, ensuring social distancing and providing masks for all of our stores.

Competition

We are the largest arts and crafts specialty retailer in North America based on store count. The market in which we compete is highly fragmented and includes stores across the U.S. and Canada operated primarily by small, independent retailers along with a few regional and national chains. We believe customers choose where to shop based upon store location, breadth of selection, price, quality of merchandise, availability of product and customer service. We compete with many different types of retailers and classify our competition within the following categories:

- *Multi-store chains.* This category consists of several multi-store chains, each operating more than100 stores, including: Hobby Lobby Stores, Inc., which operates approximately 930 stores in 47 states and Jo-Ann Stores, Inc., which operates approximately 870 stores in 49 states. We believe these chains are smaller than Michaels with respect to net sales.

- *Mass merchandisers.* This category of retailers typically dedicate a portion of their selling space to a limited selection of home décor, arts and crafts supplies and seasonal merchandise, but they do seek to capitalize on the latest trends by stocking products that are complementary to those trends and their current merchandise offerings. These mass merchandisers generally have limited customer service staffs with minimal experience in crafting projects.

- *Small, local specialty retailers.* This category includes local independent arts and crafts retailers and custom framing shops. Typically, these stores are single-store operations managed by the owner. These stores generally have limited resources for advertising, purchasing and distribution. Many of these stores have established a loyal customer base within a given community and compete based on relationships and customer service.

- *Internet.* This category includes all internet-based retailers that sell arts and crafts merchandise, completed projects and online custom framing. Our internet competition is inclusive of those companies discussed in the categories above, as well as others that may only sell products online. These retailers provide consumers with the ability to search and compare products and prices without having to visit a physical store. These sellers generally offer a wide variety of products but do not offer product expertise or project advice.

Trademarks and Service Marks

As of January 30, 2021, we own or have rights to trademarks, service marks or trade names we use in connection with the operation of our business, including “Aaron Brothers”, “Artistree”, “Darice”, “Michaels”, “Michaels the Arts and Crafts Store”, “Pat Catan’s”, “Recollections”, “Make Creativity Happen”, “Where Creativity Happens”, and the stylized Michaels logo. We have registered our primary private brands including Recollections®, Studio Decor®, Bead Landing®, Creatology®, Ashland®, Celebrate It®, ArtMinds®, Artist’s Loft®, Craft Smart®, Loops & Threads®, Simply Tidy, Make Market®, Foamies®, LockerLookz®, Imagin8® and various sub-brands associated with these primary marks. Solely for convenience, some of the trademarks, service marks and trade names referred to in this Annual Report on Form 10-K are listed without the copyright, trademark and registered trademark symbols, but we will assert, to the fullest extent under applicable law, our rights to our copyrights, trademarks, service marks, trade names and domain names.

Available Information

We provide links to our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports, and other documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), on our internet website, free of charge, at *www.michaels.com* under the heading “Investor Relations”. These reports are available after we electronically file them with the Securities and Exchange Commission (“SEC”) through the SEC’s EDGAR system at *www.sec.gov.*

We use our website *(www.michaels.com)* as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation Fair Disclosure promulgated by the SEC. These disclosures are included on our website in the “Investor Relations” section. Accordingly, investors should monitor this portion of our website, in addition to following our press releases, SEC filings, public conference calls and webcasts.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on the investor relations section of our website. Additionally, we provide notifications of news or announcements regarding press and earnings releases as part of the investor relations section of our website. The contents of our website are not part of this Annual Report on Form 10-K, or any other report we file with, or furnish to, the SEC.

ITEM 1A. RISK FACTORS.

Our business is subject to various risks and uncertainties. The risks described below are those we believe are the material risks we face. Any of the risk factors described below, as well as risks not currently known to us, could significantly and adversely affect our business, cash flows, financial condition, results of operations, liquidity or access to sources of financing.

Risks related to our business and industry

We face risks related to the effect of economic uncertainty.

In the event of an economic downturn or slow recovery, our growth prospects, results of operations, cash flows and financial condition could be adversely impacted. Our stores offer arts and crafts supplies and products for the crafter and custom framing for the do-it-yourself home decorator, which are viewed as discretionary items. Pressure on discretionary income brought on by economic downturns and slow recoveries, including housing market declines, rising energy prices and weak labor markets, may cause consumers to reduce the amount they spend on discretionary items. The inherent uncertainty related to predicting economic conditions makes it difficult for us to accurately forecast future demand trends, which could cause us to purchase excess inventories, resulting in increases in our inventory carrying cost, or limit our ability to satisfy customer demand and potentially lose market share.

Changes in customer demand could materially adversely affect our sales, results of operations and cash flow.

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

conditions, economic instability and consumer confidence volatility could have material adverse impacts on our sales and operating results.

Competition, including internet-based competition, could negatively impact our business.

The retail arts and crafts industry, including custom framing, is competitive, which could result in pressure to reduce prices and losses in our market share. We must remain competitive in the areas of quality, price, breadth of selection, customer service and convenience to retain and grow our market share. We compete with mass merchants, which dedicate a portion of their selling space to a limited selection of craft supplies and seasonal and holiday merchandise, along with national and regional chains and local merchants. We also compete with specialty retailers, which include Hobby Lobby Stores, Inc. and Jo-Ann Stores, Inc., among others. Some of our competitors, particularly the mass merchants, are larger and have greater financial resources than we do. We also face competition from internet-based retailers, such as Amazon.com, Inc., among others, in addition to traditional store-based retailers, who may be larger, more experienced and able to offer products we cannot. This could result in increased price competition since our customers could more readily search and compare non-private brand products. Furthermore, we ultimately compete with alternative sources of entertainment and leisure for our customers.

A weak fourth quarter would materially adversely affect our result of operations.

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

Unexpected or unfavorable consumer responses to our promotional or merchandising programs could have a materially adverse effect on our sales, results of operations, cash flow and financial condition.

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

We believe improvements in our merchandise offering help drive sales at our stores. If we experience poor execution of changes to our merchandise offering or experience unexpected consumer responses to changes in our merchandise offering, our sales, results of operations and cash flow could be materially adversely affected.

We increasingly depend on e-commerce, and our failure to successfully manage this business and deliver a convenient omnichannel shopping experience to our customers could have an adverse effect on our growth strategy and our sales, results of operations, cash flow and financial condition.

Expanding our e-commerce business, particularly in light of the ongoing COVID-19 pandemic, is an important part of our strategy to grow through our omnichannel operations. As a result of the COVID-19 pandemic and the related stay-at-home orders, we have experienced a significant increase in demand through our e-commerce channels. There can be no assurances that this increase in demand will be sustained through the remainder of the pandemic or in subsequent periods. In addition, dependence on our e-commerce business subjects us to certain other risks, including:

- the failure to successfully implement new systems, system enhancements and internet platforms;
- the failure of our technology infrastructure or the computer systems that operate our website, causing, among other things, website downtimes, telecommunications issues or other technical failures;
- over-reliance on third-parties; and
- an increase in credit card fraud.

Our failure to successfully address and respond to these risks and uncertainties could negatively impact sales, increase costs, diminish our growth prospects and damage the reputation of our brand, each of which could have a material adverse effect on our sales, results of operations, cash flow and financial condition.

Evolving foreign trade policy (including tariffs imposed on certain foreign-made goods) may adversely affect ourbusiness.

Our products are sourced from a wide variety of suppliers, including from suppliers overseas, particularly in China. In addition, some of the products that we purchase from vendors in the U.S. also depend, in whole or in part, on suppliers located outside the U.S. In 2018 and 2019, the U.S. imposed significant tariffs on various products imported from China, including certain products we source from China. If additional tariffs are imposed on our products, or other retaliatory trade measures are taken, our costs could increase and we may be required to raise our prices. Further, efforts to mitigate this tariff risk, including a shift of production to outside of China, could result in increased costs and disruption to our operations. These potential outcomes could result in the loss of customers and adversely affect our operating performance. To mitigate tariff risks with China, we may also seek to shift production outside of China, which could result in increased costs and disruption to our operations.

Our reliance on foreign suppliers increases our risk of not obtaining adequate, timely and cost-effective product supplies.

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

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

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

Our results have been, and the future, may be adversely affected by serious disruptions or catastrophic events, including public health issues, geo-political events and weather.

Unforeseen public health issues, such as pandemics and epidemics, and geo-political events, such as civil unrest in a country in which our suppliers are located or terrorist or military activities disrupting transportation, communication or utility systems, as well as natural disasters such as hurricanes, tornadoes, floods, earthquakes and other adverse weather and climate conditions, whether occurring in the U.S. or abroad, particularly during peak seasonal periods, could disrupt our operations or the operations of one or more of our vendors, or could severely damage or destroy one or more of our stores or distribution facilities located in the affected areas. For example, day-to-day operations, particularly our ability to receive products from our vendors or transport products to our stores, could be adversely affected, or we could be required to close stores or distribution centers in the affected areas or in areas served by the affected distribution center. These factors could also cause consumer confidence and spending to decrease or result in increased volatility in the U.S. and global financial markets and economy. These or other occurrences could significantly impact our operating results and financial performance.

Our business has been, and could be in the future, adversely affected by the ongoing COVID-19 pandemic.

In late 2019, a new strain of the coronavirus ("COVID-19") was detected in Wuhan, China and other jurisdictions and has since spread to other parts of the world, including the U.S. In an effort to mitigate the continued spread of the virus, federal, state and local governments, as well as certain private entities, mandated various restrictions, including stay-at-home orders, travel restrictions, restrictions on public gatherings and quarantining of people who may have been exposed to the virus. As a result of these restrictions, a significant number of our stores were temporarily closed. Accordingly, in the first quarter of fiscal 2020 we experienced significant decreases in demand for our products and a corresponding negative impact on our net sales. There remains significant uncertainty surrounding the overall impact of the COVID-19 pandemic on our business, and future waves of the pandemic could require us to close stores again if certain restrictions are reinstated by state and local authorities. As such, we are unable to accurately predict the future impact that the pandemic will have on our results of operations, liquidity and financial position. Additional potential future impacts include those related to:

- our ability to meet obligations to our business partners, including our Amended Revolving Credit Facility and lease obligations;
- the failure of third parties on which we rely, including our suppliers, to meet their obligations to us, which may be caused by their own financial or operational difficulties, travel restrictions and border closures, or disruptions with sourcing raw materials, manufacturing, delivery, shipping, exports, imports, and in our supply chains;
- the impact on our workforce, including limitations on travel and work locations, quarantines, pay reductions and temporary leaves of absence;
- the continued cancellation of group events at our stores;
- any additional government and regulatory restrictions that limit or close operating facilities, including our stores, or restrict operations of our business partners, suppliers or customers; and
- credit availability and cost due to disruptions and volatility in the financial markets.

The ultimate impact of the COVID-19 pandemic on our business will be dependent on, among other things, the duration of quarantines and other global travel restrictions, the severity of the virus, the duration of the outbreak and the public's response to the outbreak. The COVID-19 pandemic may also have the effect of heightening other risks factors discussed within this Form 10-K.

We have experienced a data breach in the past and any future failure to adequately maintain security and prevent unauthorized access to electronic and other confidential information could result in an additional data breach which could materially adversely affect our reputation, financial condition and operating results.

The protection of our customer, team members and Company data is critically important to us. Our customers and team members have a high expectation that we will adequately safeguard and protect their sensitive personal information. We have become increasingly centralized and dependent upon automated information technology processes. In addition, a large portion of our business operations is conducted electronically, increasing the risk of attack or interception that could cause loss or misuse of data, system failures or disruption of operations. Improper activities by third parties, exploitation of encryption technology, new data-hacking tools and discoveries and other events or developments may result in a future compromise or breach of our networks, payment card terminals or other payment systems. In particular, the techniques used by criminals to obtain unauthorized access to sensitive data change frequently and often are not recognized until launched against a target; accordingly, we may be unable to anticipate these techniques or implement adequate preventative measures. Any failure to maintain the security of our customers' sensitive information, or data belonging to ourselves or our suppliers, could put us at a competitive disadvantage, result in deterioration of our customers' confidence in us, and subject us to potential litigation, liability, fines and penalties, resulting in a possible material adverse impact on our financial condition and results of operations. While we maintain insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses and would not remedy damage to our reputation. There can be no assurance that we will not suffer a criminal attack

in the future, that unauthorized parties will not gain access to personal information, or that any such incident will be discovered in a timely manner.

We may be subject to information technology system failures or network disruptions, or our information systems may prove inadequate, resulting in damage to our reputation, business operations and financial condition.

We depend on our management information systems for many aspects of our business, including our perpetual inventory, automated replenishment and weighted-average cost stock ledger systems which are necessary to properly forecast, manage, analyze and record our inventory. The Company may be subject to information technology system failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, denial-of-service attacks, computer viruses, physical or electronic break-ins, or similar events or disruptions. System redundancy may be ineffective or inadequate, and the Company's disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could prevent access to our online services and preclude store transactions. System failures and disruptions could also impede the manufacturing and shipping of products, transactions processing and financial reporting. Additionally, we may be materially adversely affected if we are unable to adequately upgrade, maintain and expand our systems.

Our growth depends on our ability to increase comparable store sales and to optimize our store portfolio.

We anticipate our sales growth will primarily come from increasing comparable store sales. Profitable growth would then depend significantly on our ability to improve gross margin. Another business strategy is to continue to optimize our portfolio of retail stores. We may be unable to continue our store growth strategy if we cannot identify suitable sites for additional or relocating stores, negotiate acceptable leases, access sufficient capital to support store growth, or hire and train a sufficient number of qualified team members. If we are unable to accomplish these strategies, our ability to increase our sales, profitability and cash flow could be impaired.

Damage to the reputation of the Michaels brand or our private and exclusive brands could adversely affect our sales.

We believe the Michaels brand name and many of our private and exclusive brand names are powerful sales and marketing tools and we devote significant resources to promoting and protecting them. To be successful in the future, we must continue to preserve, grow and utilize the value of Michaels reputation. Reputational value is based in large part on perceptions of subjective qualities, and even isolated incidents may erode trust and confidence. In addition, we develop and promote private and exclusive brands, which we believe have national recognition. Our Michaels private brands totaled approximately 59% of net sales in fiscal 2020. Damage to the reputations (whether or not justified) of our brand names could arise from product failures, data privacy or security incidents, litigation or various forms of adverse publicity (including adverse publicity generated as a result of a vendor's or a supplier's failure to comply with general social accountability practices), especially in social media outlets, and may generate negative customer sentiment, potentially resulting in a reduction in our sales and earnings.

We face risks associated with the suppliers from whom our products are sourced and transitioning to other qualified vendors could materially adversely affect our revenue and profit growth.

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

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

In addition, many of these suppliers require extensive advance notice of our requirements to supply products in the quantities we desire. This long lead time may limit our ability to respond timely to shifts in demand.

Changes in regulations or enforcement, or our failure to comply with existing or future regulations, may adversely impact our business.

We are subject to federal, state and local regulations with respect to our operations in the U.S. We are further subject to federal, provincial and local regulations internationally, including in Canada and China, each of which are distinct from those in the U.S., and may be subject to greater international regulation as our business expands. There are a number of legislative and regulatory initiatives that could adversely impact our business if they are enacted or enforced. Those initiatives include wage or workforce issues (such as minimum-wage requirements, overtime and other working conditions and citizenship requirements), collective bargaining matters, environmental regulation, price and promotion regulation, trade regulations and others.

Changes in tax regulations may also change our effective tax rate as our business is subject to a combination of applicable tax rates in the various countries, states and other jurisdictions in which we operate. New accounting pronouncements and interpretations of existing accounting rules and practices have occurred and may occur in the future. A change in accounting standards or tax regulations can have a significant effect on our reported results of operations.

Failure to comply with legal requirements could result in, among other things, increased litigation risk that could affect us adversely by subjecting us to significant monetary damages and other remedies or by increasing our litigation expenses, administrative enforcement actions, fines and civil and criminal liability. We are currently subject to various class action lawsuits alleging violations of wage and workforce laws and similar matters. If such issues become more expensive to address, or if new issues arise, they could increase our expenses, generate negative publicity, or otherwise adversely affect us.

Our marketing programs, e-commerce initiatives and use of consumer information are governed by an evolving set of laws and enforcement trends and unfavorable changes in those laws or trends, or our failure to comply with existing or future laws, could substantially harm our business and results of operations.

We collect, maintain and use data provided to us through our loyalty program, online activities and other customer interactions in our business. Our current and future marketing programs depend on our ability to collect, maintain and use this information, and our ability to do so is subject to certain contractual restrictions in third-party contracts as well as evolving international, federal and state laws and enforcement trends. We strive to comply with all applicable laws and other legal obligations relating to privacy, data protection and consumer protection, including those relating to the use of data for marketing purposes. It is possible, however, that these requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another, may conflict with other rules or may conflict with our practices. If so, we may suffer damage to our reputation and be subject to proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts to defend our practices, distract our management, increase our costs of doing business and result in monetary liability.

In addition, as data privacy and marketing laws change, we may incur additional costs to ensure we remain in compliance with such laws. If applicable data privacy and marketing laws become more restrictive at the international, federal or state level, our compliance costs may increase, our ability to effectively engage customers via personalized marketing may decrease, our investment in our e-commerce platform may not be fully realized, our opportunities for growth may be curtailed by our compliance capabilities or reputational harm and our potential liability for security breaches may increase.

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

We are subject to regulations by a variety of federal, state and international regulatory authorities, including the Consumer Product Safety Commission. In fiscal 2020, we purchased merchandise from approximately 600 vendors. Since a majority of our merchandise is manufactured in foreign countries, one or more of our vendors may not adhere to product safety requirements or our quality control standards, and we may not identify the deficiency before merchandise ships to our stores. Any issues of product safety, including but not limited to those manufactured in foreign countries, could cause us to recall some of those products. If our vendors fail to manufacture or import merchandise that adheres to our quality control standards, our reputation and brands could be damaged, potentially leading to increases in customer litigation

against us. Furthermore, to the extent we are unable to replace any recalled products, we may have to reduce our merchandise offerings, resulting in a decrease in sales, especially if a recall occurs near or during a seasonal period. If our vendors are unable or unwilling to recall products failing to meet our quality standards, we may be required to recall those products at a substantial cost to us. Moreover, changes in product safety or other consumer protection laws could lead to increased costs to us for certain merchandise, or additional labor costs associated with readying merchandise for sale. Long lead times on merchandise ordering cycles increase the difficulty for us to plan and prepare for potential changes to applicable laws. The Consumer Product Safety Improvement Act of 2008 imposes significant requirements on manufacturing, importing, testing and labeling requirements for our products. In the event that we are unable to timely comply with regulatory changes or regulators do not believe we are complying with current regulations applicable to us, significant fines or penalties could result and could adversely affect our reputation, results of operations, cash flow and financial condition.

Significant increases in inflation or commodity prices, such as petroleum, natural gas, electricity, steel, wood and paper, may adversely affect our costs, including cost of merchandise.

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

Improvements to our supply chain may not be fully successful.

An important part of our efforts to achieve efficiencies, cost reductions and sales and cash flow growth is the identification and implementation of improvements to our supply chain, including merchandise ordering, transportation, direct sourcing initiatives and receipt processing. We continue to implement enhancements to our distribution systems and processes, which are designed to improve efficiency throughout the supply chain and at our stores. If we are unable to successfully implement significant changes, this could disrupt our supply chain, which could have a material adverse impact on our results of operations.

We are exposed to fluctuations in exchange rates between the U.S. and Canadian dollar, which is the functional currency of our Canadian subsidiaries.

Our Canadian operating subsidiaries purchase inventory in U.S. dollars, which is sold in Canadian dollars and exposes us to foreign exchange rate fluctuations. In addition, our customers at border locations can be sensitive to cross-border price differences. Substantial foreign currency fluctuations could adversely affect our business. In fiscal 2020, exchange rates had a positive impact on our consolidated operating results due to a 4% increase in the Canadian exchange rate.

We rely on highly skilled personnel throughout all levels of our business. Our business could be harmed if we are unable to retain or motivate key personnel, hire qualified personnel or maintain our corporate culture.

The market for highly skilled workers and leaders in our industry is extremely competitive. We believe that our future success depends in substantial part on our ability to recruit, hire, motivate, develop, and retain talented and highly-skilled personnel for all areas of our organization, including our CEO, the other members of our senior leadership team, buyers, distribution center and other team members. Doing so may be difficult due to many factors, including fluctuations in economic and industry conditions, competitors' hiring practices, and the effectiveness of our compensation programs. Many of our store level team members are in entry level or part-time positions with historically high rates of turnover. Our ability to meet our labor needs while controlling labor costs is subject to external factors such as unemployment levels, prevailing wage rates, minimum wage legislation, changing demographics, health and other insurance costs and governmental labor and employment requirements. In the event of increasing wage rates, if we fail to increase our wages competitively, the quality of our workforce could decline, causing our customer service to suffer, while increasing our wages could cause our earnings to decrease.

If we do not continue to attract, train and retain quality team members, our performance could be adversely affected. Our continued ability to compete effectively depends on our ability to retain and motivate our existing employees

and to attract new employees. If we do not succeed in retaining and motivating our existing key employees and attracting new key personnel, we may not be able to meet our business plan and, as a result, our revenue growth and profitability may be materially adversely affected.

Any difficulty executing or integrating an acquisition, a business combination or a major business initiative could adversely affect our business or results of operations.

Any difficulty in executing or integrating an acquisition, a business combination or a major business initiative may result in our inability to achieve anticipated benefits from these transactions in the time frame that we anticipate, or at all, which could adversely affect our business or results of operations. Such transactions may also disrupt the operation of our current activities and divert management's attention from other business matters. In addition, the Company's current credit agreements place certain limited constraints on our ability to make an acquisition or enter into a business combination, and future borrowing agreements could place tighter constraints on such actions.

Our total assets include intangible assets, goodwill and substantial amounts of property and equipment. Changes in estimates or projections used to assess the fair value of these assets, or operating results that are lower than our current estimates at certain store locations, may cause us to incur impairment charges that could adversely affect our results of operation.

Our total assets include intangible assets, goodwill and substantial amounts of property and equipment. We make certain estimates and projections in connection with impairment analyses for these long-lived assets, in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") 360, "*Property, Plant and Equipment*", and ASC 350, "*Intangibles—Goodwill and Other*". We also review the carrying value of these assets for impairment on an annual basis and whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. We will record an impairment loss when the carrying value of the underlying asset, asset group or reporting unit exceeds its fair value. These calculations require us to make a number of estimates and projections of future results. If these estimates or projections change, we may be required to record additional impairment charges on certain of these assets. If these impairment charges are significant, our results of operations would be adversely affected.

Our real estate leases generally obligate us for long periods, which subject us to various financial risks.

We lease virtually all of our store, distribution center and administrative locations, generally for long terms. While we have the right to terminate some of our leases under specified conditions by making specified payments, we may not be able to terminate a particular lease if or when we would like to do so. If we decide to close stores, we are generally required to continue paying rent and operating expenses for the balance of the lease term, or pay to exercise rights to terminate, and the performance of any of these obligations may be costly. When we assign or sublease vacated locations, we may remain liable on the lease obligations if the assignee or sublessee does not perform. In addition, when leases for the stores in our ongoing operations expire, we may be unable to negotiate renewals, either on commercially acceptable terms, or at all, which could cause us to close stores. Accordingly, we are subject to the risks associated with leasing real estate, which can have a material adverse effect on our results.

We have co-sourced certain of our information technology, accounts payable, accounting, human resource and other functions and may co-source other administrative functions, which makes us more dependent upon third parties.

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

Risks related to our substantial indebtedness

We face risks related to our substantial indebtedness.

Our substantial leverage could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk associated with our variable rate debt and prevent us from meeting our obligations under our senior notes, senior secured notes and credit facilities. As of January 30, 2021, we had total outstanding debt of $2,536.7 million, of which $1,661.7 million was subject to variable interest rates and $875.0 million was subject to fixed interest rates. In April 2018, we executed two interest rate swap agreements with an aggregate notional value of $1 billion which are intended to mitigate interest rate risk associated with future changes in interest rates for borrowings under our term loan credit facility with JP Morgan Chase Bank, N.A. ("JPMorgan") and other lenders ("Amended Term Loan Credit Facility"). As a result of these interest rate swaps, our exposure to interest rate volatility for $1 billion of our Amended Term Loan Credit Facility was eliminated. In addition, during fiscal 2020, we executed two interest rate cap agreements with an aggregate notional value of $1.3 billion associated with our outstanding Amended Term Loan Credit Facility. The interest rate caps will effectively cap our LIBOR exposure on a portion of the Amended Term Loan Credit Facility at 1%. As of January 30, 2021, we had $536.8 million of additional borrowing capacity (after giving effect to $87.3 million of letters of credit then outstanding) under our Amended Revolving Credit Facility with Wells Fargo Bank, National Association and other lenders. Our substantial indebtedness could have important consequences to us, including:

- making it more difficult for us to satisfy our obligations with respect to our debt, and any failure to comply with the obligations under our debt instruments, including restrictive covenants, could result in an event of default under the agreements governing our indebtedness;
- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our debt, thereby reducing our ability to use our cash flow to fund our operations, capital expenditures, selling and marketing efforts, product development, future business opportunities and other purposes;
- exposing us to the risk of increased interest rates as certain of our borrowings, including borrowings under our Amended Revolving Credit Facility and our Amended Term Loan Credit Facility (collectively defined as the "Senior Secured Credit Facilities"), are at variable rates;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions, and general corporate or other purposes; or
- limiting our ability to plan for, or adjust to, changing market conditions and placing us at a competitive disadvantage compared to our competitors who may be less highly leveraged.

The occurrence of any one of these events could have an adverse effect on our business, financial condition, results of operations, and ability to satisfy our obligations under our indebtedness.

Further, a substantial portion of our long-term indebtedness bears interest at fluctuating interest rates, primarily based on the London interbank offered rate ("LIBOR"). On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. It is unclear whether new methods of calculating LIBOR will be established such that it continues to exist after 2021. The Alternative Reference Rates Committee has proposed the Secured Overnight Financing Rate ("SOFR") as its recommended alternative to LIBOR, and the Federal Reserve Bank of New York began publishing SOFR rates in April 2018. SOFR is intended to be a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities. It is unknown whether SOFR or any potential alternative reference rate will attain market acceptance as replacements for LIBOR and, as such, the potential effect on our results from operations is unknown.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject, in the case of MSI and Michaels Funding, Inc. ("Holdings") and their subsidiaries, to the restrictions contained in our Senior Secured Credit Facilities and the indentures governing our senior notes and our senior secured notes. In addition, our Senior Secured Credit Facilities and indentures governing our senior notes and our senior secured notes do not restrict us from creating new holding companies that may be able to incur indebtedness without regard to the restrictions set forth in our Senior Secured Credit Facilities and indentures governing our senior notes and our senior secured notes. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

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

- incur or guarantee additional debt or issue certain disqualified stock or preferred stock;
- pay dividends or distributions on their capital stock or redeem, repurchase or retire their capital stock or indebtedness;
- issue stock of subsidiaries;
- make certain investments, loans, advances and acquisitions;
- create liens on their assets;
- enter into transactions with affiliates;
- merge or consolidate with another company; or
- sell or otherwise transfer assets.

In addition, under the Amended Term Loan Credit Facility and the Amended Revolving Credit Facility, MSI is required to meet specified financial ratios in order to undertake certain actions, and under certain circumstances, MSI may be required to maintain a specified fixed charge coverage ratio under the Amended Revolving Credit Facility. Our ability to meet those requirements can be affected by events beyond our control, and we cannot assure you we will meet them. A breach of any of these covenants could result in a default under our Senior Secured Credit Facilities, which could also lead to an event of default under our senior notes or our senior secured notes if any of the Senior Secured Credit Facilities were accelerated. Upon the occurrence of an event of default under our Senior Secured Credit Facilities, the lenders could elect to declare all amounts outstanding under our Senior Secured Credit Facilities to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders under our Senior Secured Credit Facilities and the holders of our senior secured notes could proceed against the collateral granted to them to secure such indebtedness. Holdings, MSI and certain of MSI's subsidiaries have pledged substantially all of their assets, including the capital stock of MSI and certain of its subsidiaries, as collateral securing our obligations under our Senior Secured Credit Facilities and senior secured notes. If the indebtedness under our Senior Secured Credit Facilities, our senior notes or our senior secured notes were to be accelerated, our assets may not be sufficient to repay such indebtedness in full.

Risks related to ownership of our common stock

Certain stockholders have the ability to strongly influence our decisions and their interest may conflict with yours or those of our Company.

Affiliates of, or funds advised by, Bain Capital Private Equity, L.P. ("Bain Capital") beneficially owned approximately 37% of the outstanding shares of our common stock as of January 30, 2021. As long as Bain Capital continues to hold a significant portion of our outstanding common stock, they will be able to strongly influence our decisions, and their interests may conflict with yours or those of our Company.

Because our executive officers hold or may hold restricted shares or option awards that will vest upon a change of control, these officers may have interests in us that conflict with yours.

Our executive officers hold or may hold restricted shares and options to purchase shares that would automatically vest upon a change of control. As a result, these officers may view certain change of control transactions more favorably than an investor due to the vesting opportunities available to them and, as a result, may have an economic incentive to support a transaction that may not be viewed as favorable by other stockholders.

Because we have no current plans to pay cash dividends on our common stock for the foreseeable future, you may not receive any return on investment unless you sell your common stock for a price greater than you paid.

We plan to retain future earnings, if any, for future operation, expansion and debt repayment and have no current plans to pay any cash dividends for the foreseeable future. Any decision to declare and pay dividends in the future will be made at the discretion of our Board and will depend on, among other things, our results of operations, financial condition, cash requirements, contractual restrictions and other factors that our Board may deem relevant. Our ability to pay dividends may also be limited by covenants of any existing and future outstanding indebtedness we or our subsidiaries incur, including our Senior Secured Credit Facilities. In addition, the Apollo Merger Agreement generally restricts our ability to pay dividends on our common stock during the interim period between the execution of the Merger Agreement and the completion of the transaction (or the date on which the Merger Agreement is earlier terminated). As a result, you may not receive any return on an investment in our common stock unless you sell our common stock for a price greater than you paid.

Provisions in our charter documents and Delaware law may deter takeover efforts that may be beneficial to stockholder value.

Delaware law and provisions in our certificate of incorporation and bylaws could make it harder for a third party to acquire us, even if doing so might be beneficial to our stockholders. These provisions include limitations on our stockholders' ability to act by written consent. In addition, our Board has the right to issue preferred stock without stockholder approval that could be used to dilute a potential hostile acquirer. Our certificate of incorporation imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock other than Bain Capital, who owned approximately 37% of our outstanding common stock as of January 30, 2021. As a result, you may lose your ability to sell your stock for a price in excess of the prevailing market price due to these protective measures and efforts by stockholders to change the direction or management of the Company may be unsuccessful.

Our certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our certificate of incorporation provides that, subject to limited exceptions, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee to us or our stockholders, (iii) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law or our certificate of incorporation or the bylaws or (iv) any action asserting a claim against us governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and to have consented to the provisions of our certificate of incorporation described above. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find these provisions of our certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business and financial condition.

This choice of forum provision is not intended to apply to any actions brought under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended ("Exchange Act"). The exclusive forum provision will

not apply to suits brought to enforce any duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction.

Risks related to the proposed acquisition by Apollo

The announcement and pendency of the transactions contemplated by the Merger Agreement entered into by the Company and Apollo may adversely affect our business or results of operations.

Uncertainty about the effect of the transactions contemplated by the Merger Agreement on our employees, customers, and other parties may have an adverse effect on our business or results of operations regardless of whether the proposed transaction is completed. These risks include, but are not limited to, the following, all of which could be increased by a delay in or abandonment of the proposed transaction:

- our ability to attract, retain, and motivate employees, including key personnel, could be impaired;
- significant management time and resources could be diverted to the consummation of the proposed transaction;
- relationships with customers, suppliers, and other business partners could be affected;
- certain business decisions by our customers, suppliers, and other business partners could be delayed or changed;
- we may not be able to pursue alternative business opportunities or make appropriate changes to our business;
- litigation relating to the proposed transaction could arise; and
- significant costs, expenses, and fees for professional services and other transaction costs in connection with the proposed transaction have been and may continue to be incurred.

Failure to consummate the proposed transaction with Apollo within the expected timeframe, or at all, could have a material adverse impact on our business, financial condition and results of operations.

There can be no assurance that the proposed acquisition will be consummated. The consummation of the proposed acquisition is subject to the satisfaction or waiver of specified closing conditions, including a majority of the outstanding shares of Michaels common stock having been tendered and not validly withdrawn, the expiration of a twenty-five day go-shop period, compliance with certain antitrust requirements in the United States and Canada, the completion of a specified marketing period for Apollo's debt financing of the offer price, and other customary closing conditions. There can be no assurance that these and other conditions to closing will be satisfied in a timely manner or at all.

The Merger Agreement also provides that the acquisition agreement may be terminated by us or Apollo under certain circumstances, and in certain specified circumstances upon termination of the Merger Agreement we will be required to pay Apollo a termination fee of up to $104 million. If we are required to make this payment, doing so would materially adversely affect our business, financial condition and results of operations.

An abandonment of the transaction may result in negative publicity and a negative impression of us among our customers, suppliers or in the investment and business community in general. Further, any disruptions to our business resulting from the proposed acquisition, including any adverse changes in our relationships with our customers, partners, suppliers and employees, could continue or accelerate in the event of abandonment of the transaction. In addition, if the proposed acquisition is not completed, and there are no other parties willing and able to acquire the Company at a price of $22.00 per share or higher, on terms acceptable to us, the share price of our common stock will likely decline to the extent that the current market price of our common stock reflects an assumption that the proposed acquisition will be completed. Also, we have incurred, and will continue to incur, significant costs, expenses and fees for professional services and other transaction costs in connection with the proposed acquisition. Many of these fees and costs will be payable by us even if the proposed acquisition is not completed and may relate to activities that we would not have undertaken other than to complete the proposed acquisition.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES

We lease substantially all of the sites for our stores, with the majority of our stores having initial lease terms of approximately 10 years. The leases are generally renewable, with increases in lease rental rates. Lessors have made leasehold improvements to prepare our stores for opening under a majority of our existing leases. As of January 30, 2021, in connection with stores that we plan to open or relocate in future fiscal years, we have signed 19 leases. Management believes our facilities are suitable and adequate for our business as presently conducted.

As of January 30, 2021, we leased the following non-store facilities:

Locations	Square Footage
Distribution centers:	
Hazleton, Pennsylvania	692,000
Jacksonville, Florida	506,000
Lancaster, California	763,000
Centralia, Washington	718,000
New Lenox, Illinois	693,000
Haslet, Texas	433,000
Strongsville, Ohio (two warehouses to be closed in fiscal 2021)	681,000
Tracy, California	924,000
Berlin, New Jersey	750,000
	6,160,000
Artistree:	
DFW Airport, Texas (regional processing and fulfillment operations center)	271,000
Kernersville, North Carolina (manufacturing plant and regional processing center)	156,000
Mississauga, Ontario (regional processing center)	62,000
	489,000
Office space:	
Irving, Texas (two corporate office support centers)	420,000
Strongsville, Ohio (Lamrite office support center)	90,000
Mississauga, Ontario (Canadian regional office)	3,000
Kowloon Bay, Hong Kong (regional sourcing office)	4,000
Ningbo, China (regional sourcing office)	22,000
	539,000
Coppell, Texas (new store staging warehouse)	82,000
	7,270,000

The following table indicates the number of our retail stores located in each state or province as of January 30, 2021:

State/Province	Number of Michaels Stores
Alabama	13
Alaska	4
Alberta	23
Arizona	28
Arkansas	5
British Columbia	16
California	136
Colorado	23
Connecticut	22
Delaware	5
District of Columbia	1
Florida	81
Georgia	35
Idaho	7
Illinois	42
Indiana	19
Iowa	7
Kansas	8
Kentucky	12
Louisiana	15
Maine	2
Manitoba	5
Maryland	28
Massachusetts	32
Michigan	35
Minnesota	21
Mississippi	7
Missouri	21
Montana	5
Nebraska	6
Nevada	10
New Brunswick	3
New Hampshire	11
New Jersey	32
New Mexico	4
New York	59
Newfoundland and Labrador	2
North Carolina	36
North Dakota	3
Nova Scotia	6
Ohio	38
Oklahoma	8
Ontario	57
Oregon	15
Pennsylvania	54
Prince Edward Island	1
Quebec	16
Rhode Island	4
Saskatchewan	3
South Carolina	15
South Dakota	2
Tennessee	16
Texas	89
Utah	13
Vermont	2
Virginia	40
Washington	26
West Virginia	5
Wisconsin	16
Wyoming	2
Total	1,252

ITEM 3. LEGAL PROCEEDINGS.

We are now, and may be in the future, involved in various lawsuits, claims and proceedings incident to the ordinary course of business. Although the results of these legal proceedings cannot be predicted with certainty, management believes that the final outcome of such proceedings will not have a material adverse effect on our results of operations or financial condition.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Common Stock

Our common stock is listed on The Nasdaq Global Select Market under the symbol "MIK". As of January 30, 2021, there were approximately 355 holders of record of our common stock.

Dividends

The Company does not anticipate paying any cash dividends in the near future. We anticipate that all of our earnings for the foreseeable future will be used to repay debt, to repurchase outstanding shares, for working capital, to support our operations and to finance the growth and development of our business. Any future determination to pay dividends will be at the discretion of our Board, subject to compliance with applicable law and any contractual provisions, including under agreements for indebtedness, that restrict or limit our ability to pay dividends, and will depend upon, among other factors, our results of operations, financial condition, earnings, capital requirements and other factors that our Board may deem relevant. In addition, the Apollo Merger Agreement generally restricts our ability to pay dividends on our common stock during the interim period between the execution of the Merger Agreement and the completion of the transaction (or the date on which the Merger Agreement is earlier terminated).

For more information concerning restrictions relating to agreements for indebtedness, see Note 7 to the consolidated financial statements.

Issuer Purchases of Equity Securities

The following table provides certain information with respect to our purchases of shares of the Company's common stock during the fourth quarter of fiscal 2020:

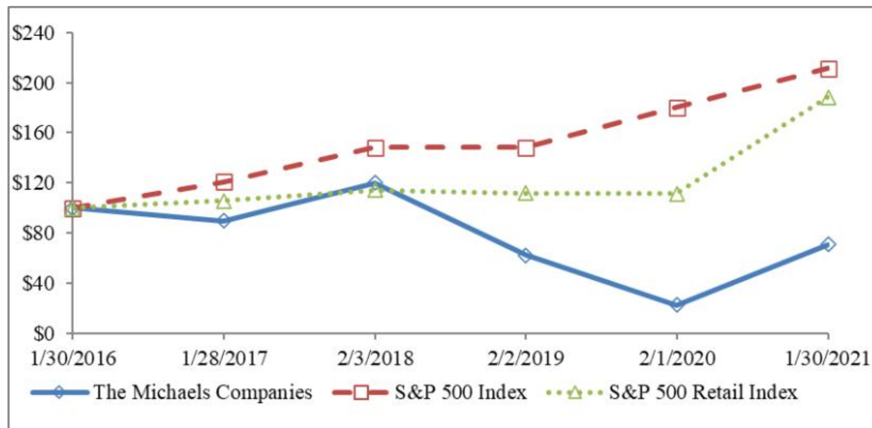
Period	Total Number of Shares Purchased [(1)]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan [(2)]	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan [(2)] (in thousands)
November 1, 2020 - November 28, 2020	32,188	$ 8.81	—	$ 293,524
November 29, 2020 - January 2, 2021	6,984,894	12.05	6,976,068	209,456
January 3, 2021 - January 30, 2021	393,879	13.52	239,386	206,400
Total	7,410,961	$ 12.11	7,215,454	$ 206,400

(1) These amounts reflect the following transactions during the fourth quarter of fiscal 2020: (i) the repurchase of shares as part of our publicly announced share repurchase program and (ii) the surrender of shares of common stock to the Company to satisfy tax withholding obligations in connection with the vesting of employee restricted stock equity awards.

(2) In September 2018, the Board of Directors authorized the Company to purchase up to $500 million of the Company's common stock on the open market or through accelerated share repurchase transactions. The share repurchase program does not have an expiration date. The Company has retired and intends to continue to retire shares repurchased under the program.

Performance Graph

The following graph shows a comparison of cumulative total return to holders of The Michaels Companies, Inc.'s common shares against the cumulative total return of the S&P 500 Index and S&P 500 Retail Index for the five-year period beginning January 30, 2016 and ending January 30, 2021. The comparison of the cumulative total returns for each investment assumes that $100 was invested in The Michaels Companies, Inc. common shares and the respective indices on January 30, 2016 through January 30, 2021 including reinvestment of any dividends. Historical share price performance should not be relied upon as an indication of future share price performance.



	1/30/2016	1/28/2017	2/3/2018	2/2/2019	2/1/2020	1/30/2021
The Michaels Companies, Inc.	$ 100.00	$ 89.72	$ 119.86	$ 62.43	$ 22.61	$ 71.10
S&P 500 Index	100.00	120.87	148.47	148.38	180.37	211.48
S&P 500 Retail Index	100.00	105.59	114.34	111.84	111.45	188.42

ITEM 6. SELECTED FINANCIAL DATA.

The following financial information for the five most recent fiscal years has been derived from our consolidated financial statements. This information should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere herein.

	Fiscal Year [1]				
	2020	2019	2018	2017	2016 [2]
	(in thousands, except earnings per share, other operating and store count data)				
Results of Operations Data:					
Net sales	$ 5,271,112	$ 5,072,037	$ 5,271,944	$ 5,361,960	$ 5,197,292
Restructure and impairment charges [3]	28,835	48,332	104,238	—	—
Operating income [4]	533,540	515,037	563,612	735,390	715,280
Interest expense	152,442	154,090	147,085	129,116	126,270
Losses on early extinguishments of debt and refinancing costs	22,044	1,316	1,835	—	7,292
Net income [5]	294,935	272,595	319,545	390,498	378,159
Earnings per common share:					
Basic	$ 2.01	$ 1.78	$ 1.87	$ 2.11	$ 1.84
Diluted	$ 1.98	$ 1.78	$ 1.86	$ 2.10	$ 1.82
Weighted-average common shares outstanding:					
Basic	146,541	153,134	170,610	184,281	204,735
Diluted	148,531	153,202	171,378	185,566	206,354
Balance Sheet Data:					
Cash and equivalents	$ 1,194,389	$ 409,964	$ 245,887	$ 425,896	$ 298,813
Merchandise inventories	1,007,043	1,097,109	1,108,715	1,123,288	1,127,777
Total current assets	2,272,293	1,599,802	1,515,524	1,676,982	1,542,805
Operating lease assets [6]	1,594,554	1,610,013	—	—	—
Total assets	4,528,405	3,838,095	2,128,336	2,300,215	2,147,640
Current portion of operating lease liabilities [6]	324,238	306,796	—	—	—
Current portion of long-term debt	16,700	24,900	24,900	24,900	31,125
Total current liabilities	1,715,699	1,196,366	932,553	957,945	1,024,224
Long-term debt	2,480,953	2,644,460	2,681,000	2,701,764	2,723,187
Long-term operating lease liabilities [6]	1,378,394	1,357,821	—	—	—
Total liabilities	5,725,575	5,284,559	3,754,531	3,809,710	3,846,066
Stockholders' deficit	(1,197,170)	(1,446,464)	(1,626,195)	(1,509,495)	(1,698,426)
Other Operating Data:					
Average net sales per selling square foot [7]	$ 232	$ 221	$ 227	$ 224	$ 223
Comparable store sales	4.8 %	(1.9)%	0.8 %	0.9 %	(0.5)%
Comparable store sales, at constant currency	4.8 %	(1.8)%	0.9 %	0.7 %	(0.4)%
Total selling square footage (in thousands)	22,513	22,877	22,339	23,749	23,539
Stores Open at End of Year:					
Michaels	1,252	1,274	1,258	1,238	1,223
Aaron Brothers	—	—	—	97	109
Pat Catan's	—	—	—	36	35
Total stores open at end of year	1,252	1,274	1,258	1,371	1,367

(1) Fiscal 2017 consisted of 53 weeks while all other periods presented consisted of 52 weeks.

(2) Fiscal 2016 results of operations includes $11.4 million of non-recurring purchase accounting adjustments and integration costs related to the acquisition of Lamrite West, Inc. and certain of its affiliates and subsidiaries ("Lamrite") on February 2, 2016.

(3) The restructure and impairment charges in fiscal 2020 primarily relate to 13 underperforming stores and the relocation of our support center. The restructure and impairment charges in fiscal 2019 primarily relate to the closure of our Pat Catan's stores and impairments taken on our Darice wholesale business. The restructure and impairment charges in fiscal 2018 primarily relate to the closure of our Aaron Brothers and Pat Catan's stores.

(4) Operating income for fiscal 2020 includes a charge totaling $45.2 million related to the closure of our Darice wholesale operations.

(5) Net income for fiscal 2018 and fiscal 2017 includes $1.0 million and $8.5 million, respectively, of net additional income tax expense as a result of the Tax Cuts and Jobs Act of 2017.

(6) On February 3, 2019, we adopted Accounting Standards Update 2016-02, *Leases (Topic 842)*, which resulted in the recording of operating lease assets and operating lease liabilities in our consolidated balance sheet.

(7) The calculation of average net sales per selling square foot only includes Michaels comparable stores.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition, results of operations and liquidity generally discusses fiscal 2020 compared to fiscal 2019. For a discussion of our financial condition, results of operations and liquidity for fiscal 2019 compared to fiscal 2018, see "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended February 1, 2020, filed with the Securities and Exchange Commission on March 17, 2020.

We report on the basis of a 52-week or 53-week fiscal year, which ends on the Saturday closest to January 31. All references to fiscal year mean the year in which that fiscal year began. References to "fiscal 2020" relate to the 52 weeks ended January 30, 2021, references to "fiscal 2019" relate to the 52 weeks ended February 1, 2020 and references to "fiscal 2018" relate to the 53 weeks ended February 2, 2019.

Michaels Stores, Inc. ("MSI") is headquartered in Irving, Texas and was incorporated in the state of Delaware in 1983. In July 2013, MSI was reorganized into a holding company structure and The Michaels Companies, Inc. (the "Company") was incorporated in the state of Delaware in connection with the reorganization.

Pending Acquisition by Apollo

On March 2, 2021, the Company entered into an Agreement and Plan of Merger ("Merger Agreement") with certain affiliates of Apollo Global Management (such affiliates, "Apollo"), pursuant to which Apollo will acquire the Company. Under the Merger Agreement, and upon the terms and subject to the conditions thereof, Apollo will commence a tender offer to acquire all outstanding shares of Michaels for $22.00 per share in cash. If certain conditions are satisfied and the offer closes, Apollo will acquire all remaining shares not tendered in the tender offer through a second-step merger at the same price. The tender offer will initially remain open for twenty business days, subject to possible extension on the terms set forth in the Merger Agreement. The parties currently expect the acquisition to be completed during the first half of fiscal 2021. Apollo's obligations to complete the acquisition are subject to certain customary closing conditions, including a majority of the outstanding shares of Michaels common stock having been tendered and not validly withdrawn, the expiration of a twenty-five day go-shop period, compliance with certain antitrust requirements in the United States and Canada, and the completion of a specified marketing period for Apollo's debt financing of the offer price. The Merger Agreement also provides that the acquisition agreement may be terminated by us or Apollo under certain circumstances, and in certain specified circumstances upon termination of the Merger Agreement we will be required to pay Apollo a termination fee of up to $104 million. The anticipated acquisition of the Company by Apollo is described more fully in our Current Report on Form 8-K filed with the SEC on March 3, 2021. This summary of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Merger Agreement filed as Exhibit 2.1 to this Annual Report.

Fiscal 2020 Overview

With $5,271.1 million in net sales in fiscal 2020, we are the largest arts and crafts specialty retailer in North America (based on store count) providing materials, project ideas and education for creative activities, primarily under the Michaels retail brand. We also operate a market-leading vertically-intergrated custom framing business under the Artistree brand name. At January 30, 2021, we operated 1,252 Michaels stores.

Financial highlights for fiscal 2020 include the following:

- Net sales increased to $5,271.1 million, a 3.9% increase compared to last year, primarily due to a 4.8% increase in comparable store sales.

- In May 2020, we adopted a plan to close our Darice wholesale operations ("Darice"). As a result of the closure, we recorded a charge totaling $45.2 million in fiscal 2020, consisting primarily of a $37.3 million charge in gross profit related to the liquidation of inventory and $7.9 million included in selling, general and administrative associated with the write-off of indefinite-lived intangible assets and employee-related expenses. The closure of Darice was completed in the fourth quarter of fiscal 2020.

- We recorded impairment charges totaling $28.8 million, consisting of $19.4 million related to the closure of 13 underperforming stores and $9.4 million primarily related to the relocation of our corporate offices in Irving, Texas. The impairment charges include $22.8 million related to operating lease assets and $6.0 million related to leasehold improvements and inventory.

- We reported operating income of $533.5 million, an increase of 3.6% from the prior year and net income of $294.9 million, an increase of 8.2% from the prior year.

- Adjusted EBITDA, a non-GAAP measure that is a required calculation in our debt agreements, increased by 13.2%, from $733.9 million in fiscal 2019 to $830.5 million in fiscal 2020 (see "Management Discussion and Analysis of Financial Condition and Results of Operations - Non-GAAP Measures").

- We issued $375 million of senior secured notes that mature on October 1, 2027. We used the proceeds from the issuance of these notes, together with cash on hand, to voluntarily pay down $500.1 million of our then outstanding term loan credit facility and extended the due date for our term loan credit facility to October 1, 2027.

- We repurchased 7.2 million shares for an aggregate amount of $87.2 million.

In fiscal 2020, we continued to make progress implementing our strategic initiatives, including:

- expanding our Michaels Rewards loyalty program by enabling customers to earn rewards on purchases that can be redeemed for discounts on future purchases;

- expanding our assortment to include more bulk merchandise for customers who create items to sell and altering our assortments, including technology, craft storage and fine art, to better align with our customer's needs;

- pivoting to a more customer centric selling model by initiating improvements in our supply chain to allow better store labor efficiency, enabling a more customer service culture;

- growing our overall e-commerce business, including the roll-out of curbside pick-up and same-day-delivery, and improving its profitability;

- enhancing our pricing and promotion programs by leveraging data to define optimal pricing levels and promotional offers to drive profitability;

- continuing to maximize our marketing productivity by shifting to more productive media options, including digital and targeted television advertising;

- focusing on our customer relationship management ("CRM") strategy through the use of personalized customer emails to improve customer engagement and drive incremental trips to our stores and website; and

- generating meaningful cost savings through our ongoing sourcing efforts.

Fiscal 2021 Outlook

In fiscal 2021, we intend to continue to expand our industry leadership through innovation and strategic initiatives such as:

- leveraging our improved category management process to ensure the mix within each category is appropriate and aligned with the needs of our customer;

- further strengthening our CRM capabilities by continuing to develop a more personalized e-commerce experience including, among other enhancements, targeted promotional offerings;

- continuing to expand better performing assortments, including technology, craft storage and fine art, to drive sustainable growth for our business;
- improving our supply chain, including adding two seasonal distribution centers, to support omnichannel sales growth and to increase the speed and agility of getting merchandise to our stores to improve the overall customer experience; and
- continuing to expand virtual content and develop our communities, laying the foundation for future strategic initiatives that will connect content, commerce, and community.

Comparable Store Sales

Comparable store sales represents the change in net sales for stores open the same number of months in the comparable period of the previous year, including stores that were relocated or expanded during either period, as well as e-commerce sales. A store is deemed to become comparable in its 14th month of operation in order to eliminate grand opening sales distortions. A store temporarily closed more than two weeks is not considered comparable during the month it is closed. If a store is closed longer than two weeks but less than three months, it becomes comparable in the month in which it reopens, subject to a mid-month convention. A store closed longer than three months becomes comparable in its 14th month of operation after its reopening.

The Company temporarily closed a significant number of stores during the first half of fiscal 2020 to comply with state and local regulations associated with the COVID-19 pandemic. All stores that were temporarily closed due to the pandemic have continued to be included in the computation of comparable store sales.

COVID-19

In March 2020, the World Health Organization declared the current COVID-19 outbreak to be a global pandemic. In response to the pandemic, many state and local jurisdictions ordered non-essential businesses closed and executed extensive stay-at-home orders. These orders resulted in the temporary closure of over 900 of our 1,252 stores which had a material adverse impact on our results of operations during the first quarter of fiscal 2020. During the second quarter of fiscal 2020, we reopened all of our stores and experienced a significant improvement in our business as net sales increased 12.4% during the preceding nine month period ending January 30, 2021 compared to the same period in the prior year. Our liquidity position, which includes cash on hand and amounts available under our senior secured asset-based revolving credit facility ("Amended Revolving Credit Facility"), increased from $1.2 billion as of February 1, 2020 to $1.7 billion as of January 30, 2021. However, there remains significant uncertainty surrounding the future impact of the COVID-19 pandemic on our results of operations, and future waves of the pandemic could require us to close stores again if certain restrictions are reinstated by state and local authorities. We intend to continue to manage our liquidity position closely and invest in our omnichannel capabilities to meet the growing customer demand for a seamless omnichannel experience.

Tariffs

Certain products that we import from China have been impacted by tariffs. We have taken steps to mitigate a portion of the financial impact of these tariffs, including, among other things, selectively increasing prices on certain of our products, sourcing products from alternative countries and negotiating lower prices with our suppliers in China. If additional tariffs are implemented, we cannot provide any assurances that our mitigation efforts will be successful and, as a result, such tariffs could have a material impact on our business.

Results of Operations

The following table sets forth the percentage relationship to net sales of line items in our consolidated statements of comprehensive income. This table should be read in conjunction with the following discussion and with our consolidated financial statements, including the related notes.

	Fiscal Year		
	2020	2019	2018
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales and occupancy expense	62.9	63.1	61.6
Gross profit	37.1	36.9	38.4
Selling, general and administrative	26.4	25.7	25.6
Restructure and impairment charges	0.5	1.0	2.0
Store pre-opening costs	0.1	0.1	0.1
Operating income	10.1	10.2	10.7
Interest expense	2.9	3.0	2.8
Losses on early extinguishments of debt and refinancing costs	0.4	—	—
Other (income) expense, net	—	—	—
Income before income taxes	6.8	7.1	7.9
Income taxes	1.2	1.7	1.8
Net income	5.6 %	5.4 %	6.1 %

Fiscal 2020 Compared to Fiscal 2019

Net Sales. Net sales increased $199.1 million in fiscal 2020, or 3.9%, to $5,271.1 million compared to fiscal 2019. The increase in net sales was due to a $238.6 million increase in comparable store sales. The increase was partially offset by a $37.3 million decrease in wholesale revenue as a result of our decision to close Darice. E-commerce sales, which are included in comparable store sales, increased $447.1 million in fiscal 2020, or 184.4%, to $689.6 million compared to the same period in the prior year. Comparable store sales increased 4.8% due to an increase in average ticket, partially offset by a decrease in customer transactions.

Gross Profit. Gross profit was 37.1% of net sales in fiscal 2020 compared to 36.9% in fiscal 2019. The increase was due to a decrease in promotional activity and benefits from our ongoing sourcing initiatives. The increase was partially offset by a $37.3 million charge related to the closure of our wholesale business, an increase in distribution costs primarily related to higher e-commerce sales, a change in sales mix and the impact of tariffs on inventory we purchase from China. Gross profit also includes $3.6 million of incremental COVID-19 related costs, including hazard pay for our distribution center team members and certain supply costs.

Selling, General and Administrative. Selling, general and administrative ("SG&A") was 26.4% of net sales in fiscal 2020 compared to 25.7% in fiscal 2019. SG&A increased $86.3 million to $1,390.6 million in fiscal 2020. The increase includes $72.7 million in performance-based compensation, a $24.0 million increase in expenses associated with strategic initiatives to improve profitability, $16.2 million of incremental COVID-19 related costs, including hazard pay for store team members and sanitation supplies, and a $7.9 million charge related to the closure of Darice. The increase was partially offset by a $12.0 million decrease in marketing costs, an $8.2 million decrease in payroll-related costs as a result of furloughed team members and $8.0 million of wage subsidies resulting from COVID-19 relief legislation.

Restructure and Impairment Charges. In fiscal 2020, we recorded $28.8 million of impairment charges, consisting of $19.4 million related to the closure of 13 underperforming stores and $9.4 million primarily related to the relocation of our corporate offices in Irving, Texas. The impairment charges include $22.8 million related to operating lease assets and $6.0 million related to leasehold improvements and inventory. In fiscal 2019, we recorded impairment charges of $40.1 million as a result of lower than expected operating performance in our wholesale business and a restructure charge of $8.2 million related to the closure of our Pat Catan's stores during fiscal 2018.

Interest Expense. Interest expense decreased $1.6 million to $152.4 million in fiscal 2020 compared to fiscal 2019. The decrease was primarily due to savings of $26.7 million as a result of a lower interest rate and lower principal related to our amended term loan facility. The decrease was partially offset by $11.6 million related to settlement payments associated with our cash flow hedges, $6.0 million related to our senior secured notes issued in October 2020, $2.8 million

related to increased borrowings on our revolving credit facility, $2.5 million related to a higher interest rate associated with our senior notes issued in July 2019 and $1.4 million of interest related to deferred tax payments.

Losses on Early Extinguishments of Debt and Refinancing Costs. We recorded a loss on the early extinguishment of debt of $22.0 million during fiscal 2020 related to the refinancing of our term loan credit facility. We recorded a loss on the early extinguishment of debt of $1.3 million during fiscal 2019 related to the redemption of our senior subordinated notes and the refinancing of our senior secured asset-based revolving credit facility.

Other (Income) Expense, net. Other (income) expense, net increased $2.8 million in fiscal 2020 compared to fiscal 2019. The increase was primarily due to a $5.0 million charge related to the write-off of an investment in a liquidated business during fiscal 2019.

Income Taxes. Income tax expense decreased $20.1 million in fiscal 2020 to $65.7 million compared to the same period in the prior year. The decrease was due to a $18.4 million income tax benefit recorded in fiscal 2020 in connection with the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), including certain provisions related to net operating loss carrybacks.

Liquidity and Capital Resources

We require cash principally for day-to-day operations, to finance capital investments, purchase inventory, service our outstanding debt and for seasonal working capital needs. We expect that our available cash, cash flow generated from operating activities and funds available under our Amended Revolving Credit Facility will be sufficient to fund planned capital expenditures, working capital requirements, debt repayments, debt service requirements and anticipated growth for the foreseeable future. We may also opportunistically pursue acquisitions and other inorganic growth opportunities, and our future capital investments may include expenditures for these transactions. Our ability to satisfy our liquidity needs and continue to refinance or reduce debt could be adversely affected by the occurrence of any of the events described under "Item 1A. Risk Factors" or our failure to meet our debt covenants as described below.

Our Amended Revolving Credit Facility provides senior secured financing of up to $850 million, subject to a borrowing base. As of January 30, 2021, the borrowing base was $624.1 million, of which we had no outstanding borrowings, $87.3 million of outstanding standby letters of credit and $536.8 million of unused borrowing capacity. Our cash and cash equivalents totaled $1,194.4 million at January 30, 2021.

In March 2020, the World Health Organization declared the current COVID-19 outbreak to be a global pandemic. In response to the pandemic, many state and local jurisdictions ordered non-essential businesses closed and executed extensive stay-at-home orders. These orders resulted in the temporary closure of over 900 of our 1,252 stores which had a material adverse impact on our results of operations during the first quarter of fiscal 2020. During the second quarter of fiscal 2020, we reopened all of our stores and experienced a significant improvement in our business as net sales increased 12.4% during the preceding nine month period ending January 30, 2021 compared to the same period in the prior year. Our liquidity position, which includes cash on hand and amounts available under our Amended Revolving Credit Facility, increased from $1.2 billion as of February 1, 2020 to $1.7 billion as of January 30, 2021. However, there remains significant uncertainty surrounding the future impact of the COVID-19 pandemic on our results of operations, and future waves of the pandemic could require us to close stores again if certain restrictions are reinstated by state and local authorities. We intend to continue to manage our liquidity position closely and invest in our omnichannel capabilities to meet the growing customer demand for a seamless omnichannel experience.

In May 2020, the Company adopted a plan to close our Darice wholesale operations. As a result of the closure, we recorded a charge totaling $45.2 million in fiscal 2020, consisting primarily of a $37.3 million charge in gross profit related to the liquidation of inventory and $7.9 million included in selling, general and administrative associated with the write-off of indefinite-lived intangible assets and employee-related expenses. The closure of Darice was completed in the fourth quarter of fiscal 2020. In fiscal 2020 and fiscal 2019, Darice's net sales totaled $37.6 million and $79.9 million, respectively. Excluding the charges, Darice did not have a material impact on the Company's operating income in the periods presented.

In September 2018, the Board of Directors authorized a share repurchase program for the Company to purchase $500 million of the Company's common stock on the open market or through accelerated share repurchase transactions. The share repurchase program does not have an expiration date, and the timing and number of repurchase transactions

under the program will depend on market conditions, corporate considerations, debt agreements and regulatory requirements. Shares repurchased under the program are held as treasury shares until retired. During the year ended January 30, 2021, we repurchased 7.2 million shares for an aggregate amount of $87.2 million. As of January 30, 2021, we had $206.4 million of availability remaining under our current share repurchase program.

We had total outstanding debt of $2,536.7 million at January 30, 2021, of which $1,661.7 million was subject to variable interest rates and $875.0 million was subject to fixed interest rates. In April 2018, we executed two interest rate swaps with an aggregate notional value of $1 billion associated with our outstanding Amended Term Loan Credit Facility (as defined below). The swaps replaced the one-month LIBOR with a fixed interest rate of 2.7765% and expire in April 2021.

In April 2020, we executed two interest rate cap agreements with an aggregate notional value of $2 billion associated with our outstanding Amended Term Loan Credit Facility. The interest rate caps have an effective date of September 30, 2020 and April 30, 2021, respectively. During the third quarter of fiscal 2020, we amended the September 30, 2020 interest rate cap agreement and reduced the notional value from $1 billion to $300 million. The interest rate caps have a maturity date of April 30, 2025 and were executed for risk management and are not held for trading purposes. The interest rate caps will effectively cap our LIBOR exposure on a portion of our Amended Term Loan Credit Facility at 1%.

On March 2, 2021, we entered into a Merger Agreement with Apollo. The Merger Agreement contains limitations on actions that the Company may take between signing and closing without the consent of Apollo, including certain limitations on our borrowing.

Our substantial indebtedness could adversely affect our ability to raise additional capital, limit our ability to react to changes in the economy or our industry, expose us to interest rate risk and prevent us from meeting our obligations. Management reacts strategically to changes in economic conditions, including those created by the COVID-19 pandemic, and monitors compliance with debt covenants to seek to mitigate any potential material impacts to our financial condition and flexibility.

We may use excess operating cash flows to repurchase outstanding shares and repay portions of our indebtedness, depending on prevailing market conditions, liquidity requirements, existing economic conditions, contractual restrictions and other factors. As such, we and our subsidiaries, affiliates and significant shareholders may, from time to time, seek to retire or purchase our outstanding debt (including publicly issued debt) through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions, by tender offer or otherwise. If we use our excess cash flows to repay our debt, it will reduce the amount of cash available for additional capital expenditures.

Cash Flow from Operating Activities

Cash flows provided by operating activities were $1,222.4 million in fiscal 2020, an increase of $729.3 million from fiscal 2019. The increase was primarily due to the timing of inventory receipts following higher than expected sales, renegotiating payment terms with our vendors and landlords and the timing of federal tax payments.

Inventory decreased 8.2% to $1,007.0 million at January 30, 2021, from $1,097.1 million at February 1, 2020. The decrease in inventory was primarily due to the timing of inventory receipts following higher than expected sales, a reduction in inventory associated with the operation of 22 fewer Michaels stores (net of openings) since February 1, 2020 and the closure of Darice. Average inventory per Michaels store (inclusive of distribution centers, in-transit and inventory for the Company's e-commerce site) decreased 2.0% to $800,000 at January 30, 2021, from $816,000 at February 1, 2020.

Cash Flow from Investing Activities

The following table includes capital expenditures paid during the periods presented (in thousands):

	Fiscal Year		
	2020	2019	2018
New and relocated stores (including stores not yet opened)[1]	$ 10,083	$ 11,110	$ 32,153
Existing stores	39,868	34,998	39,524
Information systems	50,919	54,222	54,794
Corporate and other	61,134	20,215	18,916
	$ 162,004	$ 120,545	$ 145,387

(1) In fiscal 2020, we incurred capital expenditures related to the opening of 14 Michaels stores, including the relocation of eight stores. In fiscal 2019, we incurred capital expenditures related to the opening of 34 Michaels stores, including the relocation of 13 stores. In fiscal 2018, we incurred capital expenditures related to the opening of 45 Michaels stores, including the relocation of 21 stores.

In fiscal 2021, we plan to invest in the infrastructure necessary to support the further development of our business, including the buildout of our new distribution centers in New Jersey and California, investments in information technology related to our e-commerce business, enhancing our digital platforms and tools, and improving our data analytical capabilities to gain additional customer insights. In addition, we will continue to invest in new store openings and store remodels. In fiscal 2021, we plan to open approximately 33 Michaels stores, including approximately 10 relocations.

Term Loan Credit Facility

On May 23, 2018, MSI entered into an amendment with JPMorgan Chase Bank, N.A. ("JPMorgan"), as successor administrative agent and successor collateral agent, and other lenders to amend and restate our then-existing term loan credit facility. The amended and restated credit agreement, together with the related security, guarantee and other agreements, is referred to as the "Amended and Restated Term Loan Credit Facility".

On October 1, 2020, MSI entered into an amendment with JPMorgan and other lenders to our term loan credit facility. The amended credit agreement, together with the related security, guarantee and other agreements, are referred to as the "Amended Term Loan Credit Facility". In connection with this amendment, MSI voluntarily prepaid $500.1 million in principal of the then outstanding term loan credit facility.

Borrowings under the Amended Term Loan Credit Facility were issued at 98.5% of face value and bear interest at a rate per annum, at MSI's option, of either (a) a margin of 2.50% plus a base rate defined as the highest of (1) the prime rate published by The Wall Street Journal, (2) the greater of the federal funds effective rate and the overnight bank funding rate determined by the Federal Reserve Bank of New York, plus 0.5%, and (3) the one-month London Interbank Offered Rate ("LIBOR") plus 1%, in each case, subject to a 1.75% floor, or (b) a margin of 3.50% plus the applicable LIBOR, subject to a 0.75% floor. The Amended Term Loan Credit Facility matures on October 1, 2027 subject to a springing maturity date of April 15, 2027 if certain other indebtedness, including MSI's 8% senior notes maturing in 2027, exceeds $100 million as of such earlier date.

As of January 30, 2021, the Amended Term Loan Credit Facility provides for senior secured financing of $1,661.7 million. MSI has the right to request additional term loans in an aggregate amount of up to the sum of (a) the greater of $650 million and 100% of Adjusted EBITDA (as defined in the Amended Term Loan Credit Facility) for the most recently ended four fiscal quarters, plus (b) the aggregate amount of voluntary prepayments of certain indebtedness, plus (c) at MSI's election, an amount of additional indebtedness if the consolidated secured debt ratio (as defined in the Amended Term Loan Credit Facility) 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 quarters, subject to certain adjustments. The lenders 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.

There are no limitations on dividends and certain other restricted payments so long as (a) no event of default shall have occurred and be continuing and (b) immediately after giving pro forma effect to such restricted payment(s) and the application of proceeds therefrom, the consolidated total leverage ratio is less than or equal to 3.75 to 1.00.

MSI must offer to prepay outstanding term loans at 100% of the principal amount, plus any unpaid interest, with the proceeds of certain asset sales or casualty events under certain circumstances. MSI may voluntarily prepay outstanding loans under the Amended Term Loan Credit Facility at any time, subject to payment of customary breakage costs with respect to LIBOR loans. The Amended Term Loan Credit Facility provides for a 1.0% soft call premium in connection with certain Repricing Transactions (as defined in the Amended Term Loan Credit Facility) occurring on or prior to April 1, 2021.

MSI is required to make scheduled quarterly payments equal to 0.25% of the original principal amount of the term loans (subject to adjustments relating to the incurrence of additional term loans) for the first six years of the Amended Term Loan Credit Facility, with the balance to be paid on October 1, 2027.

All obligations under the Amended Term Loan Credit Facility are unconditionally guaranteed, jointly and severally, by Michaels Funding, Inc. ("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 Amended 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, 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 or foreign subsidiary holding company, is limited to 65% of the voting stock of such foreign subsidiary or foreign subsidiary holding company 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 the Subsidiary Guarantors owned real property and equipment, but excluding, among other things, the collateral described below; and

- 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.

The Amended Term Loan Credit Facility contains a number of negative covenants that are substantially similar to, but more restrictive in certain respects than, those governing the Senior Notes and Senior Secured Notes (as defined below), as well as certain other customary representations and warranties, affirmative and negative covenants and events of default. As of January 30, 2021, MSI was in compliance with all covenants.

Interest Rate Swaps

In April 2018, we executed two interest rate swaps with an aggregate notional value of $1 billion associated with our outstanding Amended and Restated Term Loan Credit Facility. The interest rate swaps have a maturity date of April 30, 2021 and were executed for risk management and are not held for trading purposes. The objective of the interest rate swaps is to hedge the variability of cash flows resulting from fluctuations in the one-month LIBOR. The swaps replaced the one-month LIBOR with a fixed interest rate of 2.7765% and payments are settled monthly. The swaps qualify as cash flow hedges and changes in the fair values are recorded in accumulated other comprehensive income in the consolidated balance sheet. The changes in fair value are reclassified from accumulated other comprehensive income to interest expense in the same period that the hedged items affect earnings.

Interest Rate Caps

In April 2020, we executed two interest rate cap agreements with an aggregate notional value of $2 billion associated with our outstanding Amended Term Loan Credit Facility. The interest rate caps have an effective date of September 30, 2020 and April 30, 2021, respectively. During the third quarter of fiscal 2020, we amended the September 30, 2020 interest rate cap agreement and reduced the notional value from $1 billion to $300 million. The interest rate caps have a maturity date of April 30, 2025 and were executed for risk management and are not held for trading purposes. The interest rate caps will effectively cap our LIBOR exposure on a portion of our Amended Term Loan Credit Facility at 1%.

The interest rate caps qualify as cash flow hedges and changes in the fair values are recorded in accumulated other comprehensive income in the consolidated balance sheet. The changes in fair value are reclassified from accumulated other comprehensive income to interest expense in the same period that the hedged items affect earnings.

Senior Notes

On July 8, 2019, MSI issued $500 million in principal amount of senior notes maturing in 2027 ("Senior Notes"). The Senior Notes were issued pursuant to an indenture among MSI, certain subsidiaries of MSI, as guarantors, and U.S. Bank National Association, as trustee (the "Senior Notes Indenture"). The Senior Notes mature on July 15, 2027 and bear interest at a rate of 8% per year, with interest payable semi-annually on January 15 and July 15 of each year, beginning on January 15, 2020.

The net proceeds from the offering and sale of the Senior Notes, together with cash on hand, were used to redeem MSI's outstanding 2020 Senior Subordinated Notes (as defined below).

The Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of MSI's subsidiaries that guarantee indebtedness under the Amended Revolving Credit Facility and the Amended Term Loan Credit Facility (collectively defined as the "Senior Secured Credit Facilities").

The Senior Notes are general, unsecured obligations of MSI, and the guarantees of the Senior Notes are general, unsecured obligations of the guarantors. They (i) rank equally in right of payment with all of MSI's and the guarantors' existing and future senior debt, including the Senior Secured Credit Facilities, (ii) are effectively subordinated to any of MSI's and the guarantors' existing and future secured debt to the extent of the value of the assets securing such debt, including the Senior Secured Credit Facilities, (iii) are structurally subordinated to all of the liabilities of MSI's subsidiaries that are not guaranteeing the Senior Notes, and (iv) are senior in right of payment with all of MSI's and the guarantors' existing and future subordinated debt.

At any time prior to July 15, 2022, MSI may redeem (a) up to 40% of the aggregate principal amount of the Senior Notes with the gross proceeds from one or more Equity Offerings, as defined in the Senior Notes Indenture, at a redemption price of 108% of the principal amount plus accrued and unpaid interest thereon to, but excluding, the redemption date and/or (b) all or part of the Senior Notes at 100% of the principal amount plus any accrued and unpaid interest thereon to, but excluding, the redemption date plus a make-whole premium. Thereafter, MSI may redeem all or part of the Senior Notes at the redemption prices set forth below (expressed as percentages of the principal amount of the Senior Notes to be redeemed) plus any accrued and unpaid interest thereon to, but excluding, the applicable date of redemption, if redeemed during the twelve month period beginning on July 15 of each of the years indicated below:

Year	Percentage
2022	104 %
2023	102 %
2024 and thereafter	100 %

Upon a change in control, MSI is required to offer to purchase the Senior Notes at 101% of the aggregate principal amount, plus any accrued and unpaid interest thereon to, but excluding, the date of purchase.

Subject to certain exceptions and qualifications, the Senior Notes Indenture contains covenants that, among other things, limit MSI's ability and the ability of its restricted subsidiaries, including the guarantors, to:

- incur additional indebtedness or issue certain disqualified stock or preferred stock;
- create liens;
- pay dividends on MSI's capital stock or make distributions or redeem or repurchase MSI's capital stock;
- prepay subordinated debt or make certain investments, loans, advances, and acquisitions;
- transfer or sell assets;

- engage in consolidations, amalgamations or mergers, or sell, transfer or otherwise dispose of all or substantially all of their assets; and

- enter into certain transactions with affiliates.

The covenants also limit MSI's ability, and the ability of MSI's restricted subsidiaries, to pay dividends or distributions on MSI's capital stock or repurchase MSI's capital stock, subject to certain exceptions, including dividends, distributions and repurchases up to (i) an amount equal to the greater of $200.0 million and 25% of MSI's consolidated EBITDA (as defined in the Senior Notes Indenture) and (ii) a basket that builds based on 50% of MSI's consolidated net income (as defined in the Senior Notes Indenture) and certain other amounts, in each case, to the extent such payment capacity is not applied as otherwise permitted under the Senior Notes Indenture and subject to certain conditions. However, there are no limitations on dividends and certain other restricted payments so long as (a) no event of default shall have occurred and be continuing and (b) immediately after giving pro forma effect to such restricted payment(s) and the application of proceeds therefrom, the total net leverage ratio is less than or equal to 3.25 to 1.00. As of January 30, 2021, the permitted restricted payment amount pursuant to the immediately foregoing sentence was $546.3 million. The Senior Notes Indenture also provides for customary events of default which, if any of them occurs, would require or permit the principal of and accrued interest on the Senior Notes to become or to be declared due and payable. As of January 30, 2021, MSI was in compliance with all covenants.

Senior Secured Notes

On October 1, 2020, MSI issued $375 million in aggregate principal amount of 4.75% senior secured notes maturing in 2027 ("Senior Secured Notes"). The Senior Secured Notes were issued pursuant to an indenture among MSI, Michaels Funding, Inc. and certain subsidiaries of MSI, as guarantors, and U.S. Bank National Association, as trustee (the "Senior Secured Notes Indenture"). The Senior Secured Notes will mature on October 1, 2027 and bear interest at a rate of 4.75% per year, with interest payable semi-annually on April 1 and October 1 of each year, beginning on April 1, 2021.

The net proceeds from the Senior Secured Notes, together with cash on hand, were used to voluntarily pay down $500.1 million of MSI's then outstanding term loan credit facility and to pay related fees and expenses.

The Senior Secured Notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by Michaels Funding, Inc. and each of MSI's subsidiaries that guarantee indebtedness under the Senior Secured Credit Facilities.

The Senior Secured Notes are senior secured obligations of MSI, and the guarantees are senior secured obligations of the guarantors. The Senior Secured Notes and guarantees will be secured equally and ratably with the Amended Term Loan Credit Facility and, accordingly, will be secured, subject to certain exceptions, by substantially all of the assets of MSI and the guarantors, including:

- a first-priority pledge of MSI's capital stock and all of the capital stock held directly by MSI and its subsidiaries that guarantee the Senior Secured Notes (which pledge, in the case of any foreign subsidiary or foreign subsidiary holding company, is limited to 65% of the voting stock of such foreign subsidiary or foreign subsidiary holding company 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 guarantor, including substantially all of MSI's and the guarantors' owned real property and equipment, but excluding, among other things, the collateral described below (collectively, and together with the pledge of capital stock described in the immediately preceding paragraph, referred to as the "Term Priority Collateral"); 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 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 guarantors, and certain related assets and proceeds of the foregoing.

At any time prior to October 1, 2023 MSI may redeem (a) up to 40% of the Senior Secured Notes with the gross proceeds from one or more Equity Offerings, as defined in the Senior Secured Notes Indenture, at a redemption price of 104.75% of the principal amount plus accrued and unpaid interest and/or (b) all or part of the Senior Secured Notes at 100.0% of the principal amount plus any accrued and unpaid interest plus a make-whole premium. Thereafter, MSI may redeem all or part of the notes at the redemption prices set forth below (expressed as percentages of the principal amount of the Senior Secured Notes to be redeemed) plus any accrued and unpaid interest, if redeemed during the twelve month period beginning on October 1 of each of the years indicated below:

Year	Percentage
2023	102.375 %
2024	101.188 %
2025 and thereafter	100.000 %

Upon a change of control, MSI is required to offer to purchase the Senior Secured Notes at 101.0% of the aggregate principal amount plus accrued and unpaid interest. In addition, if MSI or its restricted subsidiaries sells certain assets constituting Term Priority Collateral, then under certain circumstances MSI will be required to offer to repurchase the notes at 100.0% of the aggregate principal amount plus accrued and unpaid interest.

Subject to certain exceptions and qualifications, the Senior Secured Notes Indenture contains covenants that, among other things, limit MSI's ability and the ability of its restricted subsidiaries, including the guarantors, to:

- incur additional indebtedness or issue certain disqualified or preferred stock;
- create liens;
- pay dividends on MSI's capital stock or make distributions or redeem or repurchase MSI's capital stock;
- prepay subordinated debt or make certain investments, loans, advances, and acquisitions;
- transfer or sell assets;
- engage in consolidations, amalgamations or mergers, or sell, transfer or otherwise dispose of all or substantially all of their assets; and
- enter into certain transactions with affiliates.

The Senior Secured Notes Indenture also provides for customary events of default which, if any of them occurs, would require or permit the principal and accrued interest to become or to be declared due and payable. As of January 30, 2021, MSI was in compliance with all covenants.

Revolving Credit Facility

On August 30, 2019, MSI entered into an amendment with Wells Fargo Bank, National Association ("Wells Fargo") and other lenders to, among other things, extend the maturity date of our Amended Revolving Credit Facility. The Amended Revolving Credit Facility matures in August 2024, subject to an earlier springing maturity date if certain of our outstanding indebtedness has not been repaid, redeemed, refinanced, or cash collateralized or if the necessary availability reserves have not been established prior to such time (the "ABL Maturity Date").

The Amended Revolving Credit Facility provides for senior secured financing of up to $850 million, subject to a borrowing base. The borrowing base under the Amended Revolving Credit Facility equals the sum of: (i) 90% of eligible credit card receivables, (ii) 85% of eligible trade receivables, (iii) 90% to 92.5% of the appraised value of eligible inventory, plus (iv) 90% to 92.5% of the lesser of (a) the appraised value of eligible inventory supported by letters of credit, and (b) the face amount of the letters of credit, less (v) certain reserves.

As of January 30, 2021, the borrowing base was $624.1 million of which MSI had availability of $536.8 million. Borrowing capacity is available for letters of credit and borrowings on same-day notice. Outstanding standby letters of credit as of January 30, 2021 totaled $87.3 million.

The Amended Revolving Credit Facility also provides MSI with the right to request up to $200 million of additional commitments. The lenders will not be under any obligation to provide any such additional commitments, and any increase in commitments is subject to customary conditions. If we were to request additional commitments, and the lenders were to agree to provide such commitments, the facility size could be increased up to $1,050 million, however, MSI's ability to borrow would still be limited by the borrowing base.

Borrowings under the Amended 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) 0.25% for prime rate borrowings and 1.25% for LIBOR borrowings. The applicable margin is subject to adjustment each fiscal quarter based on the excess availability under the Amended Revolving Credit Facility. Excess availability is defined as the Loan Cap (as defined below) plus certain unrestricted cash of Holdings, MSI and the Subsidiary Guarantors, less the outstanding credit extensions. Same-day borrowings bear interest at the base rate plus the applicable margin.

MSI is required to pay a commitment fee on the unutilized commitments under the Amended Revolving Credit Facility, which is 0.25% per annum, subject to reduction to 0.20% when excess availability is less than 50% of the Loan Cap (as defined below). In addition, MSI must pay customary letter of credit fees and agency fees.

All obligations under the Amended Revolving Credit Facility are unconditionally guaranteed, jointly and severally, by Holdings and the Subsidiary Guarantors. All obligations under the Amended 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 or foreign subsidiary holding company, is limited to 65% of the voting stock of such foreign subsidiary or foreign subsidiary holding company 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 and the Subsidiary Guarantors owned real property and equipment.

If, at any time, the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the Amended Revolving Credit Facility exceeds the lesser of (i) the commitment amount and (ii) the borrowing base (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 availability under the Amended Revolving Credit Facility is less than the greater of (i) 10% of the Loan Cap and (ii) $50 million for five consecutive business days, 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 would be required to deposit daily in a collection account maintained with the agent under the Amended Revolving Credit Facility. Availability under the Amended 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. 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 MSI must meet specified excess availability requirements and minimum consolidated fixed charge coverage ratios, to be tested on a pro forma basis as of the date of the restricted action and for the 30-day period preceding such restricted action. Adjusted EBITDA, as defined in the Amended Revolving Credit Facility, is used in the calculation of the consolidated fixed charge coverage ratios.

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 more than the greater of (a) 10% of the Loan Cap and (b) $50 million for 30 consecutive days, the Amended Revolving Credit Facility will require MSI to maintain a consolidated fixed charge coverage ratio of at least 1.0 to 1.0. The Amended 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 Amended 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 MSI’s affiliates;
- sell assets, including capital stock of MSI’s subsidiaries;
- prepay or redeem indebtedness;
- consolidate or merge; and
- create liens.

5.875% Senior Subordinated Notes due 2020

On December 19, 2013, MSI issued $260 million in principal amount of 5.875% senior subordinated notes maturing in 2020 (“2020 Senior Subordinated Notes”). On June 16, 2014, MSI issued an additional $250 million of the 2020 Senior Subordinated Notes at 102% of face value, resulting in an effective interest rate of 5.76%.

On July 29, 2019, the Company redeemed the 2020 Senior Subordinated Notes in the aggregate principal amount of $510.0 million plus accrued interest. This payment retired the 2020 Senior Subordinated Notes and discharged the obligations under the indenture governing the 2020 Senior Subordinated Notes.

Off-Balance Sheet Arrangements

We have no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K. Neither we nor our subsidiaries typically guarantee the obligations of unrelated parties.

Contractual Obligations

As of January 30, 2021, our contractual obligations were as follows (in thousands):

	Payments Due By Fiscal Year				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Total debt [1]	$ 2,536,650	$ 16,700	$ 33,400	$ 33,400	$ 2,453,150
Operating lease commitments [2]	2,079,796	420,508	736,902	466,340	456,046
Interest payments [3]	635,351	85,168	155,298	187,894	206,991
Other commitments [4]	126,447	115,365	11,082	—	—
	$ 5,378,244	$ 637,741	$ 936,682	$ 687,634	$ 3,116,187

(1) Total debt only includes principal payments owed on the Senior Notes, Senior Secured Notes and the Amended Term Loan Credit Facility. The amounts shown above do not include unamortized discounts and deferred debt issuance costs reflected in the Company's consolidated balance sheets since they do not represent contractual obligations.

(2) Our operating lease commitments generally include non-cancelable leases for property and equipment used in our operations. Excluded from our operating lease commitments are amounts related to insurance, taxes and common area maintenance associated with property and equipment. Such amounts historically represented approximately 36% of the total lease obligation over the previous three fiscal years.

(3) Debt associated with our Amended Term Loan Credit Facility was $1,661.7 million at January 30, 2021 and is subject to variable interest rates. The amounts included in interest payments in the table for the Amended Term Loan Credit Facility were based on the indexed interest rate in effect at January 30, 2021. In April 2018, we executed two interest rate swap agreements with an aggregate notional value of $1 billion which are intended to mitigate interest rate risk associated with future changes in interest rates for borrowings under our Amended Term Loan Credit Facility. In fiscal 2020, we executed two interest rate cap agreements with an aggregate notional value of $1.3 billion which are intended to mitigate interest rate risk associated with future changes in interest rates for borrowings under our Amended Term Loan Credit Facility. Debt associated with the Senior Notes and Senior Secured Notes were $500.0 million and $375.0 million, respectively, at January 30, 2021 and were subject to fixed interest rates. We had no outstanding borrowings under our Amended Revolving Credit Facility at January 30, 2021. Under our Amended Revolving Credit Facility, we are required to pay a commitment fee of 0.25% per year on the unutilized commitments, subject to reduction to 0.20% when excess availability is less than 50% of the Loan Cap. The amounts included in interest payments for the Amended Revolving Credit Facility were based on this annual commitment fee.

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

Non-GAAP Measures

The following table sets forth certain non-GAAP measures used by the Company to manage our performance and measure compliance with certain debt covenants. The Company defines "EBITDA" as net income before interest, income taxes, depreciation and amortization. The Company defines "Adjusted EBITDA" as EBITDA adjusted for certain defined amounts in accordance with the Company's Senior Secured Credit Facilities.

The Company has presented EBITDA and Adjusted EBITDA to provide investors with additional information to evaluate our operating performance and our ability to service our debt. Adjusted EBITDA is a required calculation under the Company's Senior Secured Credit Facilities that is used in the calculations of fixed charge coverage and leverage ratios, which, under certain circumstances determine mandatory repayments or maintenance covenants and may restrict the Company's ability to make certain payments (characterized as restricted payments), investments (including acquisitions) and debt repayments.

As EBITDA and Adjusted EBITDA are not measures of liquidity calculated in accordance with U.S. generally accepted accounting principles ("GAAP"), these measures should not be considered in isolation of, or as substitutes for, net cash provided by operating activities as an indicator of liquidity. Our computation of EBITDA and Adjusted EBITDA may differ from similarly titled measures used by other companies.

The following table shows a reconciliation of EBITDA and Adjusted EBITDA to net income and net cash provided by operating activities (in thousands):

	Fiscal Year		
	2020	2019	2018
Net cash provided by operating activities	$ 1,222,436	$ 493,175	$ 444,256
Non-cash operating lease expense	(308,777)	(325,962)	—
Depreciation and amortization	(130,303)	(125,499)	(124,271)
Share-based compensation	(25,010)	(22,910)	(27,082)
Debt issuance costs amortization	(3,507)	(4,451)	(4,997)
Loss on write-off of investment	—	(5,036)	—
Accretion of long-term debt, net	(1,391)	129	518
Restructure and impairment charges	(28,835)	(48,332)	(104,238)
Impairment of intangible assets	(3,500)	—	—
Deferred income taxes	(52,114)	(9,455)	(8,131)
Gain on sale of building	101	—	—
Losses on early extinguishments of debt and refinancing costs	(22,044)	(1,316)	(1,835)
Changes in assets and liabilities	(352,121)	322,252	145,325
Net income	294,935	272,595	319,545
Interest expense	152,442	154,090	147,085
Income taxes	65,669	85,776	97,509
Depreciation and amortization	130,303	125,499	124,271
Interest income	(1,570)	(3,185)	(3,160)
EBITDA	641,779	634,775	685,250
Adjustments:			
COVID-19 expense[(1)]	19,842	—	—
Losses on early extinguishments of debt and refinancing costs	22,044	1,316	1,835
Share-based compensation	25,010	22,910	27,082
Restructure and impairment charges	28,835	48,332	104,238
Darice liquidation costs	45,244	—	—
Severance costs	8,972	5,607	902
Store pre-opening costs	3,082	4,608	4,417
Store remodel costs	1,739	337	5,153
Foreign currency transaction (gains) losses, net	(8)	276	(278)
Store closing costs	1,528	(156)	3,134
Consulting costs	20,625	—	—
CEO transition costs[(2)]	—	9,236	—
Other[(3)]	11,846	6,661	2,916
Adjusted EBITDA	$ 830,538	$ 733,902	$ 834,649

(1) Includes costs attributable to the COVID-19 pandemic including hazard pay for team members, costs associated with furloughed employees, certain inventory charges and sanitation supplies. This amount also includes $8.0 million of wage subsidies resulting from COVID-19 relief legislation.

(2) CEO transition costs includes $5.6 million of severance paid to our previous CEO and a $3.7 million sign-on bonus for our new CEO.

(3) Other adjustments primarily relate to items such as moving and relocation expenses, franchise taxes, sign-on bonuses, director's fees, search costs and the support center move.

Critical Accounting Policies and Estimates

We have prepared our consolidated financial statements in conformity with U.S. GAAP. These consolidated financial statements include some amounts that are based on our informed judgments and estimates. Our significant accounting policies are discussed in Note 1 to the consolidated financial statements. Our critical accounting policies represent those policies that are subject to judgments and uncertainties. The following discussion addresses our most critical accounting policies, which are those that are both important to the portrayal of our financial condition and results of operations and that require significant judgment or use of complex estimates.

Merchandise Inventories. Merchandise inventories are valued at the lower of cost or net realizable value, 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, net of vendor allowances. Inventory cost is recognized through cost of sales when it is sold. It is impractical for us to assign overhead costs and vendor allowances to individual units of inventory. As such, to match inventory costs against the related revenues, we estimate the amount of overhead costs and vendor allowances to be deferred and recognized each period as the inventory is sold.

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 primarily 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 also evaluate our merchandise to ensure that the expected net realizable value of the merchandise held at the end of a fiscal period exceeds cost. In the event that the expected net realizable value is less than cost, we reduce the value of that inventory accordingly. A 10% change in our inventory valuation and shrink reserves would have affected net income by $0.8 million in fiscal 2020.

Vendor allowances, which primarily represent volume rebates and cooperative advertising funds, are recorded as a reduction of the cost of the merchandise inventories and a subsequent reduction in cost of sales when the inventory is sold. We generally earn vendor allowances as a percentage of certain merchandise purchases with no minimum purchase requirements.

Long-Lived Assets. Long-lived assets (other than goodwill and assets with indefinite lives), such as property and equipment, operating lease assets and intangible assets subject to amortization, are evaluated for indicators of impairment whenever events or changes in circumstances indicate their carrying amounts may not be recoverable. For store assets, we evaluate the performance of individual stores for indicators of impairment and underperforming stores are selected for further evaluation to determine whether their carrying amounts are recoverable.

Our initial indicator that store assets, including operating lease assets, are considered to be recoverable is that the estimated undiscounted cash flows for the remaining lease term exceed the carrying value of the assets. If the evaluation indicates that the carrying value of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow method using assumptions about key store variables, including sales, growth rate, gross margin, payroll and other controllable expenses. The fair value of our operating lease assets are based on the present value of comparable market rents. Furthermore, management considers other factors when evaluating stores for impairment, including the individual store’s execution of its operating plan and other local market conditions. If the carrying value exceeds the fair value, an impairment is recorded.

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

Goodwill and Other Indefinite-Lived Intangible Assets. We review goodwill and other indefinite-lived intangible assets for impairment each year in the fourth quarter, or more frequently if events occur which indicate the carrying value may not be recoverable. We have historically performed a qualitative assessment for our Michaels-U.S. reporting unit to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting unit is less than its carrying value, including goodwill. Factors used in our qualitative assessment include, but are not limited to, macroeconomic conditions, industry and market conditions, cost factors, overall financial performance and Company and reporting unit specific events. If, based on our qualitative assessment, we determine that it is more likely than not that the estimated fair value of the reporting unit is less than the carrying amount, including goodwill, we will calculate the fair value of the Michaels-U.S. reporting unit using the present value of future cash flows expected to be generated by the reporting unit. If the carrying value of the reporting unit exceeds its estimated fair value, an impairment loss will be recognized not to exceed the total amount of goodwill allocated to the reporting unit.

For all other reporting units, we estimated the fair value of each reporting unit using the present value of future cash flows expected to be generated by the reporting units. If the carrying value of the reporting unit or indefinite-lived intangible assets exceeds the estimated fair value, an impairment charge is recorded to write the assets down to their estimated fair value. We estimate fair value using the present value of future cash flows expected to be generated by the reporting unit using a weighted-average cost of capital, terminal values and updated financial projections for the next five years. If our actual results are not consistent with the estimates and assumptions used to calculate fair value, we could be required to recognize additional impairments in a future period.

Income Taxes. Deferred tax assets, including the benefit of net operating loss and tax credit carryforwards, are evaluated based on the guidelines for realization and are reduced by a valuation allowance if it is deemed more likely than not that such assets will not be realized. We consider several factors in evaluating the realizability of our deferred tax assets, including the nature, frequency and severity of recent losses, the remaining years available for carryforwards, changes in tax laws, the future profitability of the operations in the jurisdiction, and tax planning strategies. Our judgments and estimates concerning realizability of deferred tax assets could change if any of the evaluation factors change, resulting in an increase or decrease to income tax expense in any period.

We record a liability for uncertain tax positions to the extent a tax position taken or expected to be taken in a tax return does not meet certain recognition or measurement criteria. Considerable management judgment is necessary to assess the inherent uncertainties related to the interpretations of complex tax laws, regulations and taxing authority rulings, as well as to the expiration of statutes of limitations in the numerous and varied jurisdictions in which we operate. Our judgments and estimates may change as a result of evaluation of new information, such as the outcome of tax audits or changes to or further interpretations of tax laws and regulations, resulting in an increase or decrease to income tax expense in any period.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Foreign Currency Risk

We are exposed to fluctuations in exchange rates between the U.S. and Canadian dollar, which is the functional currency of our Canadian subsidiaries. Our sales, costs and expenses of our Canadian subsidiaries, when translated into U.S. dollars, can fluctuate due to exchange rate movement. A 10% increase or decrease in the exchange rate of the Canadian dollar would have increased or decreased net income by approximately $18 million for fiscal 2020.

Interest Rate Risk

We have market risk exposure arising from changes in interest rates on our Amended Term Loan Credit Facility and our Amended Revolving Credit Facility. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources — Debt” for further detail. The interest rates on our Amended Term Loan Credit Facility and our Amended Revolving Credit Facility will reprice periodically, which will impact our earnings and cash flow. In April 2018, we executed two interest rate swap agreements with an aggregate notional value of $1 billion which are intended to mitigate interest rate risk associated with future changes in interest rates for borrowings under our Amended Term Loan Credit Facility. As a result of these interest rate swaps, our exposure to interest rate volatility for $1 billion of our Amended Term Loan Credit Facility was eliminated. In fiscal 2020, we executed two interest rate cap agreements with an aggregate notional value of $1.3 billion associated with our outstanding Amended Term Loan Credit Facility. The interest rate caps will effectively cap our LIBOR exposure on a portion of the Amended Term Loan Credit Facility at 1%. The interest rates on our Senior Notes and our Senior Secured Notes are fixed. Based on our overall interest rate exposure to variable rate debt outstanding as of January 30, 2021, a 100 basis point change in interest rates would impact income before income taxes by approximately $4 million for fiscal 2020. A 100 basis point change in interest rates would impact the fair value of our long-term fixed rate debt by approximately $26 million. A change in interest rates would not materially affect the fair value of our variable rate debt as the debt reprices periodically.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See the Index to the Consolidated Financial Statements and Supplementary Data on page F-1. The Consolidated Financial Statements and Supplementary Data are included on pages F-2 through F-37 and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Included in this Annual Report on Form 10-K are certifications by our principal executive officer and our principal financial officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended. This section includes information concerning the controls and controls evaluation referred to in the certifications. Page F-2 of this Report includes the attestation report of Ernst & Young LLP, our independent registered public accounting firm, regarding its audit of the effectiveness of our internal control over financial reporting. This section should be read in conjunction with the Ernst & Young LLP attestation for a complete understanding of this section.

Evaluation of Disclosure Controls and Procedures

We maintain a set of disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) promulgated by the SEC under the Securities Exchange Act of 1934) designed to provide reasonable assurance that information, which is required to be timely disclosed, is accumulated and communicated to management in a timely fashion. We note the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

An evaluation was carried out under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls are effective to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities and Exchange Act of 1934, as amended, is accumulated and communicated to management, including our principal executive officer and our principal financial officer, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended January 30, 2021 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the Company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable, not absolute, assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate as a result of changes in conditions or deterioration in the degree of compliance.

Management assessed the effectiveness of our internal control over financial reporting as of January 30, 2021. Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its *Internal Control—Integrated Framework* (2013). Management's assessment included the evaluation of such elements as the design and operating effectiveness of financial reporting controls, process documentation, accounting policies and the overall control environment. This assessment is supported by testing and monitoring performed or supervised by our Internal Audit organization.

Based on management's assessment, management has concluded that the Company's internal control over financial reporting was effective as of January 30, 2021. The independent registered public accounting firm, Ernst & Young LLP, issued an attestation report on the effectiveness of our internal control over financial reporting. The Ernst & Young LLP report is included on Page F-2 of this Annual Report on Form 10-K.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this item will be contained in our Definitive Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this item will be contained in our Definitive Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this item will be contained in our Definitive Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information required by this item will be contained in our Definitive Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this item will be contained in our Definitive Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

The following documents are filed as part of this report:

(1) Consolidated Financial Statements:

See Index to the Consolidated Financial Statements and Supplementary Data on page F-1.

(2) Financial Statement Schedules:

All financial statement schedules are omitted because they are not required or are not applicable, or the required information is provided in the consolidated financial statements or notes described in 15(1) above.

(3) Exhibits:

The exhibits listed in the accompanying Index to Exhibits attached hereto are filed or incorporated by reference into this Annual Report on Form 10-K.

ITEM 16. FORM 10-K SUMMARY.

None.

THE MICHAELS COMPANIES, INC.

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.

Opinion on Internal Control over Financial Reporting

We have audited The Michaels Companies, Inc.'s internal control over financial reporting as of January 30, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), (the COSO criteria). In our opinion, The Michaels Companies, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of January 30, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of The Michaels Companies, Inc. as of January 30, 2021 and February 1, 2020 and the related consolidated statements of comprehensive income, stockholders' deficit and cash flows for each of the three years in the period ended January 30, 2021, and the related notes and our report dated March 9, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Dallas, Texas
March 9, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Michaels Companies, Inc. (the Company) as of January 30, 2021 and February 1, 2020, the related consolidated statements of comprehensive income, stockholders' deficit and cash flows for each of the three years in the period ended January 30, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 30, 2021 and February 1, 2020, and the results of its operations and its cash flows for each of the three years in the period ended January 30, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of January 30, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 9, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Completeness and valuation of uncertain tax positions

Description of the Matter

As discussed in Note 8 of the financial statements, the Company operates in a number of tax jurisdictions, and its income tax return are subject to examination by tax authorities in those jurisdictions may challenge income tax positions on those returns. Uncertainty in a tax position may arise because tax laws are subject to interpretation. The Company uses significant judgment in (1) determining whether, based on the technical merits, a tax position is more likely than not to be sustained and (2) measuring the amount of tax benefit that qualifies for recognition. As of January 30, 2021, the Company accrued liabilities of $70.1 million for uncertain tax positions, including penalties and interest.

Auditing management's estimate of the amount of tax benefit that qualifies for recognition involved auditor judgment and use of tax professionals with specialized skills and knowledge to evaluate the Company's interpretation of, and compliance with, tax laws and legal rulings across its multiple subsidiaries located in multiple taxing jurisdictions.

How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process to identify and measure the benefits of the uncertain tax positions. For example, we tested controls over the Company's assessment of the technical merits of tax positions and management's process to measure the benefit of those tax positions. Among other procedures performed, we involved our tax professionals to assess the technical merits of the Company's tax positions. We assessed the Company's correspondence with the relevant tax authorities and evaluated income tax opinions or other third-party advice obtained by the Company. We also evaluated the appropriateness of the Company's accounting for its tax positions taking into consideration relevant information, local income tax laws, and legal rulings. We analyzed the Company's assumptions and data used to determine the amount of tax benefit recognized and tested the accuracy of the calculations. We have also evaluated the adequacy of the Company's income tax disclosures included in Note 8 in relation to these tax matters.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1984.

Dallas, Texas
March 9, 2021

THE MICHAELS COMPANIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands, except per share data)

	Fiscal Year		
	2020	**2019**	**2018**
Net sales	$ 5,271,112	$ 5,072,037	$ 5,271,944
Cost of sales and occupancy expense	3,315,035	3,199,780	3,248,276
Gross profit	1,956,077	1,872,257	2,023,668
Selling, general and administrative	1,390,620	1,304,280	1,351,401
Restructure and impairment charges	28,835	48,332	104,238
Store pre-opening costs	3,082	4,608	4,417
Operating income	533,540	515,037	563,612
Interest expense	152,442	154,090	147,085
Losses on early extinguishments of debt and refinancing costs	22,044	1,316	1,835
Other (income) expense, net	(1,550)	1,260	(2,362)
Income before income taxes	360,604	358,371	417,054
Income taxes	65,669	85,776	97,509
Net income	$ 294,935	$ 272,595	$ 319,545
Other comprehensive income, net of tax:			
Foreign currency and cash flow hedges	9,387	(8,273)	(10,898)
Comprehensive income	$ 304,322	$ 264,322	$ 308,647
Earnings per common share:			
Basic	$ 2.01	$ 1.78	$ 1.87
Diluted	$ 1.98	$ 1.78	$ 1.86
Weighted-average common shares outstanding:			
Basic	146,541	153,134	170,610
Diluted	148,531	153,202	171,378

See accompanying notes to consolidated financial statements.

THE MICHAELS COMPANIES, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share data)

ASSETS	January 30, 2021	February 1, 2020
Current Assets:		
Cash and equivalents	$ 1,194,389	$ 409,964
Merchandise inventories	1,007,043	1,097,109
Prepaid expenses and other	56,822	62,287
Accounts receivable, net	14,039	30,442
Total current assets	2,272,293	1,599,802
Property and equipment, net	472,563	430,432
Operating lease assets	1,594,554	1,610,013
Goodwill	94,290	94,290
Other intangible assets, net	57,121	66,417
Deferred income taxes	19,394	18,201
Other assets	18,190	18,940
Total assets	$ 4,528,405	$ 3,838,095
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable	$ 858,790	$ 476,298
Accrued liabilities and other	488,658	347,136
Current portion of operating lease liabilities	324,238	306,796
Current portion of long-term debt	16,700	24,900
Income taxes payable	27,313	41,236
Total current liabilities	1,715,699	1,196,366
Long-term debt	2,480,953	2,644,460
Long-term operating lease liabilities	1,378,394	1,357,821
Deferred income taxes	54,200	—
Other liabilities	96,329	85,912
Total liabilities	5,725,575	5,284,559
Commitments and contingencies		
Stockholders' Deficit:		
Common stock, $0.06775 par value, 350,000 shares authorized; 141,608 shares issued and outstanding at January 30, 2021 and 146,803 shares issued and outstanding at February 1, 2020	9,508	9,852
Additional paid-in-capital	—	4,872
Accumulated deficit	(1,193,234)	(1,438,357)
Accumulated other comprehensive loss	(13,444)	(22,831)
Total stockholders' deficit	(1,197,170)	(1,446,464)
Total liabilities and stockholders' deficit	$ 4,528,405	$ 3,838,095

See accompanying notes to consolidated financial statements.

THE MICHAELS COMPANIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Fiscal Year		
	2020	**2019**	**2018**
Cash flows from operating activities:			
Net income	$ 294,935	$ 272,595	$ 319,545
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash operating lease expense	308,777	325,962	—
Depreciation and amortization	130,303	125,499	124,271
Share-based compensation	25,010	22,910	27,082
Debt issuance costs amortization	3,507	4,451	4,997
Loss on write-off of investment	—	5,036	—
Accretion of long-term debt, net	1,391	(129)	(518)
Restructure and impairment charges	28,835	48,332	104,238
Impairment of intangible assets	3,500	—	—
Deferred income taxes	52,114	9,455	8,131
Gain on sale of building	(101)	—	—
Losses on early extinguishments of debt and refinancing costs	22,044	1,316	1,835
Changes in assets and liabilities:			
Merchandise inventories	88,183	9,504	(63,890)
Prepaid expenses and other	4,869	1,671	3,576
Accounts receivable	14,627	29,516	(14,100)
Other assets	198	(3,562)	(1,497)
Operating lease liabilities	(277,375)	(323,010)	—
Accounts payable	389,756	(14,787)	(10,461)
Accrued interest	6,978	(2,192)	(691)
Accrued liabilities and other	128,671	(36,020)	(17,225)
Income taxes	(5,323)	17,647	(44,532)
Other liabilities	1,537	(1,019)	3,495
Net cash provided by operating activities	1,222,436	493,175	444,256
Cash flows from investing activities:			
Additions to property and equipment	(162,004)	(120,545)	(145,387)
Acquisition of intangible assets	—	(58,000)	—
Proceeds from sale of building	875	—	—
Net cash used in investing activities	(161,129)	(178,545)	(145,387)
Cash flows from financing activities:			
Common stock repurchased	(91,118)	(107,997)	(456,585)
Payments on term loan credit facility	(545,950)	(24,900)	(24,900)
Payment of 2020 senior subordinated notes	—	(510,000)	—
Issuance of senior notes	—	500,000	—
Issuance of senior secured notes	375,000	—	—
Borrowings on asset-based revolving credit facility	600,000	23,200	355,400
Payments on asset-based revolving credit facility	(600,000)	(23,200)	(355,400)
Payment of debt refinancing costs	(26,812)	(8,162)	(1,117)
Payment of dividends	—	—	(317)
Proceeds from stock options exercised	12,473	506	4,041
Other financing activities	(475)	—	—
Net cash used in financing activities	(276,882)	(150,553)	(478,878)
Net change in cash and equivalents	784,425	164,077	(180,009)
Cash and equivalents at beginning of period	409,964	245,887	425,896
Cash and equivalents at end of period	$ 1,194,389	$ 409,964	$ 245,887

See accompanying notes to consolidated financial statements.

THE MICHAELS COMPANIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
For the Three Years Ended January 30, 2021
(in thousands)

	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at February 3, 2018	181,919	$ 12,206	$ 21,740	$ (1,539,781)	$ (3,660)	$ (1,509,495)
Net income	—	—	—	319,545	—	319,545
Foreign currency and interest rate swaps	—	—	—	—	(10,898)	(10,898)
Share-based compensation	—	—	27,197	—	—	27,197
Exercise of stock options and other awards	1,066	72	3,969	—	—	4,041
Repurchase of stock and retirements	(25,211)	(1,684)	(46,952)	(407,949)	—	(456,585)
Balance at February 2, 2019	157,774	10,594	5,954	(1,628,185)	(14,558)	(1,626,195)
Net income	—	—	—	272,595	—	272,595
Foreign currency and interest rate swaps	—	—	—	—	(8,273)	(8,273)
Share-based compensation	—	—	22,900	—	—	22,900
Exercise of stock options and other awards	886	60	446	—	—	506
Repurchase of stock and retirements	(12,019)	(802)	(24,428)	(82,767)	—	(107,997)
Issuance of restricted stock awards	162	—	—	—	—	—
Balance at February 1, 2020	146,803	9,852	4,872	(1,438,357)	(22,831)	(1,446,464)
Net income	—	—	—	294,935	—	294,935
Foreign currency and cash flow hedges	—	—	—	—	9,387	9,387
Share-based compensation	—	—	23,617	—	—	23,617
Exercise of stock options and other awards	2,642	179	12,294	—	—	12,473
Repurchase of stock and retirements	(7,865)	(523)	(40,783)	(49,812)	—	(91,118)
Issuance of restricted stock awards	28	—	—	—	—	—
Balance at January 30, 2021	141,608	$ 9,508	$ —	$ (1,193,234)	$ (13,444)	$ (1,197,170)

See accompanying notes to consolidated financial statements.

THE MICHAELS COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

The Michaels Companies, Inc. owns and operates specialty retail stores in49 states and Canada featuring arts, crafts, framing, floral, home décor and seasonal merchandise for the hobbyist and do-it-yourself home decorator. 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. Our consolidated financial statements include the accounts of The Michaels Companies, Inc. and our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Michaels Stores, Inc. ("MSI") is headquartered in Irving, Texas and was incorporated in the state of Delaware in 1983. In July 2013, MSI was reorganized into a holding company structure and The Michaels Companies, Inc. was incorporated in the state of Delaware in connection with the reorganization.

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. All references to fiscal year mean the year in which that fiscal year began. References to "fiscal 2020" relate to the 52 weeks ended January 30, 2021, references to "fiscal 2019" relate to the 52 weeks ended February 1, 2020 and references to "fiscal 2018" relate to the53 weeks ended February 2, 2019.

Preferred Shares

The Company's Board of Directors has authorized the issuance of50 million shares of preferred stock under The Michaels Companies, Inc. Certificate of Incorporation. No preferred shares have been issued as of January 30, 2021.

COVID-19

In March 2020, the World Health Organization declared the current COVID-19 outbreak to be a global pandemic. In response to the pandemic, many state and local jurisdictions ordered non-essential businesses closed and executed extensive stay-at-home orders. These orders resulted in the temporary closure of over 900 of our 1,252 stores which had a material adverse impact on our results of operations during the first quarter of fiscal 2020. During the second quarter of fiscal 2020, we reopened all of our stores and experienced a significant improvement in our business as net sales increased 12.4% during the preceding nine month period ending January 30, 2021 compared to the same period in the prior year. Our liquidity position, which includes cash on hand and amounts available under our senior secured asset based revolving credit facility ("Amended Revolving Credit Facility"), increased from $1.2 billion as of February 1, 2020 to $1.7 billion as of January 30, 2021. However, there remains significant uncertainty surrounding the future impact of the COVID-19 pandemic on our results of operations, and future waves of the pandemic could require us to close stores again if certain restrictions are reinstated by state and local authorities. We intend to continue to manage our liquidity position closely and invest in our omnichannel capabilities to meet the growing customer demand for a seamless omnichannel experience.

Share Repurchase Program

In September 2018, the Board of Directors authorized a share repurchase program for the Company to purchase $500 million of the Company's common stock on the open market or through accelerated share repurchase transactions. The share repurchase program does not have an expiration date, and the timing and number of repurchase transactions under the program will depend on market conditions, corporate considerations, debt agreements and regulatory requirements. Shares repurchased under the program are held as treasury shares until retired. During fiscal 2020, we repurchased 7.2 million shares for an aggregate amount of $87.2 million. As of January 30, 2021, we had $206.4 million of availability remaining under our current share repurchase program.

Foreign Currency

The functional currency of our Canadian operations is the Canadian dollar. Translation adjustments result from translating our Canadian subsidiaries' financial statements into U.S. dollars. Balance sheet accounts are generally 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. The translation adjustments recorded in accumulated other comprehensive loss, net of taxes, was a gain of $6.8 million in fiscal 2020 and were losses of $0.7 million and $6.2 million in fiscal 2019 and fiscal 2018, respectively. Transaction gains and losses are recorded as a part of other (income) expense, net in our consolidated statements of comprehensive income and were immaterial for all fiscal periods presented.

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. Cash and equivalents also include proceeds due from credit card transactions with settlement terms of less than five days. The carrying amount of cash equivalents approximates fair value due to the short-term maturity of those instruments.

Merchandise Inventories

Merchandise inventories are valued at the lower of cost or net realizable value, 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, net of vendor allowances. Inventory cost is recognized through cost of sales when it is sold. It is impractical for us to assign overhead costs and vendor allowances to individual units of inventory. As such, to match inventory costs against the related revenues, we estimate the amount of overhead costs and vendor allowances to be deferred and recognized each period as the inventory is sold.

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 primarily 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.

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. We recognized vendor allowances of $61.6 million, or 1.2% of net sales, in fiscal 2020, $70.6 million, or 1.4% of net sales, in fiscal 2019, and $74.6 million, or 1.4% of net sales, in fiscal 2018.

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 stock keeping units ("SKUs") that are candidates for repricing are identified using our perpetual inventory data. In each case, the appropriate repricing is determined centrally at our store 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.

Accounts Receivable, net

Accounts receivable consist primarily of amounts due from taxing authorities, trade receivables related to our Darice wholesale business ("Darice") and amounts due from certain service providers. The Company assesses the collectability of all receivables on an ongoing basis and establishes an allowance for doubtful accounts, if necessary. Factors such as payment terms, historical loss experience and economic conditions are generally considered in determining

the allowance for doubtful accounts. The allowance for doubtful accounts was immaterial for all fiscal periods presented in the consolidated financial statements.

As of January 30, 2021 and February 1, 2020, receivables from customers, which consist primarily of trade receivables related to Darice, were approximately $1.4 million and $13.3 million, respectively.

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. 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:

	Years
Buildings	30
Leasehold improvements [1]	10
Fixtures and equipment	8-10
Computer equipment and software	3-10

(1) 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. We also capitalize certain implementation costs related to the development of hosting arrangements. These costs are being amortized on a straight-line basis over the estimated useful life or the term of the hosting arrangement. As of January 30, 2021 and February 1, 2020, we had unamortized capitalized software costs of $85.7 million and $93.6 million, respectively. These amounts are included in property and equipment, net in the consolidated balance sheets. Amortization expense related to capitalized software costs totaled $31.3 million, $31.6 million and $31.2 million in fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

Long-Lived Assets

Long-lived assets (other than goodwill and assets with indefinite lives), such as property and equipment, operating lease assets and intangible assets subject to amortization, are evaluated 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. Our initial indicator that store assets, including operating lease assets, are considered to be recoverable is that the estimated undiscounted cash flows for the remaining lease term exceed the carrying value of the assets. If the evaluation indicates that the carrying value of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow method using assumptions about key store variables, including sales, growth rate, gross margin, payroll and other controllable expenses. The fair value of our operating lease assets are based on the present value of comparable market rents. If actual results differ from these estimates, we may be exposed to additional impairment losses that may be material.

Goodwill and Other Indefinite-Lived Intangible Assets

We review goodwill and other indefinite-lived intangible assets for impairment each year in the fourth quarter, or more frequently if events occur which indicate the carrying value may not be recoverable. In the fourth quarter of fiscal 2020, we performed a qualitative assessment for our Michaels-U.S. reporting unit to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting unit is less than its carrying value, including goodwill. There were no impairment indicators identified during our assessment. Factors used in our qualitative assessment include, but are not limited to, macroeconomic conditions, industry and market conditions, cost factors, overall financial performance and Company and reporting unit specific events. In addition, during the first quarter of fiscal 2020 we performed an interim assessment of our Michaels U.S. and other reporting units as a result of a significant decrease in sales due to the COVID-19 pandemic. We estimated the fair value of each reporting unit using the present value of future cash flows expected to be generated using a weighted-average cost of capital, terminal values and updated financial projections for the next five years, all of which are Level 3 fair value inputs. If our actual results are not consistent with

the estimates and assumptions used to calculate fair value, we could be required to recognize additional impairments in a future period.

Darice Liquidation

In May 2020, the Company adopted a plan to close our Darice wholesale operations. As a result of the closure, we recorded a charge totaling $45.2 million in fiscal 2020, consisting primarily of a $37.3 million charge in gross profit related to the liquidation of inventory and $7.9 million included in selling, general and administrative associated with the write-off of indefinite-lived intangible assets and employee-related expenses. The closure of Darice was completed in the fourth quarter of fiscal 2020. In fiscal 2020 and fiscal 2019, Darice's net sales totaled $37.6 million and $79.9 million, respectively. Excluding the charges, Darice did not have a material impact on the Company's operating income in the periods presented.

Restructure and Impairment Charges

In fiscal 2020, we recorded impairment charges totaling $28.8 million, consisting of $19.4 million related to the closure of 13 underperforming stores and $9.4 million primarily related to the relocation of our corporate offices in Irving, Texas. The impairment charges include $22.8 million related to operating lease assets and $6.0 million related to leasehold improvements and inventory.

During fiscal 2019, we identified impairment indicators within Darice that were primarily due to a deterioration in sales associated with overall declining demand from customers. These indicators led us to revise Darice's forecasted sales downward and resulted in a significantly lower operating plan in fiscal 2019. As a result, we performed impairment tests on Darice's goodwill, indefinite and definite-lived intangible assets and long-lived assets, including operating lease assets. As a result of this impairment testing, we recorded an impairment charge of $40.1 million in fiscal 2019, consisting of $17.8 million related to goodwill, $14.4 million related to long-lived assets, including operating lease assets, and $7.9 million related to indefinite and definite-lived intangible assets.

In January 2019 and March 2018, we closed our Pat Catan's and Aaron Brothers stores, respectively. As a result of the store closures, we recorded restructure charges of $8.2 million and $98.9 million in fiscal 2019 and fiscal 2018, respectively. The restructure charges in fiscal 2019 are primarily related to employee-related expenses and the impairment of an indefinite-lived intangible asset. The restructure charges in fiscal 2018 primarily related to the transfer of the rights to sell inventory and other assets to a third party to facilitate the store closures and assist with the disposition of our remaining lease obligations, the impairment of goodwill and employee-related expenses.

During fiscal 2018, Pat Catan's net sales totaled $109.6 million and Aaron Brothers net sales totaled $12.9 million. Excluding the restructure charges, Aaron Brothers and Pat Catan's did not have a material impact on the Company's operating income in all fiscal periods presented in the consolidated financial statements.

In addition, we recorded $5.3 million of employee-related charges in fiscal 2018 as a result of certain organizational changes made to streamline our operations at our corporate support center.

Self-Insurance

We have insurance coverage for losses in excess of self-insurance limits for medical claims, general liability and workers' compensation claims. Our liability represents an estimate of the ultimate cost of claims incurred as of the balance sheet dates. The estimated liability is not discounted and is established based upon analysis of historical data and actuarial estimates. While we believe these estimates are reasonable based on the information currently available, if actual trends, including the severity or frequency of claims, medical cost inflation, or fluctuations in premiums differ from our estimates, our results of operations could be impacted.

Revenue Recognition

Our revenue is primarily associated with sales of merchandise to customers within our stores and customers utilizing our e-commerce platforms. Revenue from sales of our merchandise is recognized when the customer takes possession of the merchandise. Revenue is measured based on the amount of consideration that we expect to receive, reduced by estimates for return allowances, point-of-sale coupons and discounts. Revenue also excludes any amounts

collected on behalf of third parties, including sales tax. Sales related to custom framing are recognized when the order is picked up by the customer. Payment for our retail sales is typically due at the time of the sale.

We allow for merchandise to be returned under most circumstances up to 180 days after purchase and provide a reserve for estimated returns. The sales return reserve is established using historical customer return behavior and reduces both revenue and cost of goods sold. The Company presents the gross sales return reserve in other current liabilities and the estimated value of the merchandise expected to be returned in prepaid expenses and other in the consolidated balance sheets.

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 or when the likelihood of redemption by the customer is remote ("gift card breakage"). We estimate gift card breakage using the expected value method based on customers' historical redemption rates and patterns. Gift card breakage income is recorded in net sales in the consolidated statements of comprehensive income over the estimated redemption period. The gift card liability is included in accrued liabilities and other in the consolidated balance sheets.

The following table includes activity related to gift cards (in thousands):

	Fiscal Years	
	2020	2019
Balance at beginning of period	$ 64,130	$ 61,071
Issuance of gift cards	73,775	76,941
Revenue recognized [1]	(61,273)	(69,322)
Gift card breakage	(1,135)	(4,560)
Balance at end of period	$ 75,497	$ 64,130

(1) Revenue recognized from the beginning liability during fiscal 2020 and fiscal 2019 totaled $21.0 million and $26.0 million, respectively.

Costs of Sales and Occupancy Expense

The costs of merchandise sales are 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;
- costs associated with our international direct sourcing business;
- inbound freight, inspection costs, tariffs, duties and import agent commissions;
- warehousing, handling, transportation (including internal transfer costs such as distribution center-to-store freight costs), purchasing and receiving costs; and
- payroll-related costs for those employees involved in preparing inventory for sale.

Occupancy expenses are recognized in the period in which they are incurred. Included in our occupancy expenses are the following:

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

Selling, General and Administrative

Included in selling, general and administrative ("SG&A") are store personnel costs, store operating expenses, advertising, store depreciation and corporate overhead costs. Advertising costs are expensed in the period in which the advertising first occurs. Advertising costs totaled $176.4 million, $190.0 million and $194.9 million in fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

Store Pre-Opening Costs

We expense all start-up activity costs as incurred. Store pre-opening costs consist primarily of payroll-related costs incurred prior to the store opening.

Income Taxes

We record income tax expense using the liability method and are subject to income tax in many jurisdictions, including the U.S., numerous states and localities, Canada, and other foreign countries. Income taxes payable or receivable are recorded for tax liabilities or refunds reflected on filed, or expected to be filed, tax returns. Deferred income taxes arise from temporary differences between amounts recorded in the consolidated statements of comprehensive income and the tax bases of assets and liabilities measured using enacted tax rates in effect for the years in which the differences are expected to reverse. The effect of a change in tax rates is recognized as income tax expense or benefit in the period of the enactment date. Deferred tax assets, including the benefit of net operating loss and tax credit carryforwards, are evaluated based on the guidelines for realization and are reduced by a valuation allowance if it is deemed more likely than not that such assets will not be realized.

We recognize the income tax expense on global intangible low-taxed income ("GILTI") earned by our foreign subsidiaries in the year the tax is incurred. We recognize the income tax benefit from an uncertain tax position when it is more likely than not that, based on technical merits, the position will be sustained upon examination, including resolutions of any related appeals or litigation processes. We recognize accrued interest and penalties related to uncertain tax positions as a component of income tax expense.

Share-Based Compensation

Accounting Standards Codification ("ASC") 718*, Stock Compensation* ("ASC 718"), requires all share-based compensation to employees, including grants of employee stock options and restricted shares, to be recognized using the fair value method of accounting. Share-based awards are recognized ratably over the requisite service period or over the estimated time to achieve predetermined financial and operational performance targets.

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.

Accounting Pronouncements Recently Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326)*" ("ASU 2016-13") which makes significant changes to the accounting for credit losses on financial assets and disclosures. The standard requires immediate recognition of management's estimates of current expected credit losses. We adopted ASU 2016-13 in the first quarter of fiscal 2020 using a modified retrospective approach without restatement. The adoption did not result in a material impact to our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "*Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*" ("ASU 2019-12"), which simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. We adopted ASU 2019-12 in the first quarter of fiscal 2020. The adoption did not result in a material impact to our consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" ("ASU 2020-04"). ASU 2020-04 provides optional expedients and exceptions to contract modifications and hedging relationships that reference LIBOR or another reference rate expected to be discontinued. We elected certain provisions of ASU 2020-04 in the third quarter of fiscal 2020. These elections did not result in a material impact to our consolidated financial statements.

2. 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, *Fair Value Measurement* 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.

Impairment losses related to property and equipment are calculated using significant unobservable inputs including the present value of future cash flows expected to be generated using a risk-adjusted weighted-average cost of capital and comparable store sales growth assumptions, and therefore, are classified as a Level 3 measurement in the fair value hierarchy. Impairment losses related to operating lease assets are calculated using rent per square foot derived from observable market data, and therefore, are classified as a Level 2 measurement in the fair value hierarchy.

Impairment losses related to goodwill and other indefinite-lived intangible assets are calculated based on the estimated fair value of each reporting unit, which is determined using significant unobservable inputs including the present value of future cash flows expected to be generated by the reporting unit using a weighted-average cost of capital, terminal values and updated financial projections for the next five years and are classified as Level 3 measurements in the fair value hierarchy.

Due to the impact of COVID-19, we performed an interim impairment assessment of goodwill and other long-lived assets as of May 2, 2020, which included estimated future cash flow assumptions incorporating the impact of our temporary store closures. Due to the uncertainty around COVID-19, our projected future cash flows may differ materially from actual results. There were no material impairment losses identified as a result of this assessment.

The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates their estimated fair values due to the short maturities of these instruments.

The following table below provides the fair values of our term loan credit facility, our senior notes, our senior secured notes and our cash flow hedges (in thousands).

	January 30, 2021	February 1, 2020
Liabilities		
Term loan credit facility	$ 1,661,650	$ 2,119,802
Senior notes	535,745	449,675
Senior secured notes	386,505	—
Short-term portion of cash flow hedges	6,893	13,007
Long-term portion of cash flow hedges	6,212	3,555

The fair values of our term loan credit facility, our senior notes and our senior secured notes were determined based on quoted market prices which are considered Level 1 inputs within the fair value hierarchy.

The fair value of our cash flow hedges was calculated using significant observable inputs including the present value of estimated future cash flows using the applicable interest rate curves, and therefore, were classified as Level 2 inputs within the fair value hierarchy.

3. PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following (in thousands):

	January 30, 2021	February 1, 2020
Buildings and leasehold improvements	$ 510,931	$ 531,580
Fixtures and equipment	935,149	910,450
Capitalized software	243,328	227,123
Construction in progress	111,893	37,367
	1,801,301	1,706,520
Less accumulated depreciation and amortization	(1,328,738)	(1,276,088)
	$ 472,563	$ 430,432

4. LEASES

We lease our retail store locations, distribution centers, office facilities and certain equipment under non-cancelable operating leases. Substantially all store leases have initial lease terms of approximately 10 years, the majority of which provide for one or more five-year renewal options. The exercise of lease renewal options is at the Company's sole discretion. We include the lease renewal option periods in the calculation of our operating lease assets and liabilities when it is reasonably certain that we will renew the lease.

Our operating lease assets represent our right to use an underlying asset for the lease term and our operating lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The commencement date is the earlier of the date when we become legally obligated for the rent payments or the date when we take possession of the building for construction purposes. In addition, operating lease assets are net of lease incentives received. As our leases do not contain an implicit rate of return, we use our estimated incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. For operating leases that commenced prior to the adoption date of the new lease accounting standard, we used the incremental borrowing rate as of the adoption date. Lease expense for lease payments is recognized on a straight-line basis over the lease term. In fiscal 2020, we began negotiating certain rent concessions with our landlords, which consists primarily of rent abatements, to mitigate the economic effects of the COVID-19 pandemic. As of January 30, 2021, we received approximately $25 million primarily related to rent abatements that are included in our straight-line rent calculation.

We have lease agreements with lease and non-lease components, which are generally accounted for as a single lease component. Our short-term non-real estate leases, which have a non-cancelable lease term of less than one year, are not included in the operating lease assets or liabilities. Short-term lease expense is recognized on a straight-line basis over the lease term.

The components of lease costs are as follows (in thousands):

	Fiscal Year	
	2020	2019
Operating lease cost [1]	$ 430,698	$ 422,857
Variable lease cost [2]	159,552	149,643
Total lease cost	$ 590,250	$ 572,500

(1) Includes an immaterial amount related to short-term non-real estate leases.

(2) Includes taxes, insurance and common areas maintenance costs for our leased facilities which are paid based on actual cost incurred by the lessor. Also includes contingent rent which is immaterial in the periods presented.

Additional information related to our operating leases is as follows (in thousands, except weighted-average data):

	Fiscal Year	
	2020	2019
Operating cash outflows included in the measurement of lease liabilities	$ 403,311	$ 430,871
Operating lease assets obtained in exchange for new operating lease liabilities	$ 347,499	$ 296,289
Weighted-average remaining lease term	6.1 years	6.0 years
Weighted-average discount rate	6.5%	5.9%

Maturities of our lease liabilities are as follows as of January 30, 2021 (in thousands):

Fiscal Year	
2021	$ 420,508
2022	399,368
2023	337,534
2024	270,408
2025	195,932
Thereafter	456,046
Total lease payments	$ 2,079,796
Less: Interest	(377,164)
Present value of lease liabilities	$ 1,702,632

Lease payments exclude $16.6 million related to 5 leases that have been signed as of January 30, 2021 but have not yet commenced.

Rent Commitments Under Previous Lease Accounting Standard

Future minimum annual rental commitments for all non-cancelable operating leases as of February 2, 2019 are as follows (in thousands):

Fiscal Year	
2019	$ 428,698
2020	386,466
2021	331,032
2022	268,667
2023	206,424
Thereafter	508,178
Total minimum rental commitments	$ 2,129,465

Rent expense applicable to non-cancelable operating leases was $423.8 million in fiscal 2018.

5. GOODWILL AND INTANGIBLE ASSETS

The gross carrying amounts and accumulated amortization of our intangible assets are as follows (in thousands):

	January 30, 2021				
	Amortization Period (in years)	Weighted Average Remaining Amortization Period (in years)	Gross Carrying Amount [(1)]	Accumulated Amortization/ Impairment Charges [(2)]	Net Carrying Value
Definite-lived intangible assets:					
Customer relationships	15	13.81	$ 55,942	$ (4,447)	$ 51,495
Other intangible assets	6-19	4.72	6,486	(2,185)	4,301
			62,428	(6,632)	55,796
Indefinite-lived intangible assets:					
Product tradenames			4,825	(3,500)	1,325
Total intangible assets			$ 67,253	$ (10,132)	$ 57,121

	February 1, 2020				
	Amortization Period (in years)	Weighted Average Remaining Amortization Period (in years)	Gross Carrying Amount	Accumulated Amortization/ Impairment Charges [(3)]	Net Carrying Value
Definite-lived intangible assets:					
Customer relationships	15-18	14.81	$ 61,610	$ (6,309)	$ 55,301
Proprietary product designs	7	—	3,400	(3,400)	—
Other intangible assets	3-19	5.74	10,540	(4,249)	6,291
			75,550	(13,958)	61,592
Indefinite-lived intangible assets:					
Product tradenames			13,725	(8,900)	4,825
Total intangible assets			$ 89,275	$ (22,858)	$ 66,417

(1) The gross carrying amount is net of impairment charges taken in prior years.
(2) In fiscal 2020, impairment charges of $3.5 million were recorded on indefinite-lived intangible assets (see Note 1 for further explanation).
(3) In fiscal 2019, impairment charges of $6.4 million and $4.1 million were recorded on indefinite-lived and definite-lived intangible assets, respectively (see Note 1 for further explanation).

In fiscal 2020, fiscal 2019 and fiscal 2018, we recognized amortization expense of $4.7 million, $1.7 million and $1.6 million, respectively, related to definite-lived intangible assets. As of January 30, 2021, the amortization expense related to our definite-lived intangible assets for the next five years will be approximately $4.0 million to $5.0 million each year.

In November 2019, the Company acquired certain intangible assets from A.C. Moore Incorporated for $61.9 million, including customer relationships and tradenames totaling $55.9 million and $5.2 million, respectively. In connection with the transaction, we also leased a distribution facility in New Jersey and 17 store locations. The fair values of the intangible assets acquired were determined by using the income approach. The income approach indicates value for a subject based on the present value of cash flows expected to be generated by the asset. Projected cash flows are discounted at a market rate of return that reflects the relative risk of achieving the cash flows and the time value of money.

As of January 30, 2021 and February 1, 2020, goodwill totaled $94.3 million. As a result of our impairment testing in fiscal 2019, we fully impaired goodwill of $17.8 million related to Darice (see Note 1 for further explanation). The remaining goodwill balance is related to our Michaels brand.

6. ACCRUED LIABILITIES AND OTHER

Accrued liabilities and other consists of the following (in thousands):

	January 30, 2021	February 1, 2020
Accrued payroll	$ 121,947	$ 49,252
Self-insurance	67,368	67,176
Property, sales and use taxes	80,598	72,245
Gift card liability	75,497	64,130
Accrued occupancy costs	16,232	12,330
Accrued advertising	9,047	9,342
Accrued interest	10,373	3,870
Deferred revenue	24,920	15,492
Cash flow hedges	6,893	13,007
Other	75,783	40,292
	$ 488,658	$ 347,136

7. DEBT

Long-term debt consists of the following (in thousands):

	Interest Rate	January 30, 2021	February 1, 2020
Term loan credit facility	Variable	$ 1,661,650	$ 2,182,550
Senior notes	8.00 %	500,000	500,000
Senior secured notes	4.75 %	375,000	—
Total debt		2,536,650	2,682,550
Less unamortized discount and debt costs		(38,997)	(13,190)
Total debt, net		2,497,653	2,669,360
Less current portion		(16,700)	(24,900)
Long-term debt		$ 2,480,953	$ 2,644,460

The aggregate amount of scheduled debt payments through maturity are as follows (in thousands):

Fiscal Year	
2021	$ 16,700
2022	16,700
2023	16,700
2024	16,700
2025	16,700
Thereafter	2,453,150
Total debt payments	$ 2,536,650

As of January 30, 2021 and February 1, 2020, the weighted-average interest rate of the variable debt was 4.25% and 4.16%, respectively. Cash paid for interest totaled $142.0 million, $152.9 million and $144.3 million in fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

As of January 30, 2021, net debt issuance costs totaled $17.4 million. We amortize debt issuance costs using the straight-line method over the terms of the respective debt agreements (which range from five to eight years). Amortization expense related to debt issuance costs is recorded in interest expense in the accompanying consolidated statements of comprehensive income. The straight-line method produces results materially consistent with the effective interest method. Our expected amortization expense related to the debt issuance costs will range between $2.2 million and $3.0 million each year, over the next five years.

Term Loan Credit Facility

On May 23, 2018, MSI entered into an amendment with JPMorgan Chase Bank, N.A. ("JPMorgan"), as successor administrative agent and successor collateral agent, and other lenders to amend and restate our then-existing term loan credit facility. The amended and restated credit agreement, together with the related security, guarantee and other agreements, is referred to as the "Amended and Restated Term Loan Credit Facility".

On October 1, 2020, MSI entered into an amendment with JPMorgan and other lenders to our term loan credit facility. The amended credit agreement, together with the related security, guarantee and other agreements, are referred to as the "Amended Term Loan Credit Facility". In connection with this amendment, MSI voluntarily prepaid $500.1 million in principal of the then outstanding term loan credit facility.

Borrowings under the Amended Term Loan Credit Facility were issued at 98.5% of face value and bear interest at a rate per annum, at MSI's option, of either (a) a margin of 2.50% plus a base rate defined as the highest of (1) the prime rate published by The Wall Street Journal, (2) the greater of the federal funds effective rate and the overnight bank funding rate determined by the Federal Reserve Bank of New York, plus 0.5%, and (3) the one-month London Interbank Offered Rate ("LIBOR") plus1%, in each case, subject to a 1.75% floor, or (b) a margin of 3.50% plus the applicable LIBOR, subject to a0.75% floor. The Amended Term Loan Credit Facility matures on October 1, 2027 subject to a springing maturity date of April 15, 2027 if certain other indebtedness, including MSI's 8% senior notes maturing in 2027, exceeds $100 million as of such earlier date.

As of January 30, 2021, the Amended Term Loan Credit Facility provides for senior secured financing of $1,661.7 million. MSI has the right to request additional term loans in an aggregate amount of up to the sum of (a) the greater of $650 million and 100% of Adjusted EBITDA (as defined in the Amended Term Loan Credit Facility) for the most recently ended four fiscal quarters, plus (b) the aggregate amount of voluntary prepayments of certain indebtedness, plus (c) at MSI's election, an amount of additional indebtedness if the consolidated secured debt ratio (as defined in the Amended Term Loan Credit Facility) 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 quarters, subject to certain adjustments. The lenders 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.

There are no limitations on dividends and certain other restricted payments so long as (a) no event of default shall have occurred and be continuing and (b) immediately after giving pro forma effect to such restricted payment(s) and the application of proceeds therefrom, the consolidated total leverage ratio is less than or equal to 3.75 to 1.00.

MSI must offer to prepay outstanding term loans at100% of the principal amount, plus any unpaid interest, with the proceeds of certain asset sales or casualty events under certain circumstances. MSI may voluntarily prepay outstanding loans under the Amended Term Loan Credit Facility at any time, subject to payment of customary breakage costs with respect to LIBOR loans. The Amended Term Loan Credit Facility provides for a 1.0% soft call premium in connection with certain Repricing Transactions (as defined in the Amended Term Loan Credit Facility) occurring on or prior to April 1, 2021.

MSI is required to make scheduled quarterly payments equal to0.25% of the original principal amount of the term loans (subject to adjustments relating to the incurrence of additional term loans) for the first six years of the Amended Term Loan Credit Facility, with the balance to be paid on October 1, 2027.

All obligations under the Amended Term Loan Credit Facility are unconditionally guaranteed, jointly and severally, by Michaels Funding, Inc. ("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 Amended 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, 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 or foreign subsidiary holding company, is limited to 65% of the voting stock of such foreign subsidiary or foreign subsidiary holding company 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 the Subsidiary Guarantors owned real property and equipment, but excluding, among other things, the collateral described below; and

- 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.

The Amended Term Loan Credit Facility contains a number of negative covenants that are substantially similar to, but more restrictive in certain respects than, those governing the Senior Notes and Senior Secured Notes (as defined below), as well as certain other customary representations and warranties, affirmative and negative covenants and events of default. As of January 30, 2021, MSI was in compliance with all covenants.

As of January 30, 2021, net debt issuance costs totaled $4.7 million and are being amortized as interest expense over the life of the Amended and Term Loan Credit Facility. Debt issuance costs related to this facility are reflected as a reduction from the carrying value of debt in the consolidated balance sheets. As a result of the refinancing of our Amended Term Loan Credit Facility on October 1, 2020, we recorded a loss on the early extinguishment of debt of $22.0 million in fiscal 2020. As a result of the refinancing of our Amended and Restated Term Loan Credit Facility on May 23, 2018, MSI recorded a loss on the early extinguishment of debt of $1.8 million in fiscal 2018.

Interest Rate Swaps

In April 2018, we executed two interest rate swaps with an aggregate notional value of $1 billion associated with our outstanding Amended and Restated Term Loan Credit Facility. The interest rate swaps have a maturity date of April 30, 2021 and were executed for risk management and are not held for trading purposes. The objective of the interest rate swaps is to hedge the variability of cash flows resulting from fluctuations in the one-month LIBOR. The swaps replaced the one-month LIBOR with a fixed interest rate of 2.7765% and payments are settled monthly. The swaps qualify as cash flow hedges and changes in the fair values are recorded in accumulated other comprehensive income in the consolidated balance sheet. The changes in fair value are reclassified from accumulated other comprehensive income to interest expense in the same period that the hedged items affect earnings. We reclassified $17.0 million and $5.8 million from accumulated other comprehensive income to interest expense during fiscal 2020 and fiscal 2019, respectively. As of January 30, 2021, the fair value of the interest rate swaps was a liability of $4.3 million and was recorded in accrued liabilities in our consolidated balance sheet. As of February 1, 2020, the fair value of the interest rate swaps was a liability of $16.6 million, consisting of $13.0 million recorded in accrued liabilities and $3.6 million recorded in other liabilities in our consolidated balance sheet.

Interest Rate Caps

In April 2020, we executed two interest rate cap agreements with an aggregate notional value of $2 billion associated with our outstanding Amended Term Loan Credit Facility. The interest rate caps have an effective date of September 30, 2020 and April 30, 2021, respectively. During the third quarter of fiscal 2020, we amended the September 30, 2020 interest rate cap agreement and reduced the notional value from $1 billion to $300 million. The interest rate caps have a maturity date of April 30, 2025 and were executed for risk management and are not held for trading purposes. The interest rate caps will effectively cap our LIBOR exposure on a portion of our Amended Term Loan Credit Facility at 1%. The interest rate caps qualify as cash flow hedges and changes in the fair values are recorded in accumulated other comprehensive income in the consolidated balance sheet. The changes in fair value are reclassified from accumulated other comprehensive income to interest expense in the same period that the hedged items affect earnings. Amounts reclassified from accumulated other comprehensive income to interest expense during fiscal 2020 were not material. As of January 30, 2021, the fair value of the interest rate caps was a liability of $8.8 million, consisting of $6.2 million recorded in other liabilities and $2.6 million in accrued liabilities in our consolidated balance sheet.

Senior Notes

On July 8, 2019, MSI issued $500 million in principal amount of senior notes maturing in 2027 ("Senior Notes"). The Senior Notes were issued pursuant to an indenture among MSI, certain subsidiaries of MSI, as guarantors, and U.S. Bank National Association, as trustee (the "Senior Notes Indenture"). The Senior Notes mature on July 15, 2027 and bear interest at a rate of 8% per year, with interest payable semi-annually on January 15 and July 15 of each year, beginning on January 15, 2020.

The net proceeds from the offering and sale of the Senior Notes, together with cash on hand, were used to redeem MSI's outstanding 2020 Senior Subordinated Notes (as defined below).

The Senior Notes are fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of MSI's subsidiaries that guarantee indebtedness under the Amended Revolving Credit Facility and the Amended Term Loan Credit Facility (collectively defined as the "Senior Secured Credit Facilities").

The Senior Notes are general, unsecured obligations of MSI, and the guarantees of the Senior Notes are general, unsecured obligations of the guarantors. They (i) rank equally in right of payment with all of MSI's and the guarantors' existing and future senior debt, including the Senior Secured Credit Facilities, (ii) are effectively subordinated to any of MSI's and the guarantors' existing and future secured debt to the extent of the value of the assets securing such debt, including the Senior Secured Credit Facilities, (iii) are structurally subordinated to all of the liabilities of MSI's subsidiaries that are not guaranteeing the Senior Notes, and (iv) are senior in right of payment with all of MSI's and the guarantors' existing and future subordinated debt.

At any time prior to July 15, 2022, MSI may redeem (a) up to 40% of the aggregate principal amount of the Senior Notes with the gross proceeds from one or more Equity Offerings, as defined in the Senior Notes Indenture, at a redemption price of 108% of the principal amount plus accrued and unpaid interest thereon to, but excluding, the redemption date and/or (b) all or part of the Senior Notes at 100% of the principal amount plus any accrued and unpaid interest thereon to, but excluding, the redemption date plus a make-whole premium. Thereafter, MSI may redeem all or part of the Senior Notes at the redemption prices set forth below (expressed as percentages of the principal amount of the Senior Notes to be redeemed) plus any accrued and unpaid interest thereon to, but excluding, the applicable date of redemption, if redeemed during the twelve month period beginning on July 15 of each of the years indicated below:

Year	Percentage
2022	104 %
2023	102 %
2024 and thereafter	100 %

Upon a change in control, MSI is required to offer to purchase the Senior Notes at 101% of the aggregate principal amount, plus any accrued and unpaid interest thereon to, but excluding, the date of purchase.

Subject to certain exceptions and qualifications, the Senior Notes Indenture contains covenants that, among other things, limit MSI's ability and the ability of its restricted subsidiaries, including the guarantors, to:

- incur additional indebtedness or issue certain disqualified stock or preferred stock;
- create liens;
- pay dividends on MSI's capital stock or make distributions or redeem or repurchase MSI's capital stock;
- prepay subordinated debt or make certain investments, loans, advances, and acquisitions;
- transfer or sell assets;
- engage in consolidations, amalgamations or mergers, or sell, transfer or otherwise dispose of all or substantially all of their assets; and
- enter into certain transactions with affiliates.

The covenants also limit MSI's ability, and the ability of MSI's restricted subsidiaries, to pay dividends or distributions on MSI's capital stock or repurchase MSI's capital stock, subject to certain exceptions, including dividends, distributions and repurchases up to (i) an amount equal to the greater of $200.0 million and 25% of MSI's consolidated EBITDA (as defined in the Senior Notes Indenture) and (ii) a basket that builds based on 50% of MSI's consolidated net income (as defined in the Senior Notes Indenture) and certain other amounts, in each case, to the extent such payment capacity is not applied as otherwise permitted under the Senior Notes Indenture and subject to certain conditions. However, there are no limitations on dividends and certain other restricted payments so long as (a) no event of default shall have occurred and be continuing and (b) immediately after giving pro forma effect to such restricted payment(s) and the application of proceeds therefrom, the total net leverage ratio is less than or equal to 3.25 to 1.00. As of January 30, 2021, the permitted restricted payment amount pursuant to the immediately foregoing sentence was $546.3 million. The Senior Notes Indenture also provides for customary events of default which, if any of them occurs, would require or permit the principal of and accrued interest on the Senior Notes to become or to be declared due and payable. As of January 30, 2021, MSI was in compliance with all covenants.

As of January 30, 2021, net debt issuance costs totaled $4.9 million and are being amortized as interest expense over the life of the Senior Notes. Debt issuance costs related to this facility are reflected as a reduction from the carrying value of debt in the consolidated balance sheets.

Senior Secured Notes

On October 1, 2020, MSI issued $375 million in aggregate principal amount of 4.75% senior secured notes maturing in 2027 ("Senior Secured Notes"). The Senior Secured Notes were issued pursuant to an indenture among MSI, Michaels Funding, Inc. and certain subsidiaries of MSI, as guarantors, and U.S. Bank National Association, as trustee (the "Senior Secured Notes Indenture"). The Senior Secured Notes will mature on October 1, 2027 and bear interest at a rate of 4.75% per year, with interest payable semi-annually on April 1 and October 1 of each year, beginning on April 1, 2021.

The net proceeds from the Senior Secured Notes, together with cash on hand, were used to voluntarily pay down $500.1 million of MSI's then outstanding term loan credit facility and to pay related fees and expenses.

The Senior Secured Notes are fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by Michaels Funding, Inc. and each of MSI's subsidiaries that guarantee indebtedness under the Senior Secured Credit Facilities.

The Senior Secured Notes are senior secured obligations of MSI, and the guarantees are senior secured obligations of the guarantors. The Senior Secured Notes and guarantees will be secured equally and ratably with the Amended Term Loan Credit Facility and, accordingly, will be secured, subject to certain exceptions, by substantially all of the assets of MSI and the guarantors, including:

- a first-priority pledge of MSI's capital stock and all of the capital stock held directly by MSI and its subsidiaries that guarantee the Senior Secured Notes (which pledge, in the case of any foreign subsidiary or foreign subsidiary holding company, is limited to 65% of the voting stock of such foreign subsidiary or foreign subsidiary holding company 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 guarantor, including substantially all of MSI's and the guarantors' owned real property and equipment, but excluding, among other things, the collateral described below (collectively, and together with the pledge of capital stock described in the immediately preceding paragraph, referred to as the "Term Priority Collateral"); 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 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 guarantors, and certain related assets and proceeds of the foregoing.

At any time prior to October 1, 2023 MSI may redeem (a) up to 40% of the Senior Secured Notes with the gross proceeds from one or more Equity Offerings, as defined in the Senior Secured Notes Indenture, at a redemption price of

104.75% of the principal amount plus accrued and unpaid interest and/or (b) all or part of the Senior Secured Notes at 100.0% of the principal amount plus any accrued and unpaid interest plus a make-whole premium. Thereafter, MSI may redeem all or part of the notes at the redemption prices set forth below (expressed as percentages of the principal amount of the Senior Secured Notes to be redeemed) plus any accrued and unpaid interest, if redeemed during the twelve month period beginning on October 1 of each of the years indicated below:

Year	Percentage
2023	102.375 %
2024	101.188 %
2025 and thereafter	100.000 %

Upon a change of control, MSI is required to offer to purchase the Senior Secured Notes at 101.0% of the aggregate principal amount plus accrued and unpaid interest. In addition, if MSI or its restricted subsidiaries sells certain assets constituting Term Priority Collateral, then under certain circumstances MSI will be required to offer to repurchase the notes at 100.0% of the aggregate principal amount plus accrued and unpaid interest.

Subject to certain exceptions and qualifications, the Senior Secured Notes Indenture contains covenants that, among other things, limit MSI's ability and the ability of its restricted subsidiaries, including the guarantors, to:

- incur additional indebtedness or issue certain disqualified or preferred stock;
- create liens;
- pay dividends on MSI's capital stock or make distributions or redeem or repurchase MSI's capital stock;
- prepay subordinated debt or make certain investments, loans, advances, and acquisitions;
- transfer or sell assets;
- engage in consolidations, amalgamations or mergers, or sell, transfer or otherwise dispose of all or substantially all of their assets; and
- enter into certain transactions with affiliates.

The Senior Secured Notes Indenture also provides for customary events of default which, if any of them occurs, would require or permit the principal and accrued interest to become or to be declared due and payable. As of January 30, 2021, MSI was in compliance with all covenants.

As of January 30, 2021, net debt issuance costs totaled $5.0 million and are being amortized as interest expense over the life of the Senior Secured Notes. Debt issuance costs related to this facility are reflected as a reduction from the carrying value of debt in the consolidated balance sheets.

Revolving Credit Facility

On August 30, 2019, MSI entered into an amendment with Wells Fargo Bank, National Association ("Wells Fargo") and other lenders to, among other things, extend the maturity date of our Amended Revolving Credit Facility. The Amended Revolving Credit Facility matures in August 2024, subject to an earlier springing maturity date if certain of our outstanding indebtedness has not been repaid, redeemed, refinanced, or cash collateralized or if the necessary availability reserves have not been established prior to such time (the "ABL Maturity Date").

The Amended Revolving Credit Facility provides for senior secured financing of up to $850 million, subject to a borrowing base. The borrowing base under the Amended Revolving Credit Facility equals the sum of: (i) 90% of eligible credit card receivables, (ii) 85% of eligible trade receivables, (iii) 90% to 92.5% of the appraised value of eligible inventory, plus (iv) 90% to 92.5% of the lesser of (a) the appraised value of eligible inventory supported by letters of credit, and (b) the face amount of the letters of credit, less (v) certain reserves.

As of January 30, 2021, the borrowing base was $624.1 million of which MSI had availability of $536.8 million. Borrowing capacity is available for letters of credit and borrowings on same-day notice. Outstanding standby letters of credit as of January 30, 2021 totaled $87.3 million.

The Amended Revolving Credit Facility also provides MSI with the right to request up to $200 million of additional commitments. The lenders will not be under any obligation to provide any such additional commitments, and any increase in commitments is subject to customary conditions. If we were to request additional commitments, and the lenders were to agree to provide such commitments, the facility size could be increased up to $1,050 million, however, MSI's ability to borrow would still be limited by the borrowing base.

Borrowings under the Amended 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) 0.25% for prime rate borrowings and 1.25% for LIBOR borrowings. The applicable margin is subject to adjustment each fiscal quarter based on the excess availability under the Amended Revolving Credit Facility. Excess availability is defined as the Loan Cap (as defined below) plus certain unrestricted cash of Holdings, MSI and the Subsidiary Guarantors, less the outstanding credit extensions. Same-day borrowings bear interest at the base rate plus the applicable margin.

MSI is required to pay a commitment fee on the unutilized commitments under the Amended Revolving Credit Facility, which is 0.25% per annum, subject to reduction to 0.20% when excess availability is less than 50% of the Loan Cap (as defined below). In addition, MSI must pay customary letter of credit fees and agency fees.

All obligations under the Amended Revolving Credit Facility are unconditionally guaranteed, jointly and severally, by Holdings and the Subsidiary Guarantors. All obligations under the Amended 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 or foreign subsidiary holding company, is limited to 65% of the voting stock of such foreign subsidiary or foreign subsidiary holding company 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 and the Subsidiary Guarantors owned real property and equipment.

If, at any time, the aggregate amount of outstanding loans, unreimbursed letter of credit drawings and undrawn letters of credit under the Amended Revolving Credit Facility exceeds the lesser of (i) the commitment amount and (ii) the borrowing base (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 availability under the Amended Revolving Credit Facility is less than the greater of (i) 10% of the Loan Cap and (ii) $50 million for five consecutive business days, 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 would be required to deposit daily in a collection account maintained with the agent under the Amended Revolving Credit Facility. Availability under the Amended 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. 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 MSI must meet specified excess availability requirements and minimum consolidated fixed charge coverage ratios, to be tested on a pro forma basis as of the date of the restricted action and for the 30-day period preceding such restricted action. Adjusted EBITDA, as defined in the Amended Revolving Credit Facility, is used in the calculation of the consolidated fixed charge coverage ratios.

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 more than the greater of (a) 10% of the Loan Cap and (b) $50 million for 30 consecutive days, the Amended Revolving Credit Facility will require MSI to maintain a consolidated fixed charge coverage ratio of at least 1.0 to 1.0. The Amended 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 Amended 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 MSI's affiliates;
- sell assets, including capital stock of MSI's subsidiaries;
- prepay or redeem indebtedness;
- consolidate or merge; and
- create liens.

As of January 30, 2021, net debt issuance costs totaled $2.7 million and are being amortized as interest expense over the life of the Amended Revolving Credit Facility. Debt issuance costs related to this facility are reflected as an asset within the consolidated balance sheets. As a result of the refinancing of our Amended Revolving Credit Facility on August 30, 2019, MSI recorded a loss on the early extinguishment of debt of $0.2 million related to the write-off of net debt issuance costs.

5.875% Senior Subordinated Notes due 2020

On December 19, 2013, MSI issued $260 million in principal amount of 5.875% senior subordinated notes maturing in 2020 ("2020 Senior Subordinated Notes"). On June 16, 2014, MSI issued an additional $250 million of the 2020 Senior Subordinated Notes at 102% of face value, resulting in an effective interest rate of 5.76%.

On July 29, 2019, the Company redeemed the 2020 Senior Subordinated Notes in the aggregate principal amount of $510.0 million plus accrued interest. This payment retired the 2020 Senior Subordinated Notes and discharged the obligations under the indenture governing the 2020 Senior Subordinated Notes. In fiscal 2019, we recorded a loss on the early extinguishment of debt of $1.2 million related to the redemption of the 2020 Senior Subordinated Notes, consisting of the write-off of debt issuance costs and unamortized premium.

8. INCOME TAXES

The reconciliation of income tax expense computed at the U.S. federal statutory tax rate to income tax expense reported in our consolidated statements of comprehensive income is as follows (in thousands):

	Fiscal Year					
	2020		2019		2018	
Income taxes at statutory rate	$ 75,727	21.0 %	$ 75,258	21.0 %	$ 87,581	21.0 %
State income taxes, net of federal benefit	13,899	3.9	14,716	4.1	13,095	3.1
Foreign tax rate differential	(19,949)	(5.5)	(22,740)	(6.4)	(22,718)	(5.4)
U.S. tax on foreign operations	13,312	3.7	10,959	3.1	8,648	2.1
Share-based compensation	3,742	1.0	4,225	1.2	843	0.2
Taxing authority examinations	—	—	—	—	5,861	1.4
U.S. net operating loss carryback rate differential	(28,668)	(8.0)	—	—	—	—
Other	7,606	2.1	3,358	0.9	4,199	1.0
Total	$ 65,669	18.2 %	$ 85,776	23.9 %	$ 97,509	23.4 %

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted in response to the COVID-19 pandemic. The CARES Act includes various payroll and income tax provisions, including modifications to federal net operating loss and business interest deduction limitation rules and bonus depreciation eligibility for qualified improvement property, among other items. In connection with the CARES Act, we recorded a net income tax benefit of $18.4 million in fiscal 2020.

The components of our income tax expense are as follows (in thousands):

	Fiscal Year		
	2020	2019	2018
Current:			
Federal	$ (11,333)	$ 58,966	$ 61,910
State	16,977	12,995	15,502
Foreign	7,676	4,596	12,626
Total current income tax expense	13,320	76,557	90,038
Deferred:			
Federal	51,878	2,762	9,200
State	616	5,632	1,073
Foreign	(145)	825	(2,802)
Total deferred income tax expense	52,349	9,219	7,471
Income taxes	$ 65,669	$ 85,776	$ 97,509

The pretax income from foreign operations for fiscal 2020, fiscal 2019 and fiscal 2018 totaled $122.0 million, $131.2 million and $109.9 million, respectively. Cash paid for income taxes totaled $18.9 million, $58.7 million and $134.4 million in fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

Significant components of deferred income tax assets and liabilities are as follows (in thousands):

	January 30, 2021	February 1, 2020
Deferred income tax assets:		
Operating lease liabilities	$ 447,152	$ 367,390
Accrued liabilities	16,469	13,804
Self-insurance	14,073	14,028
Gift cards	12,880	10,225
Share-based compensation	5,018	6,760
State income taxes	5,068	4,540
Goodwill	4,198	4,760
Other intangible assets	3,674	3,305
Interest rate swaps	3,407	4,306
State and foreign net operating losses	23,513	7,843
Tax credits	6,390	4,184
Other	6,366	2,664
Total gross deferred income tax assets	548,208	443,809
Valuation allowance	(12,589)	(9,209)
Total deferred income tax assets, net of valuation allowance	535,619	434,600
Deferred income tax liabilities:		
Operating lease assets	(417,248)	(351,964)
Tax method changes [1]	(91,701)	—
Property and equipment	(49,399)	(49,604)
Merchandise inventories	(7,697)	(9,866)
Prepaid expenses	(4,380)	(4,965)
Total deferred income tax liabilities	(570,425)	(416,399)
Net deferred income tax (liabilities) assets	$ (34,806)	$ 18,201

(1) Future taxable income primarily related to property and equipment and gift cards.

A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized. In evaluating our ability to realize our deferred tax assets we considered sources of future taxable income, including future reversals of existing taxable temporary differences, forecast of future profitability and tax planning strategies.

At January 30, 2021, we had state net operating loss carryforwards to reduce future taxable income of $23.2 million, net of federal tax benefits, and $0.3 million of foreign net operating loss carryforwards expiring at various dates between fiscal 2021 and fiscal 2040.

Unrecognized Tax Benefits Resulting from 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. We recognize these tax benefits in our consolidated financial statements only after determining that it is more likely than not that the tax positions will be sustained.

A reconciliation of unrecognized tax benefits from the end of fiscal 2019 through the end of fiscal 2020 is as follows (in thousands):

Balance at beginning of year	$ 68,417
Additions related to the current year	7,953
Additions related to prior years	1,940
Reductions related to prior years	(5,642)
Expiration of applicable statute of limitations	(2,019)
Settlement of tax positions	(585)
Balance at end of year	$ 70,064

Included in the balance of unrecognized tax benefits resulting from uncertain tax positions at January 30, 2021 is $48.2 million which, if recognized, would affect income tax expense. We do not expect any material changes to our liability for uncertain tax positions during the next 12 months. At January 30, 2021 and February 1, 2020, the total amount of interest accrued within the tax liability was $8.3 million and $6.6 million, respectively. There was no material interest or penalty expense recognized in the consolidated statements of comprehensive income in fiscal 2020, fiscal 2019 or fiscal 2018.

Our income tax returns are subject to examination by taxing authorities in the jurisdictions in which we operate. The periods subject to examination for our U.S. federal returns are fiscal 2013 to fiscal 2019 and fiscal 2011 to fiscal 2019 for our Canadian returns. State and provincial income tax returns are generally subject to examination for a period of three to seven years after filing. We have various state income tax returns in the process of examination, appeals or settlement. Our income tax returns for fiscal 2011 and fiscal 2012 are currently under examination by the Canadian tax authorities. Our U.S. federal returns for fiscal 2013 through fiscal 2018 are currently under examination by the Internal Revenue Service. We are not aware of any issues which would result in a material assessment of net tax obligations.

9. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Fiscal Years Ended	
	January 30, 2021	**February 1, 2020**
Beginning of period	$ (22,831)	$ (14,558)
Foreign currency translation adjustment	6,849	(727)
Cash flow hedges	2,538	(7,546)
End of period	$ (13,444)	$ (22,831)

10. SHARE-BASED COMPENSATION

The Michaels Companies, Inc. Third Amended and Restated 2014 Omnibus Long-Term Incentive Plan provides for the grant of share-based awards for up to 32.1 million shares of common stock. As of January 30, 2021, there were 9.9 million shares of common stock remaining available for grant. Generally, time-based share awards vest ratably over four years and stock options expire eight to ten years from the grant date. Restricted awards that are performance-based are expected to vest between one to four years from the grant date. As of January 30, 2021, unrecognized compensation cost for all unvested share-based awards totaled $33.7 million and is expected to be recognized over a weighted-average period of 2.0 years. Share-based compensation expense totaled $25.0 million, $22.9 million and $27.1 million in fiscal 2020, fiscal 2019 and fiscal 2018, respectively, and is recorded in cost of sales and occupancy expense and SG&A in the consolidated statements of comprehensive income.

Stock Options

The fair value of each stock option is estimated using the Black-Scholes option pricing model. The following table presents the weighted-average assumptions used during fiscal years 2020, 2019 and 2018:

	Fiscal Year		
	2020	**2019**	**2018**
Risk-free interest rates [1]	0.9 %	1.9 %	2.5 %
Expected dividend yield	0.0 %	0.0 %	0.0 %
Expected volatility [2]	44.8 %	37.9 %	32.8 %
Expected life of options in years[3]	4.3	4.3	4.1

(1) Based on interest rates for U.S. Treasury instruments with terms consistent with the expected lives of the awards.
(2) We considered our historical and implied volatility as well as the implied volatilities for exchange-traded options of a peer group of companies.
(3) Expected lives were based on an analysis of historical exercises and post-vesting employment termination.

The stock option activity during the fiscal year ended January 30, 2021 was as follows:

	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at beginning of year	7,572	$ 16.32		
Granted	182	4.29		
Exercised	(911)	13.70		
Expired/Forfeited	(1,323)	18.50		
Outstanding at end of year	5,520	$ 15.84	6.9	$ 15,044
Shares exercisable at end of year	3,179	$ 19.21	5.9	$ 3,387

The total grant date fair value of options that vested during fiscal 2020, fiscal 2019 and fiscal 2018 was $5.2 million, $7.0 million and $9.5 million, respectively. The intrinsic value for options that vested during fiscal 2020 and fiscal 2018 was $0.9 million and $4.1 million, respectively. There was no intrinsic value for options that vested during fiscal 2019. The intrinsic value for options exercised during fiscal 2020, fiscal 2019 and fiscal 2018 was $1.9 million, $0.3 million and $2.6 million, respectively. As of the beginning of fiscal 2020, there were 4.0 million nonvested options with a weighted-average fair value of $4.15 per share. As of the end of fiscal 2020, there were 2.3 million nonvested options with a weighted-average fair value of $3.65 per share. The weighted-average fair value of options granted during fiscal 2020, fiscal 2019 and fiscal 2018 was $1.59, $3.45 and $5.85, respectively. During fiscal 2020, there were 1.2 million options that vested and 1.3 million options that were expired or forfeited with a weighted-average fair value of $4.44 and $5.16 per share, respectively.

Restricted Shares

The Company issues restricted shares to certain key employees and its Board of Directors. Restricted share units awarded to employees that are time-based vest ratably over four years. Restricted share units that are performance-based vest based on predetermined financial and operational targets and are expected to vest between one to four years from the grant date. Restricted shares awarded to Board of Director members vest ratably over one year. Compensation expense for all time-based restricted stock awards and restricted stock units is based on the amortization of the fair market value at the date of grant over the vesting period. Compensation expense for performance-based restricted share units is based on the estimated timing of the achievement of predetermined financial and operational targets.

Restricted stock unit activity during the fiscal year ended January 30, 2021 was as follows:

	Number of Shares [1] (in thousands)	Weighted-Average Fair Value
Outstanding at beginning of year	4,663	$ 13.05
Granted	3,529	2.87
Vested	(1,612)	13.23
Forfeited	(1,719)	8.11
Outstanding at end of year	4,861	$ 7.35

(1) Includes 0.4 million of awards with vesting subject to performance conditions outstanding at the beginning of the year, 0.1 million vested during the year, 0.1 million forfeited during the year and 0.2 million outstanding at the end of the year, with a weighted average fair value of $17.38 per share, respectively.

Restricted stock award activity during the fiscal year ended January 30, 2021 was as follows:

	Number of Shares (in thousands)	Weighted-Average Fair Value
Outstanding at beginning of year	143	$ 11.11
Granted	28	5.00
Vested	(121)	11.29
Forfeited	(11)	8.93
Outstanding at end of year	39	$ 6.85

11. EARNINGS PER SHARE

The Company's unvested restricted stock awards contain non-forfeitable rights to dividends and meet the criteria of a participating security as defined by ASC 260, "*Earnings Per Share*". In applying the two-class method, net income is allocated to both common and participating securities based on their respective weighted-average shares outstanding for the period. Basic earnings per share is computed by dividing net income allocated to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average common shares outstanding plus the potential dilutive impact from the exercise of stock options and restricted stock units. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. There were 8.8 million, 10.6 million and 7.2 million anti-dilutive shares in fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

	Fiscal Year		
	2020	2019	2018
Basic earnings per common share:			
Net income	$ 294,935	$ 272,595	$ 319,545
Less income related to unvested restricted shares	(199)	(318)	(595)
Income available to common shareholders - Basic	$ 294,736	$ 272,277	$ 318,950
Weighted-average common shares outstanding - Basic	146,541	153,134	170,610
Basic earnings per common share	$ 2.01	$ 1.78	$ 1.87
Diluted earnings per common share:			
Net income	$ 294,935	$ 272,595	$ 319,545
Less income related to unvested restricted shares	(196)	(317)	(593)
Income available to common shareholders - Diluted	$ 294,739	$ 272,278	$ 318,952
Weighted-average common shares outstanding - Basic	146,541	153,134	170,610
Effect of dilutive stock options and restricted stock units	1,990	68	768
Weighted-average common shares outstanding - Diluted	148,531	153,202	171,378
Diluted earnings per common share	$ 1.98	$ 1.78	$ 1.86

12. SEGMENTS AND GEOGRAPHIC INFORMATION

In fiscal 2020 and fiscal 2019, we considered Michaels-U.S., Michaels-Canada and Darice to be our operating segments for purposes of determining reportable segments based on the criteria of ASC 280, *Segment Reporting* ("ASC 280"). In fiscal 2018, our operating segments also included Aaron Brothers and Pat Catan's. We determined that Michaels-U.S., Michaels-Canada, Aaron Brothers and Pat Catan's have similar economic characteristics and meet the aggregation criteria set forth in ASC 280. Therefore, we combine these operating segments into one reporting segment. Darice does not meet the materiality criteria in ASC 280 and, therefore, is not disclosed separately as a reportable segment. Our chief operating decision makers evaluate historical operating performance and forecast future periods' operating performance based on operating income.

Our net sales by country and sales by product category are as follows (in thousands):

	Fiscal Year		
	2020	2019	2018
Net Sales:			
United States [1]	$ 4,757,829	$ 4,597,262	$ 4,783,903
Canada	513,283	474,775	488,041
Total	$ 5,271,112	$ 5,072,037	$ 5,271,944
Sales by Product Category:			
General crafts	$ 2,495,675	$ 2,389,745	$ 2,604,905
Home décor and seasonal	1,146,921	1,167,418	1,230,054
Custom and ready-made framing	822,731	816,869	801,075
Papercrafting	805,785	698,005	635,910
Total	$ 5,271,112	$ 5,072,037	$ 5,271,944

(1) In March 2018 we closed our Aaron Brothers stores and in January 2019 we closed our Pat Catan's stores. For fiscal 2018, Pat Catan's net sales totaled approximately $109.6 million and Aaron Brothers net sales totaled approximately $12.9 million. In the fourth quarter of fiscal 2020 we completed the liquidation of our Darice wholesale operations. For fiscal 2020, fiscal 2019 and fiscal 2018, Darice's net sales totaled approximately $37.6 million, $79.9 million and $106.7 million, respectively.

Our total assets by country are as follows (in thousands):

	Fiscal Year (1)	
	2020	2019
Total Assets:		
United States	$ 4,192,094	$ 3,527,374
Canada	336,311	310,721
Total	$ 4,528,405	$ 3,838,095

(1) In fiscal 2020, we recorded $28.8 million of impairment charges related to the closure of 13 underperforming stores and the relocation of our support center. In fiscal 2019, we wrote-off $42.7 million of assets in connection with impairment charges related to Darice and the closure of our Pat Catan's stores.

Assets are categorized based on their geographic location. Certain assets located in the U.S. are also used to support our Canadian operations but are not allocated to Canada.

13. 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 three months of full-time service or one year of part-time service. 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. Prior to January 1, 2021, we made 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 compensation for the year. Matching contributions vest to the participants based on years of service, with 100% vesting after three years. Effective January 1, 2021, the plan was amended and we increased matching cash contributions to 100% of the participant's pre-tax contributions that do not exceed 3% of the participant's compensation for the year and 50% of the participant's pre-tax contributions that do not exceed the next 2% of the participant's compensation for the year. Matching contributions vest immediately. Our matching contribution expense was $5.3 million, $4.4 million and $4.8 million in fiscal 2020, fiscal 2019 and fiscal 2018, respectively.

We also sponsor a nonqualified deferred compensation plan for certain executives and other highly compensated employees. The deferred compensation plan provides participants with the opportunity to defer up to 75% of their base salary and up to 100% of their annual earned bonus. Participants are 100% vested in these deferrals and the associated investment returns. The Company does not currently make any matching cash contributions to the participant accounts. As of January 30, 2021 and February 1, 2020, liabilities associated with the deferred compensation plan, which are included in long-term other liabilities in the consolidated balance sheets, were $7.2 million and $5.4 million, respectively. The Company established a rabbi trust to fund the deferred compensation plan's obligations. As of January 30, 2021 and February 1, 2020, assets of the rabbi trust, which consist primarily of mutual funds and are subject to the claims of our creditors, were $6.7 million and $5.3 million, respectively, and are included in other assets in the consolidated balance sheets.

14. RELATED PARTY TRANSACTIONS

During fiscal 2020, affiliates of, or funds advised by, The Blackstone Group, Inc. ("The Blackstone Group") sold their remaining shares of the Company's common stock. As a result of the sale, The Blackstone Group is no longer considered to be a related party. Payments made to The Blackstone Group during fiscal 2020 were not material to the consolidated financial statements. The Blackstone Group owned approximately 14% of our outstanding common stock as of February 1, 2020 and February 2, 2019.

The Blackstone Group owned a majority equity position in RGIS, a vendor we utilized to count our store inventory. Payments associated with this vendor during fiscal 2018 were $0.7 million and are included in SG&A in the consolidated statements of comprehensive income.

The Blackstone Group owned a majority equity position in ShopCore Properties, LP, Blackstone Real Estate DDR Retail Holdings III, LLC and Blackstone Real Estate RC Retail Holdings, LLC and had significant influence over Edens Limited Partnership, vendors we utilize to lease certain properties. Payments associated with these vendors during

fiscal 2019 and fiscal 2018 were $10.0 million and $11.5 million, respectively. These expenses are included in cost of sales and occupancy expense in the consolidated statements of comprehensive income.

The Blackstone Group had significant influence over Blue Yonder, Inc. (formerly known as JDA Software Group, Inc.), a vendor we utilize for transportation and supply chain software. Payments associated with this vendor during fiscal 2019 and fiscal 2018 were $2.3 million and $3.0 million, respectively. These expenses are included in SG&A in the consolidated statements of comprehensive income.

15. 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 subject to these restrictions. The information is presented in accordance with the requirements of Rule 12-04 under the SEC's Regulation S-X.

Michaels Stores, Inc.
Condensed Consolidated Balance Sheets
(in thousands)

ASSETS	January 30, 2021	February 1, 2020
Current assets:		
Cash and equivalents	$ 1,193,597	$ 409,173
Merchandise inventories	1,007,043	1,097,109
Prepaid expenses and other current assets	70,861	92,601
Total current assets	2,271,501	1,598,883
Property and equipment, net	472,563	430,432
Operating lease assets	1,594,554	1,610,013
Goodwill	94,290	94,290
Other intangible assets, net	57,121	66,417
Other assets	37,594	37,146
Total assets	$ 4,527,623	$ 3,837,181
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 858,790	$ 476,298
Accrued liabilities and other	488,103	346,657
Current portion of operating lease liabilities	324,238	306,796
Current portion of long-term debt	16,700	24,900
Income taxes payable	27,313	41,236
Total current liabilities	1,715,144	1,195,887
Long-term debt	2,480,953	2,644,460
Long-term operating lease liabilities	1,378,394	1,357,821
Other liabilities	213,571	141,582
Total stockholders' deficit	(1,260,439)	(1,502,569)
Total liabilities and stockholders' deficit	$ 4,527,623	$ 3,837,181

Michaels Stores, Inc.
Condensed Consolidated Statements of Comprehensive Income
(in thousands)

	Fiscal Year		
	2020	**2019**	**2018**
Net sales	$ 5,271,112	$ 5,072,037	$ 5,271,944
Cost of sales and occupancy expense	3,315,035	3,199,780	3,248,276
Gross profit	1,956,077	1,872,257	2,023,668
Selling, general and administrative	1,388,744	1,303,350	1,350,371
Restructure and impairment charges	28,835	48,332	104,238
Store pre-opening costs	3,082	4,608	4,417
Operating income	535,416	515,967	564,642
Interest and other expense	172,938	156,682	146,572
Income before income taxes	362,478	359,285	418,070
Income taxes	66,119	85,995	97,751
Net income	$ 296,359	$ 273,290	$ 320,319
Other comprehensive income, net of tax:			
Foreign currency and cash flow hedges	9,387	(8,273)	(10,898)
Comprehensive income	$ 305,746	$ 265,017	$ 309,421

Michaels Stores, Inc.
Condensed Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year		
	2020	**2019**	**2018**
Cash flows from operating activities:			
Net cash provided by operating activities	$ 1,231,022	$ 490,732	$ 443,275
Cash flows from investing activities:			
Additions to property and equipment	(162,004)	(120,545)	(145,387)
Acquisition of intangible assets	—	(58,000)	—
Proceeds from sale of building	875	—	—
Net cash used in investing activities	(161,129)	(178,545)	(145,387)
Cash flows from financing activities:			
Net repayments of debt	(1,145,950)	(558,100)	(380,300)
Net borrowings of debt	975,000	523,200	355,400
Payment of dividend to Michaels Funding, Inc.	(87,232)	(105,060)	(451,892)
Payment of debt refinancing costs	(26,812)	(8,162)	(1,117)
Other financing activities	(475)	—	—
Net cash used in financing activities	(285,469)	(148,122)	(477,909)
Net change in cash and equivalents	784,424	164,065	(180,021)
Cash and equivalents at beginning of period	409,173	245,108	425,129
Cash and equivalents at end of period	$ 1,193,597	$ 409,173	$ 245,108

16. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Unaudited quarterly results of operations for fiscal 2020 and fiscal 2019 were as follows (in thousands, except per share data):

	Fiscal 2020			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 799,888	$ 1,148,170	$ 1,406,212	$ 1,916,842
Cost of sales and occupancy expense	578,066	805,658	824,496	1,106,815
Gross profit	221,822	342,512	581,716	810,027
Selling, general and administrative	281,341	289,053	373,193	447,032
Restructure and impairment charges (1)	—	—	9,388	19,447
Operating (loss) income (2)	(60,678)	53,273	198,951	341,994
Net (loss) income (3)	(63,505)	(7,757)	111,122	255,075
Diluted (loss) earnings per common share	$ (0.43)	$ (0.05)	$ 0.74	$ 1.72

	Fiscal 2019			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 1,093,720	$ 1,033,689	$ 1,222,021	$ 1,722,608
Cost of sales and occupancy expense	676,080	666,703	780,387	1,076,610
Gross profit	417,640	366,986	441,634	645,998
Selling, general and administrative	320,597	290,074	322,807	370,803
Restructure and impairment charges (4)	3,087	3,869	41,376	—
Operating income	92,730	71,300	76,049	274,957
Net income	37,691	24,547	28,705	181,651
Diluted earnings per common share	$ 0.24	$ 0.16	$ 0.19	$ 1.24

(1) Includes impairment charges related to the 13 underperforming stores in the fourth quarter of fiscal 2020 and impairment charges related to operating lease assets and leasehold improvements primarily as a result of our decision to relocate our corporate offices in Irving, Texas in the third quarter of fiscal 2020.

(2) Includes charges related to the liquidation of Darice totaling $52.5 million in the second quarter of fiscal 2020 and income of $6.8 million and $0.5 million in the third and fourth quarter of fiscal 2020, respectively.

(3) In the third quarter of fiscal 2020, we a recorded a loss on the early extinguishment of debt of $22.0 million related to the refinancing of our amended and restated term loan credit facility.

(4) During the first, second and third quarter of fiscal 2019, we recorded restructure charges of $3.1 million, $3.9 million and $1.3 million, respectively, related to the closure of our Pat Catan's stores. The third quarter of fiscal 2019 also includes $40.1 million of impairment charges primarily related to our Darice wholesale business.

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 ending on the Saturday closest to April 30, July 31 and October 31.

17. SUBSEQUENT EVENT

On March 2, 2021, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with certain affiliates of Apollo Global Management (such affiliates, "Apollo"), pursuant to which Apollo will acquire the Company. Under the Merger Agreement, and upon the terms and subject to the conditions thereof, Apollo will commence a tender offer to acquire all outstanding shares of Michaels for $22.00 per share in cash. If certain conditions are satisfied and the offer closes, Apollo will acquire all remaining shares not tendered in the tender offer through a second-step merger at the same price. The tender offer will initially remain open for twenty business days, subject to possible extension on the terms set forth in the Merger Agreement. The parties currently expect the acquisition to be completed during the first half of fiscal 2021. Apollo's obligations to complete the acquisition are subject to certain customary closing conditions, including a majority of the outstanding shares of Michaels common stock having been tendered and not validly withdrawn, the expiration of a twenty-five day go-shop period, compliance with certain antitrust requirements in the United States and Canada, and the completion of a specified marketing period for Apollo's debt financing of the offer price. The Merger Agreement also provides that the acquisition agreement may be terminated by us or Apollo under certain circumstances, and in certain specified circumstances upon termination of the Merger Agreement we will be required to pay Apollo a termination fee of up to $104 million. The anticipated acquisition of the Company by Apollo is described more fully in our Current Report on Form 8-K filed with the SEC on March 3, 2021. This summary of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the full text of the Merger Agreement filed as Exhibit 2.1 to this Annual Report.

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of March 2, 2021, among The Michaels Companies, Inc., Magic AcquireCo, Inc. and Magic MergeCo, Inc. (previously filed as Exhibit 2.1 to Form 8-K filed by the Company on March 3, 2021, SEC File No. 001-36501).
3.1	Second Amended and Restated Certificate of Incorporation of The Michaels Companies, Inc. (previously filed as Exhibit 3.2 to Form S-1 filed by the Company on June 9, 2014, SEC File No. 333-193000).
3.2	Amended and Restated Bylaws of The Michaels Companies, Inc. (previously filed as Exhibit 3.4 to Form S-1 filed by the Company on June 2, 2014, SEC File No. 333-193000).
4.1	Form of Specimen Common Stock Certificate of The Michaels Companies, Inc. (previously filed as Exhibit 4.1 to Form S-1 filed by the Company on June 16, 2014, SEC File No. 333-193000).
4.2	Form of Amended and Restated Registration Rights Agreement (previously filed as Exhibit 4.2 to Form S-1 filed by the Company on June 2, 2014, SEC File No. 333-193000).
4.3	Form of Investor Agreement (previously filed as Exhibit 4.3 to Form S-1 filed by the Company on June 2, 2014, SEC File No. 333-193000).
4.4	Indenture, dated July 8, 2019, by and among Michaels Stores, Inc., as Issuer, the guarantors party thereto and U.S. National Bank Association, as trustee (previously filed as Exhibit 4.1 to Form 8-K filed by the Company on July 9, 2019, SEC File No. 001-36501).
4.5	Indenture, dated October 1, 2020, among Michaels Stores, Inc., as Issuer, the guarantors party thereto and U.S. National Bank Association, as trustee and collateral agent (previously filed as Exhibit 4.1 to Form 8-K filed by the Company on October 2, 2020, SEC File No. 001-36501).
4.6	Description of Securities (filed herewith).
10.1	Third Amended and Restated Credit Agreement, dated as of May 27, 2016, by and among Michaels Stores, Inc., the other borrowers party thereto, the facility guarantors party thereto, Wells Fargo Bank, National Association, as administrative agent, collateral agent, issuing bank and swingline lender, the other lenders party thereto and the other agents named therein (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on May 27, 2016, SEC File No. 001-36501).
10.2	First Amendment to Third Amended and Restated Credit Agreement, dated as of August 30, 2019, by and among Michaels Stores, Inc., Michaels Funding, Inc., various subsidiaries of Michaels Stores, Inc., Wells Fargo Bank, National Association, as administrative agent and collateral agent, the lenders party thereto and the other agents named therein (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on September 4, 2019, SEC File No. 001-36501).
10.3	Amended and Restated Credit Agreement, dated as of January 28, 2013, by and among Michaels Stores, Inc., Deutsche Bank AG New York Branch, as administrative agent, and Barclays Bank, PLC, Credit Suisse Securities (USA), LLC, Goldman Sachs Bank USA, J.P. Morgan Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc. and Wells Fargo Securities, LLC, as co-documentation agents, and Deutsche Bank Securities Inc., Barclays Bank PLC, Credit Suisse Securities (USA), LLC, Goldman Sachs Bank USA, J.P. Morgan Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc. and Wells Fargo Securities, LLC, as co-lead arrangers and joint bookrunners (previously filed as Exhibit 10.1 to Form 8-K filed by Michaels Stores, Inc. on February 1, 2013, SEC File No. 001-09338).
10.4	Exhibits and Schedules to Amended and Restated Credit Agreement, dated as of January 28, 2013, by and among Michaels Stores, Inc., Deutsche Bank AG New York Branch, as administrative agent, and Barclays

Exhibit Number	Description of Exhibit
	Bank PLC, Credit Suisse Securities (USA), LLC, Goldman Sachs Bank USA, J.P. Morgan Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc. and Wells Fargo Securities, LLC, as co-documentation agents, and Deutsche Bank Securities Inc., Barclays Bank PLC, Credit Suisse Securities (USA), LLC, Goldman Sachs Bank USA, J.P. Morgan Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley Senior Funding, Inc. and Wells Fargo Securities, LLC, as co-lead arrangers and joint bookrunners (previously filed as Exhibit 10.29 to Form 10-K filed by Michaels Stores, Inc. on March 15, 2013, SEC File No. 001-09338).
10.5	First Amendment to Amended and Restated Credit Agreement, dated June 10, 2014, to the Amended and Restated Credit Agreement, dated January 28, 2013, by and among Michaels Stores, Inc., Deutsche Bank AG New York Branch, as administrative agent, and the guarantors named therein (previously filed as Exhibit 10.3 to Form 8-K filed by Michaels Stores, Inc. on June 11, 2014, SEC File No. 001-09338).
10.6	Second Amendment to Amended and Restated Credit Agreement, dated as of September 28, 2016, by and among Michaels Stores, Inc., Michaels Funding, Inc., various subsidiary of Michaels Stores, Inc., Deutsche Bank AG New York Branch, as administrative agent and collateral agent, the 2016 Converting Replacement Term B-1 Loan Lenders (as defined therein), the 2016 New Replacement Term B-1 Loan Lenders (as defined therein), the 2016 Converting Replacement Term B-2 Loan Lenders (as defined therein), the 2016 New Replacement Term B-2 Loan Lenders (as defined therein), certain lenders constituting the New Required Lenders (as defined therein) and the other agents named therein (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on September 30, 2016, SEC File No. 001-36501).
10.7	Third Amendment to Amended and Restated Credit Agreement, dated as of May 23, 2018, by and among Michaels Stores, Inc., Michaels Funding, Inc., various subsidiaries of Michaels Stores, Inc., JPMorgan Chase Bank, N.A., as successor administrative agent and successor collateral agent, Deutsche Bank AG New York Branch, as resigning administrative agent and resigning collateral agent, the 2018 Converting Replacement Term B Loan Lenders (as defined therein), the 2018 New Replacement Term B Loan Lenders (as defined therein), the lenders party thereto and the other agents named therein (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on May 24, 2018, SEC File No. 001-36501).
10.8	Purchase Agreement, dated September 17, 2020, by and among Michaels Stores, Inc., as Issuer, Michaels Funding, Inc., Artistree, Inc., Darice, Inc., Darice Imports, Inc., Lamrite West, Inc., Michaels Finance Company, Inc., Michaels Stores Procurement Company, Inc. and Michaels Stores Card Services, LLC, each as a Guarantor, and J.P. Morgan Securities LLC, as representative of the initial purchasers (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on September 22, 2020, SEC Fil No. 001-36501).
10.9	Fourth Amendment to Amended and Restated Credit Agreement, dated as of October 1, 2020, by and among Michaels Stores, Inc., the guarantors identified therein, JPMorgan Chase Bank, N.A., as administrative agent and collateral agent, the 2020 Converting Replacement Term B Loan Lenders (as defined therein) and the 2020 New Refinancing Term B Loan Lenders (as defined therein) (previously filed as Exhibit 4.2 to Form 8-K filed by the Company on October 2, 2020, SEC File No. 001-36501).
10.10	Form of Director and Officer Indemnification Agreement (previously filed as Exhibit 10.29 to Form S-1 filed by the Company on June 9, 2014 SEC File No. 333-193000).
10.11*	The Michaels Companies, Inc. Equity Incentive Plan (previously filed as Exhibit 10.1 to Form 10-Q filed by Michaels Stores, Inc. on August 30, 2013, SEC File No. 001-09338).
10.12*	Form of Stock Option Agreement under The Michaels Companies, Inc. Equity Incentive Plan (previously filed as Exhibit 10.2 to Form 10-Q filed by Michaels Stores, Inc. on August 30, 2013, SEC File No. 001-09338).
10.13*	Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.1 to Form S-1 filed by the Company on June 16, 2014, SEC File No. 333-193000).

Exhibit Number	Description of Exhibit
10.14*	Form of Stock Option Agreement under the Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.2 to Form S-1 filed by the Company on June 2, 2014, SEC File No. 333-193000).
10.15*	Form of Stock Option Agreement under the Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.11 to Form 10-K filed by the Company on March 17, 2016, SEC File No. 001-36501).
10.16*	Form of Stock Option Agreement under the Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.2 to Form 10-Q filed by the Company on June 6, 2017, SEC File No. 001-36501).
10.17*	Form of Stock Option Agreement under the Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.4 to Form 10-Q filed by the Company on June 7, 2019, SEC File No. 001-36501).
10.18*	Form of Restricted Stock Unit Agreement under the Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.3 to Form 10-Q filed by the Company on June 6, 2017, SEC File No. 001-36501).
10.19*	The Michaels Companies, Inc. Second Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.1 to Form 8-k filed by the Company on June 8, 2017, SEC File No. 001-36501).
10.20*	Form of Restricted Stock Unit Agreement for Employees under the Second Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.1 to Form 10-Q filed by the Company on December 7, 2018, SEC File No. 001-36501).
10.21*	The Michaels Companies, Inc. Third Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on June 12, 2020, SEC File No. 001-36501).
10.22*	Form of Long-Term Cash Incentive Award Agreement (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on April 14, 2020, SEC File No. 001-36501).
10.23*	Michaels Stores, Inc. Employees 401(k) Plan, effective March 1, 2009 (previously filed as Exhibit 10.30 to Form 10-K filed by Michaels Stores, Inc., on April 2, 2009, SEC File No. 001-09338).
10.24*	The Michaels Companies, Inc. Annual Incentive Plan (previously filed as Exhibit 10.14 to Form S-1 filed by the Company on June 2, 2014, SEC File No. 333-193000).
10.25*	Michaels Stores, Inc. Amended and Restated Officer Severance Pay Plan (previously filed as Exhibit 10.2 to Form 10-Q filed by the Company on September 3, 2020 SEC File No. 001-36501).
10.26*	Employment Agreement, dated February 13, 2013, by and between Michaels Stores, Inc. and Carl S. Rubin (previously filed as Exhibit 10.1 to Form 10-Q filed by Michaels Stores, Inc. on May 24, 2013, SEC File No. 001-09338).
10.27*	Separation Agreement, dated February 27, 2019, by and among The Michaels Companies, Inc., Michaels Stores, Inc. and Carl S. Rubin (previously filed as Exhibit 10.2 to Form 8-K filed by the Company on February 28, 2019, SEC File No. 001-36501).
10.28*	Addendum and Amendment to Separation Letter, dated March 20, 2019, by and among The Michaels Companies, Inc., Michaels Stores, Inc. and Carl S. Rubin (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on March 22, 2019, SEC File No. 001-36501).

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Exhibit Number	Description of Exhibit
10.29*	Restricted Stock Award Agreements, dated March 18, 2013, by and between Michaels Stores, Inc. and Carl S. Rubin (previously filed as Exhibit 10.2 to Form 10-Q filed by Michaels Stores, Inc. on May 24, 2013, SEC File No. 001-09338).
10.30*	Stock Option Agreement, dated March 18, 2013, by and between Michaels Stores, Inc. and Carl S. Rubin (previously filed as Exhibit 10.1 to Form 10-Q filed by Michaels Stores, Inc. on May 24, 2013, SEC File No. 001-09338).
10.31*	Letter Agreement, dated February 28, 2019, by and among The Michaels Companies, Inc., Michaels Stores, Inc. and Mark Cosby (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on February 28, 2019, SEC File No. 001-36501).
10.32*	Amendment to Letter Agreement, effective October 21, 2019, by and between Michaels Stores, Inc. and Mark S. Cosby (previously filed as Exhibit 10.3 to Form 10-Q filed by the Company on December 6, 2019, SEC File No. 001-36501).
10.33*	Second Amendment to the Letter Agreement, effective December 26, 2019, by and among Mark Cosby, The Michaels Stores, Inc. and The Michaels Companies, Inc. (previously filed as Exhibit 10.6 to Form 8-K filed by the Company on December 27, 2019, SEC File No. 001-36501).
10.34*	Letter Agreement, effective April 1, 2020, from the Company to Mark S. Cosby (previously filed as Exhibit 10.2 to Form 8-K filed by the Company on April 14, 2020, SEC File No. 001-36501).
10.35*	Form of Restricted Stock Award Agreement, by and between The Michaels Companies, Inc. and Mark S. Cosby (previously filed as Exhibit 10.30 to Form 10-K filed by the Company on March 17, 2020, SEC File No. 001-36501).
10.36*	Amended and Restated Restricted Stock Unit Agreement, effective December 26, 2019, by and between Mark Cosby and The Michaels Companies, Inc. (previously filed as Exhibit 10.5 to Form 8-K filed by the Company on December 27, 2019, SEC File No. 001-36501).
10.37*	Amended and Restated Non-Statutory Stock Option Agreement, effective December 26, 2019, by and between Mark Cosby and The Michaels Companies, Inc. (previously filed as Exhibit 10.4 to Form 8-K filed by the Company on December 27, 2019, SEC File No. 001-36501).
10.38*	Letter Agreement, dated December 26, 2019, by and among Ashley Buchanan, The Michaels Companies, Inc., and Michaels Stores, Inc. (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on December 27, 2019, SEC File No. 001-36501).
10.39*	Non-Statutory Stock Option Agreement, by and between Ashley Buchanan and The Michaels Companies, Inc. (previously filed as Exhibit 10.2 to Form 8-K filed by the Company on December 27, 2019, SEC File No. 001-36501).
10.40*	Restricted Stock Unit Agreement, by and between Ashley Buchanan and The Michaels Companies, Inc. (previously filed as Exhibit 10.3 to Form 8-K filed by the Company on December 27, 2019, SEC File No. 001-36501).
10.41*	Form of Restricted Stock Award Agreement, by and between The Michaels Companies, Inc. and Philo T. Pappas (previously filed as Exhibit 10.36 to Form 10-K filed by the Company on March 17, 2020, SEC File No. 001-36501).
10.42	Letter Agreement, dated October 11, 2019, by and among The Michaels Companies, Inc. and certain investment funds affiliated with The Blackstone Group Inc. and Bain Capital Private Equity, L.P.

Exhibit Number	Description of Exhibit
	(previously filed as Exhibit 10.1 to Form 8-K filed by the Company on October 11, 2019, SEC File No. 001-36501).
21.1	Subsidiaries of the Company (filed herewith).
23.1	Consent of Ernst & Young LLP (filed herewith).
31.1	Certifications of Ashley Buchanan pursuant to §302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certifications of Michael F. Diamond pursuant to §302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE MICHAELS COMPANIES, INC.

Date: March 9, 2021

By: /s/ Michael F. Diamond
Michael F. Diamond
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ashley Buchanan Ashley Buchanan	Chief Executive Officer and Director (Principal Executive Officer)	March 9, 2021
/s/ Michael F. Diamond Michael F. Diamond	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 9, 2021
/s/ James E. Sullivan James E. Sullivan	Chief Accounting Officer and Controller (Principal Accounting Officer)	March 9, 2021
/s/ Mark S. Cosby Mark S. Cosby	Director	March 9, 2021
/s/ Joshua Bekenstein Joshua Bekenstein	Director	March 9, 2021
/s/ Ryan Cotton Ryan Cotton	Director	March 9, 2021
/s/ Monte E. Ford Monte E. Ford	Director	March 9, 2021
/s/ Karen Kaplan Karen Kaplan	Director	March 9, 2021
/s/Matthew S. Levin Matthew S. Levin	Director	March 9, 2021
/s/ John J. Mahoney John J. Mahoney	Director	March 9, 2021
/s/James A. Quella James A. Quella	Director	March 9, 2021
/s/ Beryl B. Raff Beryl B. Raff	Director	March 9, 2021

Exhibit 4.6

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

The following summary of the terms of our common stock is based upon our second amended and restated certificate of incorporation, as amended (our "Certificate of Incorporation"), and our amended and restated bylaws (our "Bylaws"). The summary is not complete, and is qualified by reference to our Certificate of Incorporation and our Bylaws, which are filed as exhibits to this Annual Report on Form 10-K and are incorporated by reference herein. We encourage you to read our Certificate of Incorporation, our Bylaws, and the applicable provisions of the Delaware General Corporation Law for additional information.

The Michaels Companies, Inc. ("Michaels," "we," "our," or "us") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended: our common stock, $0.06775 par value per share.

Authorized Shares of Capital Stock

Our total amount of our authorized capital stock consists of 350,000,000 shares of our common stock, par value $0.06775 per share, and 50,000,000 shares of preferred stock, par value $0.10 per share.

Listing

Our common stock is listed on The Nasdaq Global Select Market under the symbol "MIK."

Voting Rights

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

Preferences

Our board of directors (the "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 currently outstanding.

Anti-takeover effects of our Certificate of Incorporation and Bylaws

Our Certificate of Incorporation and our Bylaws contain additional 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 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 also states that a director may be removed 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. 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.

Special meeting of stockholders and advance notice requirements for stockholder proposals. Our Certificate of Incorporation provides 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 or (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.

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 at least 75% of our outstanding common stock. Additionally, the affirmative vote of at least 75% of the voting power of our outstanding shares of common stock 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 investment funds affiliated with Bain Capital Partners, LLC and The Blackstone Group L.P., and their respective successors and affiliates (collectively, the "Sponsors"), 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.

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 our 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 our 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 Computershare Trust Company, N.A. Its address is P.O. Box 30170, College Station, TX 77842-3170.

Exhibit 21.1

Significant Subsidiaries of The Michaels Companies, Inc.

Artistree, Inc., a Delaware corporation

Artistree of Canada, ULC, a Nova Scotia unlimited liability company

Michaels of Canada, ULC, a Nova Scotia unlimited liability company

Michaels Stores, Inc., a Delaware corporation

Michaels Stores Procurement Company, Inc., a Delaware corporation

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-219050) of The Michaels Companies, Inc., and
2. Registration Statement (Form S-8 No. 333-197218) pertaining to the Amended and Restated 2014 Omnibus Long-Term Incentive Plan of The Michaels Companies, Inc.;

of our reports dated March 9, 2021, with respect to the consolidated financial statements of The Michaels Companies, Inc. and the effectiveness of internal control over financial reporting of The Michaels Companies, Inc. included in this Annual Report (Form 10-K) of The Michaels Companies, Inc. for the year ended January 30, 2021.

/s/ Ernst & Young LLP

Dallas, TX
March 9, 2021

Exhibit 31.1

CERTIFICATIONS

I, Ashley Buchanan, certify that:

1. I have reviewed this annual report on Form 10-K of The Michaels Companies, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 9, 2021

/s/ Ashley Buchanan
Ashley Buchanan
Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Michael F. Diamond, certify that

1. I have reviewed this annual report on Form 10-K of The Michaels Companies, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: March 9, 2021

/s/ Michael F. Diamond
Michael F. Diamond
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

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

In connection with the filing of the Annual Report on Form 10-K of The Michaels Companies, Inc., a Delaware corporation (the "Company"), for the year ended January 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

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

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

Date: March 9, 2021

/s/ Ashley Buchanan
Ashley Buchanan
Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Michael F. Diamond
Michael F. Diamond
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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