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 1, 2020

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 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 25, 2020, 147,437,563 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 (LOSS)
(in thousands, except per share data)
(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Net sales	$ 1,148,170	$ 1,033,689	$ 1,948,058	$ 2,127,408
Cost of sales and occupancy expense	805,658	666,703	1,383,724	1,342,783
Gross profit	342,512	366,986	564,334	784,625
Selling, general and administrative	289,053	290,074	570,394	610,670
Restructure charges	—	3,869	—	6,956
Store pre-opening costs	186	1,743	1,345	2,969
Operating income (loss)	53,273	71,300	(7,405)	164,030
Interest expense	36,740	40,134	74,863	77,493
Losses on early extinguishments of debt and refinancing costs	—	1,155	—	1,155
Other expense (income), net	1,365	(252)	(1,558)	2,853
Income (loss) before income taxes	15,168	30,263	(80,710)	82,529
Income taxes	22,925	5,716	(9,448)	20,291
Net (loss) income	$ (7,757)	$ 24,547	$ (71,262)	$ 62,238
Other comprehensive income (loss), net of tax:				
Foreign currency and cash flow hedges	8,960	(4,762)	(5,376)	(9,588)
Comprehensive income (loss)	$ 1,203	$ 19,785	$ (76,638)	$ 52,650
(Loss) earnings per common share:				
Basic	$ (0.05)	$ 0.16	$ (0.48)	$ 0.39
Diluted	$ (0.05)	$ 0.16	$ (0.48)	$ 0.39
Weighted-average common shares outstanding:				
Basic	147,296	157,272	147,080	157,511
Diluted	147,296	157,273	147,080	157,535

See accompanying notes to consolidated financial statements.

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

ASSETS	August 1, 2020	February 1, 2020	August 3, 2019
Current Assets:			
Cash and equivalents	$ 651,118	$ 409,964	$ 130,981
Merchandise inventories	1,021,691	1,097,109	1,256,465
Prepaid expenses and other	60,721	62,287	69,672
Accounts receivable, net	31,043	30,442	23,941
Total current assets	1,764,573	1,599,802	1,481,059
Property and equipment, at cost	1,738,883	1,706,520	1,703,912
Less accumulated depreciation and amortization	(1,326,620)	(1,276,088)	(1,266,421)
Property and equipment, net	412,263	430,432	437,491
Operating lease assets	1,552,626	1,610,013	1,611,029
Goodwill	94,290	94,290	112,069
Other intangible assets, net	59,839	66,417	14,082
Deferred income taxes	22,435	18,201	28,142
Other assets	17,322	18,940	23,277
Total assets	$ 3,923,348	$ 3,838,095	$ 3,707,149
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current Liabilities:			
Accounts payable	$ 627,619	$ 476,298	$ 533,473
Accrued liabilities and other	368,075	347,136	321,847
Current portion of operating lease liabilities	329,465	306,796	298,993
Current portion of long-term debt	24,900	24,900	24,900
Income taxes payable	29,141	41,236	11,974
Total current liabilities	1,379,200	1,196,366	1,191,187
Long-term debt	2,633,643	2,644,460	2,655,391
Long-term operating lease liabilities	1,317,378	1,357,821	1,377,039
Other liabilities	103,010	85,912	71,102
Total liabilities	5,433,231	5,284,559	5,294,719
Commitments and contingencies			
Stockholders' Deficit:			
Common stock, $0.06775 par value, 350,000 shares authorized; 147,437 shares issued and outstanding at August 1, 2020; 146,803 shares issued and outstanding at February 1, 2020; and 155,199 shares issued and outstanding at August 3, 2019	9,897	9,852	10,419
Additional paid-in-capital	18,046	4,872	—
Accumulated deficit	(1,509,619)	(1,438,357)	(1,573,843)
Accumulated other comprehensive loss	(28,207)	(22,831)	(24,146)
Total stockholders' deficit	(1,509,883)	(1,446,464)	(1,587,570)
Total liabilities and stockholders' deficit	$ 3,923,348	$ 3,838,095	$ 3,707,149

See accompanying notes to consolidated financial statements.

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

	26 Weeks Ended	
	August 1, 2020	**August 3, 2019**
Cash flows from operating activities:		
Net (loss) income	$ (71,262)	$ 62,238
Adjustments to reconcile net (loss) income to cash provided by (used in) operating activities:		
Non-cash operating lease expense	161,542	162,861
Depreciation and amortization	64,090	62,730
Share-based compensation	13,188	12,006
Debt issuance costs amortization	1,882	2,539
Loss on write-off of investment	—	5,036
Accretion of long-term debt, net	131	(262)
Restructure charges	—	6,956
Impairment of intangible assets	3,500	—
Deferred income taxes	(2,979)	39
Gain on sale of building	(101)	—
Losses on early extinguishments of debt and refinancing costs	—	1,155
Changes in assets and liabilities:		
Merchandise inventories	76,027	(148,311)
Prepaid expenses and other	1,566	(10,782)
Accounts receivable	8,384	37,674
Other assets	1,232	(9,391)
Operating lease liabilities	(121,203)	(140,287)
Accounts payable	150,391	44,537
Accrued interest	7,367	(1,045)
Accrued liabilities and other	12,406	(54,843)
Income taxes	(19,953)	(34,327)
Other liabilities	13,541	(631)
Net cash provided by (used in) operating activities	299,749	(2,108)
Cash flows from investing activities:		
Additions to property and equipment	(46,449)	(57,533)
Proceeds from sale of building	875	—
Net cash used in investing activities	(45,574)	(57,533)
Cash flows from financing activities:		
Common stock repurchased	(571)	(27,289)
Payments on term loan credit facility	(12,450)	(12,450)
Payment of 2020 senior subordinated notes	—	(510,000)
Issuance of 2027 senior notes	—	500,000
Borrowings on asset-based revolving credit facility	600,000	—
Payments on asset-based revolving credit facility	(600,000)	—
Payment of debt refinancing costs	—	(6,032)
Proceeds from stock options exercised	—	506
Net cash used in financing activities	(13,021)	(55,265)
Net change in cash and equivalents	241,154	(114,906)
Cash and equivalents at beginning of period	409,964	245,887
Cash and equivalents at end of period	$ 651,118	$ 130,981
Supplemental cash flow information:		
Cash paid for interest	$ 66,196	$ 76,991
Cash paid for taxes	$ 13,612	$ 54,676

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 2, 2020	147,343	$ 9,890	$ 13,716	$ (1,501,862)	$ (37,167)	$ (1,515,423)
Net loss	—	—	—	(7,757)	—	(7,757)
Foreign currency and cash flow hedges	—	—	—	—	8,960	8,960
Share-based compensation	—	—	4,507	—	—	4,507
Exercise of stock options and other awards	151	10	(10)	—	—	—
Repurchase of stock and retirements	(57)	(3)	(167)	—	—	(170)
Balance at August 1, 2020	147,437	$ 9,897	$ 18,046	$ (1,509,619)	$ (28,207)	$ (1,509,883)
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 cash flow hedges	—	—	—	—	(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)	(17,052)	(7,896)	—	(25,151)
Issuance of restricted stock awards	45	—	—	—	—	—
Balance at August 3, 2019	155,199	$ 10,419	$ —	$ (1,573,843)	$ (24,146)	$ (1,587,570)

	26 Weeks Ended					
	Number of Common Shares	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
Balance at February 1, 2020	146,803	$ 9,852	$ 4,872	$ (1,438,357)	$ (22,831)	$ (1,446,464)
Net loss	—	—	—	(71,262)	—	(71,262)
Foreign currency and cash flow hedges	—	—	—	—	(5,376)	(5,376)
Share-based compensation	—	—	13,790	—	—	13,790
Exercise of stock options and other awards	916	62	(62)	—	—	—
Repurchase of stock and retirements	(310)	(17)	(554)	—	—	(571)
Issuance of restricted stock awards	28	—	—	—	—	—
Balance at August 1, 2020	147,437	$ 9,897	$ 18,046	$ (1,509,619)	$ (28,207)	$ (1,509,883)
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 cash flow hedges	—	—	—	—	(9,588)	(9,588)
Share-based compensation	—	—	12,758	—	—	12,758
Exercise of stock options and other awards	594	40	466	—	—	506
Repurchase of stock and retirements	(3,240)	(215)	(19,178)	(7,896)	—	(27,289)
Issuance of restricted stock awards	71	—	—	—	—	—
Balance at August 3, 2019	155,199	$ 10,419	$ —	$ (1,573,843)	$ (24,146)	$ (1,587,570)

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 1, 2020 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 2020" relate to the 52 weeks ending January 30, 2021 and references to "fiscal 2019" relate to the 52 weeks ended February 1, 2020. In addition, all references to "the second quarter of fiscal 2020" relate to the 13 weeks ended August 1, 2020 and all references to "the second quarter of fiscal 2019" relate to the 13 weeks ended August 3, 2019. Finally, all references to "the six months ended August 1, 2020" relate to the 26 weeks ended August 1, 2020 and all references to "the six months ended August 3, 2019" relate to the 26 weeks ended August 3, 2019. The results of operations for the 13 and 26 weeks ended August 1, 2020 are not indicative of the results to be expected for the entire year due to the seasonal nature of our business and the financial impact of the COVID-19 pandemic.

COVID-19 Pandemic

In March 2020, the World Health Organization declared the current COVID-19 outbreak to be a global pandemic. In response to the pandemic, many state and local jurisdictions ordered non-essential businesses closed and executed extensive stay-at-home orders. These orders resulted in the temporary closure of over 900 of our 1,275 stores which had a material adverse impact on our results of operations during the first quarter of fiscal 2020. During the second quarter of fiscal 2020, we reopened all of our stores and experienced a significant improvement in our business as net sales increased 11.1% compared to the same period in the prior year. Our liquidity position, which includes cash on hand and amounts available under our senior secured asset-based revolving credit facility ("Amended Revolving Credit Facility"), increased from $1.1 billion as of May 2, 2020 to $1.3 billion as of August 1, 2020. In addition, there were no amounts outstanding under our Amended Revolving Credit Facility as of the end of the second quarter of fiscal 2020. However, there remains significant uncertainty surrounding the future impact of the COVID-19 pandemic on our results of operations, and future waves of the pandemic could require us to close stores again if certain restrictions are reinstated by state and local authorities. We intend to continue to manage our liquidity position closely and invest in our omnichannel capabilities to meet the growing customer demand for a seamless omnichannel experience.

Share Repurchase Program

In September 2018, the Board of Directors authorized a 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 1, 2020, we did not repurchase any shares under our share repurchase program. As of August 1, 2020, we had $293.5 million of availability remaining under our current share repurchase program.

Darice Liquidation and Restructure Charges

In May 2020, the Company adopted a plan to close the Darice wholesale operations ("Darice"). As a result of the closure, we recorded a charge totaling $52.5 million in the second quarter of fiscal 2020, consisting primarily of a $45.5 million charge in gross profit related to the liquidation of inventory and $7.0 million included in selling, general and administrative associated with the write-off of indefinite-lived intangible assets and employee-related expenses. We expect the closure process to be substantially completed by November 30, 2020 and the fiscal 2020 pre-tax cost to be approximately $58 million to $62 million. In the first six months of fiscal 2020 and fiscal 2019, Darice's net sales totaled $26.4 million and $40.1 million, respectively. Excluding the charges, Darice did not have a material impact on the Company's operating income in the periods presented.

In the fourth quarter of fiscal 2018, we closed all of our Pat Catan's stores. As a result of the closures, we recorded a charge totaling $7.0 million in the first six months of fiscal 2019, primarily related to employee-related expenses and the impairment of an indefinite-lived intangible asset.

Accounting Pronouncements Recently Adopted

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

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

Recent Accounting Pronouncement Not Yet Adopted

In March 2020, the FASB issued ASU 2020-04, "*Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*" ("ASU 2020-04"). ASU 2020-04 provides optional expedients and exceptions to contract modifications and hedging relationships that reference LIBOR or another reference rate expected to be discontinued. The standard is effective upon issuance and generally can be applied to applicable contract modifications through December 31, 2022. We do not anticipate a material impact to the consolidated financial statements once implemented.

2. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting Standards Codification 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 property and equipment are calculated using significant unobservable inputs including the present value of future cash flows expected to be generated using a risk-adjusted weighted-average cost of capital and comparable store sales growth assumptions, and therefore, are classified as a Level 3 measurement in the fair value hierarchy. Impairment losses related to store-level operating lease assets are calculated using rent per square foot derived from observable market data, and therefore, are classified as a Level 2 measurement in the fair value hierarchy.

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

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

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

The 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") and our cash flow hedges.

	August 1, 2020	February 1, 2020	August 3, 2019
		(in thousands)	
Liabilities			
Term loan credit facility	$ 2,072,446	$ 2,119,802	$ 2,125,045
Senior notes	473,140	449,675	481,525
Short-term portion of cash flow hedges	15,440	13,007	9,679
Long-term portion of cash flow hedges	5,948	3,555	8,902

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

The fair value of our cash flow hedges were 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 portions of our cash flow hedges are recorded in accrued liabilities and other liabilities, respectively, 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 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.

Customer Receivables

As of August 1, 2020, February 1, 2020 and August 3, 2019, receivables from customers, which consist primarily of trade receivables related to Darice, were approximately $4.4 million, $13.3 million and $15.4 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 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Balance at beginning of period	$ 59,658	$ 55,708	$ 64,130	$ 61,071
Issuance of gift cards	11,405	13,140	18,310	24,465
Revenue recognized (1)	(11,619)	(13,668)	(22,218)	(29,415)
Gift card breakage	679	584	(99)	(357)
Balance at end of period	$ 60,123	$ 55,764	$ 60,123	$ 55,764

(1) Revenue recognized from the beginning liability during the second quarters of fiscal 2020 and fiscal 2019 totaled $6.4 million and $7.5 million, respectively. Revenue recognized from the beginning liability during the first six months of fiscal 2020 and fiscal 2019 totaled $12.4 million and $15.8 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 leaserenewal option periods in the calculation of our operating lease assets and liabilities when it is reasonably certain that we will renew the lease.

Our operating lease assets represent our right to use an underlying asset for the lease term and our operating lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The commencement date is the earlier of the date when we become legally obligated for the rent payments or the date when we take possession of the building for construction purposes. In addition, operating lease assets are net of lease incentives received. As our leases do not contain an implicit rate of return, we use our estimated incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. For operating leases that commenced prior to the adoption date of the new lease accounting standard, we used the incremental borrowing rate as of the adoption date. Lease expense for lease payments is recognized on a straight-line basis over the lease term. In fiscal 2020, we began negotiating certain rent concessions with our landlords, which consists primarily of rent abatements, to mitigate the economic effects of the COVID-19 pandemic. As of August 1, 2020, we received approximately $ 12 million in rent abatements that are included in our straight-line rent calculation.

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

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

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Operating lease cost [1]	$ 107,197	$ 104,600	$ 213,628	$ 210,065
Variable lease cost [2]	38,127	36,077	77,571	72,517
Total lease cost	$ 145,324	$ 140,677	$ 291,199	$ 282,582

(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 1, 2020	August 3, 2019
Operating cash outflows included in the measurement of lease liabilities	$ 174,760	$ 214,439
Operating lease assets obtained in exchange for new operating lease liabilities	$ 115,060	$ 133,137
Weighted-average remaining lease term	5.9 years	6.2 years
Weighted-average discount rate	6.7%	5.6%

Maturities of our lease liabilities are as follows as of August 1, 2020 (in thousands):

Fiscal Year	
2020	$ 214,922
2021	412,898
2022	357,340
2023	294,707
2024	231,024
Thereafter	501,488
Total lease payments	$ 2,012,379
Less: Interest	(365,536)
Present value of lease liabilities	$ 1,646,843

Lease payments exclude $57.4 million related to 17 leases that have been signed as of August 1, 2020 but have not yet commenced.

5. DEBT

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

	Interest Rate	August 1, 2020	February 1, 2020	August 3, 2019
Term loan credit facility	Variable	$ 2,170,100	$ 2,182,550	$ 2,195,000
Senior notes	8.00 %	500,000	500,000	500,000
Total debt		2,670,100	2,682,550	2,695,000
Less unamortized discount and debt costs		(11,557)	(13,190)	(14,709)
Total debt, net		2,658,543	2,669,360	2,680,291
Less current portion		(24,900)	(24,900)	(24,900)
Long-term debt		$ 2,633,643	$ 2,644,460	$ 2,655,391

Revolving Credit Facility

As of August 1, 2020 and August 3, 2019, the borrowing base under our Amended Revolving Credit Facility was $689.9 million and $789.3 million, respectively, of which Michaels Stores, Inc. ("MSI") had unused borrowing capacity of $601.7 million and $686.1 million, respectively. As of August 1, 2020 and August 3, 2019, outstanding standby letters of credit, which reduce our borrowing base, totaled $88.2 million and $103.2 million, respectively. As a result of the COVID-19 pandemic, we borrowed $600.0 million under our Amended Revolving Credit Facility in the first quarter of fiscal 2020 to improve our cash position and preserve financial flexibility. In the second quarter of fiscal 2020, all amounts outstanding under the credit facility were repaid with available cash on hand.

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 2020 and fiscal 2019 were $4.5 million and $0.9 million, respectively. Amounts reclassified from accumulated other comprehensive income to interest expense during the six months ended August 1, 2020 and August 3, 2019 were $8.0 million and $1.6 million, respectively.

Interest Rate Caps

In April 2020, we executed two interest rate cap agreements with an aggregate notional value of $2 billion associated with our outstanding Amended and Restated Term Loan Credit Facility. The interest rate caps have an effective date of September 30, 2020 and April 30, 2021, respectively. The interest rate caps have a maturity date of April 30, 2025 and were executed for risk management and are not held for trading purposes. The interest rate caps will effectively cap our LIBOR exposure on a portion of our Amended and Restated Term Loan Credit Facility at 1%. The interest rate caps qualify as cash flow hedges and changes in the fair values are recorded in accumulated other comprehensive income in the consolidated balance sheet. The changes in fair value are reclassified from accumulated other comprehensive income to interest expense in the same period that the hedged items affect earnings. There were no amounts reclassified from accumulated comprehensive income to interest expense during the periods presented.

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 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Beginning of period	$ (37,167)	$ (19,384)	$ (22,831)	$ (14,558)
Foreign currency translation	7,540	2,259	(1,804)	(549)
Cash flow hedges	1,420	(7,021)	(3,572)	(9,039)
End of period	$ (28,207)	$ (24,146)	$ (28,207)	$ (24,146)

7. INCOME TAXES

Income tax expense increased $17.2 million for the second quarter of fiscal 2020 to $22.9 million compared to the same period in the prior year. The increase was due primarily to the cumulative impact of a change in estimated net operating losses and the related carryback provisions associated with the Coronavirus Aid, Relief, and Economic Security

Act in the second quarter of fiscal 2020 and a tax benefit associated with a state income tax settlement in the second quarter of fiscal 2019. Income taxes decreased $29.7 million for the first six months of fiscal 2020 to a $9.4 million benefit compared to the first six months of fiscal 2019. The decrease was primarily due to operating losses incurred during the first half of fiscal 2020, partially offset by the tax benefit associated with a state income tax settlement in fiscal 2019.

8. EARNINGS (LOSS) 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 (loss) per share is computed by dividing net income (loss) 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. During the second quarter of fiscal 2020 and the first six months of fiscal 2020, we incurred a net loss and therefore all common stock equivalents were anti-dilutive and excluded from the diluted net loss per share calculation. As a result, the basic and dilutive losses per common share are the same for the second quarter of fiscal 2020 and first six months of fiscal 2020. There were 13.1 million and 11.3 million anti-dilutive shares during the second quarters of fiscal 2020 and fiscal 2019, respectively. There were 12.9 million and 11.6 million anti-dilutive shares during the six months ended August 1, 2020 and August 3, 2019, respectively.

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

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2020	**August 3, 2019**	**August 1, 2020**	**August 3, 2019**
Basic (loss) earnings per common share:				
Net (loss) income	$ (7,757)	$ 24,547	$ (71,262)	$ 62,238
Less income related to unvested restricted shares	—	(29)	—	(68)
(Loss) income available to common shareholders - Basic	$ (7,757)	$ 24,518	$ (71,262)	$ 62,170
Weighted-average common shares outstanding - Basic	147,296	157,272	147,080	157,511
Basic (loss) earnings per common share	$ (0.05)	$ 0.16	$ (0.48)	$ 0.39
Diluted (loss) earnings per common share:				
Net (loss) income	$ (7,757)	$ 24,547	$ (71,262)	$ 62,238
Less income related to unvested restricted shares	—	(29)	—	(68)
(Loss) income available to common shareholders - Diluted	$ (7,757)	$ 24,518	$ (71,262)	$ 62,170
Weighted-average common shares outstanding - Basic	147,296	157,272	147,080	157,511
Effect of dilutive stock options and restricted stock units	—	1	—	24
Weighted-average common shares outstanding - Diluted	147,296	157,273	147,080	157,535
Diluted (loss) earnings per common share	$ (0.05)	$ 0.16	$ (0.48)	$ 0.39

9. SEGMENTS AND GEOGRAPHIC INFORMATION

We consider Michaels-U.S., Michaels-Canada, and Darice to be our operating segments for purposes of determining reportable segments based on the criteria of ASC 280, *Segment Reporting* ("ASC 280"). We determined that Michaels-U.S. and Michaels-Canada 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 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
United States	$ 1,037,294	$ 939,036	$ 1,762,233	$ 1,933,136
Canada	110,876	94,653	185,825	194,272
Total	$ 1,148,170	$ 1,033,689	$ 1,948,058	$ 2,127,408

10. RELATED PARTY TRANSACTIONS

Affiliates of, or funds advised by, The Blackstone Group, Inc. owned approximately 14% of our outstanding common stock as of August 1, 2020. Affiliates of The Blackstone Group, Inc. also held $4.9 million of our Amended and Restated Term Loan Credit Facility as of August 1, 2020.

The Blackstone Group, Inc. 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, all of which are vendors we utilize to lease certain properties. Payments associated with these vendors during the second quarters of fiscal 2020 and fiscal 2019 were $2.5 million and $2.3 million, respectively. Payments made during the six months ended August 1, 2020 and August 3, 2019 were $4.5 million and $5.0 million, respectively. These expenses are included in cost of sales and occupancy expense in the consolidated statements of comprehensive income.

The Blackstone Group, Inc. has significant influence over 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 2020 and fiscal 2019 were $0.4 million and $0.8 million, respectively. Payments made during the six months ended August 1, 2020 and August 3, 2019 were $0.9 million and $1.5 million, respectively. These expenses are included in selling, general and administrative in the consolidated statements of comprehensive income.

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 1, 2020	February 1, 2020	August 3, 2019
Current assets:			
Cash and equivalents	$ 650,324	$ 409,173	$ 130,194
Merchandise inventories	1,021,691	1,097,109	1,256,465
Prepaid expenses and other current assets	91,706	92,601	93,549
Total current assets	1,763,721	1,598,883	1,480,208
Property and equipment, net	412,263	430,432	437,491
Operating lease assets	1,552,626	1,610,013	1,611,029
Goodwill	94,290	94,290	112,069
Other intangible assets, net	59,839	66,417	14,082
Other assets	39,768	37,146	51,427
Total assets	$ 3,922,507	$ 3,837,181	$ 3,706,306
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Current liabilities:			
Accounts payable	$ 627,619	$ 476,298	$ 533,473
Accrued liabilities and other	367,681	346,657	321,473
Current portion of operating lease liabilities	329,465	306,796	298,993
Current portion of long-term debt	24,900	24,900	24,900
Income taxes payable	29,141	41,236	11,974
Total current liabilities	1,378,806	1,195,887	1,190,813
Long-term debt	2,633,643	2,644,460	2,655,391
Long-term operating lease liabilities	1,317,378	1,357,821	1,377,039
Other liabilities	157,729	141,582	127,800
Total stockholders' deficit	(1,565,049)	(1,502,569)	(1,644,737)
Total liabilities and stockholders' deficit	$ 3,922,507	$ 3,837,181	$ 3,706,306

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

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Net sales	$ 1,148,170	$ 1,033,689	$ 1,948,058	$ 2,127,408
Cost of sales and occupancy expense	805,658	666,703	1,383,724	1,342,783
Gross profit	342,512	366,986	564,334	784,625
Selling, general and administrative	288,803	289,827	569,908	610,214
Restructure charges	—	3,869	—	6,956
Store pre-opening costs	186	1,743	1,345	2,969
Operating income (loss)	53,523	71,547	(6,919)	164,486
Interest and other expense, net	38,106	39,886	73,307	80,355
Losses on early extinguishment of debt and refinancing costs	—	1,155	—	1,155
Income (loss) before income taxes	15,417	30,506	(80,226)	82,976
Income taxes	22,985	5,774	(9,332)	20,398
Net (loss) income	$ (7,568)	$ 24,732	$ (70,894)	$ 62,578
Other comprehensive income (loss), net of tax:				
Foreign currency and cash flow hedges	8,960	(4,762)	(5,376)	(9,588)
Comprehensive income (loss)	$ 1,392	$ 19,970	$ (76,270)	$ 52,990

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

	26 Weeks Ended	
	August 1, 2020	August 3, 2019
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	$ 299,175	$ (3,839)
Cash flows from investing activities:		
Additions to property and equipment	(46,449)	(57,533)
Proceeds from sale of building	875	—
Net cash used in investing activities	(45,574)	(57,533)
Cash flows from financing activities:		
Net repayments of debt	(612,450)	(522,450)
Net borrowings of debt	600,000	500,000
Payment of debt refinancing costs	—	(6,032)
Payment of dividend to Michaels Funding, Inc.	—	(25,060)
Net cash used in financing activities	(12,450)	(53,542)
Net change in cash and equivalents	241,151	(114,914)
Cash and equivalents at beginning of period	409,173	245,108
Cash and equivalents at end of period	$ 650,324	$ 130,194

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 1, 2020 ("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 17, 2020.

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 2020" relate to the 52 weeks ending January 30, 2021 and references to "fiscal 2019" relate to the 52 weeks ended February 1, 2020. In addition, all references to "the second quarter of fiscal 2020" relate to the 13 weeks ended August 1, 2020 and all references to "the second quarter of fiscal 2019" relate to the 13 weeks ended August 3, 2019. Finally, all references to "the six months ended August 1, 2020" relate to the 26 weeks ended August 1, 2020 and all references to "the six months ended August 3, 2019" relate to the 26 weeks ended August 3, 2019. The results of operations for the 13 and 26 weeks ended August 1, 2020 are not indicative of the results to be expected for the entire year due to the seasonal nature of our business and the financial impact of the COVID-19 pandemic.

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 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 1, 2020, we operated 1,275 Michaels stores.

In March 2020, the World Health Organization declared the current COVID-19 outbreak to be a global pandemic. In response to the pandemic, many state and local jurisdictions ordered non-essential businesses closed and executed extensive stay-at-home orders. These orders resulted in the temporary closure of over 900 of our 1,275 stores which had a material adverse impact on our results of operations during the first quarter of fiscal 2020. During the second quarter of fiscal 2020, we reopened all of our stores and experienced a significant improvement in our business as net sales increased 11.1% compared to the same period in the prior year. Our liquidity position, which includes cash on hand and amounts available under our senior secured asset-based revolving credit facility ("Amended Revolving Credit Facility"), increased from $1.1 billion as of May 2, 2020 to $1.3 billion as of August 1, 2020. In addition, there were no amounts outstanding under our Amended Revolving Credit Facility as of the end of the second quarter of fiscal 2020. However, there remains significant uncertainty surrounding the future impact of the COVID-19 pandemic on our results of operations, and future waves of the pandemic could require us to close stores again if certain restrictions are reinstated by state and local authorities. We intend to continue to manage our liquidity position closely and invest in our omnichannel capabilities to meet the growing customer demand for a seamless omnichannel experience.

In May 2020, we adopted a plan to close our Darice wholesale operations ("Darice"). As a result of the closure, we recorded a charge totaling $52.5 million, consisting primarily of a $45.5 million charge in gross profit related to the liquidation of inventory and $7.0 million included in selling, general and administrative associated with the write-off of indefinite-lived intangible assets and employee-related expenses. We expect the closure process to be substantially completed by November 30, 2020 and the fiscal 2020 pre-tax cost to be approximately $58 million to $62 million. In the first six months of fiscal 2020 and fiscal 2019, Darice's net sales totaled $26.4 million and $40.1 million, respectively. Excluding the charges, Darice did not have a material impact on the Company's operating income in the periods presented.

Net sales for the second quarter of fiscal 2020 increased 11.1% compared to the same period in the prior year. The increase in net sales was primarily due to a 12.0% increase in comparable store sales as a result of an increase in average ticket. Gross profit as a percent of net sales decreased during the second quarter of fiscal 2020 primarily due to the $45.5 million charge related to the closure of Darice, an increase in lower margin e-commerce sales, a change in sales mix and the impact of tariffs on inventory we purchase from China. The decrease was partially offset by occupancy cost leverage as a result of higher sales and benefits from our ongoing pricing and sourcing initiatives. Operating income decreased to $53.3 million in the second quarter of fiscal 2020 compared to $71.3 million in the same period in the prior year, primarily due to the charges related to the closure of Darice, partially offset by the increase in net sales.

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

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.

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

Operating Information

The following tables set forth certain operating data:

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2020	**August 3, 2019**	**August 1, 2020**	**August 3, 2019**
Stores open at beginning of period	1,271	1,260	1,274	1,258
New stores	4	4	5	8
Relocated stores opened	—	1	6	8
Closed stores	—	(2)	(4)	(4)
Relocated stores closed	—	(1)	(6)	(8)
Stores open at end of period	1,275	1,262	1,275	1,262
Average inventory per store (in thousands)	$ 797	$ 944	$ 797	$ 944
Comparable store sales	12.0 %	0.3 %	(8.4)%	(1.4)%
Comparable store sales, at constant currency	12.3 %	0.4 %	(8.1)%	(1.1)%

Results of Operations

The following table sets forth the percentage relationship to net sales of line items in our consolidated statements of comprehensive income (loss). 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 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales and occupancy expense	70.2	64.5	71.0	63.1
Gross profit	29.8	35.5	29.0	36.9
Selling, general and administrative	25.2	28.1	29.3	28.7
Restructure charges	—	0.4	—	0.3
Store pre-opening costs	—	0.2	0.1	0.1
Operating income (loss)	4.6	6.9	(0.4)	7.7
Interest expense	3.2	3.9	3.8	3.6
Losses on early extinguishments of debt and refinancing costs	—	0.1	—	0.1
Other expense (income), net	0.1	—	(0.1)	0.1
Income (loss) before income taxes	1.3	2.9	(4.1)	3.9
Income taxes	2.0	0.6	(0.5)	1.0
Net (loss) income	(0.7)%	2.4 %	(3.7)%	2.9 %

13 Weeks Ended August 1, 2020 Compared to the 13 Weeks Ended August 3, 2019

Net Sales. Net sales increased $114.5 million in the second quarter of fiscal 2020, or 11.1%, to $1,148.2 million compared to the second quarter of fiscal 2019. The increase in net sales was primarily due to a $121.5 million increase in comparable store sales and a $7.5 million increase related to 13 additional stores opened (net of closures) since August 3, 2019. The increase was partially offset by a $9.2 million decrease in wholesale revenue as a result of our decision to close Darice. E-commerce sales, which are included in comparable store sales, increased $142.8 million in the second quarter of fiscal 2020, or 353.1%, to $183.2 million compared to the same period in the prior year. Comparable store sales increased 12.0%, or 12.3% at constant exchange rates, due to an increase in average ticket, partially offset by a decrease in customer transactions.

Gross Profit. Gross profit was 29.8% of net sales in the second quarter of fiscal 2020 compared to 35.5% in the second quarter of fiscal 2019. The decrease was primarily due to the $45.5 million charge related to the closure of Darice, an increase in lower margin e-commerce sales, a change in sales mix and the impact of tariffs on inventory we purchase from China. Gross profit also includes $1.8 million of incremental COVID-19 related costs, including hazard pay for our distribution center team members and certain supply costs. The decrease was partially offset by occupancy cost leverage as a result of higher sales and benefits from our ongoing sourcing initiatives.

Selling, General and Administrative. Selling, general and administrative ("SG&A") was 25.2% of net sales in the second quarter of fiscal 2020 compared to 28.1% in the second quarter of fiscal 2019. SG&A decreased $1.0 million to $289.1 million in the second quarter of fiscal 2020 compared to the same period in the prior year. The decrease was primarily due to an $18.9 million decrease in payroll-related costs as a result of furloughed team members and $3.0 million of wage subsidies resulting from COVID-19 relief legislation. The decrease was partially offset by $7.2 million of incremental COVID-19 related costs, including hazard pay for store team members and sanitation supplies, a $7.0 million charge related to the closure of Darice, $4.9 million in performance-based compensation and $1.0 million associated with operating 13 additional stores (net of closures) since August 3, 2019.

Restructure Charges. In the fourth quarter of fiscal 2018, we closed all of our Pat Catan's stores. As a result of the closures, we recorded a charge totaling $3.9 million in the second quarter of fiscal 2019, primarily related to employee-related expenses and the impairment of an indefinite-lived intangible asset.

Interest Expense. Interest expense decreased $3.4 million to $36.7 million in the second quarter of fiscal 2020 compared to the same period in the prior year. The decrease was partially due to a $7.9 million decrease as a result of a lower interest rate on our senior secured term loan credit facility ("Amended and Restated Term Loan Credit Facility"), partially offset by $3.6 million related to settlement payments associated with our cash flow hedges and $1.6 million related to increased borrowing on our Amended Revolving Credit Facility.

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.

Income Taxes. Income tax expense increased $17.2 million for the second quarter of fiscal 2020 to $22.9 million compared to the same period in the prior year. The increase was due primarily to the cumulative impact of a change in estimated net operating losses and the related carryback provisions associated with the Coronavirus Aid, Relief, and Economic Security Act in the second quarter of fiscal 2020 and a tax benefit associated with a state income tax settlement in the second quarter of fiscal 2019.

26 Weeks Ended August 1, 2020 Compared to the 26 Weeks Ended August 3, 2019

Net Sales. Net sales decreased $179.4 million in the first six months of fiscal 2020, or 8.4%, to $1,948.1 million compared to the first six months of fiscal 2019. The decrease in net sales was primarily due to a $174.5 million decrease in comparable store sales and a $12.7 million decrease in wholesale revenue as a result of our decision to close Darice. The decrease was partially offset by a $10.6 million increase related to 13 additional stores opened (net of closures) since August 3, 2019. E-commerce sales, which are included in comparable store sales, increased $261.6 million in the first six months of fiscal 2020, or 324.4%, to $342.2 million compared to the same period in the prior year. Comparable store sales decreased 8.4%, or 8.1% at constant exchange rates, due to a decrease in customer transactions as a result of the temporary store closures due to the COVID-19 pandemic, partially offset by an increase in average ticket.

Gross Profit. Gross profit was 29.0% of net sales in the first six months of fiscal 2020 compared to 36.9% in the first six months of fiscal 2019. The decrease was primarily due to the $45.5 million charge related to the closure of Darice, the deleveraging of occupancy costs as a result of the temporary store closures due to the COVID-19 pandemic, an increase in lower margin e-commerce sales, a change in sales mix and the impact of tariffs on inventory we purchase from China. Gross profit also includes $3.6 million of incremental COVID-19 related costs, including hazard pay for our distribution center team members and certain supply costs. The decrease was partially offset by benefits from our ongoing sourcing initiatives.

Selling, General and Administrative. SG&A was 29.3% of net sales in the first six months of fiscal 2020 compared to 28.7% in the first six months of fiscal 2019. SG&A decreased $40.3 million to $570.4 million in the first six months of fiscal 2020. The decrease was primarily due to a $40.2 million decrease in payroll-related costs as a result of furloughed team members, an $11.8 million decrease in marketing costs, $8.0 million of wage subsidies resulting from COVID-19 relief legislation and $5.6 million of CEO severance costs incurred in the first six months of the prior year. The decrease was partially offset by $14.9 million of incremental COVID-19 related costs, including hazard pay for store team members and sanitation supplies, $8.1 million in performance-based compensation, a $7.0 million charge related to the closure of Darice in the second quarter of fiscal 2020 and $2.8 million associated with operating 13 additional stores (net of closures) since August 3, 2019.

Restructure Charges. In the fourth quarter of fiscal 2018, we closed all of our Pat Catan's stores. As a result of the closures, we recorded a charge totaling $7.0 million in the first six months of fiscal 2019, primarily related to employee-related expenses and the impairment of an indefinite-lived intangible asset.

Interest Expense. Interest expense decreased $2.6 million to $74.9 million in the first six months of fiscal 2020 compared to the same period in the prior year. The decrease was primarily due to a $14.3 million decrease as a result of a lower interest rate on our Amended and Restated Term Loan Credit Facility, partially offset by $6.4 million related to settlement payments associated with our cash flow hedges, $3.0 million related to increased borrowing on our Amended

Revolving Credit Facility and $2.5 million related to a higher interest rate associated with our senior notes issued in July 2019 ("2027 Senior Notes").

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.

Income Taxes. Income taxes decreased $29.7 million for the first six months of fiscal 2020 to a $9.4 million benefit compared to the same period in the prior year. The decrease was primarily due to operating losses incurred during the first half of fiscal 2020, partially offset by a tax benefit associated with a state income tax settlement in fiscal 2019.

Liquidity and Capital Resources

We require cash principally for day-to-day operations, to finance capital investments, purchase inventory, service our outstanding debt and for seasonal working capital needs. We expect that our available cash, cash flow generated from operating activities and funds available under our Amended Revolving Credit Facility will be sufficient to fund planned capital expenditures, working capital requirements, debt repayments, debt service requirements and anticipated growth for the foreseeable future. We may also opportunistically pursue acquisitions and other inorganic growth opportunities, and our future capital investments may include expenditures for these transactions. Our ability to satisfy our liquidity needs and continue to refinance or reduce debt could be adversely affected by the occurrence of any of the events described under "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended February 1, 2020 and in this Quarterly Report on Form 10-Q or our failure to meet our debt covenants. Our cash and cash equivalents totaled $651.1 million at August 1, 2020.

In March 2020, the World Health Organization declared the current COVID-19 outbreak to be a global pandemic. In response to the pandemic, many state and local jurisdictions ordered non-essential businesses closed and executed extensive stay-at-home orders. These orders resulted in the temporary closure of over 900 of our 1,275 stores which had a material adverse impact on our results of operations during the first quarter of fiscal 2020. During the second quarter of fiscal 2020, we reopened all of our stores and experienced a significant improvement in our business as net sales increased 11.1% compared to the same period in the prior year. Our liquidity position, which includes cash on hand and amounts available under our senior secured asset-based revolving credit facility ("Amended Revolving Credit Facility"), increased from $1.1 billion as of May 2, 2020 to $1.3 billion as of August 1, 2020. In addition, there were no amounts outstanding under our Amended Revolving Credit Facility as of the end of the second quarter of fiscal 2020. However, there remains significant uncertainty surrounding the future impact of the COVID-19 pandemic on our results of operations, and future waves of the pandemic could require us to close stores again if certain restrictions are reinstated by state and local authorities. We intend to continue to manage our liquidity position closely and invest in our omnichannel capabilities to meet the growing customer demand for a seamless omnichannel experience.

Our Amended Revolving Credit Facility provides senior secured financing of up to $850 million, subject to a borrowing base. As of August 1, 2020, the borrowing base was $689.9 million, of which we had $88.2 million of outstanding standby letters of credit and $601.7 million of unused borrowing capacity. As a result of the COVID-19 pandemic, we borrowed $600.0 million under our Amended Revolving Credit Facility in the first quarter of fiscal 2020 to improve our cash position and preserve financial flexibility. In the second quarter of fiscal 2020, all amounts outstanding under the credit facility were repaid with available cash on hand. As of August 1, 2020, we are in compliance with all debt covenants.

In May 2020, the Company adopted a plan to close Darice. As a result of the closure, we recorded a charge totaling $52.5 million in the second quarter of fiscal 2020, consisting primarily of a $45.5 million charge in gross profit related to the liquidation of inventory and $7.0 million included in selling, general and administrative associated with the write-off of indefinite-lived intangible assets and employee-related expenses. We expect the closure process to be substantially completed by November 30, 2020 and the fiscal 2020 pre-tax cost to be approximately $58 million to $62 million. In the first six months of fiscal 2020 and fiscal 2019, Darice's net sales totaled $26.4 million and $40.1 million, respectively. Excluding the charges, Darice did not have a material impact on the Company's operating income in the periods presented.

We had total outstanding debt of $2,670.1 million at August 1, 2020, of which $2,170.1 million was subject to variable interest rates and $500.0 million was subject to fixed interest rates. In April 2018, we executed two interest rate swaps with an aggregate notional value of $1 billion associated with our outstanding Amended and Restated Term Loan Credit Facility. The swaps replaced the one-month LIBOR with a fixed interest rate of 2.7765%.

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

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 1, 2020, we did not repurchase any shares under our share repurchase program. As of August 1, 2020, we had $293.5 million of availability remaining under our current share repurchase program.

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

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

Cash Flow from Operating Activities

Cash flows provided by operating activities were $299.7 million in the first six months of fiscal 2020 compared to cash flows used in operating activities of $2.1 million in the first six months of fiscal 2019. The increase in cash flows from operating activities was primarily due to the timing of inventory receipts following higher than expected sales in the second quarter of fiscal 2020, renegotiating payment terms with our vendors and landlords and the timing of federal tax payments. The increase was partially offset by operating losses incurred in the first six months of fiscal 2020 as a result of the temporary store closures due to the COVID-19 pandemic.

Inventory at the end of the second quarter of fiscal 2020 decreased $234.8 million, or 18.7%, to $1,021.7 million, compared to $1,256.5 million at the end of the second quarter of fiscal 2019. The decrease in inventory was primarily due to the timing of inventory receipts following higher than expected sales in the second quarter of fiscal 2020 and the closure of Darice. The decrease was partially offset by additional inventory associated with the operation of 13 additional stores (net of closures) since August 3, 2019. Average inventory per store (inclusive of distribution centers, in-transit and inventory for the Company's e-commerce site) decreased 15.6% to $797,000 at August 1, 2020 from $944,000 at August 3, 2019.

Cash Flow from Investing Activities

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

	26 Weeks Ended	
	August 1, 2020	August 3, 2019
New and relocated stores including stores not yet opened [1]	$ 6,883	$ 7,424
Existing stores	10,964	16,233
Information systems	21,916	24,226
Corporate and other	6,686	9,650
	$ 46,449	$ 57,533

(1) In the first six months of fiscal 2020, we incurred capital expenditures related to the opening of 11 stores, including the relocation of six stores. In the first six months of fiscal 2019, we incurred capital expenditures related to the opening of 16 stores, including the relocation of eight 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 Amended Revolving Credit Facility and our Amended and Restated Term Loan Credit Facility (collectively defined as the "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 used in the required calculations of fixed charge coverage and leverage ratios under the Company's Senior Secured Credit Facilities, 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 (loss) income and net cash provided by (used in) operating activities (in thousands):

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2020	August 3, 2019	August 1, 2020	August 3, 2019
Net cash provided by (used in) operating activities	$ 355,276	$ (35,906)	$ 299,749	$ (2,108)
Non-cash operating lease expense	(80,371)	(81,490)	(161,542)	(162,861)
Depreciation and amortization	(31,247)	(31,241)	(64,090)	(62,730)
Share-based compensation	(4,653)	(4,755)	(13,188)	(12,006)
Debt issuance costs amortization	(942)	(1,302)	(1,882)	(2,539)
Loss on write-off of investment	—	—	—	(5,036)
Accretion of long-term debt, net	(65)	132	(131)	262
Restructure charges	—	(3,869)	—	(6,956)
Impairment of intangible assets	(3,500)		(3,500)	—
Deferred income taxes	118	101	2,979	(39)
Gain on sale of building	—	—	101	—
Losses on early extinguishments of debt and refinancing costs	—	(1,155)	—	(1,155)
Changes in assets and liabilities	(242,373)	184,032	(129,758)	317,406
Net (loss) income	(7,757)	24,547	(71,262)	62,238
Interest expense	36,740	40,134	74,863	77,493
Income taxes	22,925	5,716	(9,448)	20,291
Depreciation and amortization	31,247	31,241	64,090	62,730
Interest income	(259)	(904)	(1,282)	(1,715)
EBITDA	82,896	100,734	56,961	221,037
Adjustments:				
COVID-19 expense [1]	3,679	—	18,527	—
Losses on early extinguishments of debt and refinancing costs	—	1,155	—	1,155
Share-based compensation	4,653	4,755	13,188	12,006
Restructure charges	—	3,869	—	6,956
Darice liquidation charges	52,486	—	52,486	—
Severance costs	4,072	950	4,870	3,491
Store pre-opening costs	186	1,743	1,345	2,969
Store remodel costs	234	2	449	68
Foreign currency transaction losses (gains), net	1,516	541	(330)	468
Store closing costs	142	(126)	811	(947)
Consulting costs	4,909	—	4,909	—
CEO severance costs	—	—	—	5,569
Other [2]	2,916	1,736	5,661	2,700
Adjusted EBITDA	$ 157,689	$ 115,359	$ 158,877	$ 255,472

(1) Includes costs attributable to the COVID-19 pandemic including hazard pay for team members, costs associated with furloughed employees, certain inventory charges and sanitation supplies.

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

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 business has been, and could be in the future, adversely affected by the ongoing COVID-19 pandemic;
- 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 optimize our store portfolio 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 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. own approximately 36% 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;
- our executive officers hold or may hold restricted shares or option awards that will vest upon a change of control, these officers may have an economic incentive to support a transaction that may not be viewed as favorable by 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 and in Part II, Item 1A of this Quarterly 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, cost of sales 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 $5 million for the 26 weeks ended August 1, 2020.

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. In April 2020, we executed two interest rate cap agreements with an aggregate notional value of $2 billion associated with our outstanding Amended and Restated Term Loan Credit Facility. The interest rate caps will effectively cap our LIBOR exposure on a portion of the Amended and Restated Term Loan Credit Facility at 1%. 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 1, 2020, a 100 basis point change in interest rates would impact income before income taxes by approximately $8 million for fiscal 2020. A 100 basis point change in interest rates would impact the fair value of our long-term fixed rate debt by approximately $12 million. A change in interest rates would not materially affect the fair value of our variable rate debt as the debt reprices periodically.

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

Change in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended August 1, 2020 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Except as set forth below, as of the date of this report, there are no material changes to the Risk Factors described in the Annual Report on Form 10-K for the year ended February 1, 2020.

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

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

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

The ultimate impact of the COVID-19 pandemic on our business will be dependent on, among other things, the duration of quarantines and other global travel restrictions, the severity of the virus, the duration of the outbreak and the public's response to the outbreak. The COVID-19 pandemic may also have the effect of heightening other risks disclosed in the Risk Factors section included in our Form 10-K filed on March 17, 2020.

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

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

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

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

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 2020:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan (2)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan (2) (in thousands)
May 3, 2020 - May 30, 2020	25,680	$ 3.14	—	$ 293,524
May 31, 2020 - July 4, 2020	9,536	5.47	—	293,524
July 5, 2020 - August 1, 2020	5,034	7.21	—	293,524
Total	40,250	$ 4.20	—	$ 293,524

(1) These amounts reflect the surrender of shares of common stock to the Company to satisfy tax withholding obligations in connection with the vesting of employee restricted stock equity awards.

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

ITEM 6. EXHIBITS

(a) Exhibits:

Exhibit Number	Description of Exhibit
10.1*	The Michaels Companies, Inc. Third Amended and Restated 2014 Omnibus Long-Term Incentive Plan (previously filed as Exhibit 10.1 to Form 8-K filed by the Company on June 12, 2020, SEC File No. 001-36501).
10.2*	Michaels Stores, Inc. Amended and Restated Officer Severance Pay Plan (filed herewith).
31.1	Certifications of Ashley Buchanan 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 Michael Diamond 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	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*Management contract or compensatory plan or 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/ Ashley Buchanan
Ashley Buchanan
Chief Executive Officer and Director
(Principal Executive Officer)

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

Date: September 3, 2020

Exhibit 10.2

MICHAELS STORES, INC.
OFFICER SEVERANCE PAY PLAN
Established April 17, 2008 and Amended as of May 20, 2014, December 9, 2014, March 21, 2017, and June 10, 2020

I. PURPOSE

This Plan has been established by Michaels Stores, Inc. (the "Company") to provide certain severance benefits, subject to the terms and conditions set forth, to designated officers in the event that his/her employment is permanently terminated as a result of a Qualifying Termination, as described below. As a severance pay plan, this Plan is intended to comply with all applicable requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and the regulations promulgated under ERISA for top hat employee welfare benefit plans and is to be interpreted in a manner consistent with those requirements. This document contains the provisions of the Plan and the Summary Plan Description. This Plan also is intended to comply with, or be exempt from, the applicable requirements of Section 409A ("Section 409A") of the Internal Revenue Code of 1986 as amended (the "Code") and is to be interpreted and administered in a manner consistent with those requirements.

II. ELIGIBILITY TO PARTICIPATE

In order to be eligible to be a participant in this Plan (a "Participant"), an individual must be employed by the Company in a position with the title of Vice President (or equivalent, as approved by the Compensation Committee), Senior Vice President, Executive Vice President, or President. No other individual will be considered a Participant.

III. QUALIFICATIONS FOR RECEIPT OF PLAN BENEFITS

In order to qualify for benefits under this Plan, a Participant must meet all of the following qualifications: (A) must have a Qualifying Termination, as defined in Section IV below; (B) must not be eligible for severance pay or other termination benefits under any other severance pay plan or under any employment agreement or other agreement with the Company or any of its Affiliates (including without limitation a change-of-control or like agreement) at the time of the Qualifying Termination; (C) must sign and return, following the Termination Date, a timely and effective separation agreement and release of claims in the form attached to this Plan and marked "Exhibit A" (the "Agreement and Release"); and (D) must comply with the post-employment obligations set forth in Section VII(B) of this Plan.

IV. QUALIFYING TERMINATION

A Participant's termination of employment is a Qualifying Termination only if all of the following requirements are met and such termination is not enumerated in the list of exclusions in Section V:

A. The Participant is on the active payroll or is on an approved leave of absence with a right to reinstatement at the time employment terminates;

B. the Participant's employment is terminated by the Company other than for “Cause” (as hereafter defined) and other than as a result of death or Disability;

C. the Participant is not offered other employment with (1) an Affiliate of the Company (as hereafter defined), (2) a successor of the Company (a “Successor”) or (3) a purchaser of some or all of the assets of the Company (a “Purchaser”) (a) in a position which the Participant is qualified to perform regardless of whether the Participant is subject to, among other things, a new job title, different reporting relationships or a modification of the Participant’s duties and responsibilities, (b) that, when compared with the Participant’s last position with the Company, provides a comparable base salary and bonus opportunity, and (c) there is no change in Participant’s principal place of employment to a location more than 35 miles from the Participant’s principal place of employment immediately prior to the Qualifying Termination;

D. the Participant has not accepted employment, in any position, with an Affiliate, a Successor or a Purchaser at the time he or she otherwise qualifies for benefits under this Plan; and

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

V. EXCLUSIONS

The following are examples of events which would not be a Qualifying Termination under this Plan. This is not an exclusive list.

A. The Participant resigns, retires or otherwise voluntarily leaves his/her employment with the Company; or

B. the Participant's employment terminates as a result of death or Disability; or

C. the Participant's employment is terminated by the Company for Cause; or

D. the Participant is offered other employment with an Affiliate, Successor or a Purchaser in a position that he or she is qualified to perform, with a comparable base salary and bonus opportunity and there is no change in Participant's principal place of employment to a location more than 35 miles from the Participant's principal place of employment immediately prior to the Qualifying Termination; or

E. the Participant accepts any employment with an Affiliate, a Successor or a Purchaser.

VI. BENEFITS UNDER THE PLAN

A. As the sole benefits under this Plan and subject to all Plan terms and conditions, a Participant will be entitled to the following:

(1) Severance Pay:

(a) A Participant in the position of Vice President (or equivalent, as approved by the Compensation Committee) at the time of a Qualifying Termination who has less than two years of service from his/her most recent date of hire by the Company will be eligible for six (6) months of severance pay and such a Participant with two or more years of service from his/her most recent date of hire by the Company will be eligible for twelve (12) months of severance pay.

(b) A Participant in the position of Senior Vice President, Executive Vice President or President at the time of a Qualifying Termination who has less than two years of service from his/her most recent date of hire by the Company will be eligible for twelve (12) months of severance pay and such a Participant with two or more years of service from his/her most recent date of hire by the Company will be eligible for eighteen (18) months of severance pay.

(c) One month of severance pay is equal to one-twelfth ($1/12^{th}$) of a Participant's base salary at the annual rate in effect at the time termination occurs. Automobile allowance, if applicable, is not included in severance pay nor is it considered part of a Participant's base salary.

(d) Years of service means the total number of consecutive completed years of service with the Company.

(e) "Severance Period" means the period during which a Participant receives severance pay pursuant to Section VI(A)(1)(a) or (b) above.

(2) Pro-Rated Annual Bonus:

Provided that the Participant is participating in a Company executive annual bonus plan for the fiscal year in which the Participant has a Qualifying Termination hereunder, the Participant shall be entitled to receive a pro-rated annual bonus, if earned based on actual performance for the full fiscal year, based upon the number of full months that the Participant was employed by the Company during such fiscal year, to be paid as provided for in Section VI(B). Participants whose Termination Date occurs before the 15th of a month will not receive credit for that month. Participants whose Termination Date occurs on or after the 15th of a month will receive credit for that month. For avoidance of doubt, for a Participant eligible to receive a pro-rated earned annual bonus pursuant to this Section VI(A)(2), the individual performance appraisal portion of the Participant's bonus will be calculated based upon the Company's lowest merit eligible rating.

(3) Welfare Benefits:

(a) In the event of a Qualifying Termination hereunder, the Participant shall be entitled to receive during the Severance Period cash welfare benefit payments ("Welfare Benefit Payments").

(b) The Welfare Benefit Payments shall be paid at a rate equal to (i) the Company-paid portion of the group medical and dental plan premiums in effect for the Participant (and his/her spouse and dependents, as applicable) immediately prior to the Termination Date, as pro-rated for each payroll period, multiplied by (ii) 130%.

(c) Except for any right the Participant may have under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") to elect to continue participation in the Company's group medical, vision, and dental plans at the Participant's sole cost and expense, the Participant's (and his/her spouse's and eligible dependents', as applicable) participation in all employee benefit plans of the Company shall terminate in accordance with the terms of the applicable benefit plans as of the Termination Date, without regard to any continuation of base salary, Welfare Benefit Payments, or other payment to the Participant following termination.

B. Benefits payable to a Participant under Section VI(A) shall be reduced by all taxes and other amounts that are required to be withheld under applicable law. Severance pay under Section VI(A)(1), which shall be payable in the form of salary continuation, and Welfare Benefit Payments under Section VI(A)(3) shall be paid at the Company's regular payroll periods and in accordance with its regular payroll practices, commencing on the next regular payday which is at least five (5) business days following the effective date of the Agreement and Release, subject to Sections VI(C) and VII(A)(5), but the first payment shall be retroactive to the day immediately following the Termination Date. Any earned pro-rated annual bonus for which a Participant is eligible under Section VI(A)(2) shall be payable, subject to Sections VI(C) and VII(A)(5), on the later of the date annual bonuses are paid to all active bonus participants including active officers, in the bonus plan for the fiscal year in which Participant has a Qualified Termination or the next regular payday which is at least five (5) business days following the effective date of the Agreement and Release.

C. Section 409A:

(1) Notwithstanding the foregoing, if at the time of the Participant's "separation from service," the Participant is a "specified employee," as hereinafter defined, any and all amounts payable under this Section VI in connection with such separation from service that constitute deferred compensation subject to Section 409A, as determined by the Company in its sole discretion, and that would (but for this sentence) be payable within six (6) months following such separation from service, shall instead be paid on the date that follows the date of such separation from service by six (6) months or, if earlier, upon the Participant's death. For the avoidance of doubt, the foregoing six (6)-month delay shall not apply (i) to the extent any such amounts do not constitute a deferral of compensation within the meaning of Section 1.409A-1(b) of the Treasury Regulations (including without limitation by reason of the safe harbor set forth in Section 1.409A-1(b)(9)(iii), as determined by the Company in its reasonable good faith discretion); (ii) to benefits that qualify as excepted welfare benefits pursuant to Section 1.409A-1(a)(5) of the Treasury Regulations; or (iii) to other amounts or benefits that are not subject to the requirements of Section 409A.

(2) For purposes of this Plan, "separation from service" shall have the meaning set forth in Section 1.409A-1(h) of the Treasury Regulations (after giving effect to the presumptions contained therein), and the term "specified employee" shall mean an individual determined by the Company to be a specified employee under Section 1.409A-1(i) of the Treasury Regulations.

(3) Each payment made to a Participant under this Plan shall be treated as a separate payment and the right to a series of installment payments under this Agreement shall be treated as a right to a series of separate payments.

(4) Any reimbursement for expenses payable to a Participant hereunder that would constitute nonqualified deferred compensation subject to Section 409A shall be subject to the following additional rules: (i) no reimbursement of any such expense shall affect the Participant's right to reimbursement of any such

expense in any other taxable year; (ii) reimbursement of the expense shall be made, if at all, promptly, but not later than the end of the calendar year following the calendar year in which the expense was incurred; and (iii) the right to reimbursement shall not be subject to liquidation or exchange for any other benefit.

VII. CONDITIONS OF RECEIVING PLAN BENEFITS

A. The Agreement and Release.

(1) A Participant who has been informed that he/she will be subject to a Qualifying Termination will be provided by the Company an Agreement and Release in the form of attached to this Plan as Exhibit A. In order to qualify for benefits under this Plan, the Participant must sign, date and return the Agreement and Release in a timely manner and it must become effective in accordance with its terms and this Plan. The Agreement and Release must be signed and returned no earlier than the day immediately following the Termination Date and no later than the twenty-first (21st) calendar day following the Termination Date, except in the event that a Participant who is age 40 or older has a Qualifying Termination that is part of a Termination Program, as provided in Section VII(A)(2), immediately below.

(2) In the event that a Participant who is age 40 or older is subject to a Qualifying Termination in conjunction with one or more other Participants as a result of a reorganization or a reduction in force or other involuntary termination program (a "Termination Program"), the Company will provide the Participant a memorandum containing information regarding the job titles and ages of those selected, and those not selected, for the Termination Program in accordance with the federal Older Workers Benefit Protection Act (the "OWBPA Memorandum"). Such a Participant will be entitled to consider the Agreement and Release for forty-five (45) calendar days following the later of the Participant's Termination Date or the date the Participant receives the OWBPA Memorandum. In order to qualify for benefits under this Plan, the Participant must sign and return the Agreement and Release after both the Participant's Termination Date and the Participant's receipt of the OWBPA Memorandum have occurred, but no later than the forty-fifth (45th) calendar day following his/her Termination Date or the date s/he receives the OWBPA Memorandum, whichever occurs second.

(3) A Participant who is age 40 or older on his/her Termination Date, regardless of whether the Participant is entitled to a twenty-one (21) calendar day consideration period under Section VII(A)(1) or a forty-five (45) calendar day consideration period under Section VII(A)(2), may revoke the Agreement and Release at any time during the seven calendar day period that immediately follows the date the Participant signs the Agreement and Release, provided that the

Participant sends a written notice of revocation to the Senior Vice President, Human Resources during that seven (7) calendar day period. In the event the Participant revokes the Agreement and Release in writing in a timely manner, the Agreement and Release shall be void and of no force or effect and the Participant shall not be eligible to receive benefits of any kind under this Plan. If the Participant does not revoke the Agreement and Release, it will take effect on the eighth calendar day following the date of the Participant's signing.

(4) In the case of a Participant who is less than age 40 on his/her Termination Date, the Agreement and Release will take effect on the date the Participant signs and returns the Agreement and Release to the Company.

(5) Subject to the terms and conditions of this Plan, including, without limitation, Section VI(C) and this Section VII(A), any payments, including any provision or continued benefits, made under this Plan (whether such payments or benefits are paid or provided, in whole or in part, pursuant to this Plan or in conjunction with any other agreement, arrangement or policy) which the Company determines constitute nonqualified deferred compensation subject to Section 409A and that would otherwise be paid during the sixty (60) day period following a Participant's Qualifying Termination shall instead be accumulated and paid, if at all, subject to the Participant's having previously and timely signed, returned, and not revoked the Agreement and Release, on the next regular payday after the sixtieth (60^{th}) day following the Participant's Qualifying Termination. For the avoidance of doubt, the required delay described in the immediately preceding sentence shall not apply to any amounts that are exempt from Section 409A (for example, but without limitation, by reason of the separation-pay-plan exemption at Section 1.409A-1(b)(9)(iii) of the Treasury Regulations under Section 409A).

(6) **<u>Please Note</u>**: The Agreement and Release contains legally binding obligations and the Company advises each Participant to consult an attorney before signing the Agreement and Release.

B. Post-Employment Restrictions.

(1) **Introduction**. In order to qualify for receipt of benefits under this Plan, in addition to other qualifications set forth in this Plan, the Participant must comply fully with all of the obligations set forth in this Section VII(B) (the "Post-Employment Restrictions") from and after the date the Participant is informed of the Company's decision to terminate his/her employment in a Qualifying Termination.

a. **Non-Compete.** Until the expiration of the later of (i) the period of severance pay provided to the Participant under this Plan; or (ii) twelve (12) months following the Termination Date (in the aggregate, the "Restricted Period"), with such Restricted Period to be tolled on a day-to-day basis for each day during which the Participant participates in any activity in violation of the restrictions set forth in this Section VII(B)(1)(a), the Participant will not, directly or indirectly, alone or in association with others, anywhere in the Territory, 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 VII(B)(1)(a) shall prevent the Participant'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 VII(B)(1), "Business of the Company or any of its Immediate Affiliates" is that of (a) arts and crafts, (b) framing specialty retailer (c) wholesaler providing materials, ideas and education for (x) creative activities, or (y) framing, and/or (d) any other business that the Company or any of its Immediate Affiliates conducts or is actively planning to conduct at any time during the twelve (12) months immediately preceding the Termination Date; provided, that the term "Competitor" shall not include any business, venture or activity whose gross receipts derived from the retail or wholesale sale of arts and crafts, or framing products and services (aggregated with the gross receipts derived from the retail and wholesale sale of such products or 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 VII(B)(1)(a), the "Territory" is comprised of those states within the United States and 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 twelve (12) months immediately preceding the Termination Date.

b. **Non-Solicitation of Employees and Contractors**. The Participant must agree that during the Restricted Period, with such Restricted Period to be tolled on a day-to-day basis for each day during which the Participant participates in any activity in violation of the restrictions set forth in this Section VII(B)(1)(b), the Participant shall not, and shall not assist any other Person to, (x) 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 (y) 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 these restrictions shall apply only with respect to employees of, and independent contractors providing services to, the Company or one of its Immediate Affiliates, who were doing such on the Termination Date or at any time during the nine (9) months immediately preceding the Termination Date.

c. **Non-Solicitation of Distributors and Vendors**. The Participant must agree that during the Restricted Period, with such Restricted Period shall be tolled on a day-to-day basis for each day during which the Participant participates in any activity in violation of the restrictions set forth in this Section VII(B)(1)(c), the Participant shall not directly or indirectly solicit or encourage any distributor or vendor to the Company or any of its Immediate Affiliates to terminate or diminish its relationship with the Company or any of its Immediate Affiliates; provided, however, that these restrictions shall apply only with respect to those distributors and vendors who are doing business with the Company or any of its Immediate Affiliates on the Termination Date or at any time during the twelve (12) months immediately preceding the Termination Date.

d. **Remedies**. In the event of a breach or threatened breach by the Participant of any of the covenants contained in Sections VII(A)(1), (B)(1)(a), (b), or (c) or the Company's confidential information (as further set forth in Exhibit A), in addition to any remedies available to the Company pursuant to any other agreement between the Participant and the Company, the Company shall be entitled to:

(i) immediately terminate Participant's right to receive any further severance benefits under Section VI(A) above;

(ii) seek reimbursement for the severance benefits provided to Participant under Section VI, except for the first installment of severance pay pursuant to Section VI(A)(1); and

(iii) seek, in addition to other available remedies, a temporary or permanent injunction from a court of law or other equitable relief against such breach or threatened breach, 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.

VIII. TERMINATION OF PLAN BENEFITS

Notwithstanding anything to the contrary contained in this Plan, benefits for which a Participant has qualified and is receiving under this Plan shall terminate under the following circumstances:

A. If the Participant accepts employment with the Company or one of its Affiliates, a Successor or a Purchaser after qualifying for benefits under this Plan, all such benefits shall cease as of the date the Participant commences such employment.

B. In the event that the Company determines that the Participant has breached the Agreement and Release or has violated any obligation under Section VII hereof or otherwise breached any material provision of any written agreement with the Company or any of its Affiliates. Further, in case of a breach, the Company may seek reimbursement for severance pay and the severance benefits already paid or provided to Participant, except for the first installment of severance pay. In addition, the Company may offset any such severance benefits already provided to Participant against any remuneration owed by the Company to the Participant.

C. As set forth in Section VII(B)(1)
(d).

IX. GENERAL INFORMATION CONCERNING THE PLAN

A. The Company pays the full cost of benefits provided under this Plan from its general assets and the right of a Participant to receive any payment hereunder shall be an unsecured claim against the general assets of the Company. The Plan at all times shall be entirely unfunded.

B. Notwithstanding anything to the contrary contained herein, benefits to which a Participant is otherwise entitled under this Plan shall be reduced by any other payments or benefits to which the Participant is entitled under applicable law as a result of termination of his/her employment, including without limitation any federal, state or local law with respect to plant closings, mass layoffs or the like, but exclusive of any unemployment benefits to which the Participant is entitled under applicable law.

C. Benefits under this Plan are not assignable or subject to alienation. Likewise, benefits are not subject to attachments by creditors or through legal process against the Company or any employee or any person claiming through an employee.

D. Notwithstanding anything to the contrary contained herein, any and all payments to be provided hereunder to or on behalf of any Participant are subject to reduction to the extent required by applicable statutes, regulations, rules and directives of federal, state and other governmental and regulatory bodies having jurisdiction over the Company.

E. This Plan does not constitute a contract of employment for a specific term or otherwise alter the at-will nature of the employment relationship between any employee and the Company or any of its Affiliates.

X. DEFINITIONS

Words or phrases, which are initially capitalized or within quotation marks shall have the meanings provided in this Section X and as provided elsewhere in this Plan. For purposes of this Plan, the following definition applies:

A. An “Affiliate” means an individual, corporation and other entity directly or indirectly controlling, controlled by or under common control with the Company, where control may be by management authority, equity interest or otherwise.

B. “Cause” shall mean the following events or conditions, as determined by the Board of Directors of the Company in its reasonable judgment: (i) the Participant's refusal or failure to perform (other than by reason of disability), or material negligence in the performance of his or her duties and responsibilities to the Company or any of its Affiliates, or refusal or failure to follow or carry out any reasonable direction of the Board of Directors of the Company, and the continuance of such refusal, failure or negligence for a period of ten (10) calendar days after written notice delivered by the Company to the Participant that specifically identifies the manner in which the Participant has failed to perform his or her duties; (ii) the material breach by the Participant of any provision of any material agreement between the Participant and the Company or any of its Affiliates; (iii) fraud, embezzlement, theft or other dishonesty by the Participant with respect to the Company or any of its Affiliates; (iv) the conviction of, or a plea of guilty or *nolo contendere* by, the Participant to any felony or any other crime involving dishonesty or moral turpitude; (v) any other conduct that involves a breach of fiduciary duty to the Company on the part of the Participant; or (vi) Participant’s violation of a Company policy, rule or code of conduct that could expose the Company to civil or criminal liability or pose a risk of damaging the Company’s business or reputation.

C. “Disability” means a Participant's mental or physical impairment that has prevented the Participant from performing substantially all of the duties and responsibilities of his/her position for at least 180 days in any 365 consecutive days, as a result of which employment is terminated by the Company.

D. “Immediate Affiliates” means those Affiliates which are one of the following: (i) a direct or indirect subsidiary of the Company, (ii) a direct or indirect parent of the Company or (iii) a direct or indirect subsidiary of such a parent.

E. “Person” means an individual, a corporation, a limited liability company, an association, a partnership, an estate, a trust and any other entity or organization, other than the Company or any of its Affiliates.

F. “Termination Date” means the date on which the Participant's employment with the Company terminates.

XI. ADMINISTRATION, CLAIMS PROCEDURE AND GENERAL INFORMATION

A. The Company reserves the right to amend, modify and terminate this Plan at any time by a written instrument signed by the Board or its designee. There are no vested benefits under this Plan. Also, the Company, as the Plan administrator within the meaning of ERISA, reserves full discretion to administer the Plan in all of its details, subject to the requirements of law. Company shall have such discretionary powers as are necessary to discharge its duties. Any interpretation or determination that the Company makes regarding this Plan, including without limitation determinations of eligibility, participation and benefits, will be final and conclusive, in the absence of clear and convincing evidence that the Company acted arbitrarily and capriciously.

B. Anyone who believes he/she is being denied any rights under this Plan may file a claim in writing with the Company, as Plan administrator, addressed to the attention of the Senior Vice President, Human Resources. If the claim is denied, in whole or in part, the Plan administrator will notify the claimant in writing, giving the specific reasons for the decision, including specific reference to the pertinent Plan provisions and a description of any additional material or information necessary to perfect the claim and an explanation of why such material or information is necessary. The written notice will also advise the claimant of his/her right to request a review of the claim and the steps that need to be taken if the claimant wishes to submit the claim for review. If the Plan administrator does not notify the claimant of its decision within 90 calendar days after it had received the claim (or within 180 calendar days, if special circumstances exist requiring additional time, and if the claimant had been given a written explanation for the extension within the initial 90-calendar day period), the claimant should consider the claim to have been denied. At this time the claimant may request a review of the denial of his/her claim.

C. A request for review must be made in writing by the claimant or his/her duly authorized representative to the Company, as Plan administrator, within 60 calendar days after receipt of notice of denial. As part of the claimant's request, the claimant may submit written issues and comments to the Plan administrator, review pertinent documents, and request a hearing. The Plan administrator's written decision will be made within 60 calendar days (or 120 calendar days if a hearing is held or if other special circumstances exist requiring more than 60 calendar days and written notice of the extension is provided to the claimant within the initial 60-calendar day period) after the claimant's request has been received. Again, the decision will include specific reasons, including references to pertinent Plan provisions.

Exhibit A

AGREEMENT AND RELEASE

Exhibit 31.1

CERTIFICATIONS

I, Ashley Buchanan, 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 3, 2020

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

Exhibit 31.2

CERTIFICATIONS

I, Michael Diamond, 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 3, 2020

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

Exhibit 32.1

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

In connection with the filing of the Quarterly Report on Form 10-Q of The Michaels Companies, Inc., a Delaware corporation (the "Company"), for the period ended August 1, 2020, 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 3, 2020

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

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

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