
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended August 3, 2019

Commission file number 001-36501

THE MICHAELS COMPANIES, INC.
A Delaware Corporation

IRS Employer Identification No. 37-1737959

8000 Bent Branch Drive
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

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 a large 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).

As of August 28, 2019, 155,274,639 shares of The Michaels Companies, Inc.'s common stock were outstanding.

THE MICHAELS COMPANIES, INC.

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Part I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Net sales	\$ 1,033,689	\$ 1,053,267	\$ 2,127,408	\$ 2,208,778
Cost of sales and occupancy expense	666,703	679,938	1,342,783	1,378,887
Gross profit	366,986	373,329	784,625	829,891
Selling, general and administrative	290,074	300,981	610,670	629,598
Restructure charges	3,869	(3,220)	6,956	44,278
Store pre-opening costs	1,743	1,295	2,969	2,799
Operating income	71,300	74,273	164,030	153,216
Interest expense	40,134	37,101	77,493	71,695
Losses on early extinguishments of debt and refinancing costs	1,155	1,835	1,155	1,835
Other (income) expense, net	(252)	(832)	2,853	(2,525)
Income before income taxes	30,263	36,169	82,529	82,211
Income taxes	5,716	8,681	20,291	27,838
Net income	\$ 24,547	\$ 27,488	\$ 62,238	\$ 54,373
Other comprehensive income, net of tax:				
Foreign currency and interest rate swaps	(4,762)	807	(9,588)	(6,246)
Comprehensive income	\$ 19,785	\$ 28,295	\$ 52,650	\$ 48,127
Earnings per common share:				
Basic	\$ 0.16	\$ 0.15	\$ 0.39	\$ 0.30
Diluted	\$ 0.16	\$ 0.15	\$ 0.39	\$ 0.30
Weighted-average common shares outstanding:				
Basic	157,272	177,348	157,511	179,436
Diluted	157,273	178,215	157,535	180,426

See accompanying notes to consolidated financial statements.

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

ASSETS	August 3, 2019	February 2, 2019	August 4, 2018
Current Assets:			
Cash and equivalents	\$ 130,981	\$ 245,887	\$ 123,191
Merchandise inventories	1,256,465	1,108,715	1,280,095
Prepaid expenses and other	69,672	98,659	98,742
Accounts receivable, net	18,234	57,328	31,095
Income taxes receivable	5,707	4,935	16,523
Total current assets	1,481,059	1,515,524	1,549,646
Property and equipment, at cost	1,703,912	1,656,098	1,613,115
Less accumulated depreciation and amortization	(1,266,421)	(1,217,021)	(1,167,985)
Property and equipment, net	437,491	439,077	445,130
Operating lease assets	1,611,029	—	—
Goodwill	112,069	112,069	119,074
Other intangible assets, net	14,082	17,238	20,983
Deferred income taxes	28,142	25,005	31,532
Other assets	23,277	19,423	26,180
Total assets	\$ 3,707,149	\$ 2,128,336	\$ 2,192,545
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities:			
Accounts payable	\$ 533,473	\$ 485,004	\$ 555,270
Accrued liabilities and other	321,847	378,742	351,987
Current portion of operating lease liabilities	298,993	—	—
Current portion of long-term debt	24,900	24,900	140,261
Income taxes payable	11,974	43,907	427
Total current liabilities	1,191,187	932,553	1,047,945
Long-term debt	2,655,391	2,681,000	2,695,087
Long-term operating lease liabilities	1,377,039	—	—
Other liabilities	71,102	140,978	148,893
Total liabilities	5,294,719	3,754,531	3,891,925
Commitments and contingencies			
Stockholders' Deficit:			
Common stock, \$0.06775 par value, 350,000 shares authorized; 155,199 shares issued and outstanding at August 3, 2019; 157,774 shares issued and outstanding at February 2, 2019; and 171,375 shares issued and outstanding at August 4, 2018	10,419	10,594	11,504
Additional paid-in-capital	—	5,954	—
Accumulated deficit	(1,573,843)	(1,628,185)	(1,700,978)
Accumulated other comprehensive loss	(24,146)	(14,558)	(9,906)
Total stockholders' deficit	(1,587,570)	(1,626,195)	(1,699,380)
Total liabilities and stockholders' deficit	\$ 3,707,149	\$ 2,128,336	\$ 2,192,545

See accompanying notes to consolidated financial statements.

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

	26 Weeks Ended	
	August 3, 2019	August 4, 2018
Cash flows from operating activities:		
Net income	\$ 62,238	\$ 54,373
Adjustments to reconcile net income to net cash used in operating activities:		
Amortization of operating lease assets	162,861	—
Depreciation and amortization	62,730	59,054
Share-based compensation	12,006	12,334
Debt issuance costs amortization	2,539	2,522
Loss on write-off of investment	5,036	—
Accretion of long-term debt, net	(262)	(256)
Restructure charges	6,956	44,278
Deferred income taxes	39	770
Losses on early extinguishments of debt and refinancing costs	1,155	1,835
Changes in assets and liabilities:		
Merchandise inventories	(148,311)	(177,586)
Prepaid expenses and other	(10,782)	2,217
Accounts receivable	37,674	(6,366)
Other assets	(9,391)	(1,165)
Operating lease liabilities	(140,287)	—
Accounts payable	44,537	54,823
Accrued interest	(1,045)	553
Accrued liabilities and other	(54,843)	(49,838)
Income taxes	(34,327)	(87,341)
Other liabilities	(631)	3,231
Net cash used in operating activities	<u>(2,108)</u>	<u>(86,562)</u>
Cash flows used in investing activities:		
Additions to property and equipment	<u>(57,533)</u>	<u>(69,908)</u>
Cash flows from financing activities:		
Common stock repurchased	(27,325)	(252,508)
Payments on term loan credit facility	(12,450)	(11,790)
Payment of 2020 senior subordinated notes	(510,000)	—
Issuance of 2027 senior notes	500,000	—
Borrowings on asset-based revolving credit facility	—	133,600
Payments on asset-based revolving credit facility	—	(15,600)
Payment of debt refinancing costs	(6,032)	(1,069)
Payment of dividends	—	(317)
Proceeds from stock options exercised	542	1,449
Net cash used in financing activities	<u>(55,265)</u>	<u>(146,235)</u>
Net change in cash and equivalents	(114,906)	(302,705)
Cash and equivalents at beginning of period	245,887	425,896
Cash and equivalents at end of period	<u>\$ 130,981</u>	<u>\$ 123,191</u>
Supplemental cash flow information:		
Cash paid for interest	\$ 76,991	\$ 69,101
Cash paid for taxes	\$ 54,676	\$ 114,950

See accompanying notes to consolidated financial statements.

THE MICHAELS COMPANIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(in thousands)
(Unaudited)

	13 Weeks Ended					
	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at May 4, 2019	158,126	\$ 10,620	\$ 11,900	\$ (1,590,494)	\$ (19,384)	\$ (1,587,358)
Net income	—	—	—	24,547	—	24,547
Foreign currency and interest rate swaps	—	—	—	—	(4,762)	(4,762)
Share-based compensation	—	—	5,154	—	—	5,154
Exercise of stock options and other awards	39	2	—	—	—	2
Repurchase of stock and retirements	(3,011)	(203)	(17,054)	(7,896)	—	(25,153)
Issuance of restricted stock awards	45	—	—	—	—	—
Balance at August 3, 2019	<u>155,199</u>	<u>\$ 10,419</u>	<u>\$ —</u>	<u>\$ (1,573,843)</u>	<u>\$ (24,146)</u>	<u>\$ (1,587,570)</u>
Balance at May 5, 2018	182,055	\$ 12,225	\$ 27,463	\$ (1,512,896)	\$ (10,713)	\$ (1,483,921)
Net income	—	—	—	27,488	—	27,488
Foreign currency and interest rate swaps	—	—	—	—	807	807
Share-based compensation	—	—	5,726	—	—	5,726
Exercise of stock options and other awards	126	9	900	—	—	909
Repurchase of stock and retirements	(10,806)	(730)	(34,089)	(215,570)	—	(250,389)
Balance at August 4, 2018	<u>171,375</u>	<u>\$ 11,504</u>	<u>\$ —</u>	<u>\$ (1,700,978)</u>	<u>\$ (9,906)</u>	<u>\$ (1,699,380)</u>
	26 Weeks Ended					
	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at February 2, 2019	157,774	\$ 10,594	\$ 5,954	\$ (1,628,185)	\$ (14,558)	\$ (1,626,195)
Net income	—	—	—	62,238	—	62,238
Foreign currency and interest rate swaps	—	—	—	—	(9,588)	(9,588)
Share-based compensation	—	—	12,758	—	—	12,758
Exercise of stock options and other awards	594	40	502	—	—	542
Repurchase of stock and retirements	(3,240)	(215)	(19,214)	(7,896)	—	(27,325)
Issuance of restricted stock awards	71	—	—	—	—	—
Balance at August 3, 2019	<u>155,199</u>	<u>\$ 10,419</u>	<u>\$ —</u>	<u>\$ (1,573,843)</u>	<u>\$ (24,146)</u>	<u>\$ (1,587,570)</u>
Balance at February 3, 2018	181,919	\$ 12,206	\$ 21,740	\$ (1,539,781)	\$ (3,660)	\$ (1,509,495)
Net income	—	—	—	54,373	—	54,373
Foreign currency and interest rate swaps	—	—	—	—	(6,246)	(6,246)
Share-based compensation	—	—	13,047	—	—	13,047
Exercise of stock options and other awards	500	34	1,415	—	—	1,449
Repurchase of stock and retirements	(11,044)	(736)	(36,202)	(215,570)	—	(252,508)
Balance at August 4, 2018	<u>171,375</u>	<u>\$ 11,504</u>	<u>\$ —</u>	<u>\$ (1,700,978)</u>	<u>\$ (9,906)</u>	<u>\$ (1,699,380)</u>

See accompanying notes to consolidated financial statements.

THE MICHAELS COMPANIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

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.

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 filed with the Securities and Exchange Commission (“SEC”) pursuant to Section 13 or 15(d) under the Securities Exchange Act of 1934. In the opinion of management, all adjustments (consisting of normal recurring accruals and other items) considered necessary for a fair presentation have been included.

We report on the basis of a 52-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 2019” relate to the 52 weeks ending February 1, 2020 and references to “fiscal 2018” relate to the 52 weeks ended February 2, 2019. In addition, all references to “the second quarter of fiscal 2019” relate to the 13 weeks ended August 3, 2019 and all references to “the second quarter of fiscal 2018” relate to the 13 weeks ended August 4, 2018. Finally, all references to “the six months ended August 3, 2019” relate to the 26 weeks ended August 3, 2019 and all references to “the six months ended August 4, 2018” relate to the 26 weeks ended August 4, 2018. Because of the seasonal nature of our business, the results of operations for the 13 and 26 weeks ended August 3, 2019 are not indicative of the results to be expected for the entire year.

Restructure Charges

In March 2018, we closed substantially all of our Aaron Brothers stores and in January 2019, we closed all 6 of our Pat Catan’s stores. In the first six months of fiscal 2019, we recorded a restructure charge related to Pat Catan’s totaling \$7.0 million, primarily related to employee-related expenses and the impairment of an indefinite-lived intangible asset. In the first six months of fiscal 2018, we recorded a restructure charge related to Aaron Brothers totaling \$44.3 million, 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 and employee-related expenses. In the first six months of fiscal 2018, Pat Catan's and Aaron Brothers had net sales totaling approximately \$48.7 million and \$12.9 million, respectively. Excluding the restructure charges, Aaron Brothers and Pat Catan’s did not have a material impact on the Company’s operating income in the periods presented.

Share Repurchase Program

In September 2018, the Board of Directors authorized a new 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 six months ended August 3, 2019, we repurchased 3.0 million shares for an aggregate amount of \$25.1 million. As of August 3, 2019, we had \$373.4 million of availability remaining under our current share repurchase program.

Accounting Pronouncement Recently Adopted

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*" ("ASU 2016-02"). Under ASU 2016-02, an entity is required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The lease standard requires companies to use a modified retrospective transition approach as of the beginning of the earliest comparable period presented in the company's financial statements. In July 2018, the FASB issued ASU 2018-11, "*Leases (Topic 842): Targeted Improvements*" which provided an additional transition option that allows companies to continue applying the guidance under the current lease standard in the comparative periods presented in the consolidated financial statements. We utilized the additional transition option to adopt ASU 2016-02 in the first quarter of fiscal 2019. As a result, the standard was applied starting February 3, 2019 and prior periods were not restated. We also elected the practical expedient permitted under the transition guidance which permits companies not to reassess prior conclusions on lease identification, historical lease classification and initial direct costs. The adoption of the standard resulted in the recognition of operating lease assets and liabilities of approximately \$1.7 billion as of February 3, 2019. The adoption did not result in a material impact on our consolidated statements of comprehensive income.

2. FAIR VALUE MEASUREMENTS

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

- Level 1—Quoted prices for *identical* instruments in active markets;
- Level 2—Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose significant inputs are observable; and
- Level 3—Instruments with significant unobservable inputs.

Impairment losses related to store-level operating lease assets and 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.

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 table below provides the fair values of our senior secured term loan facility (“Amended and Restated Term Loan Credit Facility”), our 8% senior notes maturing in 2027 (“2027 Senior Notes”), our 5.875% senior subordinated notes maturing in 2020 (“2020 Senior Subordinated Notes”) and our interest rate swaps.

	August 3, 2019	February 2, 2019	August 4, 2018
(in thousands)			
Assets			
Interest rate swaps	\$ —	\$ —	\$ 2,342
Liabilities			
Term loan credit facility	\$ 2,125,045	\$ 2,177,098	\$ 2,217,784
Senior notes	481,525	—	—
Senior subordinated notes	—	511,913	513,825
Short-term portion of interest rate swaps	9,679	2,557	3,233
Long-term portion of interest rate swaps	8,902	3,809	—

The fair values of our Amended and Restated Term Loan Credit Facility, our 2027 Senior Notes and our 2020 Senior Subordinated Notes were determined based on quoted market prices which are considered Level 1 inputs within the fair value hierarchy.

The fair value of our interest rate swaps 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. The short-term and long-term interest rate swap liabilities are recorded in accrued liabilities and other liabilities, respectively, in our consolidated balance sheets. The interest rate swap asset in fiscal 2018 is recorded in other assets in our consolidated balance sheets.

3. REVENUE RECOGNITION

Our revenue is primarily associated with sales of merchandise to customers within our stores, customers utilizing our e-commerce platforms and through our Darice wholesale business (“Darice”). Revenue from sales of our merchandise is recognized when the customer takes possession of the merchandise. Payment for our retail sales is typically due at the time of the sale.

Right of Return

A 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.

Customer Receivables

As of August 3, 2019, February 2, 2019 and August 4, 2018, receivables from customers, which consist primarily of trade receivables related to Darice, were approximately \$15.4 million, \$32.1 million and \$23.9 million, respectively, and are included in accounts receivable, net in the consolidated balance sheets.

Gift Cards

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):

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Balance at beginning of period	\$ 55,708	\$ 51,513	\$ 61,071	\$ 56,729
Issuance of gift cards	13,140	13,734	24,465	25,278
Revenue recognized ⁽¹⁾	(13,668)	(13,685)	(29,415)	(29,601)
Gift card breakage	584	(1,049)	(357)	(1,893)
Balance at end of period	<u>\$ 55,764</u>	<u>\$ 50,513</u>	<u>\$ 55,764</u>	<u>\$ 50,513</u>

(1) Revenue recognized from the beginning liability during the second quarters of fiscal 2019 and fiscal 2018 totaled \$7.5 million and \$7.6 million, respectively. Revenue recognized from the beginning liability during the first six months of fiscal 2019 and fiscal 2018 totaled \$15.8 million and \$16.0 million, respectively.

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. In addition, operating lease assets exclude lease incentives received. As most of 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.

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):

	13 Weeks Ended	26 Weeks Ended
	August 3, 2019	August 3, 2019
Operating lease cost ⁽¹⁾	\$ 104,600	\$ 210,065
Variable lease cost ⁽²⁾	36,077	72,517
Total lease cost	<u>\$ 140,677</u>	<u>\$ 282,582</u>

(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):

	26 Weeks Ended
	August 3,
	2019
Operating cash outflows included in the measurement of lease liabilities	\$ 214,439
Operating lease assets obtained in exchange for new operating lease liabilities	\$ 133,137
Weighted-average remaining lease term	6.2 years
Weighted-average discount rate	5.6%

Maturities of our lease liabilities are as follows as of August 3, 2019 (in thousands):

Fiscal Year	
2019	\$ 179,032
2020	406,190
2021	353,635
2022	292,097
2023	229,286
Thereafter	545,236
Total lease payments	\$ 2,005,476
Less: Interest	(329,444)
Present value of lease liabilities	<u>\$ 1,676,032</u>

Lease payments exclude \$78.2 million related to 26 leases that have been signed as of August 3, 2019 but have not yet commenced.

5. DEBT

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

	Interest Rate	August 3,	February 2,	August 4,
		2019	2019	2018
Term loan credit facility	Variable	\$ 2,195,000	\$ 2,207,450	\$ 2,220,560
Asset-based revolving credit facility	Variable	—	—	118,000
Senior notes	8.00 %	500,000	—	—
Senior subordinated notes	5.875 %	—	510,000	510,000
Total debt		2,695,000	2,717,450	2,848,560
Less unamortized discount/premium and debt costs		(14,709)	(11,550)	(13,212)
Total debt, net		2,680,291	2,705,900	2,835,348
Less current portion		(24,900)	(24,900)	(140,261)
Long-term debt		<u>\$ 2,655,391</u>	<u>\$ 2,681,000</u>	<u>\$ 2,695,087</u>

Revolving Credit Facility

As of August 3, 2019 and August 4, 2018, the borrowing base under our senior secured asset-based revolving credit facility (“Amended Revolving Credit Facility”) was \$789.3 million and \$850.0 million, respectively, of which Michaels Stores, Inc. (“MSI”) had unused borrowing capacity of \$686.1 million and \$644.8 million, respectively. As of August 3, 2019 and August 4, 2018, outstanding standby letters of credit, which reduce our borrowing base, totaled \$103.2 million and \$87.2 million, respectively. On August 30, 2019, the Amended Revolving Credit Facility was amended to extend the maturity to August 2024. There were no other significant changes to the terms under the Amended Revolving Credit Facility.

8% Senior Notes due 2027

On July 8, 2019, MSI issued \$500 million in principal amount of 2027 Senior Notes. The 2027 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 “2027 Senior Notes Indenture”). The 2027 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 2027 Senior Notes, together with cash on hand, were used to redeem MSI’s outstanding 2020 Senior Subordinated Notes.

The 2027 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 and Restated Term Loan Credit Facility (collectively defined as the “Senior Secured Credit Facilities”).

The 2027 Senior Notes are general, unsecured obligations of MSI, and the guarantees of the 2027 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 2027 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 2027 Senior Notes with the gross proceeds from one or more Equity Offerings, as defined in the 2027 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 2027 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 2027 Senior Notes at the redemption prices set forth below (expressed as percentages of the principal amount of the 2027 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:

<u>Year</u>	<u>Percentage</u>
2022	104 %
2023	102 %
2024 and thereafter	100 %

Upon a change in control, MSI is required to offer to purchase the 2027 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 2027 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 2027 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 2027 Senior Notes to become or to be declared due and payable. As of August 3, 2019, MSI was in compliance with all covenants.

As of August 3, 2019, net debt issuance costs totaled \$6.1 million and are being amortized over the life of the 2027 Senior Notes. As a result of the redemption of our 2020 Senior Subordinated Notes on July 29, 2019, MSI recorded a loss on the early extinguishment of debt of \$1.2 million during the second quarter of fiscal 2019.

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. Amounts reclassified from accumulated other comprehensive income to interest expense during the second quarters of fiscal 2019 and fiscal 2018 were \$0.9 million and \$2.0 million, respectively. Amounts reclassified from accumulated other comprehensive income to interest expense during the six months ended August 3, 2019 and August 4, 2018 were \$1.6 million and \$2.1 million, respectively.

6. ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Beginning of period	\$ (19,384)	\$ (10,713)	\$ (14,558)	\$ (3,660)
Foreign currency translation	2,259	(1,440)	(549)	(5,587)
Interest rate swaps	(7,021)	2,247	(9,039)	(659)
End of period	<u>\$ (24,146)</u>	<u>\$ (9,906)</u>	<u>\$ (24,146)</u>	<u>\$ (9,906)</u>

7. INCOME TAXES

The effective tax rate was 24.6% for the six months ended August 3, 2019 compared to 33.9% for the same period in the prior year. The effective tax rate in fiscal 2019 was lower than the same period in the prior year due primarily to an \$8.1 million charge recognized in fiscal 2018 related to repatriation taxes for accumulated earnings of our foreign subsidiaries associated with the enactment of the Tax Cuts and Jobs Act of 2017 and a tax benefit associated with a state income tax settlement in fiscal 2019. The decrease in the effective tax rate was partially offset by the vesting of restricted shares and the expiration of certain vested stock options.

8. 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 stock options and restricted stock units. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. There were 11.3 million and 7.3 million anti-dilutive shares during the second quarters of fiscal 2019 and fiscal 2018, respectively. There were 11.6 million and 7.0 million anti-dilutive shares during the six months ended August 3, 2019 and August 4, 2018, respectively.

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

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Basic earnings per common share:				
Net income	\$ 24,547	\$ 27,488	\$ 62,238	\$ 54,373
Less income related to unvested restricted shares	(29)	(56)	(68)	(123)
Income available to common shareholders - Basic	<u>\$ 24,518</u>	<u>\$ 27,432</u>	<u>\$ 62,170</u>	<u>\$ 54,250</u>
Weighted-average common shares outstanding - Basic	<u>157,272</u>	<u>177,348</u>	<u>157,511</u>	<u>179,436</u>
Basic earnings per common share	\$ 0.16	\$ 0.15	\$ 0.39	\$ 0.30
Diluted earnings per common share:				
Net income	\$ 24,547	\$ 27,488	\$ 62,238	\$ 54,373
Less income related to unvested restricted shares	(29)	(56)	(68)	(122)
Income available to common shareholders - Diluted	<u>\$ 24,518</u>	<u>\$ 27,432</u>	<u>\$ 62,170</u>	<u>\$ 54,251</u>
Weighted-average common shares outstanding - Basic	157,272	177,348	157,511	179,436
Effect of dilutive stock options and restricted stock units	1	867	24	990
Weighted-average common shares outstanding - Diluted	<u>157,273</u>	<u>178,215</u>	<u>157,535</u>	<u>180,426</u>
Diluted earnings per common share	\$ 0.16	\$ 0.15	\$ 0.39	\$ 0.30

9. SEGMENTS AND GEOGRAPHIC INFORMATION

We consider Michaels-U.S., Michaels-Canada, Pat Catan's and Darice to be our operating segments for purposes of determining reportable segments based on the criteria of ASC 280, *Segment Reporting* ("ASC 280"). We determined that Michaels-U.S., Michaels-Canada 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 are as follows (in thousands):

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
United States ⁽¹⁾	\$ 939,036	\$ 956,608	\$ 1,933,136	\$ 2,004,609
Canada	94,653	96,659	194,272	204,169
Total	\$ 1,033,689	\$ 1,053,267	\$ 2,127,408	\$ 2,208,778

⁽¹⁾ In the first quarter of fiscal 2018 we closed substantially all of our Aaron Brothers stores and in the fourth quarter of fiscal 2018 we closed all of our Pat Catan's stores. In the second quarter of fiscal 2018, Pat Catan's sales totaled approximately \$22.9 million. For the six months ended August 4, 2018, Pat Catan's and Aaron Brothers sales totaled approximately \$48.7 million and \$12.9 million, respectively.

10. RELATED PARTY TRANSACTIONS

Affiliates of, or funds advised by, Bain Capital Private Equity, L.P. ("Bain Capital") and The Blackstone Group L.P. ("The Blackstone Group"), together with Bain Capital and their applicable affiliates, the "Sponsors") owned approximately 47% of our outstanding common stock as of August 3, 2019.

The Blackstone Group owns a majority equity position in RGIS, a vendor we utilized until February 2018 to count our store inventory. There were no payments associated with this vendor during the second quarter of fiscal 2018. Payments associated with this vendor during the six months ended August 4, 2018 were \$0.7 million. These expenses are included in selling, general and administrative ("SG&A") in the consolidated statements of comprehensive income.

The Blackstone Group owns 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 has significant influence over Edens Limited Partnership, vendors we utilize to lease certain properties. Payments associated with these vendors during the second quarters of fiscal 2019 and fiscal 2018 were \$1.5 million and \$2.1 million, respectively. Payments made during the six months ended August 3, 2019 and August 4, 2018 were \$3.8 million and \$4.9 million, respectively. These expenses are included in cost of sales and occupancy expense in the consolidated statements of comprehensive income.

The Blackstone Group owns a majority equity position in JDA Software Group, Inc., a vendor we utilize for transportation and supply chain software. Payments associated with this vendor during the second quarters of fiscal 2019 and fiscal 2018 were \$0.8 million and \$0.6 million, respectively. Payments made during the six months ended August 3, 2019 and August 4, 2018 were \$1.5 million and \$1.9 million, respectively. These expenses are included in SG&A in the consolidated statements of comprehensive income.

One of our current directors, Peter F. Wallace, is an affiliate of The Blackstone Group. As such, he may have an indirect material interest in payments with respect to debt securities of the Company that have been purchased by affiliates of The Blackstone Group. As of August 3, 2019, affiliates of The Blackstone Group held \$67.9 million of our Amended and Restated Term Loan Credit Facility.

11. 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	August 3, 2019	February 2, 2019	August 4, 2018
Current assets:			
Cash and equivalents	\$ 130,194	\$ 245,108	\$ 122,419
Merchandise inventories	1,256,465	1,108,715	1,280,095
Prepaid expenses and other current assets	93,549	160,767	135,480
Total current assets	<u>1,480,208</u>	<u>1,514,590</u>	<u>1,537,994</u>
Property and equipment, net	437,491	439,077	445,130
Operating lease assets	1,611,029	—	—
Goodwill	112,069	112,069	119,074
Other assets	65,509	61,667	79,093
Total assets	<u>\$ 3,706,306</u>	<u>\$ 2,127,403</u>	<u>\$ 2,181,291</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	\$ 533,473	\$ 485,004	\$ 555,270
Accrued liabilities and other	321,473	378,313	351,584
Current portion of operating lease liabilities	298,993	—	—
Current portion of long-term debt	24,900	24,900	140,261
Other current liabilities	11,974	43,907	35,020
Total current liabilities	<u>1,190,813</u>	<u>932,124</u>	<u>1,082,135</u>
Long-term debt	2,655,391	2,681,000	2,695,087
Long-term operating lease liabilities	1,377,039	—	—
Other liabilities	127,800	199,705	162,693
Total stockholders' deficit	(1,644,737)	(1,685,426)	(1,758,624)
Total liabilities and stockholders' deficit	<u>\$ 3,706,306</u>	<u>\$ 2,127,403</u>	<u>\$ 2,181,291</u>

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

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Net sales	\$ 1,033,689	\$ 1,053,267	\$ 2,127,408	\$ 2,208,778
Cost of sales and occupancy expense	666,703	679,938	1,342,783	1,378,887
Gross profit	366,986	373,329	784,625	829,891
Selling, general and administrative	289,827	300,734	610,214	629,126
Restructure charges	3,869	(3,220)	6,956	44,278
Store pre-opening costs	1,743	1,295	2,969	2,799
Operating income	71,547	74,520	164,486	153,688
Interest and other expense, net	39,886	36,272	80,355	69,176
Losses on early extinguishment of debt and refinancing costs	1,155	1,835	1,155	1,835
Income before income taxes	30,506	36,413	82,976	82,677
Income taxes	5,774	8,740	20,398	27,951
Net income	\$ 24,732	\$ 27,673	\$ 62,578	\$ 54,726
Other comprehensive income, net of tax:				
Foreign currency and interest rate swaps	(4,762)	807	(9,588)	(6,246)
Comprehensive income	\$ 19,970	\$ 28,480	\$ 52,990	\$ 48,480

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

	26 Weeks Ended	
	August 3, 2019	August 4, 2018
Cash flows from operating activities:		
Net cash used in operating activities	\$ (3,839)	\$ (87,943)
Cash flows used in investing activities:		
Additions to property and equipment	(57,533)	(69,908)
Cash flows from financing activities:		
Net repayments of debt	(522,450)	(27,390)
Net borrowings of debt	500,000	133,600
Payment of debt refinancing costs	(6,032)	(1,069)
Payment of dividend to Michaels Funding, Inc.	(25,060)	(250,000)
Net cash used in financing activities	(53,542)	(144,859)
Net change in cash and equivalents	(114,914)	(302,710)
Cash and equivalents at beginning of period	245,108	425,129
Cash and equivalents at end of period	<u>\$ 130,194</u>	<u>\$ 122,419</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements of the Company (and the related notes thereto included elsewhere in this quarterly report), the audited consolidated financial statements of the Company (and the related notes thereto) and the Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2019 ("Annual Report") filed with the Securities and Exchange Commission ("SEC") pursuant to Section 13 or 15(d) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") on March 19, 2019.

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

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 2019" relate to the 52 weeks ending February 1, 2020 and references to "fiscal 2018" relate to the 52 weeks ended February 2, 2019. In addition, all references to "the second quarter of fiscal 2019" relate to the 13 weeks ended August 3, 2019 and all references to "the second quarter of fiscal 2018" relate to the 13 weeks ended August 4, 2018. Finally, all references to "the six months ended August 3, 2019" relate to the 26 weeks ended August 3, 2019 and all references to "the six months ended August 4, 2018" relate to the 26 weeks ended August 4, 2018. Because of the seasonal nature of our business, the results of operations for the 13 and 26 weeks ended August 3, 2019 are not indicative of the results to be expected for the entire year.

Overview

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 wholesale business under the Darice brand name and a market-leading, vertically-integrated custom framing business under the Artistree brand name. As of August 3, 2019, we operated 1,262 Michaels stores.

Net sales for the second quarter of fiscal 2019 decreased 1.9% compared to the same period in the prior year. The decrease in net sales was due primarily to the closure of our Pat Catan's stores in fiscal 2018. The decrease was partially offset by net sales related to 11 additional Michaels stores opened (net of closures) since August 4, 2018 and a 0.3% increase in comparable store sales. Gross profit as a percent of net sales increased 10 basis points to 35.5% during the second quarter of fiscal 2019 due primarily to benefits from our ongoing pricing and sourcing initiatives and improved occupancy cost leverage. The increase was offset by the impact of tariffs on inventory we purchase from China, an increase in promotional activity and a change in sales mix. Operating income as a percent of net sales decreased to 6.9% for the second quarter of fiscal 2019 compared to 7.1% in the same period in the prior year.

Certain products that we import from China have been impacted by tariffs. During the first six months of fiscal 2019, we successfully mitigated a substantial amount of the financial impact of these tariffs. Our mitigation efforts included, 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.

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 two months, it becomes comparable in the month in which it reopens, subject to a mid-month convention. A store closed longer than two months becomes comparable in its 14th month of operation after its reopening.

Operating Information

The following table sets forth certain operating data:

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Michaels stores:				
Open at beginning of period	1,260	1,243	1,258	1,238
New stores	4	9	8	15
Relocated stores opened	1	7	8	16
Closed stores	(2)	(1)	(4)	(2)
Relocated stores closed	(1)	(7)	(8)	(16)
Open at end of period	1,262	1,251	1,262	1,251
Aaron Brothers stores:				
Open at beginning of period	—	3	—	97
Closed stores	—	(3)	—	(97)
Open at end of period	—	—	—	—
Pat Catan's stores:				
Open at beginning and end of period	—	36	—	36
Total store count at end of period	1,262	1,287	1,262	1,287
Other Operating Data:				
Average inventory per Michaels store (in thousands) ⁽¹⁾	\$ 944	\$ 921	\$ 944	\$ 921
Comparable store sales	0.3 %	(0.4)%	(1.4)%	— %
Comparable store sales, at constant currency	0.4 %	(0.5)%	(1.1)%	(0.3)%

⁽¹⁾ The calculation of average inventory per Michaels store excludes our Aaron Brothers and Pat Catan's stores.

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.

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales and occupancy expense	64.5	64.6	63.1	62.4
Gross profit	35.5	35.4	36.9	37.6
Selling, general and administrative	28.1	28.6	28.7	28.5
Restructure charges	0.4	(0.3)	0.3	2.0
Store pre-opening costs	0.2	0.1	0.1	0.1
Operating income	6.9	7.1	7.7	6.9
Interest expense	3.9	3.5	3.6	3.2
Losses on early extinguishments of debt and refinancing costs	0.1	0.2	0.1	0.1
Other (income) expense, net	—	(0.1)	0.1	(0.1)
Income before income taxes	2.9	3.4	3.9	3.7
Income taxes	0.6	0.8	1.0	1.3
Net income	2.4 %	2.6 %	2.9 %	2.5 %

13 Weeks Ended August 3, 2019 Compared to the 13 Weeks Ended August 4, 2018

Net Sales. Net sales decreased \$19.6 million in the second quarter of fiscal 2019, or 1.9%, to \$1,033.7 million compared to the second quarter of fiscal 2018. The decrease in net sales was primarily due to a \$22.9 million decrease related to the closure of our Pat Catan's stores during the fourth quarter of fiscal 2018 and a \$6.0 million decrease in wholesale revenue. The decrease was partially offset by \$7.0 million of net sales related to 11 additional Michaels stores opened (net of closures) since August 4, 2018 and a \$2.8 million increase in comparable store sales. Comparable store sales increased 0.3%, or 0.4% at constant exchange rates, compared to the second quarter of fiscal 2018 due to an increase in average ticket, partially offset by a decrease in customer transactions.

Gross Profit. Gross profit was 35.5% of net sales in the second quarter of fiscal 2019 compared to 35.4% in the second quarter of fiscal 2018. The 10 basis point increase was primarily due to benefits from our ongoing pricing and sourcing initiatives and improved occupancy cost leverage. The increase was offset by the impact of tariffs on inventory we purchase from China, an increase in promotional activity and a change in sales mix.

Selling, General and Administrative. Selling, general and administrative ("SG&A") was 28.1% of net sales in the second quarter of fiscal 2019 compared to 28.6% in the second quarter of fiscal 2018. SG&A decreased \$10.9 million to \$290.1 million in the second quarter of fiscal 2019. The decrease was primarily due to a \$6.4 million decrease related to the closure of our Pat Catan's stores during the fourth quarter of fiscal 2018, a \$2.4 million decrease in performance-based compensation and a \$1.5 million decrease in marketing expenses. The decrease was partially offset by \$1.8 million associated with operating 11 additional Michaels stores (net of closures) since August 4, 2018.

Restructure Charges. We recorded a restructure charge of \$3.9 million in the second quarter of fiscal 2019 related to the closure of all of our Pat Catan's stores during the fourth quarter of fiscal 2018. We recorded a gain to restructure charge of \$3.2 million in the second quarter of fiscal 2018 related primarily to the settlement of lease obligations associated with the closure of substantially all of our Aaron Brothers stores during the first quarter of fiscal 2018.

Interest Expense. Interest expense increased \$3.0 million to \$40.1 million in the second quarter of fiscal 2019 compared to the same period in the prior year. The increase was primarily due to \$2.6 million related to higher interest associated with our term loan credit facility and our senior notes issued in July 2019 and \$1.7 million of interest paid on our senior subordinated notes during the period between the issuance of our senior notes and the redemption of the senior

subordinated notes. The increase was partially offset by a \$1.1 million decrease in settlement payments associated with our interest rate swaps.

Losses on Early Extinguishments of Debt and Refinancing Costs. We recorded a loss on the early extinguishment of debt of \$1.2 million during the second quarter of fiscal 2019 related to the redemption of our senior subordinated notes. We recorded a loss on the early extinguishment of debt of \$1.8 million during the second quarter of fiscal 2018 related to the refinancing of our term loan credit facility.

Income Taxes. The effective tax rate was 18.9% for the second quarter of fiscal 2019 compared to 24.0% for the second quarter of fiscal 2018. The effective tax rate for the second quarter of fiscal 2019 was lower than the same period in the prior year due primarily to a tax benefit associated with a state income tax settlement, partially offset by the vesting of restricted shares and the expiration of certain vested stock options.

26 Weeks Ended August 3, 2019 Compared to the 26 Weeks Ended August 4, 2018

Net Sales. Net sales decreased \$81.4 million in the first six months of fiscal 2019, or 3.7%, to \$2,127.4 million compared to the first six months of fiscal 2018. The decrease in net sales was primarily due to a \$61.7 million decrease related to the closure of our Pat Catan's stores and substantially all of our Aaron Brothers stores during fiscal 2018, a \$28.5 million decrease in comparable store sales and an \$8.6 million decrease in wholesale revenue. The decrease was partially offset by \$18.2 million of net sales related to 11 additional Michaels stores opened (net of closures) since August 4, 2018. Comparable store sales decreased 1.4%, or 1.1% at constant exchange rates, compared to the first six months of fiscal 2018 due to a decrease in customer transactions, partially offset by an increase in average ticket.

Gross Profit. Gross profit was 36.9% of net sales in the first six months of fiscal 2019 compared to 37.6% in the first six months of fiscal 2018. The 70 basis point decrease was primarily due to the impact of tariffs on inventory we purchase from China, a change in sales mix, higher distribution related costs and occupancy cost deleverage. The decrease was partially offset by benefits from our ongoing pricing and sourcing initiatives.

Selling, General and Administrative. SG&A was 28.7% of net sales in the first six months of fiscal 2019 compared to 28.5% in the first six months of fiscal 2018. SG&A decreased \$18.9 million to \$610.7 million in the first six months of fiscal 2019. The decrease was primarily due to a \$17.4 million decrease related to the closure of our Pat Catan's and Aaron Brothers stores during fiscal 2018, a \$5.5 million decrease in payroll-related costs, a \$4.5 million decrease in performance-based compensation and a \$3.6 million decrease in marketing expenses. The decrease was partially offset by \$5.6 million of CEO severance expense and \$4.1 million associated with operating 11 additional Michaels stores (net of closures) since August 4, 2018.

Restructure Charges. We recorded a restructure charge of \$7.0 million in the first six months of fiscal 2019 related to the closure of all of our Pat Catan's stores during the fourth quarter of fiscal 2018. We recorded a restructure charge of \$44.3 million in the first six months of fiscal 2018 primarily related to the closure of substantially all of our Aaron Brothers stores during the first quarter of fiscal 2018.

Interest Expense. Interest expense increased \$5.8 million to \$77.5 million in the first six months of fiscal 2019 compared to the same period in the prior year. The increase was primarily due to \$5.2 million related to higher interest associated with our term loan credit facility and our senior notes issued in July 2019 and \$1.7 million of interest paid on our senior subordinated notes during the period between the issuance of our senior notes and the redemption of the senior subordinated notes. The increase was partially offset by a \$0.5 million decrease in settlement payments associated with our interest rate swaps.

Losses on Early Extinguishments of Debt and Refinancing Costs. We recorded a loss on the early extinguishment of debt of \$1.2 million during the first six months of fiscal 2019 related to the redemption of our senior subordinated notes. We recorded a loss on the early extinguishment of debt of \$1.8 million during the first six months of fiscal 2018 related to the refinancing of our term loan credit facility.

Other (Income) Expense, Net. Other (income) expense, net increased \$5.4 million in the first six months of fiscal 2019 compared to the same period in the prior year. The increase was primarily due to a \$5.0 million charge related to the write-off of an investment in a liquidated business.

Income Taxes. The effective tax rate was 24.6% for the first six months of fiscal 2019 compared to 33.9% for the first six months of fiscal 2018. The effective tax rate for the first six months of fiscal 2019 was lower than the same period in the prior year due primarily to an \$8.1 million charge in the first quarter of 2018 related to repatriation taxes for accumulated earnings of our foreign subsidiaries associated with the enactment of the Tax Cuts and Jobs Act of 2017 and a tax benefit in fiscal 2019 associated with a state income tax settlement. The decrease was partially offset by the vesting of restricted shares and the expiration of certain vested stock options.

Liquidity and Capital Resources

We require cash principally for day-to-day operations, to finance capital investments (including possible acquisitions), 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 senior secured asset-based revolving credit facility (“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. Our ability to satisfy our liquidity needs and continue to refinance or reduce debt could be adversely affected by the occurrence of any of the events described under “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 or our failure to meet our debt covenants. Our Amended Revolving Credit Facility provides senior secured financing of up to \$850 million, subject to a borrowing base. As of August 3, 2019, the borrowing base was \$789.3 million, of which we had \$103.2 million of outstanding standby letters of credit and \$686.1 million of unused borrowing capacity. On August 30, 2019, the Amended Revolving Credit Facility was amended to extend the maturity to August 2024. There were no other significant changes to the terms under the Amended Revolving Credit Facility. Our cash and cash equivalents totaled \$131.0 million at August 3, 2019.

We had total outstanding debt of \$2,695 million at August 3, 2019, of which \$2,195 million was subject to variable interest rates and \$500 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 and Restated Term Loan Credit Facility. The swaps replaced the one-month LIBOR with a fixed interest rate of 2.7765%.

On July 8, 2019, Michaels Stores, Inc. (“MSI”) issued \$500 million in principal amount of 8% senior notes maturing in 2027 (“2027 Senior Notes”). The 2027 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 “2027 Senior Notes Indenture”). The 2027 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 2027 Senior Notes, together with cash on hand, were used to redeem MSI’s outstanding senior subordinated notes.

The 2027 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 senior secured term loan facility (“Amended and Restated Term Loan Credit Facility”) (collectively defined as the “Senior Secured Credit Facilities”).

The 2027 Senior Notes are general, unsecured obligations of MSI, and the guarantees of the 2027 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 2027 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 2027 Senior Notes with the gross proceeds from one or more Equity Offerings, as defined in the 2027 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 2027 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 2027 Senior Notes at the redemption prices set forth below (expressed as percentages of the principal amount of the 2027 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:

<u>Year</u>	<u>Percentage</u>
2022	104 %
2023	102 %
2024 and thereafter	100 %

Upon a change in control, MSI is required to offer to purchase the 2027 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 2027 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 2027 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 2027 Senior Notes to become or to be declared due and payable. As of August 3, 2019, MSI was in compliance with all covenants.

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

In September 2018, the Board of Directors authorized a new 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 six months ended August 3, 2019, we repurchased 3.0 million shares for an aggregate amount of \$25.1 million. As of August 3, 2019, we had \$373.4 million of availability remaining under our current share repurchase program.

In light of the current trading price of our common stock and our available capital resources and requirements, we currently view additional share repurchases as an attractive use of cash. We intend to continue to monitor our repurchase program and execute share repurchases opportunistically, subject to the considerations referenced above. Any such repurchases would, without additional activity with respect to our stock, increase the ownership percentages of our remaining shareholders. These remaining shareholders include affiliates of, or funds advised by, Bain Capital Private Equity, L.P. and The Blackstone Group L.P. (collectively, the “Sponsors”), which currently hold, based on the closing price of our common stock at September 3, 2019, approximately 34% and 13%, respectively, and 47% in the aggregate, of our outstanding shares of common stock. As a result, future repurchases may result in the Sponsors holding, in the aggregate, more than 50% of our outstanding common stock.

We intend to use excess operating cash flows to invest in growth opportunities (including possible acquisitions), repurchase outstanding shares and repay portions of our indebtedness, depending on prevailing market conditions, liquidity requirements, 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 excess cash available for additional capital expenditures.

Cash Flow from Operating Activities

Cash flows used in operating activities were \$2.1 million in the first six months of fiscal 2019 compared to \$86.6 million in the first six months of fiscal 2018. The decrease in cash used in operating activities was primarily due to additional collections of outstanding receivables and lower tax payments, partially offset by the timing of vendor payments.

Inventory at the end of the second quarter of fiscal 2019 decreased \$23.6 million, or 1.8%, to \$1,256.5 million, compared to \$1,280.1 million at the end of the second quarter of fiscal 2018. The decrease in inventory was primarily related to the Pat Catan’s store closures in the fourth quarter of fiscal 2018. The decrease was partially offset by tariffs enacted on product that we purchase from China, the acceleration of inventory purchases to mitigate the exposure of potential future tariffs and additional inventory associated with the operation of 11 additional Michaels stores (net of closures) since August 4, 2018. Average inventory per Michaels store (inclusive of distribution centers, in-transit and inventory for the Company’s e-commerce site) increased 2.5% to \$944,000 at August 3, 2019 from \$921,000 at August 4, 2018.

Cash Flow from Investing Activities

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

	26 Weeks Ended	
	August 3, 2019	August 4, 2018
New and relocated stores including stores not yet opened ⁽¹⁾	\$ 7,424	\$ 17,756
Existing stores	16,233	16,383
Information systems	24,226	25,945
Corporate and other	9,650	9,824
	<u>\$ 57,533</u>	<u>\$ 69,908</u>

⁽¹⁾ In the first six months of fiscal 2019, we incurred capital expenditures related to the opening of 16 Michaels stores, including the relocation of eight stores. In the first six months of fiscal 2018, we incurred capital expenditures related to the opening of 31 Michaels stores, including the relocation of 16 stores.

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):

	13 Weeks Ended		26 Weeks Ended	
	August 3, 2019	August 4, 2018	August 3, 2019	August 4, 2018
Net cash used in operating activities	\$ (35,906)	\$ (119,065)	\$ (2,108)	\$ (86,562)
Amortization of operating lease assets	(81,490)	—	(162,861)	—
Depreciation and amortization	(31,241)	(29,596)	(62,730)	(59,054)
Share-based compensation	(4,755)	(5,365)	(12,006)	(12,334)
Debt issuance costs amortization	(1,302)	(1,248)	(2,539)	(2,522)
Loss on write-off of investment	—	—	(5,036)	—
Accretion of long-term debt, net	132	130	262	256
Restructure charges	(3,869)	3,220	(6,956)	(44,278)
Deferred income taxes	101	1,810	(39)	(770)
Losses on early extinguishments of debt and refinancing costs	(1,155)	(1,835)	(1,155)	(1,835)
Changes in assets and liabilities	184,032	179,437	317,406	261,472
Net income	24,547	27,488	62,238	54,373
Interest expense	40,134	37,101	77,493	71,695
Income taxes	5,716	8,681	20,291	27,838
Depreciation and amortization	31,241	29,596	62,730	59,054
Interest income	(904)	(842)	(1,715)	(2,248)
EBITDA	100,734	102,024	221,037	210,712
Adjustments:				
Losses on early extinguishments of debt and refinancing costs	1,155	1,835	1,155	1,835
Share-based compensation	4,755	5,365	12,006	12,334
Restructure charges	3,869	(3,220)	6,956	44,278
Severance costs	950	—	9,060	902
Store pre-opening costs	1,743	1,295	2,969	2,799
Store remodel costs	2	3,239	68	3,754
Foreign currency transaction losses (gains)	541	(231)	468	(801)
Store closing costs	(126)	2,587	(947)	3,649
Other ⁽¹⁾	1,736	555	2,700	1,281
Adjusted EBITDA	<u>\$ 115,359</u>	<u>\$ 113,449</u>	<u>\$ 255,472</u>	<u>\$ 280,743</u>

(1) Other adjustments primarily relate to items such as moving and relocation expenses, franchise taxes, sign-on bonuses and CEO search costs.

Disclosure Regarding Forward-Looking Information

The above discussion, as well as other portions of this Quarterly Report on Form 10-Q, contains forward-looking statements that reflect our plans, estimates and beliefs. Statements regarding sufficiency of capital resources and planned uses of excess cash flow as well as any other 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 Annual Report. Such forward-looking statements are based upon management’s current knowledge and assumptions about future events and involve risks and uncertainties that could cause actual results, performance or achievements to be materially different from anticipated results, prospects, performance or achievements expressed or implied by such forward-looking statements. Most of these factors are outside of our control and are difficult to predict. Such risks and uncertainties include, but are not limited to the following:

- risks related to the effect of economic uncertainty;
- risks related to our substantial indebtedness;
- restrictions in our debt agreements that limit our flexibility in operating our business;
- changes in customer demand could materially adversely affect our sales, results of operations and cash flow;
- competition, including internet-based competition, could negatively impact our business;
- a weak fourth quarter would materially adversely affect our results of operations;
- unexpected or unfavorable consumer responses to our promotional or merchandising programs could materially adversely affect our sales, results of operations, cash flow and financial condition;
- evolving foreign trade policy (including tariffs imposed on certain foreign-made goods) may adversely affect our business;
- our reliance on foreign suppliers increases our risk of obtaining adequate, timely and cost-effective product supplies;
- our results may be adversely affected by serious disruptions or catastrophic events, including geo-political events and weather;
- our failure to adequately maintain security and prevent unauthorized access to electronic and other confidential information, which could result in an additional data breach, could materially adversely affect our financial condition and operating results;
- 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;
- our failure to increase comparable store sales and open new stores could impair our ability to improve our sales, profitability and cash flows;
- damage to the reputation of the Michaels brand or our private and exclusive brands could adversely affect our sales;
- 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;

- changes in regulations or enforcement, or our failure to comply with existing or future regulations, may adversely impact our business;
- 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;
- improvements to our supply chain may not be fully successful;
- we are exposed to fluctuations in exchange rates between the U.S. and Canadian dollar, which is the functional currency of our Canadian subsidiaries;
- the Company's ability to execute its strategic initiatives could be impaired if it fails to identify a permanent Chief Executive Officer and retain its senior management team;
- any difficulty executing or integrating an acquisition, a business combination or a major business initiative could adversely affect our business or results of operations;
- 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;
- product recalls and/or product liability, as well as changes in product safety and other consumer protection laws, may adversely impact our operations, merchandise offerings, reputation, results of operation, cash flow, and financial condition;
- changes in estimates or projections used to assess fair value of intangible assets, goodwill and property and equipment may cause us to incur impairment charges that could adversely affect our results of operations;
- disruptions in the capital markets could increase our costs of doing business;
- our real estate leases generally obligate us for long periods, which subjects us to various financial risks;
- we have co-sourced certain of our information technology, accounts payable, payroll, accounting and human resources functions, and may co-source other administrative functions, which makes us more dependent upon third parties;
- failure to attract and retain quality sales, distribution center and other team members in appropriate numbers as well as experienced buying and management personnel could adversely affect our performance;
- affiliates of, or funds advised by, Bain Capital Private Equity, L.P. and The Blackstone Group L.P. own approximately 47% of the outstanding shares of our common stock and as a result will have the ability to strongly influence our decisions, and they may have interests that differ from those of other stockholders; and
- our holding company structure makes us, and certain of our direct and indirect subsidiaries, dependent on the operations of our, and their, subsidiaries to meet our financial obligations.

For more details on factors that may cause actual results to differ materially from such forward-looking statements see the Risk Factors section of our Annual Report. Except as required by applicable law, we disclaim any intention to, and undertake no obligation to, update or revise any forward-looking statement.

ITEM 3. 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 \$6 million for the 26 weeks ended August 3, 2019.

Interest Rate Risk

We have market risk exposure arising from changes in interest rates on our Amended and Restated Term Loan Credit Facility and our Amended Revolving Credit Facility. The interest rates on our Amended and Restated 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 and Restated Term Loan Credit Facility. As a result of these interest rate swaps, our exposure to interest rate volatility for \$1 billion of our Amended and Restated Term Loan Credit Facility was eliminated beginning in the second quarter of fiscal 2018. The interest rate on our 2027 Senior Notes is fixed. Based on our overall interest rate exposure to variable rate debt outstanding as of August 3, 2019, a 100 basis point change in interest rates would impact income before income taxes by approximately \$12 million for fiscal 2019. A 100 basis point change in interest rates would impact the fair value of our long-term fixed rate debt by approximately \$12 million. A change in interest rates would not materially affect the fair value of our variable rate debt as the debt reprices periodically.

Inflation Risk

We do not believe inflation and changing commodity prices have had a material impact on our net sales, income from continuing operations, plans for expansion or other capital expenditures for any period presented in this report. However, we cannot be sure inflation and changing commodity prices will not have an adverse impact on our operating results, financial condition, plans for expansion or other capital expenditures in future periods.

ITEM 4. CONTROLS AND PROCEDURES

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 Exchange Act) 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 Interim Chief Executive Officer and our Chief 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 Interim Chief Executive Officer and our Chief 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 Exchange Act, is accumulated and communicated to management, including our Interim Chief Executive Officer and our Chief 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.

Change in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended August 3, 2019 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II—OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

There were no material changes to the disclosure made in Note 14 to the consolidated financial statement in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors described in the Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides certain information with respect to our purchases of shares of the Company's common stock during the second quarter of fiscal 2019:

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)
May 5, 2019 - June 1, 2019	3,329	\$ 9.15	—	\$ 398,353
June 2, 2019 - July 6, 2019	304,900	7.97	300,000	395,970
July 7, 2019 - August 3, 2019	2,681,057	8.46	2,678,253	373,353
Total	2,989,286	\$ 8.41	2,978,253	\$ 373,353

(1) These amounts reflect the following transactions during the second quarter of fiscal 2019: (i) the repurchase of shares as part of our publicly announced share repurchase program and (ii) 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.

ITEM 6. EXHIBITS

(a) Exhibits:

Exhibit Number	Description of Exhibit
4.1	Indenture, dated July 8, 2019, 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).
10.1	Purchase Agreement, dated June 21, 2019, by and among Michaels Stores, Inc., as Issuer, Aaron Brothers, 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 BofA Securities, Inc., as representative of the initial purchasers (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on June 25, 2019, SEC File No. 001-36501).
10.2*	Form of Restricted Stock Award Agreement, dated August 5, 2019, between Michaels Stores, Inc. and Mark S. Cosby (filed herewith).
10.3*	Form of Restricted Stock Award Agreement, dated August 5, 2019, between Michaels Stores, Inc. and Philo T. Pappas (filed herewith).
31.1	Certifications of Mark S. Cosby pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certifications of Denise A. Paulonis pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted 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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*Management contract or compensatory plan or agreement.

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.

By: /s/ Mark S. Cosby
Mark S. Cosby
Interim Chief Executive Officer and Director
(Principal Executive Officer)

By: /s/ Denise A. Paulonis
Denise A. Paulonis
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: September 4, 2019

Name:	Mark Cosby
Number of Shares of Restricted Stock:	55,310
Date of Grant:	August 5, 2019

**THE MICHAELS COMPANIES, INC.
2014 OMNIBUS LONG-TERM INCENTIVE PLAN**

RESTRICTED STOCK AGREEMENT

This agreement (this "Agreement") evidences the grant of restricted shares of Stock by The Michaels Companies, Inc. (the "Company") to the individual named above (the "Grantee"), pursuant to and subject to the terms of The Michaels Companies, Inc. 2014 Omnibus Long-Term Incentive Plan (as amended from time to time, the "Plan"), which is incorporated herein by reference. Except as otherwise defined herein, each initially capitalized term used herein has the meaning assigned to such term in the Plan.

1. Grant of Restricted Stock. The Company hereby grants to the Grantee on the date of grant set forth above (the "Date of Grant") the number of shares of restricted Stock set forth above (the "Restricted Stock") on the terms provided herein and in the Plan.

2. Meaning of Certain Terms. Each initially capitalized term used but not separately defined herein has the meaning assigned to such term in the Plan. The following terms have the following meanings:

- (a) "Change of Control" means the occurrence of any of the following: (i) any consolidation or merger of the Company with or into any other corporation or other Person, or any other corporate reorganization or transaction (including the acquisition of capital stock of the Company), whether or not the Company is a party thereto, in which the stockholders of the Company immediately prior to such consolidation, merger, reorganization or transaction, own capital stock either (A) representing directly, or indirectly through one or more entities, less than fifty percent (50%) of the economic interests in or voting power of the Company or other surviving entity immediately after such consolidation, merger, reorganization or transaction or (B) that does not directly, or indirectly through one or more entities, have the power to elect a majority of the entire board of directors of the Company or other surviving entity immediately after such consolidation, merger, reorganization or transaction; (ii) any stock sale or other transaction or series of related transactions, whether or not the Company is a party thereto, after giving effect to which in excess of fifty percent (50%) of the Company's voting power is owned directly, or indirectly through one or more entities, by any Person and its "affiliates" or "associates" (as such terms are defined in the rules adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as in effect from time to time), other
-

than the Investors and their respective affiliated funds, excluding, in any case referred to in clause (i) or (ii) an initial public offering or any bona fide primary or secondary public offering following the occurrence of an initial public offering; or (iii) a sale, lease or other disposition of all or substantially all of the assets of the Company.

- (b) “Investors” means Bain Capital Partners, LLC and The Blackstone Group L.P.
- (c) “Person” means any individual, partnership, corporation, company, association, trust, joint venture, limited liability company, unincorporated organization, entity or division, or any government, governmental department or agency or political subdivision thereof.

3. Vesting. The term “vest” as used herein with respect to any share of Restricted Stock means the lapsing of the restrictions described herein with respect to such share. Unless earlier terminated, forfeited, relinquished or expired, the Restricted Stock shall vest as follows:

- (a) Twelve and a half percent (12.5%) of the Restricted Stock shall vest beginning on the last day of the fiscal quarter of the Company (each, a “Fiscal Quarter”) in which the grant is made and on each subsequent Fiscal Quarter-end of the Company, provided that, through each such vesting date, (i) the Grantee has remained in continuous Employment either (x) as interim Chief Executive Officer pursuant to the offer letter agreement between the Grantee, Michaels Stores, Inc. and the Company, made and entered into as of February 28, 2019 (the “Offer Letter”), or (y) through his service as a member of the Company’s board of directors (the “Board”) (each of clauses (x) and (y), “Qualifying Service”) and (ii) has not breached the covenants set forth in Section 11 herein.
- (b) In the event (i) the Grantee’s Employment as interim Chief Executive Officer pursuant to the Offer Letter is terminated by the Company without Cause prior to the appointment of a new Chief Executive Officer of the Company, (ii) the Grantee’s service on the Board is terminated without Cause, or (iii) the Grantee is not re-elected to the Board and circumstances constituting Cause do not exist (each of clauses (i), (ii), and (iii), a “Qualifying Termination”): (x) if such Qualifying Termination occurs before November 2, 2019, a pro-rata portion of the initial twelve and a half percent (12.5%) of the Restricted Stock eligible to vest (based on the number of days the Grantee has provided Qualifying Service in the current Fiscal Quarter), will vest in full on the date of the Grantee’s Qualifying Termination and the remainder of the Restricted Stock award granted to the Grantee hereunder will be forfeited on the date of the Grantee’s Qualifying Termination; and (y) if such Qualifying Termination occurs on or after November 2, 2019, any unvested shares of Restricted Stock that

are outstanding as of immediately prior to the Qualifying Termination will vest in full on the date of the Grantee's Qualifying Termination.

- (c) In the event the Grantee's Qualifying Service terminates for any reason other than a Qualifying Termination (a "Non-Qualifying Termination"): (x) if such Non-Qualifying Termination occurs before November 2, 2019, a pro-rata portion of the initial twelve and a half percent (12.5%) of the Restricted Stock (based on the number of days the Grantee has provided Qualifying Service in the current Fiscal Quarter), will remain outstanding and eligible to vest according to its original vesting schedule set forth in Section 3(a) and the remainder of the Restricted Stock will be forfeited on the date of Grantee's Non-Qualifying Termination; and (y) if such Qualifying Termination occurs on or after November 2, 2019, any unvested shares of Restricted Stock that are outstanding as of immediately prior to the Non-Qualifying Termination, will vest according to the original vesting schedule set forth in Section 3(a). Notwithstanding the foregoing, in the event the Grantee breaches any of the restrictive covenants set forth in Section 11 below, the Grantee will immediately forfeit the unvested portion of the Restricted Stock award that the Grantee then holds.
- (d) In the event (i) the Restricted Stock (or any portion thereof) is outstanding as of immediately prior to a Change of Control and the Administrator provides for the assumption or continuation of, or the substitution of a substantially equivalent award for, the Restricted Stock (or any portion thereof) in accordance with Section 7(a)(i) of the Plan (the "Rollover Award") and (ii) the Grantee's Employment is terminated by the Company (or its successor) without Cause within the twelve (12) months following the Change of Control, the Rollover Award to the extent still outstanding will vest in full on the date of the Grantee's termination of Employment.

4. Forfeiture Risk. If the Grantee's Qualifying Service ceases for any reason, including death, any then outstanding and unvested Restricted Stock acquired by the Grantee hereunder shall be treated as provided for in Sections 3(b), (c) or (d) above, as applicable. The Grantee hereby (a) appoints the Company as his or her attorney-in-fact to take such actions as may be necessary or appropriate to effectuate a transfer of the record ownership of any such shares that are unvested and forfeited hereunder, (b) agrees to deliver to the Company, as a precondition to the issuance of any certificate or certificates with respect to unvested Restricted Stock hereunder, one or more stock powers, endorsed in blank, with respect to such shares, and (c) agrees to sign such other powers and take such other actions as the Company may reasonably request to accomplish the transfer or forfeiture of any unvested Restricted Stock that is forfeited hereunder.

5. Retention of Certificates, etc. Any certificates representing unvested Restricted Stock shall be held by the Company. If unvested Restricted Stock is held in

book entry form, the Grantee agrees that the Company may give stop transfer instructions to the depository to ensure compliance with the provisions hereof.

6. Legend. All certificates representing unvested Restricted Stock shall contain a legend substantially in the following form:

THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE MICHAELS COMPANIES, INC. 2014 OMNIBUS LONG-TERM INCENTIVE PLAN, AS AMENDED, AND A RESTRICTED STOCK AWARD AGREEMENT ENTERED INTO BETWEEN THE REGISTERED OWNER AND THE MICHAELS COMPANIES, INC. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE IN THE OFFICES OF THE MICHAELS COMPANIES, INC.

As soon as practicable following the vesting of any such Restricted Stock, the Company shall cause a certificate or certificates covering such shares, without the aforesaid legend, to be issued and delivered to the Grantee. If any shares of Restricted Stock or Stock are held in book-entry form, the Company may take such steps as it deems necessary or appropriate to record and manifest the restrictions applicable to such shares.

7. Dividends, etc. The Grantee shall be entitled to (a) receive any and all dividends or other distributions paid with respect to those shares of Stock of which he or she is the record owner on the record date for such dividend or other distribution, and (b) vote any shares of Stock of which he or she is the record owner on the record date for such vote; provided, however, that any property (other than cash) distributed with respect to a share of Stock (the "associated share") acquired hereunder, including without limitation a distribution of Stock by reason of a stock dividend, stock split or otherwise, or a distribution of other securities with respect to an associated share, shall be subject to the restrictions of this Agreement in the same manner and for so long as the associated share remains subject to such restrictions, and shall be promptly forfeited if and when the associated share is so forfeited; and further provided, that the Administrator may require that any cash distribution with respect to the shares of Stock be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan. References in this Section 7 to Stock shall refer, *mutatis mutandis*, to any shares of Restricted Stock.

8. Sale of Vested Stock. The Grantee understands that he or she will be free to sell any share of Restricted Stock once it has vested, subject to (a) satisfaction of any applicable tax withholding requirements with respect to the vesting or transfer of such share, (b) the completion of any administrative steps (for example, but without limitation, the transfer of certificates) that the Company may reasonably impose, and (c) applicable requirements of federal and state securities laws. Shares of unvested Restricted Stock may not be sold, transferred, pledged, assigned or otherwise encumbered or disposed of except as the Administrator may provide.

9. Certain Tax Matters. The Grantee expressly acknowledges the following:
- (a) The Grantee has been advised to confer promptly with a professional tax advisor to consider whether he or she should make a so-called “83(b) election” with respect to the Restricted Stock. Any such election, to be effective, must be made in accordance with applicable regulations and within thirty (30) days following the Date of Grant. The Company has made no recommendation to the Grantee with respect to the advisability of making such an election.
 - (b) If the Grantee decides to make an “83(b) election,” the Grantee agrees to execute and deliver to the Company a copy of the Acknowledgement and Statement of Decision Regarding Election Pursuant to Section 83(b) of the Code, substantially in the form attached hereto as Exhibit A, together with a copy of the Election Pursuant to Section 83(b) of the Code (the “Election Form”), substantially in the form attached hereto as Exhibit B. The Election Form shall be filed by the Grantee with the appropriate Internal Revenue Service office no later than thirty (30) days after the Date of Grant. The Grantee should consult with his or her tax advisor to determine if there is a comparable election to file in the state of his or her residence and whether such a filing is desirable under the circumstances.
 - (c) The award or vesting of the Restricted Stock acquired hereunder, and the payment of dividends with respect to such shares, may give rise to “wages” subject to withholding. The Grantee expressly acknowledges and agrees that his or her rights hereunder are subject to the Grantee promptly paying to the Company in cash (or by such other means as may be acceptable to the Company in its discretion, including, if the Administrator so determines, by the delivery of previously acquired shares of Stock or shares of Stock acquired hereunder or by the withholding of amounts from any payment hereunder) all taxes required to be withheld in connection with such award, vesting or payment.

10. Forfeiture/Recovery of Compensation. By accepting the Restricted Stock the Grantee expressly acknowledges and agrees that his or her rights, and those of any permitted transferee, of the Restricted Stock or of any Stock received following the vesting of the Restricted Stock or proceeds from the disposition thereof, are subject to Section 6(a)(5) of the Plan (including any successor provision) and Section 11 of this Agreement. Nothing in the preceding sentence shall be construed as limiting the general application of Section 14 of this Agreement.

11. Non-Competition/Non-Solicitation. The Grantee hereby acknowledges that the Company and its Affiliates have invested and continue to invest considerable resources in developing Company Information (as defined below) and trade secrets, and in establishing and maintaining relationships with customers, employees, and vendors. The Grantee hereby further acknowledges that the award of the Restricted Stock is being furnished to the Grantee as good and valuable consideration, among other consideration,

in exchange for the below covenants, which are necessary to protect the Company Information, trade secrets, and goodwill of the Company and its Affiliates:

- (a) *Non-Competition.* The Grantee covenants and agrees that during the Grantee's Employment and for a period of the longer of (and such period shall be tolled on a day-to-day basis for each day during which the Grantee participates in any activity in violation of the restrictions set forth in this Section 11(a)) (i) the remaining vesting period with respect to any Company restricted stock awards held by Grantee or (ii) twelve (12) months following the Grantee's termination of Employment, whether such termination occurs at the insistence of the Company or its Affiliates or the Grantee (for whatever reason), the Grantee will not, directly or indirectly, alone or in association with others, anywhere in the Territory (as defined below), own, manage, operate, control or participate in the ownership, management, operation or control of, or be connected as an officer, employee, investor, principal, joint venturer, shareholder, partner, director, consultant, agent or otherwise with, or have any financial interest (through stock or other equity ownership, investment of capital, the lending of money or otherwise) in, any business, venture or activity that directly or indirectly competes, or is in planning, or has undertaken any preparation, to compete, with the Business of the Company or any of its Immediate Affiliates (any Person who engages in any such business venture or activity, a "Competitor"), except that nothing contained in this Section 11(a) shall prevent the Grantee's wholly passive ownership of two percent (2%) or less of the equity securities of any Competitor that is a publicly-traded company. For purposes of this Section 11(a), the "Business of the Company or any of its Immediate Affiliates" is that of arts and crafts specialty retailer providing materials, ideas and education for creative activities, as well as any other business that the Company or any of its Immediate Affiliates conducts or is actively planning to conduct at any time during the Grantee's Employment, or with respect to the Grantee's obligations following his or her termination of Employment, the twelve (12) months immediately preceding the Grantee's termination of Employment; provided, that the term "Competitor" shall not include any business, venture or activity whose gross receipts derived from the retail sale of arts and crafts products (aggregated with the gross receipts derived from the retail sale of arts and crafts projects of any related business, venture or activity) are less than ten percent (10%) of the aggregate gross receipts of such businesses, ventures or activities. For purposes of this Section 11(a), the "Territory" is comprised of those states within the United States, those provinces of Canada, and any other geographic area in which the Company or any of its Immediate Affiliates was doing business or actively planning to do business at any time during the Grantee's Employment, or with respect to the Grantee's obligations following his or her termination of Employment the twelve (12) months immediately preceding the Grantee's termination of Employment. For purposes of this Section, "Immediate Affiliates" means those Affiliates

which are one of the following: (i) a direct or indirect subsidiary of the Company, (ii) a parent to the Company or (iii) a direct or indirect subsidiary of such a parent.

- (b) *Non-Solicitation.* The Grantee covenants and agrees that during the Grantee's Employment and for a period of the longer of (and such period shall be tolled on a day-to-day basis for each day during which the Grantee participates in any activity in violation of the restrictions set forth in this Section 11(b)) (i) the remaining vesting period with respect to any Company restricted stock awards held by Grantee or (ii) twelve (12) months following the Grantee's termination of Employment, whether such termination occurs at the insistence of the Company or its Affiliates or the Grantee (for whatever reason), the Grantee shall not, and shall not assist any other Person to, (i) hire or solicit for hire any employee of the Company or any of its Immediate Affiliates or seek to persuade any employee of the Company or any of its Immediate Affiliates to discontinue employment or (ii) solicit or encourage any independent contractor providing services to the Company or any of its Immediate Affiliates to terminate or diminish its relationship with them; provided, however, that after termination of the Grantee's Employment these restrictions shall apply only with respect to employees of, and independent contractors providing services to, the Company or any of its Immediate Affiliates who were such on the date that the Grantee's Employment terminated or at any time during the nine (9) months immediately preceding such termination date.
- (c) *Goodwill and Company Information.* The Grantee acknowledges the importance to the Company and its Affiliates of protecting their legitimate business interests, including without limitation the valuable Company Information and goodwill that they have developed or acquired at considerable expense. The Grantee acknowledges and agrees that in the course of the Grantee's Employment the Grantee has acquired: (i) confidential information including without limitation information received by the Company (or any of its Affiliates) from third parties, under confidential conditions, (ii) other technical, product, business, financial or development information from the Company (or any of its Affiliates), the use or disclosure of which reasonably might be construed to be contrary to the interest of the Company (or any of its Affiliates), or (iii) any other proprietary information or data, including but not limited to identities, responsibilities, contact information, performance and/or compensation levels of employees, costs and methods of doing business, systems, processes, computer hardware and software, compilations of information, third-party IT service providers and other Company or its Affiliates' vendors, records, sales reports, sales procedures, financial information, customer requirements and confidential negotiated terms, pricing techniques, customer lists, price lists, information about past, present, pending and/or planned Company or its Affiliates' transactions not

publically disclosed and other confidential information which the Grantee may have acquired during the Grantee's Employment (hereafter collectively referred to as "Company Information") which are owned by the Company or its Affiliates and regularly used in the operation of its business, and as to which precautions are taken to prevent dissemination to persons other than certain directors, officers and employees and if disclosed, would assist in competition against the Company or any of its Affiliates. The Grantee understands and agrees that such Company Information was and will be disclosed to the Grantee in confidence and for use only in performing work for the Company or its Affiliates. The Grantee understands and agrees that the Grantee: (x) will keep such Company Information confidential at all times, (y) will not disclose or communicate Company Information to any third party, and (z) will not make use of Company Information on the Grantee's own behalf, or on behalf of any third party. In view of the nature of the Grantee's Employment and the nature of Company Information the Grantee receives during the course of the Grantee's Employment, the Grantee agrees that any unauthorized disclosure to third parties of Company Information would cause irreparable damage to the confidential or trade secret status of Company Information. The Grantee further acknowledges and agrees that the restrictions on his or her activities set forth above are necessary to protect the goodwill, Company Information and other legitimate interests of the Company and its Affiliates and that the Grantee's acceptance of these restrictions is a condition of receipt of the award of the Restricted Stock, to which the Grantee would not otherwise be entitled, and the award of the Restricted Stock is good and sufficient consideration to support the Grantee's agreement to and compliance with these covenants.

- (d) *Remedies.* In the event of a breach or threatened breach by the Grantee of any of the covenants contained in in Section 11(a), 11(b) or 11(c):
- (i) the Grantee hereby consents and agrees that (x) any unvested Shares and (y) all shares of Stock held by the Grantee following the vesting of the Restricted Stock shall be forfeited effective as of the date of such breach or threatened breach, unless sooner terminated by operation of another term or condition of this Agreement or the Plan;
 - (ii) the Grantee hereby consents and agrees that if the Grantee has sold any shares of Stock upon or following the vesting of the Restricted Stock within twelve (12) months prior to the date of such breach or threatened breach, the Grantee shall pay to the Company the gross proceeds realized by the Grantee in connection with such sale; and
 - (iii) the Grantee hereby consents and agrees that the Company shall be entitled to seek, in addition to other available remedies, a

temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

- (e) *General.* The Grantee agrees that the above restrictive covenants are completely severable and independent agreements supported by good and valuable consideration and, as such, shall survive the termination of this Agreement for whatever reason. The Company and the Grantee agree that any invalidity or unenforceability of any one or more of such restrictions on competition shall not render invalid or unenforceable any remaining restrictive covenants. Should a court of competent jurisdiction determine that the scope of any provision of this Section 11 is too broad to be enforced as written, the Company and the Grantee intend that the court reform the provision to such narrower scope as it determines to be reasonable and enforceable.

12. Form S-8 Prospectus. The Grantee acknowledges that he or she has received and reviewed a copy of the prospectus required by Part I of Form S-8 relating to shares of Stock that may be issued under the Plan.

13. Governing Law. Notwithstanding anything to the contrary in the Plan, Section 11 of this Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without giving effect to any choice or conflict of law provision or rule that would cause the application of the laws of any other jurisdiction, except where preempted by federal law. Both parties hereby consent and submit to the jurisdiction of the state and federal courts in Dallas County, Texas in all questions and controversies arising out of this Agreement.

14. Acknowledgments. By accepting the award of the Restricted Stock, the Grantee agrees to be bound by, and agrees that the award of the Restricted Stock is subject in all respects to, the terms of the Plan. The Grantee further acknowledges and agrees that (i) the signature to this Agreement on behalf of the Company is an electronic signature that will be treated as an original signature for all purposes hereunder, and (ii) such electronic signature will be binding against the Company and will create a legally binding agreement when this Agreement is countersigned by the Grantee.

[The remainder of this page is intentionally left blank]

Executed as of the ___ day of August, 2019.

Company:

THE MICHAELS COMPANIES, INC.

By: _____

Name: Navin Rao

Title: Vice President – Assistant General Counsel and
Secretary

Grantee:

Name: Mark Cosby

Address:

[Signature Page to Restricted Stock Agreement]

EXHIBIT A

ACKNOWLEDGMENT AND STATEMENT OF DECISION REGARDING ELECTION
PURSUANT TO SECTION 83(b) OF THE INTERNAL REVENUE CODE

The undersigned, a purchaser of restricted shares of common stock (the "Restricted Stock") of The Michaels Companies, Inc., a Delaware corporation (the "Company"), for cash pursuant to a Restricted Stock Agreement, dated as of August 5, 2019, between the undersigned and the Company (the "Restricted Stock Agreement"), hereby states, as of the date of purchase of the Restricted Stock, as follows:

1. The undersigned acknowledges receipt of a copy of the Restricted Stock Agreement. The undersigned has carefully reviewed the Restricted Stock Agreement.

2. The undersigned either [*check as applicable*]:

____ (a) has consulted, and has been fully advised by, the undersigned's own tax advisor, _____, whose business address is _____, regarding the federal, state and local tax consequences of purchasing the Restricted Stock under the Restricted Stock Agreement, and particularly regarding the advisability of making elections pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), and pursuant to the corresponding provisions, if any, of applicable state laws; or

____ (b) has knowingly chosen not to consult such tax advisor.

3. The undersigned hereby states that the undersigned has decided to make an election pursuant to Section 83(b) of the Code and is submitting to the Company together with the undersigned's executed Restricted Stock Agreement, a copy of an executed election form which is attached as Exhibit B to the Restricted Stock Agreement.

4. Neither the Company nor a representative of the Company has made any warranty or representation to the undersigned with respect to the tax consequences of his or her purchasing the Restricted Stock pursuant to the Restricted Stock Agreement or of the making or failure to make an election pursuant to Section 83(b) of the Code or corresponding provisions, if any, of applicable state law.

5. The undersigned is also submitting to the Company, together with the undersigned's executed Restricted Stock Agreement, a copy of an executed election form, if an election is made, by the undersigned pursuant to provisions of state law corresponding to Section 83(b) of the Code, if any, that apply to the purchase of the Restricted Stock by the undersigned.

Date: _____

Investor

EXHIBIT B
ELECTION PURSUANT TO SECTION 83(b) OF THE INTERNAL REVENUE CODE

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in gross income as compensation for services the excess (if any) of the fair market value of the property described below over the amount paid for such property.

1. The name, taxpayer identification number, address of the undersigned, and the taxable year for which this election is being made are:

Taxpayer's Name: _____
Taxpayer's Social Security Number: _____
Address: _____
Taxable Year: Calendar Year 2019

2. The property that is the subject of this election is _____ unvested shares of common stock (the "Unvested Award") of The Michaels Companies, Inc., a Delaware corporation (the "Company"), representing restricted shares of common stock of the Company ("Restricted Shares").

3. The Unvested Award was transferred to the undersigned on _____.

4. The Unvested Award is subject to the following restrictions: (a) restrictions on vesting based on continued service or compliance with restrictive covenants through the applicable vesting date, (b) immediate forfeiture upon a termination of employment with the Company or an affiliate for cause or a breach of a restrictive covenant, and (c) restrictions should the undersigned wish to transfer the Unvested Award (in whole or in part).

5. The fair market value of the Unvested Award at the time of transfer (determined without regard to any restrictions other than a nonlapse restriction as defined in Section 1.83-3(h) of the Income Tax Regulations) is \$_____.

6. For the Unvested Award transferred, the undersigned paid \$_____.

7. The amount to include in gross income is \$_____.

The undersigned taxpayer will file this election with the Internal Revenue Service office with which taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the property. A copy of the election also will be furnished to the person for whom the services were performed. The undersigned is the person performing the services in connection with which the property was transferred.

Date: _____

Taxpayer

Name:	Philo Pappas
Number of Shares of Restricted Stock:	20,280
Date of Grant:	August 5, 2019

**THE MICHAELS COMPANIES, INC.
2014 OMNIBUS LONG-TERM INCENTIVE PLAN**

RESTRICTED STOCK AGREEMENT

This agreement (this "Agreement") evidences the grant of restricted shares of Stock by The Michaels Companies, Inc. (the "Company") to the individual named above (the "Grantee"), pursuant to and subject to the terms of The Michaels Companies, Inc. 2014 Omnibus Long-Term Incentive Plan (as amended from time to time, the "Plan"), which is incorporated herein by reference. Except as otherwise defined herein, each initially capitalized term used herein has the meaning assigned to such term in the Plan.

1. Grant of Restricted Stock. The Company hereby grants to the Grantee on the date of grant set forth above (the "Date of Grant") the number of shares of restricted Stock set forth above (the "Restricted Stock") on the terms provided herein and in the Plan.

2. Meaning of Certain Terms. Each initially capitalized term used but not separately defined herein has the meaning assigned to such term in the Plan. The following terms have the following meanings:

- (a) "Change of Control" means the occurrence of any of the following: (i) any consolidation or merger of the Company with or into any other corporation or other Person, or any other corporate reorganization or transaction (including the acquisition of capital stock of the Company), whether or not the Company is a party thereto, in which the stockholders of the Company immediately prior to such consolidation, merger, reorganization or transaction, own capital stock either (A) representing directly, or indirectly through one or more entities, less than fifty percent (50%) of the economic interests in or voting power of the Company or other surviving entity immediately after such consolidation, merger, reorganization or transaction or (B) that does not directly, or indirectly through one or more entities, have the power to elect a majority of the entire board of directors of the Company or other surviving entity immediately after such consolidation, merger, reorganization or transaction; (ii) any stock sale or other transaction or series of related transactions, whether or not the Company is a party thereto, after giving effect to which in excess of fifty percent (50%) of the Company's voting power is owned directly, or indirectly through one or more entities, by any Person and its "affiliates" or "associates" (as such terms are defined in the rules adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as in effect from time to time), other
-

than the Investors and their respective affiliated funds, excluding, in any case referred to in clause (i) or (ii) an initial public offering or any bona fide primary or secondary public offering following the occurrence of an initial public offering; or (iii) a sale, lease or other disposition of all or substantially all of the assets of the Company.

- (b) “Investors” means Bain Capital Partners, LLC and The Blackstone Group L.P.
- (c) “Person” means any individual, partnership, corporation, company, association, trust, joint venture, limited liability company, unincorporated organization, entity or division, or any government, governmental department or agency or political subdivision thereof.

3. Vesting. The term “vest” as used herein with respect to any share of Restricted Stock means the lapsing of the restrictions described herein with respect to such share. Unless earlier terminated, forfeited, relinquished or expired, the Restricted Stock shall vest as follows:

- (a) One hundred percent (100%) of the Restricted Stock shall vest on the first anniversary of the Date of Grant, provided that, through such vesting date, the Grantee has (i) remained in continuous Employment as President – Merchandising and Supply Chain (such employment, “Qualifying Service”) and (ii) has not breached the covenants set forth in Section 11 herein.
- (b) In the event the Grantee’s Qualifying Service is terminated by the Company without Cause, a “Qualifying Termination”): (x) if such Qualifying Termination occurs before November 2, 2019, a pro-rata portion of the Restricted Stock eligible to vest (based on the number of days the Grantee has provided Qualifying Service in the current fiscal quarter of the Company (each, a “Fiscal Quarter”)), will vest in full on the date of the Grantee’s Qualifying Termination and the remainder of the Restricted Stock award granted to the Grantee hereunder will be forfeited on the date of the Grantee’s Qualifying Termination; and (y) if such Qualifying Termination occurs on or after November 2, 2019, any unvested shares of Restricted Stock that are outstanding as of immediately prior to the Qualifying Termination will vest in full on the date of the Grantee’s Qualifying Termination.
- (c) In the event the Grantee’s Qualifying Service terminates for any reason other than a Qualifying Termination (a “Non-Qualifying Termination”): (x) if such Non-Qualifying Termination occurs before November 2, 2019, a pro-rata portion of the Restricted Stock eligible to vest (based on the number of days the Grantee has provided Qualifying Service current Fiscal Quarter), will remain outstanding and eligible to vest according to its original vesting schedule set forth in Section 3(a) and the remainder of

the Restricted Stock will be forfeited on the date of Grantee's Non-Qualifying Termination; and (y) if such Qualifying Termination occurs on or after November 2, 2019, any unvested shares of Restricted Stock that are outstanding as of immediately prior to the Non-Qualifying Termination, will vest according to the original vesting schedule set forth in Section 3(a). Notwithstanding the foregoing, in the event the Grantee breaches any of the restrictive covenants set forth in Section 11 below, the Grantee will immediately forfeit the unvested portion of the Restricted Stock award that the Grantee then holds.

- (d) In the event (i) the Restricted Stock (or any portion thereof) is outstanding as of immediately prior to a Change of Control and the Administrator provides for the assumption or continuation of, or the substitution of a substantially equivalent award for, the Restricted Stock (or any portion thereof) in accordance with Section 7(a) (i) of the Plan (the "Rollover Award") and (ii) the Grantee's Employment is terminated by the Company (or its successor) without Cause within the twelve (12) months following the Change of Control, the Rollover Award to the extent still outstanding will vest in full on the date of the Grantee's termination of Employment.

4. Forfeiture Risk. If the Grantee's Qualifying Service ceases for any reason, including death, any then outstanding and unvested Restricted Stock acquired by the Grantee hereunder shall be treated as provided for in Sections 3(b), (c) or (d) above, as applicable. The Grantee hereby (a) appoints the Company as his or her attorney-in-fact to take such actions as may be necessary or appropriate to effectuate a transfer of the record ownership of any such shares that are unvested and forfeited hereunder, (b) agrees to deliver to the Company, as a precondition to the issuance of any certificate or certificates with respect to unvested Restricted Stock hereunder, one or more stock powers, endorsed in blank, with respect to such shares, and (c) agrees to sign such other powers and take such other actions as the Company may reasonably request to accomplish the transfer or forfeiture of any unvested Restricted Stock that is forfeited hereunder.

5. Retention of Certificates, etc. Any certificates representing unvested Restricted Stock shall be held by the Company. If unvested Restricted Stock is held in book entry form, the Grantee agrees that the Company may give stop transfer instructions to the depository to ensure compliance with the provisions hereof.

6. Legend. All certificates representing unvested Restricted Stock shall contain a legend substantially in the following form:

THE TRANSFERABILITY OF THIS CERTIFICATE AND THE SHARES OF STOCK REPRESENTED HEREBY ARE SUBJECT TO THE TERMS AND CONDITIONS (INCLUDING FORFEITURE) OF THE MICHAELS COMPANIES, INC. 2014 OMNIBUS LONG-TERM INCENTIVE PLAN, AS AMENDED, AND A RESTRICTED STOCK AWARD AGREEMENT ENTERED INTO BETWEEN THE

REGISTERED OWNER AND THE MICHAELS COMPANIES, INC. COPIES OF SUCH PLAN AND AGREEMENT ARE ON FILE IN THE OFFICES OF THE MICHAELS COMPANIES, INC.

As soon as practicable following the vesting of any such Restricted Stock, the Company shall cause a certificate or certificates covering such shares, without the aforesaid legend, to be issued and delivered to the Grantee. If any shares of Restricted Stock or Stock are held in book-entry form, the Company may take such steps as it deems necessary or appropriate to record and manifest the restrictions applicable to such shares.

7. Dividends, etc. The Grantee shall be entitled to (a) receive any and all dividends or other distributions paid with respect to those shares of Stock of which he or she is the record owner on the record date for such dividend or other distribution, and (b) vote any shares of Stock of which he or she is the record owner on the record date for such vote; provided, however, that any property (other than cash) distributed with respect to a share of Stock (the “associated share”) acquired hereunder, including without limitation a distribution of Stock by reason of a stock dividend, stock split or otherwise, or a distribution of other securities with respect to an associated share, shall be subject to the restrictions of this Agreement in the same manner and for so long as the associated share remains subject to such restrictions, and shall be promptly forfeited if and when the associated share is so forfeited; and further provided, that the Administrator may require that any cash distribution with respect to the shares of Stock be placed in escrow or otherwise made subject to such restrictions as the Administrator deems appropriate to carry out the intent of the Plan. References in this Section 7 to Stock shall refer, *mutatis mutandis*, to any shares of Restricted Stock.

8. Sale of Vested Stock. The Grantee understands that he or she will be free to sell any share of Restricted Stock once it has vested, subject to (a) satisfaction of any applicable tax withholding requirements with respect to the vesting or transfer of such share, (b) the completion of any administrative steps (for example, but without limitation, the transfer of certificates) that the Company may reasonably impose, and (c) applicable requirements of federal and state securities laws. Shares of unvested Restricted Stock may not be sold, transferred, pledged, assigned or otherwise encumbered or disposed of except as the Administrator may provide.

9. Certain Tax Matters. The Grantee expressly acknowledges the following:

- (a) The Grantee has been advised to confer promptly with a professional tax advisor to consider whether he or she should make a so-called “83(b) election” with respect to the Restricted Stock. Any such election, to be effective, must be made in accordance with applicable regulations and within thirty (30) days following the Date of Grant. The Company has made no recommendation to the Grantee with respect to the advisability of making such an election.
- (b) If the Grantee decides to make an “83(b) election,” the Grantee agrees to execute and deliver to the Company a copy of the Acknowledgement and

Statement of Decision Regarding Election Pursuant to Section 83(b) of the Code, substantially in the form attached hereto as Exhibit A, together with a copy of the Election Pursuant to Section 83(b) of the Code (the "Election Form"), substantially in the form attached hereto as Exhibit B. The Election Form shall be filed by the Grantee with the appropriate Internal Revenue Service office no later than thirty (30) days after the Date of Grant. The Grantee should consult with his or her tax advisor to determine if there is a comparable election to file in the state of his or her residence and whether such a filing is desirable under the circumstances.

- (c) The award or vesting of the Restricted Stock acquired hereunder, and the payment of dividends with respect to such shares, may give rise to "wages" subject to withholding. The Grantee expressly acknowledges and agrees that his or her rights hereunder are subject to the Grantee promptly paying to the Company in cash (or by such other means as may be acceptable to the Company in its discretion, including, if the Administrator so determines, by the delivery of previously acquired shares of Stock or shares of Stock acquired hereunder or by the withholding of amounts from any payment hereunder) all taxes required to be withheld in connection with such award, vesting or payment.

10. Forfeiture/Recovery of Compensation. By accepting the Restricted Stock the Grantee expressly acknowledges and agrees that his or her rights, and those of any permitted transferee, of the Restricted Stock or of any Stock received following the vesting of the Restricted Stock or proceeds from the disposition thereof, are subject to Section 6(a)(5) of the Plan (including any successor provision) and Section 11 of this Agreement. Nothing in the preceding sentence shall be construed as limiting the general application of Section 14 of this Agreement.

11. Non-Competition/Non-Solicitation. The Grantee hereby acknowledges that the Company and its Affiliates have invested and continue to invest considerable resources in developing Company Information (as defined below) and trade secrets, and in establishing and maintaining relationships with customers, employees, and vendors. The Grantee hereby further acknowledges that the award of the Restricted Stock is being furnished to the Grantee as good and valuable consideration, among other consideration, in exchange for the below covenants, which are necessary to protect the Company Information, trade secrets, and goodwill of the Company and its Affiliates:

- (a) *Non-Competition*. The Grantee covenants and agrees that during the Grantee's Employment and for a period of the longer of (and such period shall be tolled on a day-to-day basis for each day during which the Grantee participates in any activity in violation of the restrictions set forth in this Section 11(a)) (i) the remaining vesting period with respect to any Company restricted stock awards held by Grantee or (ii) twelve (12) months following the Grantee's termination of Employment, whether such termination occurs at the insistence of the Company or its Affiliates or the Grantee (for whatever reason), the Grantee will not, directly or indirectly,

alone or in association with others, anywhere in the Territory (as defined below), own, manage, operate, control or participate in the ownership, management, operation or control of, or be connected as an officer, employee, investor, principal, joint venturer, shareholder, partner, director, consultant, agent or otherwise with, or have any financial interest (through stock or other equity ownership, investment of capital, the lending of money or otherwise) in, any business, venture or activity that directly or indirectly competes, or is in planning, or has undertaken any preparation, to compete, with the Business of the Company or any of its Immediate Affiliates (any Person who engages in any such business venture or activity, a "Competitor"), except that nothing contained in this Section 11(a) shall prevent the Grantee's wholly passive ownership of two percent (2%) or less of the equity securities of any Competitor that is a publicly-traded company. For purposes of this Section 11(a), the "Business of the Company or any of its Immediate Affiliates" is that of arts and crafts specialty retailer providing materials, ideas and education for creative activities, as well as any other business that the Company or any of its Immediate Affiliates conducts or is actively planning to conduct at any time during the Grantee's Employment, or with respect to the Grantee's obligations following his or her termination of Employment, the twelve (12) months immediately preceding the Grantee's termination of Employment; provided, that the term "Competitor" shall not include any business, venture or activity whose gross receipts derived from the retail sale of arts and crafts products (aggregated with the gross receipts derived from the retail sale of arts and crafts projects of any related business, venture or activity) are less than ten percent (10%) of the aggregate gross receipts of such businesses, ventures or activities. For purposes of this Section 11(a), the "Territory" is comprised of those states within the United States, those provinces of Canada, and any other geographic area in which the Company or any of its Immediate Affiliates was doing business or actively planning to do business at any time during the Grantee's Employment, or with respect to the Grantee's obligations following his or her termination of Employment the twelve (12) months immediately preceding the Grantee's termination of Employment. For purposes of this Section, "Immediate Affiliates" means those Affiliates which are one of the following: (i) a direct or indirect subsidiary of the Company, (ii) a parent to the Company or (iii) a direct or indirect subsidiary of such a parent.

- (b) *Non-Solicitation.* The Grantee covenants and agrees that during the Grantee's Employment and for a period of the longer of (and such period shall be tolled on a day-to-day basis for each day during which the Grantee participates in any activity in violation of the restrictions set forth in this Section 11(b)) (i) the remaining vesting period with respect to any Company restricted stock awards held by Grantee or (ii) twelve (12) months following the Grantee's termination of Employment, whether such termination occurs at the insistence of the Company or its Affiliates or the

Grantee (for whatever reason), the Grantee shall not, and shall not assist any other Person to, (i) hire or solicit for hire any employee of the Company or any of its Immediate Affiliates or seek to persuade any employee of the Company or any of its Immediate Affiliates to discontinue employment or (ii) solicit or encourage any independent contractor providing services to the Company or any of its Immediate Affiliates to terminate or diminish its relationship with them; provided, however, that after termination of the Grantee's Employment these restrictions shall apply only with respect to employees of, and independent contractors providing services to, the Company or any of its Immediate Affiliates who were such on the date that the Grantee's Employment terminated or at any time during the nine (9) months immediately preceding such termination date.

- (c) *Goodwill and Company Information.* The Grantee acknowledges the importance to the Company and its Affiliates of protecting their legitimate business interests, including without limitation the valuable Company Information and goodwill that they have developed or acquired at considerable expense. The Grantee acknowledges and agrees that in the course of the Grantee's Employment the Grantee has acquired: (i) confidential information including without limitation information received by the Company (or any of its Affiliates) from third parties, under confidential conditions, (ii) other technical, product, business, financial or development information from the Company (or any of its Affiliates), the use or disclosure of which reasonably might be construed to be contrary to the interest of the Company (or any of its Affiliates), or (iii) any other proprietary information or data, including but not limited to identities, responsibilities, contact information, performance and/or compensation levels of employees, costs and methods of doing business, systems, processes, computer hardware and software, compilations of information, third-party IT service providers and other Company or its Affiliates' vendors, records, sales reports, sales procedures, financial information, customer requirements and confidential negotiated terms, pricing techniques, customer lists, price lists, information about past, present, pending and/or planned Company or its Affiliates' transactions not publically disclosed and other confidential information which the Grantee may have acquired during the Grantee's Employment (hereafter collectively referred to as "Company Information") which are owned by the Company or its Affiliates and regularly used in the operation of its business, and as to which precautions are taken to prevent dissemination to persons other than certain directors, officers and employees and if disclosed, would assist in competition against the Company or any of its Affiliates. The Grantee understands and agrees that such Company Information was and will be disclosed to the Grantee in confidence and for use only in performing work for the Company or its Affiliates. The Grantee understands and agrees that the Grantee: (x) will keep such Company Information confidential at all times, (y) will not disclose or

communicate Company Information to any third party, and (z) will not make use of Company Information on the Grantee's own behalf, or on behalf of any third party. In view of the nature of the Grantee's Employment and the nature of Company Information the Grantee receives during the course of the Grantee's Employment, the Grantee agrees that any unauthorized disclosure to third parties of Company Information would cause irreparable damage to the confidential or trade secret status of Company Information. The Grantee further acknowledges and agrees that the restrictions on his or her activities set forth above are necessary to protect the goodwill, Company Information and other legitimate interests of the Company and its Affiliates and that the Grantee's acceptance of these restrictions is a condition of receipt of the award of the Restricted Stock, to which the Grantee would not otherwise be entitled, and the award of the Restricted Stock is good and sufficient consideration to support the Grantee's agreement to and compliance with these covenants.

(d) *Remedies.* In the event of a breach or threatened breach by the Grantee of any of the covenants contained in in Section 11(a), 11(b) or 11(c):

(i) the Grantee hereby consents and agrees that (x) any unvested Shares and (y) all shares of Stock held by the Grantee following the vesting of the Restricted Stock shall be forfeited effective as of the date of such breach or threatened breach, unless sooner terminated by operation of another term or condition of this Agreement or the Plan;

(ii) the Grantee hereby consents and agrees that if the Grantee has sold any shares of Stock upon or following the vesting of the Restricted Stock within twelve (12) months prior to the date of such breach or threatened breach, the Grantee shall pay to the Company the gross proceeds realized by the Grantee in connection with such sale; and

(iii) the Grantee hereby consents and agrees that the Company shall be entitled to seek, in addition to other available remedies, a temporary or permanent injunction or other equitable relief against such breach or threatened breach from any court of competent jurisdiction, without the necessity of showing any actual damages or that money damages would not afford an adequate remedy, and without the necessity of posting any bond or other security. The aforementioned equitable relief shall be in addition to, not in lieu of, legal remedies, monetary damages or other available forms of relief.

(e) *General.* The Grantee agrees that the above restrictive covenants are completely severable and independent agreements supported by good and valuable consideration and, as such, shall survive the termination of this

Agreement for whatever reason. The Company and the Grantee agree that any invalidity or unenforceability of any one or more of such restrictions on competition shall not render invalid or unenforceable any remaining restrictive covenants. Should a court of competent jurisdiction determine that the scope of any provision of this Section 11 is too broad to be enforced as written, the Company and the Grantee intend that the court reform the provision to such narrower scope as it determines to be reasonable and enforceable.

12. Form S-8 Prospectus. The Grantee acknowledges that he or she has received and reviewed a copy of the prospectus required by Part I of Form S-8 relating to shares of Stock that may be issued under the Plan.

13. Governing Law. Notwithstanding anything to the contrary in the Plan, Section 11 of this Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without giving effect to any choice or conflict of law provision or rule that would cause the application of the laws of any other jurisdiction, except where preempted by federal law. Both parties hereby consent and submit to the jurisdiction of the state and federal courts in Dallas County, Texas in all questions and controversies arising out of this Agreement.

14. Acknowledgments. By accepting the award of the Restricted Stock, the Grantee agrees to be bound by, and agrees that the award of the Restricted Stock is subject in all respects to, the terms of the Plan. The Grantee further acknowledges and agrees that (i) the signature to this Agreement on behalf of the Company is an electronic signature that will be treated as an original signature for all purposes hereunder, and (ii) such electronic signature will be binding against the Company and will create a legally binding agreement when this Agreement is countersigned by the Grantee.

[The remainder of this page is intentionally left blank]

Executed as of the ___ day of August, 2019.

Company:

THE MICHAELS COMPANIES, INC.

By: _____

Name: Navin Rao

Title: Vice President – Assistant General Counsel and
Secretary

Grantee:

Name: Philo Pappas

Address:

[Signature Page to Restricted Stock Agreement]

EXHIBIT A

ACKNOWLEDGMENT AND STATEMENT OF DECISION REGARDING ELECTION
PURSUANT TO SECTION 83(b) OF THE INTERNAL REVENUE CODE

The undersigned, a purchaser of restricted shares of common stock (the "Restricted Stock") of The Michaels Companies, Inc., a Delaware corporation (the "Company"), for cash pursuant to a Restricted Stock Agreement, dated as of August 5, 2019, between the undersigned and the Company (the "Restricted Stock Agreement"), hereby states, as of the date of purchase of the Restricted Stock, as follows:

1. The undersigned acknowledges receipt of a copy of the Restricted Stock Agreement. The undersigned has carefully reviewed the Restricted Stock Agreement.

2. The undersigned either [*check as applicable*]:

_____ (a) has consulted, and has been fully advised by, the undersigned's own tax advisor, _____, whose business address is _____, regarding the federal, state and local tax consequences of purchasing the Restricted Stock under the Restricted Stock Agreement, and particularly regarding the advisability of making elections pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended (the "Code"), and pursuant to the corresponding provisions, if any, of applicable state laws; or

_____ (b) has knowingly chosen not to consult such tax advisor.

3. The undersigned hereby states that the undersigned has decided to make an election pursuant to Section 83(b) of the Code and is submitting to the Company together with the undersigned's executed Restricted Stock Agreement, a copy of an executed election form which is attached as Exhibit B to the Restricted Stock Agreement.

4. Neither the Company nor a representative of the Company has made any warranty or representation to the undersigned with respect to the tax consequences of his or her purchasing the Restricted Stock pursuant to the Restricted Stock Agreement or of the making or failure to make an election pursuant to Section 83(b) of the Code or corresponding provisions, if any, of applicable state law.

5. The undersigned is also submitting to the Company, together with the undersigned's executed Restricted Stock Agreement, a copy of an executed election form, if an election is made, by the undersigned pursuant to provisions of state law corresponding to Section 83(b) of the Code, if any, that apply to the purchase of the Restricted Stock by the undersigned.

Date: _____

Investor

EXHIBIT B
ELECTION PURSUANT TO SECTION 83(b) OF THE INTERNAL REVENUE CODE

The undersigned taxpayer hereby elects, pursuant to Section 83(b) of the Internal Revenue Code of 1986, as amended, to include in gross income as compensation for services the excess (if any) of the fair market value of the property described below over the amount paid for such property.

1. The name, taxpayer identification number, address of the undersigned, and the taxable year for which this election is being made are:

Taxpayer's Name: _____
Taxpayer's Social Security Number: _____
Address: _____
Taxable Year: Calendar Year 2019

2. The property that is the subject of this election is _____ unvested shares of common stock (the "Unvested Award") of The Michaels Companies, Inc., a Delaware corporation (the "Company"), representing restricted shares of common stock of the Company ("Restricted Shares").

3. The Unvested Award was transferred to the undersigned on _____.

4. The Unvested Award is subject to the following restrictions: (a) restrictions on vesting based on continued service or compliance with restrictive covenants through the applicable vesting date, (b) immediate forfeiture upon a termination of employment with the Company or an affiliate for cause or a breach of a restrictive covenant, and (c) restrictions should the undersigned wish to transfer the Unvested Award (in whole or in part).

5. The fair market value of the Unvested Award at the time of transfer (determined without regard to any restrictions other than a nonlapse restriction as defined in Section 1.83-3(h) of the Income Tax Regulations) is \$_____.

6. For the Unvested Award transferred, the undersigned paid \$_____.

7. The amount to include in gross income is \$_____.

The undersigned taxpayer will file this election with the Internal Revenue Service office with which taxpayer files his or her annual income tax return not later than 30 days after the date of transfer of the property. A copy of the election also will be furnished to the person for whom the services were performed. The undersigned is the person performing the services in connection with which the property was transferred.

Date: _____

Taxpayer

Exhibit 31.1

CERTIFICATIONS

I, Mark S. Cosby, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: September 4, 2019

/s/ Mark S. Cosby

Mark S. Cosby
Interim Chief Executive Officer and Director
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Denise A. Paulonis, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: September 4, 2019

/s/ Denise A. Paulonis

Denise A. Paulonis
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 Quarterly Report on Form 10-Q of The Michaels Companies, Inc., a Delaware corporation (the "Company"), for the period ended August 3, 2019, 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: September 4, 2019

/s/ Mark S. Cosby

Mark S. Cosby
Interim Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Denise A. Paulonis

Denise A. Paulonis
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.
