

MICHAELS STORES INC
Form PRER14A
September 01, 2006

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

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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

MICHAELS STORES, INC.

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

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

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

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

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

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

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

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

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

(4) Proposed maximum aggregate value of transaction:

\$6,024,684,662

(5) Total fee paid:

\$644,641

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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PRELIMINARY PROXY STATEMENT, SUBJECT TO COMPLETION

8000 Bent Branch Drive, Irving, Texas 75063

[], 2006

Dear Stockholder:

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

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

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

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

8000 Bent Branch Drive, Irving, Texas 75063

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

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

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

Thank you in advance for your cooperation and continued support.

On behalf of your Board of Directors,

Charles J. Wyly, Jr.
Chairman of the Board

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

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8000 Bent Branch Drive, Irving, Texas 75063

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 5, 2006**

TO THE STOCKHOLDERS OF MICHAELS STORES, INC.:

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

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

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

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

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

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

By order of the board of directors,

Mark V. Beasley
Secretary

[], 2006

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

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SUMMARY

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

The Parties to the Merger Agreement (page 14)

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

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

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

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

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

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

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

The Special Meeting

Time, Place and Date (page 15)

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

Purpose (page 15)

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

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

Record Date and Quorum (page 15)

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

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

Required Vote (page 15)

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

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Share Ownership of Directors and Executive Officers (page 66)

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

Voting and Proxies (page 15)

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

Revocability of Proxy (page 15)

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

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

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

attending the special meeting and voting in person.

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

When the Merger Will be Completed (page 45)

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

Effects of the Merger (page 46)

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

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

Recommendation of Our Board of Directors (page 22)

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

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

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

Opinion of JPMorgan (page 22 and Annex C)

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

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

Opinion of Goldman Sachs (page 28 and Annex D)

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

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

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

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

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

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

Treatment of Stock Options and Restricted Stock (page 36)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Regulatory Approvals (page 44)

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

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

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

Procedure for Receiving Merger Consideration (page 47)

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

No Solicitation of Transactions (page 53)

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

Conditions to Closing (page 58)

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

the adoption of the merger agreement by our stockholders;

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

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

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

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

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

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

Termination of the Merger Agreement (page 59)

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

by mutual written consent of the Mergercos and Michaels;

by either the Mergercos or Michaels, if:

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

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

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

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

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

by Michaels, if

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

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

Termination Fees and Expenses (page 60)

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

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

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

Specific Performance (page 62)

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

Market Price of Our Stock (page 65)

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

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

Appraisal Rights (page 63 and Annex E)

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

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QUESTIONS AND ANSWERS ABOUT THE SPECIAL MEETING AND THE MERGER

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

Q: What is the proposed transaction?

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

Q: What will I receive in the merger?

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

Q: Where and when is the special meeting?

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

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

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

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

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

Q: What do I need to do now?

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

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

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

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Q: Can I change my vote?

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

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

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

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

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

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

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

Q: Should I send in my stock certificates now?

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

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

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

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

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

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

Q: Who can help answer my other questions?

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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THE PARTIES TO THE MERGER AGREEMENT

Michaels Stores, Inc.

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

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

Bain Paste Mergerco, Inc.

Bain Paste Finco, LLC

Bain Paste Mergerco, Inc. is a Delaware corporation formed by a private equity fund sponsored by Bain in anticipation of the merger. Subject to the terms and conditions of the merger agreement and in accordance with Delaware law, at the effective time of the merger Bain Paste Mergerco, Inc. will merge with and into Michaels Stores, Inc. Bain Paste Mergerco, Inc. has de minimis assets and no operations. Bain Paste Finco, LLC is a Delaware limited liability company formed by a private equity fund sponsored by Bain in anticipation of the merger. Bain Paste Mergerco, Inc. and Bain Paste Finco, LLC each have their principal executive offices at c/o Bain Capital Partners, LLC, 111 Huntington Avenue, Boston, Massachusetts 02199, and its telephone number is (617) 516-2000. Bain is part of Bain Capital, LLC, a global private investment firm that manages several pools of capital, including private equity, venture capital, public equity, and leveraged debt assets, with more than \$38 billion in assets under management. Since its inception in 1984, Bain has made private equity investments and add-on acquisitions in over 230 companies around the world, including such leading retailers and consumer companies as Toys R Us, Burger King, Staples, Burlington Coat Factory, Shopper s Drug Mart, Brookstone, Domino s Pizza, Dollarama, Sealy Corp., Sports Authority and Duane Reade. Headquartered in Boston, Bain has offices in New York, London, Munich, Hong Kong, Shanghai and Tokyo.

Blackstone Paste Mergerco, Inc.

Blackstone Paste Finco, LLC

Blackstone Paste Mergerco, Inc. is a Delaware corporation formed by a private equity fund sponsored by Blackstone in anticipation of the merger. Subject to the terms and conditions of the merger agreement and in accordance with Delaware law, at the effective time of the merger Blackstone Paste Mergerco, Inc. will merge with and into Michaels Stores, Inc. Blackstone Paste Mergerco, Inc. has de minimis assets and no operations. Blackstone Paste Finco, LLC is a Delaware limited liability company formed by a private equity fund sponsored by Blackstone in anticipation of the merger. Blackstone Paste Mergerco, Inc. and Blackstone Paste Finco, LLC each have their principal executive offices at c/o The Blackstone Group, 345 Park Avenue, 31st Floor, New York, New York 10154, and its telephone number is (212) 583-5000. Blackstone, a global private investment and advisory firm, was founded in 1985. The firm has raised a total of more than \$63 billion for alternative asset investing since its formation, of which approximately \$30 billion has been for private equity investing. Blackstone s private equity group is currently investing its fifth general private equity fund with commitments of \$15.6 billion, and has over 60 experienced professionals with broad sector expertise. Blackstone s other core businesses include private real estate investing, corporate debt investing, hedge funds, mutual fund management, private placement, marketable alternative asset management and investment banking advisory services.

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THE SPECIAL MEETING

Time, Place and Purpose of the Special Meeting

This proxy statement is being furnished to our stockholders as part of the solicitation of proxies by our board of directors for use at the special meeting to be held on October 5, 2006, beginning at 9:30 a.m., central daylight time, at 8000 Bent Branch Drive, Irving, Texas 75063, or at any postponement or adjournment thereof. The purpose of the special meeting is for our stockholders to consider and vote upon the adoption of the merger agreement. Our stockholders must adopt the merger agreement for the merger to occur. If the stockholders fail to adopt the merger agreement, the merger will not occur. A copy of the merger agreement is attached to this proxy statement as Annex A. A copy of the first amendment to the merger agreement is attached as Annex B to this proxy statement. This proxy statement and the enclosed form of proxy are first being mailed to our stockholders on or about [], 2006.

Record Date and Quorum

The holders of record of our common stock as of the close of business on September 1, 2006, the record date for the special meeting, are entitled to receive notice of, and to vote at, the special meeting. On the record date, there were [] shares of our common stock outstanding.

The holders of a majority of the outstanding shares of our common stock at the close of business on the record date represented in person or by proxy will constitute a quorum for purposes of the special meeting. A quorum is necessary to hold the special meeting. Once a share is represented at the special meeting, it will be counted for the purpose of determining a quorum at the special meeting and any postponement or adjournment of the special meeting. However, if a new record date is set for the adjourned special meeting, then a new quorum will have to be established.

Required Vote

Completion of the merger requires the adoption of the merger agreement by the affirmative vote of the holders of a majority of the outstanding shares of our common stock at the close of business on the record date for the special meeting. Each outstanding share of our common stock is entitled to one vote.

As of September 1, 2006, the record date for the special meeting, the directors and executive officers of Michaels beneficially owned, in the aggregate, [] shares of Michaels common stock, or approximately []% of the outstanding shares of Michaels common stock. The directors and executive officers have informed us that they intend to vote all of their shares of our common stock **FOR** the adoption of the merger agreement and **FOR** any adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.

Proxies; Revocation

If you are a stockholder of record and submit a proxy by returning a signed proxy card by mail, your shares will be voted at the special meeting as you indicate on your proxy card. If no instructions are indicated on your proxy card, your shares of Michaels common stock will be voted **FOR** the adoption of the merger agreement and **FOR** any adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.

If your shares are held in street name by your broker, you should instruct your broker how to vote your shares using the instructions provided by your broker. If you have not received such voting instructions or require further information regarding such voting instructions, contact your broker and they can give you directions on how to vote your shares. Under the rules of the NYSE, brokers who hold shares in street name for customers may not exercise their voting discretion with respect to the approval of non-routine matters such as the merger proposal and thus, absent specific instructions from the beneficial owner of such shares, brokers are not empowered to vote such shares with respect to the adoption of the merger agreement (i.e., broker non-votes). Shares of our common stock held by persons attending the special meeting but not voting, or shares for which we have received proxies with respect to which holders have abstained from voting, will be considered abstentions. Abstentions and properly executed broker non-votes, if any, will be treated as shares that are present and entitled to vote at the special meeting

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for purposes of determining whether a quorum exists but will have the same effect as a vote **AGAINST** adoption of the merger agreement and any adjournment or postponement of the special meeting.

You may revoke your proxy at any time before the vote is taken at the special meeting. To revoke your proxy, you must either advise Computershare Investor Services, L.L.C., 3020 Legacy Drive, Suite 100-307, Plano, Texas 75023 in writing, submit by mail a new proxy card dated after the date of the proxy you wish to revoke or attend the special meeting and vote your shares in person. Attendance at the special meeting will not by itself constitute revocation of a proxy.

Please note that if you hold your shares in street name and you have instructed your broker to vote your shares, the options for revoking your proxy described in the paragraph above do not apply and instead you must follow the directions provided by your broker to change your vote.

If you participate in the Michaels Stores, Inc. Common Stock Fund under the 401(k) Plan, you will receive a voting instruction card which will provide State Street Bank and Trust Company, as trustee of the 401(k) Plan, with instructions on how to vote the number of shares reflecting your proportionate interest in the Michaels Stores, Inc. Common Stock Fund. You must submit your voting instructions to State Street by the close of business on [], 2006, to allow State Street time to receive your voting instructions and vote on behalf of the 401(k) Plan. You may revoke previously given voting instructions by [], 2006, by filing with State Street either a written notice of revocation or a properly completed and signed 401(k) Plan proxy card bearing a later date.

Michaels does not expect that any matter other than the adoption of the merger agreement (and the approval of the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies) will be brought before the special meeting. If, however, any such other matter is properly presented at the special meeting or any adjournment or postponement of the special meeting, the persons appointed as proxies will have discretionary authority to vote the shares represented by duly executed proxies in accordance with their discretion and judgment.

Adjournments and Postponements

Although it is not currently expected, the special meeting may be adjourned or postponed for the purpose of soliciting additional proxies. Any adjournment may be made without notice (if the adjournment is not for more than thirty days), other than by an announcement made at the special meeting of the time, date and place of the adjourned meeting. Whether or not a quorum exists, holders of a majority of the shares of our common stock present in person or represented by proxy at the special meeting and entitled to vote thereat may adjourn the special meeting. If no instructions are indicated on your proxy card, your shares of our common stock will be voted **FOR** any adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies. Any adjournment or postponement of the special meeting for the purpose of soliciting additional proxies will allow our stockholders who have already sent in their proxies to revoke them at any time prior to their use at the special meeting as adjourned or postponed.

Solicitation of Proxies

Michaels will pay the cost of this proxy solicitation. In addition to soliciting proxies by mail, directors, officers and employees of Michaels may solicit proxies personally and by telephone, facsimile or other electronic means of communication. These persons will not receive additional or special compensation for such solicitation services. Michaels will, upon request, reimburse brokers, banks and other nominees for their expenses in sending proxy materials to their customers who are beneficial owners and obtaining their voting instructions. Michaels has retained Morrow & Co., Inc. to assist it in the solicitation of proxies for the special meeting and will pay Morrow & Co. a fee of approximately \$12,500, plus reimbursement of out-of-pocket expenses.

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THE MERGER

Background of the Merger

Our board of directors periodically reviews and assesses strategic alternatives available to us. In early 2006, following a period of consistent growth for Michaels, our board of directors considered a review of our strategic plan and potential alternatives to maximize shareholder value. The board consulted with several investment banks regarding their analysis of our strategic alternatives, and, after further discussions between members of the board and our management, determined, at a meeting of the board held on March 15, 2006, that it was advisable and in the best interests of Michaels and our stockholders to explore strategic alternatives to enhance shareholder value, including through a potential sale of Michaels.

We announced the board's determination to explore strategic alternatives to enhance shareholder value, as well as the retirement of R. Michael Rouleau as President and Chief Executive Officer and the appointment of Jeffrey N. Boyer as President and Chief Financial Officer and Gregory A. Sandfort as President and Chief Operating Officer, in a March 20, 2006, press release. We retained JPMorgan as financial advisor, and Cravath, Swaine & Moore LLP (Cravath) as legal counsel, to Michaels and the board.

Thereafter, and continuing into June 2006, JPMorgan refined and updated its analysis of our strategic alternatives. JPMorgan also began to contact potential strategic and financial acquirors of Michaels. Over the course of the following weeks, JPMorgan contacted over 37 potential acquirors, including nine potential strategic acquirors, to assess their interest in acquiring Michaels.

At the meeting of our board of directors on April 7, 2006, in order to prepare for any potential conflict of interest that might arise in connection with the board's review of our strategic alternatives in light of the significant ownership interest in Michaels of Messrs. Charles J. Wyly, Jr. and Sam Wyly, our board of directors established a special advisory committee of the board, composed of Richard E. Hanlon, Richard C. Marcus, Liz Minyard and Cece Smith (who was designated as chair of the committee). From time to time over the course of April, May and June 2006, the special advisory committee met to consider our strategic alternatives. The special advisory committee retained Wachtell, Lipton, Rosen & Katz (Wachtell Lipton) as its legal counsel.

On April 12, 2006, the board of directors met to discuss the exploration of our strategic alternatives. Representatives of JPMorgan reviewed for the board the work that management and its advisors undertook in connection with the exploration of our strategic alternatives. With respect to the sale of the company alternative, representatives of JPMorgan updated the board on the contacts made by JPMorgan to potential financial and strategic acquirors, noting that several of the potential strategic acquirors stated that they were not interested in exploring further an acquisition of Michaels and that only one potential strategic acquiror expressed any meaningful degree of interest in an acquisition of Michaels. Following a discussion between the board and its advisors regarding next steps, the board directed our management and advisors to continue to explore strategic alternatives.

Over the course of April 2006, JPMorgan continued to make contacts with potential acquirors and assisted potential financial acquirors in forming three groups of co-investors for an acquisition of Michaels. During the week of April 18, 2006, JPMorgan distributed introductory information materials and a form confidentiality agreement to prospective acquirors who had expressed interest in Michaels. We subsequently executed confidentiality agreements with 13 potential financial acquirors, including each member of the financial acquiror groups, and one potential strategic acquiror.

On April 26, 2006, our board of directors met to receive an update regarding the on-going exploration of our strategic alternatives. Representatives of Cravath reviewed with the board the fiduciary duties of directors in the context of considering our strategic alternatives. Representatives of JPMorgan reviewed and discussed with the board their current analysis of the value that each strategic alternative could yield to our stockholders. Representatives of JPMorgan also updated the board on the progress of the potential sale of the company process, including on the status of confidentiality agreement negotiations with potential acquirors, formation of three financial acquiror groups and remaining interest by potential strategic acquirors.

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At the April 26, 2006, meeting of the board, JPMorgan confirmed that, to facilitate the sale process, it would be willing to offer debt financing to all potential acquirors of Michaels, noting that no financial acquiror would be obligated to use JPMorgan as its debt financing source. Representatives of Cravath discussed with the board the nature of the potential conflict of interest that might arise from JPMorgan acting both as the financial advisor to Michaels and a possible financing source in connection with the sale of Michaels and described to the board certain procedures that JPMorgan undertook to institute to ensure the separation between the financing teams and the team advising Michaels and the safeguards that Michaels may undertake with regard to such conflict, including obtaining a fairness opinion from another investment bank.

Representatives of JPMorgan were then excused from the board meeting, and the board engaged in a discussion of the risks and benefits relating to JPMorgan's offer, including the potential conflict of interest and the related safeguards, with management and representatives of Cravath and Wachtell Lipton. After this discussion, our board of directors determined that, in the interest of facilitating the sale process, JPMorgan should make a debt financing package available to all potential acquirors, subject to the implementation of the appropriate procedural safeguards. The board of directors also determined that, should we enter into a transaction involving a change of control of Michaels, the board would request that JPMorgan be willing to opine on the fairness of the financial consideration to be received by our stockholders and the board would also seek to secure the opinion of another investment bank not providing financing to the acquiror as to the fairness of the financial consideration to be received by our stockholders, which investment bank could also be the financial advisor to the special advisory committee.

At its April 26, 2006, meeting, our board also reviewed and approved the retention and change in control programs for our employees, which programs were previously approved by the compensation committee of the board at the compensation committee's meetings on April 21, 2006, and April 26, 2006. The Hay Group, the compensation committee's outside compensation consultants, presented to the compensation committee its recommendations with respect to various retention and change of control arrangements, and Cravath reviewed with the compensation committee and the board a summary of the proposed retention and change in control arrangements. In discussing these arrangements, the board noted the increased threat posed by competitors offering to hire our employees following our announcement of the review of strategic alternatives. At the same meeting, the board also approved an amendment to Michaels' nonqualified deferred compensation plan to provide for the distribution of all account balances upon a change in control. For a discussion of the treatment of Michaels' nonqualified deferred compensation plan in connection with the merger and the impact of the merger on Michaels' other compensation arrangements, see *The Merger Interests of Our Directors and Executive Officers in the Merger* beginning on page 36.

On May 8, 2006, the special advisory committee retained Goldman Sachs as its financial advisor. Such retention contemplated that at our request Goldman Sachs would undertake a study to enable it to render an opinion as to the fairness from a financial point of view of the financial consideration to be received by our stockholders in connection with a transaction involving a change of control of Michaels.

On May 18, 2006, our board of directors met to receive an update regarding the ongoing exploration of our strategic alternatives. Representatives of JPMorgan reviewed and discussed with the board their refined analysis of our strategic alternatives and updated the board with respect to a potential sale of the company process, noting that while the financial acquirors continued to be highly interested in an acquisition of Michaels, no potential strategic acquiror was actively engaged in the process.

Over the course of May and June 2006, the continuing potential acquirors conducted their due diligence of Michaels with management, Mr. Rouleau and our advisors. In mid-May 2006, we held in-depth management presentations with each of the continuing potential acquirors.

On June 5, 2006, JPMorgan distributed a bid procedures letter and a draft merger agreement, both of which were previously reviewed by members of the board, to the potential financial acquirors that were still actively engaged in the process, who then represented two separate acquiror groups. The bid procedures letter requested that proposals for an acquisition of Michaels, accompanied by equity and debt financing commitments, sponsor guarantees and comments on the draft merger agreement, be submitted by June 21, 2006.

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Our board of directors met on June 12, 2006, to receive an update regarding the ongoing exploration of our strategic alternatives. Representatives of JPMorgan reviewed and discussed with the board their further refined analysis of each of our strategic alternatives. Representatives of JPMorgan also reported to the board on the progress of the potential sale of the company process, including the identity of the continuing potential acquirors and their due diligence efforts.

On June 21, 2006, Bain, Blackstone and a co-investor and another continuing potential financial acquiror group, submitted their respective proposals for the acquisition of Michaels, together with debt and equity financing commitments, sponsor guarantees and comments on the draft merger agreement.

Our board of directors met on June 23, 2006, to further analyze our strategic alternatives and to consider the proposals submitted by the two financial acquiror groups. Representatives of JPMorgan reviewed and discussed with the board their further refined analysis of our strategic alternatives. Representatives of JPMorgan also reviewed with the board the financial terms of each of the acquisition proposals, including the amount of the proposed equity and debt financing and the resulting transaction leverage. Bain, Blackstone and their co-investor offered merger consideration of \$42.00 per share, while the other group offered merger consideration of \$42.50 per share. Representatives of Cravath reviewed with the board the legal terms of each acquiror groups' proposal, including terms relating to the conditionality of the acquiror groups' obligation to consummate the merger. Representatives of Goldman Sachs and Wachtell Lipton were also present at the meeting. Following discussion, the board directed that our management and the financial advisors continue to conduct their analysis with respect to the other strategic alternatives and that our advisors seek improved terms from each of the potential acquiror groups.

After the June 23, 2006, board meeting, JPMorgan communicated to each of the acquiror groups that our board of directors was seeking improved terms. Prior to the June 26, 2006, meeting of the board described below, Bain and Blackstone orally informed JPMorgan that they were willing to increase their proposal to \$43.25 per share and the other potential acquiror group orally informed JPMorgan that it was willing to increase its proposal to \$42.75 per share.

On June 26, 2006, our board of directors held a meeting with our management and representatives of JPMorgan and Goldman Sachs to discuss further strategic alternatives available to us. At this meeting, management discussed with the board its views of the risks associated with each strategic alternative. In addition, each of JPMorgan and Goldman Sachs presented to the board its updated preliminary financial analysis with respect to Michaels, including a review of our strategic alternatives. With respect to the potential sale of the company process, representatives of JPMorgan, Goldman Sachs, Cravath and Wachtell Lipton discussed with the board, in light of the improved financial proposals made by each of the acquiror groups, the process to solicit best and final terms from the acquiror groups.

Following the board's meeting on June 26, 2006, representatives of JPMorgan contacted the two acquiror groups with a request to submit their best and final proposal on June 29, 2006. From June 27, 2006, to June 29, 2006, Cravath held discussions and negotiated the terms of the acquisition documents with counsel for each of the acquiror groups.

On June 28, 2006, each of the acquiror groups presented to Messrs. Charles J. Wyly, Jr. and Sam Wyly and representatives of JPMorgan their plans for Michaels and described the general structure of co-investment opportunities they had offered in past acquisitions. No terms for participation were offered, and no understandings or agreements were reached, with respect to any co-investment by Messrs. Wyly.

On the evening of June 29, 2006, each of the acquiror groups submitted its best and final proposal, including the proposed merger agreement and the related acquisition documents. Bain and Blackstone increased their merger consideration offer to \$44.00 per share, while the other potential acquiror group increased its merger consideration offer to \$43.50 per share.

On the morning of June 30, 2006, our board of directors met to review our strategic alternatives and to discuss the best and final proposals submitted by the potential acquiror groups. Representatives of JPMorgan and Goldman Sachs discussed their respective financial analyses with respect to Michaels, including a review of our strategic alternatives. Representatives of JPMorgan reported to the board regarding the potential sale of the company process, including with respect to the negotiations that took place with the potential acquiror groups since

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the board's meeting on June 26, 2006. Each of JPMorgan and Goldman Sachs reviewed the terms of each of the two proposals. Representatives of Cravath then reviewed with the board the legal terms of the two proposals, noting that both groups had improved their proposed merger agreement terms with respect to deal certainty, but that overall Bain and Blackstone had offered slightly superior terms. Representatives of Cravath responded to questions from the board regarding the legal terms of the offers and again discussed with the board the fiduciary duties of directors in connection with evaluating strategic alternatives.

Following this discussion, the meeting of the board of directors was recessed, and notwithstanding that Messrs. Charles J. Wyly, Jr. and Sam Wyly confirmed that they had no agreement or understanding with either potential acquiror group so that no potential conflict of interest existed, the special advisory committee convened separately with Wachtell Lipton and Goldman Sachs to discuss the potential sale of Michaels. Following the meeting of the special advisory committee, the full board of directors reconvened, and the chair of the special advisory committee reported to the board that each member of the special advisory committee supported submitting the proposed sale of Michaels to Bain and Blackstone to the full board of directors.

After further discussions between the board and representatives of JPMorgan, Goldman Sachs, Cravath and Wachtell Lipton, the board requested that each of JPMorgan and Goldman Sachs render an opinion as to whether the financial consideration to be received by our stockholders in the proposed merger with entities sponsored by Bain and Blackstone was fair from a financial point of view to our stockholders. JPMorgan and Goldman Sachs each delivered to the board an oral opinion, which was subsequently confirmed by delivery of a written opinion each dated June 30, 2006, that, as of such date and based upon and subject to the factors and assumptions set forth in its respective written opinion, the consideration to be received by the holders of our common stock in the proposed merger was fair, from a financial point of view, to such holders. The full text of the written opinions of JPMorgan and Goldman Sachs, which set forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken with such opinions, are attached as Annex C and Annex D to this proxy statement, respectively.

Following additional discussion and deliberation, our board of directors unanimously approved the merger agreement with entities sponsored by Bain and Blackstone, the merger and the other transactions contemplated by the merger agreement, authorized Michaels to enter into the merger agreement and resolved to recommend that our stockholders vote to adopt the merger agreement.

The merger agreement was executed by Michaels, Bain Paste Mergerco, Inc., Blackstone Paste Mergerco, Inc., Bain Paste Finco, LLC and Blackstone Paste Finco, LLC as of June 30, 2006. On June 30, 2006, after the close of trading on the NYSE, Michaels, Bain and Blackstone issued a joint press release announcing the merger.

At its September 1, 2006, meeting, our board of directors approved an amendment to the merger agreement to permit certain of our stockholders and members of our management to retain certain of their shares of our common stock as shares of common stock of the surviving corporation and, in the case of our management, to retain their options as an equity investment in the surviving corporation. This first amendment to the merger agreement was executed by Michaels, Bain Paste Mergerco, Inc., Blackstone Paste Mergerco, Inc., Bain Paste Finco, LLC and Blackstone Paste Finco, LLC as of September 1, 2006. At the September 1, 2006, meeting, our board also approved a rollover agreement among us and Highfields Capital I LP, Highfields Capital II LP and Highfields Capital III LP (collectively, the Highfields Funds), which was executed by the parties thereto as of September 1, 2006.

Reasons for the Merger

In reaching its decision to approve the merger agreement with entities sponsored by Bain and Blackstone, the merger and the other transactions contemplated by the merger agreement, authorize Michaels to enter into the merger agreement and recommend that our stockholders vote to adopt the merger agreement, our board of directors consulted with its financial and legal advisors and our management. The board of directors considered a number of potentially positive factors, including the following material factors:

the current and historical market prices of our common stock, and the fact that the \$44.00 per share to be paid for each share of our common stock in the merger represents a premium of 29.6% to the closing price of our common stock on March 17, 2006, the last trading day before we announced exploration of our strategic alternatives, and a premium of 31.6% to the average closing price for the three months ended March 17, 2006;

the possible alternatives to the sale of Michaels, including continuing to operate Michaels on a stand-alone basis, and the risks and uncertainties associated with such alternatives, including the risks associated with our ability to meet our projections for future results of operations, compared to the certainty of realizing in cash a fair value for their investment provided to our stockholders by the merger;

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the extensive sale process conducted by us, with the assistance of our financial and legal advisors, which involved engaging in discussions with approximately 37 parties to determine their interest in acquiring Michaels, entering into confidentiality agreements with 14 parties and the receipt of two definitive proposals to acquire Michaels;

the price proposed by Bain and Blackstone reflected extensive negotiations between the parties and represented the highest price that we had received for the acquisition of Michaels;

the presentation of JPMorgan and its opinion that, as of the date of its opinion and based upon and subject to the factors and assumptions set forth in such opinion, the consideration to be received by the holders of our common stock in the proposed merger is fair, from a financial point of view, to such holders (see *The Merger Opinion of JPMorgan* beginning on page 22 and Annex C to this proxy statement);

the presentation of Goldman Sachs and its opinion that, as of the date of its opinion and based upon and subject to the factors and assumptions set forth in such opinion, the consideration to be received by the holders of our common stock in the proposed merger is fair, from a financial point of view, to such holders (see *The Merger Opinion of Goldman Sachs* beginning on page 28 and Annex D to this proxy statement);

the terms of the merger agreement and the related agreements, including:

the limited number and nature of the conditions to the Sponsor Entities' obligation to consummate the merger;

our ability, under certain limited circumstances, to furnish information to and conduct negotiations with third parties regarding other proposals;

our ability to terminate the merger agreement in order to accept a financially superior proposal, subject to paying the Sponsor Entities a \$120 million termination fee;

the limited number and nature of the conditions to funding set forth in the debt financing commitment letters and the obligation of the Sponsor Entities to use their reasonable best efforts (1) to obtain the debt financing and (2) if the Sponsor Entities fail to effect the closing because of a failure to obtain the debt financing, to pay us a \$200 million termination fee; and

our ability to enforce specifically the terms and provisions of the merger agreement to prevent breaches of the merger agreement

the fact that the non-financial terms of the proposal received from Bain and Blackstone was, in the aggregate, more favorable to us than the proposal from the other potential acquiror group; and

the availability of appraisal rights to our stockholders who properly exercise their statutory rights (see *Appraisal Rights* beginning on page 63 and Annex E to this proxy statement).

Our board of directors also considered and balanced against the potentially positive factors a number of potentially negative factors concerning the merger, including the following material factors:

the risk that the merger might not be completed, including as a result of a failure by the Sponsor Entities to obtain the debt financing;

the fact that our stockholders will not participate in any future earnings or growth of Michaels;

the fact that the merger consideration consists of cash and will therefore be taxable to our stockholders for U.S. federal income tax purposes;

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the restrictions on our ability to solicit or engage in discussions or negotiations with a third party regarding other proposals and the requirement that we pay the Sponsor Entities a \$120 million termination fee if our board of directors accepts a superior proposal; and

the possibility of disruption to our operations associated with the merger, and the resulting effect thereof on us if the merger does not close.

During its consideration of the transaction with the Sponsor Entities, our board of directors was also aware that all of our directors and executive officers have interests in the merger that are, or may be, different from, or in addition to, those of our stockholders generally, as described under *The Merger Interests of Our Directors and Executive Officers in the Merger* beginning on page 36.

After taking into account all of the factors set forth above, as well as others, our board of directors determined that the potentially positive factors outweighed the potentially negative factors. Furthermore, our board of directors determined it to be advisable and in the best interests of our stockholders that we enter into the merger agreement, and that the merger agreement, the merger and the other transactions contemplated by the merger agreement are advisable and in the best interests of our stockholders. **The board of directors has unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and recommends that our stockholders vote to adopt the merger agreement at the special meeting.**

The board of directors did not assign relative weights to the above factors or the other factors considered by it. In addition, the board of directors did not reach any specific conclusion on each factor considered, but conducted an overall analysis of these factors. Individual members of the board of directors may have given different weights to different factors.

Recommendation of Our Board of Directors

On June 30, 2006, after evaluating a variety of business, financial and market factors and consulting with our legal and financial advisors, and after due discussion and due consideration, our board of directors unanimously approved the merger agreement, the merger and the other transactions contemplated by the merger agreement and unanimously declared that the merger agreement, the merger and the other transactions contemplated by the merger agreement are advisable and in the best interests of our stockholders. In addition, on September 1, 2006, our board of directors unanimously approved the first amendment to the merger agreement and unanimously declared it advisable and in the best interests of our stockholders that we enter into the first amendment. **ACCORDINGLY, OUR BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE FOR THE ADOPTION OF THE MERGER AGREEMENT.**

Opinion of JPMorgan

Pursuant to an engagement letter dated March 15, 2006, we retained JPMorgan as our financial advisor in connection with our analysis and consideration of various strategic alternatives available to us, including the merger, and to render an opinion to our board of directors as to the fairness, from a financial point of view, of the consideration to be received by us or our stockholders in connection therewith. At the meeting of our board of directors on June 30, 2006, JPMorgan rendered its oral opinion to our board of directors that, as of such date and based upon and subject to the factors and assumptions set forth in its opinion, the consideration to be received by our stockholders in the merger was fair, from a financial point of view, to such stockholders. JPMorgan has confirmed its June 30, 2006 oral opinion by delivering its written opinion to our board of directors, dated as of June 30, 2006, that, as of such date, the consideration to be received by our stockholders in the merger was fair, from a financial point of view, to such stockholders. No limitations were imposed by our board of directors upon JPMorgan with respect to the investigations made or procedures followed by it in rendering its opinions.

The full text of the written opinion of JPMorgan, dated June 30, 2006, which sets forth the assumptions made, matters considered and limits on the review undertaken, is attached as Annex C to this proxy statement and is incorporated herein by reference. Our stockholders are urged to read the opinion in its entirety. JPMorgan's written opinion is addressed to our board of directors, and is directed only to the consideration to be received in the merger and does not constitute a recommendation to any of our stockholders as to how such stockholder should vote at the special meeting. The summary of the opinion of

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JPMorgan set forth in this proxy statement is qualified in its entirety by reference to the full text of such opinion.

In arriving at its opinion, JPMorgan, among other things:

reviewed the merger agreement;

reviewed certain publicly available business and financial information concerning Michaels and the industries in which we operate;

compared the proposed financial terms of the merger with the publicly available financial terms of certain transactions involving companies JPMorgan deemed relevant and the consideration received for such companies;

compared our financial and operating performance with publicly available information concerning certain other companies JPMorgan deemed relevant and reviewed the current and historical market prices of our common stock and certain publicly traded securities of such other companies;

reviewed certain internal financial analyses and forecasts prepared by our management relating to our business; and

performed such other financial studies and analyses and considered such other information as JPMorgan deemed appropriate for the purpose of its opinion.

JPMorgan also held discussions with certain members of our management with respect to certain aspects of the merger, and the past and current business operations of Michaels, our financial condition and future prospects and operations, and certain other matters JPMorgan believed necessary or appropriate to its inquiry.

JPMorgan relied upon and assumed, without assuming responsibility or liability for independent verification, the accuracy and completeness of all information that was publicly available or was furnished to or discussed with JPMorgan by us or otherwise reviewed by or for JPMorgan. JPMorgan did not conduct or was not provided with, any valuation or appraisal of any assets or liabilities, nor did JPMorgan evaluate the solvency of Michaels or the Mergercos under any state or federal laws relating to bankruptcy, insolvency or similar matters. In relying on financial analyses and forecasts provided to it, JPMorgan assumed that they were reasonably prepared based on assumptions reflecting the best currently available estimates and judgments by management as to our expected future results of operations and financial condition to which such analyses or forecasts relate. JPMorgan expressed no view as to such analyses or forecasts or the assumptions on which they were based. JPMorgan also assumed that the merger and the other transactions contemplated by the merger agreement will be consummated as described in the merger agreement. JPMorgan relied as to all legal matters relevant to the rendering of its opinion upon the advice of counsel. JPMorgan further assumed that all material governmental, regulatory or other consents and approvals necessary for the consummation of the merger will be obtained without any adverse effect on us or the contemplated benefits of the merger.

The projections furnished to JPMorgan for us were prepared by our management. We do not publicly disclose internal management projections of the type provided to JPMorgan in connection with JPMorgan's analysis of the merger, and such projections were not prepared with a view toward public disclosure. These projections were based on numerous variables and assumptions that are inherently uncertain and may be beyond the control of management, including, without limitation, factors related to general economic and competitive conditions and prevailing interest rates. Accordingly, actual results could vary significantly from those set forth in such projections.

JPMorgan's opinion is based on economic, market and other conditions as in effect on, and the information made available to JPMorgan as of, the date of such opinion. Subsequent developments may affect JPMorgan's written opinion dated as of June 30, 2006, and JPMorgan does not have any obligation to update, revise, or reaffirm such opinion. JPMorgan's opinion is limited to the fairness, from a financial point of view, of the consideration to be received by our stockholders in the merger, and JPMorgan has expressed no opinion as to the fairness of the merger

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to, or any consideration of, creditors or other constituencies of Michaels or the underlying decision by us to engage in the merger.

In accordance with customary investment banking practice, JPMorgan employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses utilized by JPMorgan in connection with providing its opinion.

Historical Stock Price Analyses

JPMorgan reviewed the historical trading prices of our common stock for a 52-week period ending June 29, 2006. The high and low trading prices of our common stock for such 52-week period were \$41.95 and \$30.38, respectively. JPMorgan noted that the \$44.00 per share price in the proposed transaction represented a 15.8% premium to our closing stock price on June 29, 2006, the penultimate trading day prior to the announcement of the merger, and a 29.6% premium to our closing stock price on March 17, 2006, the last trading day prior to the date we publicly announced that we were exploring strategic alternatives with respect to the business.

Public Trading Multiples

Using publicly available information, including filings with the SEC, as well as published Wall Street equity research estimates, JPMorgan compared selected financial data of Michaels with similar data for selected publicly traded companies engaged in businesses which JPMorgan judged to be analogous to Michaels. These companies were selected, among other reasons, because of their operational and overall business similarities with our business. The companies reviewed in connection with this analysis were classified into three groups as follows: Direct Peers – Jo-Ann Stores, A.C. Moore and Hancock Fabrics; Hardline Retail – Home Depot, Lowe's, Best Buy, Staples, Office Depot, Bed, Bath & Beyond, Auto Zone and Circuit City; and Best in Class Brands – Wal-Mart, Home Depot, Target Corp., Walgreens, Kohl's Corp. and Williams-Sonoma.

For each company, JPMorgan computed the multiple of firm value, which consists of the market value of the company's equity, referred to as equity value, plus the company's net debt, to estimated 2006 EBITDA and estimated 2007 EBITDA (fiscal years ending January 31, 2007 and 2008, respectively). Also, JPMorgan computed each company's price to earnings ratios (based on IBES median EPS estimates for 2006 and 2007 calendarized to a January year-end). JPMorgan then computed median and mean multiples for each group of companies and for all the companies as a single group. The selected financial information compiled by JPMorgan is set forth below:

Comparable Companies Trading Analysis

	FV/2006	FV/2007		
	EBITDA	EBITDA	P/E 2006	P/E 2007
Direct Peers				
Median	7.8x	6.9x	21.6x	16.5x
Mean	7.8x	6.9x	21.6x	16.5x
Hardline retail				
Median	8.8x	7.6x	17.5x	14.8x
Mean	8.6x	7.6x	17.5x	14.8x
Best in class brands				
Median	8.5x	7.6x	17.0x	14.9x
Mean	9.0x	7.9x	17.7x	15.3x
Overall Median	8.5x	7.6x	18.5x	15.5x
Overall Mean	8.8x	7.8x	18.3x	15.5x

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Based on the multiples of firm value computed as set forth above and taking into account differences between our business and such other companies and such other factors as JPMorgan deemed appropriate, JPMorgan derived a range of multiples of firm value to 2006 EBITDA of 7.5x to 9.0x for Michaels. These multiples were then applied to our management's estimate of 2006 EBITDA, yielding implied trading values for Michaels of approximately \$32.25 per share to \$38.00 per share. In addition, based on the price to earnings multiples computed as set forth above and taking into account differences between our business and such other companies and such other factors as JPMorgan deemed appropriate, JPMorgan derived a range of price to earnings ratios for 2006 earnings of 15.5x to 19.0x for Michaels. These multiples were then applied to our management's estimate of 2006 EPS, yielding implied trading values for Michaels of approximately \$31.50 per share to \$38.75 per share.

Selected Transaction Analysis

Using publicly available information, JPMorgan examined multiples of sales, EBITDA and EBIT in recent specialty retail acquisition transactions which JPMorgan judged to be analogous to the merger. Specifically, JPMorgan reviewed the following transactions:

Date Announced	Acquirer	Target	Transaction value (\$ in millions)
Jan-06	Leonard Green & Partners LP	The Sports Authority	\$ 1,394
Jan-06	Bain Capital	Burlington Coat Factory	1,943
Nov-05	Apollo Management	Linens n Things	1,282
Oct-05	Sun Capital Partners	Shopko Stores	1,143
Sep-05	AAH Holdings Corporation	Party City	356
	Texas Pacific Group/Warburg	Neiman Marcus	5,195
May-05	Pincus		
Apr-05	Gamestop Corp.	Electronics Boutique	1,447
Apr-05	OSIM/JW Child/Temasek	Brookstone	343
Mar-05	Bain Capital/KKR/Vornado	Toys R Us	7,811
Nov-04	Kmart	Sears Roebuck	14,239
Jul-04	Sun Capital	Mervyn's	1,650
Jun-04	May Department Stores	Marshall Field's	3,240
Jul-03	Boise Cascade	OfficeMax Inc.	1,095

JPMorgan computed the mean and median multiples of the latest twelve months (LTM) sales, EBITDA and EBIT for the transaction values for each such transaction as follows:

	Transaction value/LTM		
	SALES	EBITDA	EBIT
Median	0.58x	8.5x	13.1x
Mean	0.66x	9.4x	16.7x

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Based on this data and taking into account differences between our business and such other companies and such other factors as JPMorgan deemed appropriate, JPMorgan derived a range of multiples for Michaels of LTM EBITDA to transaction value of 9.0x to 11.0x. JPMorgan then applied this range of multiples to our management's estimate of LTM EBITDA as of July 31, 2006 and as of October 31, 2006 and arrived at an estimated range of equity values for our common stock of \$34.50 to \$42.25 per share.

Discounted Cash Flow Analysis

JPMorgan conducted a discounted cash flow analysis for the purpose of determining the fully diluted equity value per share for our common stock. In conducting its analysis, JPMorgan considered two projected financial cases: a base case and a sensitivity case. Each of these cases was prepared by our management and consisted of a 10-year forecast. In the base case, JPMorgan calculated the unlevered free cash flows that we are expected to generate during fiscal years 2006 through 2015 with estimates through the year ending 2010 based on our management's forecasts and estimates for the years ending 2011 to 2015 based on 2010 margins and moderating growth trends. The sensitivity case is based on the same assumptions as the base case through 2008, and thereafter margins remain at 2008 levels.

For each case, JPMorgan also calculated an implied range of terminal values for Michaels at the end of the 10-year period ending 2015 by applying a perpetual growth rate ranging from 2% to 3% of our unlevered free cash flow during the final year of the 10-year period. The unlevered free cash flows and the range of terminal values were then discounted to present values using a range of discount rates from 9.5% to 10.5%, which were chosen by JPMorgan based upon an analysis of our weighted average cost of capital. The present value of the unlevered free cash flows and the range of terminal values were then adjusted for our cash balances of \$442 million as of April 28, 2006. The discounted cash flow analyses indicated a range of equity values of between \$39.50 per share and \$47.75 per share of our common stock for the base case, and a range of equity values of between \$37.00 per share and \$44.50 per share for the sensitivity case.

Recapitalization Analysis

JPMorgan performed an analysis of hypothetical recapitalization transactions involving Michaels and the theoretical per share value that our stockholders could receive in such transactions. In the first hypothetical recapitalization transaction, Michaels used \$200 million of existing cash and the proceeds of new debt financing to finance a special dividend of \$1.2 billion (approximately \$8.64 per share) or a repurchase of our common stock of \$1.2 billion (approximately 30 million shares at \$40 per share). The theoretical post-recapitalization trading value of our common stock was based upon estimated price to earnings ratios of 15.5x to 19.0x applied to our management's projections (adjusted to reflect the use of existing cash and additional leverage). JPMorgan then calculated the implied per share future equity values of our common stock from 2006 to 2008, and then discounted those values to June 30, 2006, using a discount rate of 10%. This analysis resulted in a range of implied present values, inclusive of the proceeds of the dividend or share repurchase, of approximately \$34.25 per share to \$44.25 per share for our common stock. In the second hypothetical recapitalization transaction, Michaels used \$200 million of existing cash and the proceeds of new debt financing to finance a special dividend of \$2.2 billion (approximately \$15.83 per share) or a repurchase of our common stock of \$2.2 billion (approximately 50 million shares at \$44 per share). The theoretical post-recapitalization trading value of our common stock was based upon estimated price to earnings ratios of 15.5x to 19.0x applied to our management's projections (adjusted to reflect the use of existing cash and additional leverage). JPMorgan then calculated the implied per share future equity values of our common stock from 2006 to 2008, and then discounted those values to June 30, 2006, using a discount rate of 10%. This analysis resulted in a range of implied present values, inclusive of the proceeds of the dividend or share repurchase, of approximately \$36.25 per share to \$46.00 per share for our common stock.

Table of Contents***Leveraged Buyout Analysis***

Using projections prepared by our management, JPMorgan calculated potential returns to equity investors in connection with a hypothetical leveraged acquisition of Michaels. For purposes of this analysis, JPMorgan assumed the transaction would be completed on July 31, 2006 and that a subsequent sale of Michaels would occur in 2011 at a price ranging from 9.0x to 10.0x our management's estimated 2010 EBITDA. JPMorgan also assumed that the required rate of return would range from 17.5% to 25% in a transaction of this type. Based on this analysis, JPMorgan estimated a range of implied equity values of between \$41.00 per share and \$45.50 per share of our common stock.

The foregoing summary of certain material financial analyses does not purport to be a complete description of the analyses or data presented by JPMorgan. The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. JPMorgan believes that the foregoing summary and its analyses must be considered as a whole and that selecting portions of the foregoing summary and these analyses, without considering all of its analyses as a whole, could create an incomplete view of the processes underlying the analyses and its opinion. In arriving at its opinion, JPMorgan did not attribute any particular weight to any analyses or factors considered by it and did not form an opinion as to whether any individual analysis or factor (positive or negative), considered in isolation, supported or failed to support its opinion. Rather, JPMorgan considered the totality of the factors and analyses performed in determining its opinion. Analyses based upon forecasts of future results are inherently uncertain, as they are subject to numerous factors or events beyond the control of the parties and their advisors. Accordingly, forecasts and analyses used or made by JPMorgan are not necessarily indicative of actual future results, which may be significantly more or less favorable than suggested by those analyses. Moreover, JPMorgan's analyses are not and do not purport to be appraisals or otherwise reflective of the prices at which businesses actually could be bought or sold. None of the selected companies reviewed as described in the above summary is identical to Michaels, and none of the selected transactions reviewed was identical to the merger. However, the companies selected were chosen because they are publicly traded companies with operations and businesses that, for purposes of JPMorgan's analysis, may be considered similar to ours. The transactions selected were similarly chosen because their participants, size and other factors, for purposes of JPMorgan's analysis, may be considered similar to the merger. The analyses necessarily involve complex considerations and judgments concerning differences in financial and operational characteristics of the companies involved and other factors that could affect the companies compared to Michaels and the transactions compared to the merger.

As part of its investment banking business, JPMorgan and its affiliates are continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, investments for passive and control purposes, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements, and valuations for estate, corporate and other purposes. JPMorgan was selected to advise us on its analysis and consideration of various strategic alternatives available to us on the basis of such experience and its familiarity with us.

Pursuant to its engagement letter, JPMorgan has acted as financial advisor to Michaels with respect to the merger and will receive a fee equal to 0.40% of the aggregate consideration to be paid in the transaction, or approximately \$24 million, all of which is payable upon consummation of the transaction, from us for its services. In addition, we agreed to indemnify JPMorgan for certain liabilities arising out of the engagement of JPMorgan. JPMorgan acted as joint lead arranger and book runner of our revolving credit facility in October 2005 and JPMorgan's commercial bank affiliate is a lender thereunder. In addition, JPMorgan and its affiliates have also provided a variety of services to Bain and Blackstone and their respective affiliates. All such services were performed for customary compensation. In addition, JPMorgan and its affiliates offered financing terms to potential acquirors of Michaels (including Bain and Blackstone and their affiliates) and is arranging and/or providing financing of the merger consideration for the Sponsor Entities, Bain and Blackstone and their respective affiliates. In the ordinary course of its businesses, JPMorgan and its affiliates may actively trade the debt and equity securities of Michaels or affiliates of Bain or Blackstone for its own account or for the accounts of customers and, accordingly, JPMorgan may at any time hold long or short positions in such securities. JPMorgan and certain of its affiliates and certain of their respective employees and certain private investment funds affiliated or associated with JPMorgan have invested in private equity funds managed or advised by Blackstone.

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Opinion of Goldman Sachs

Goldman Sachs rendered its oral opinion, which was subsequently confirmed in writing, to the special advisory committee of our board of directors and our board of directors that, as of June 30, 2006, and based upon and subject to the factors and assumptions set forth therein, the \$44.00 per share in cash to be received by the holders of the outstanding shares of Michaels common stock pursuant to the merger agreement was fair, from a financial point of view, to such holders.

The full text of the written opinion of Goldman Sachs, dated June 30, 2006, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this proxy statement. Goldman Sachs provided its opinion for the information and assistance of the special advisory committee of our board of directors and our board of directors in connection with their consideration of the transaction. Goldman Sachs opinion is not a recommendation as to how any holder of our common stock should vote with respect to the merger.

In connection with rendering the opinion described above and performing its related financial analyses, Goldman Sachs reviewed, among other things:

the merger agreement;

annual reports to stockholders and Annual Reports on Form 10-K of Michaels for the five fiscal years ended January 28, 2006;

certain interim reports to stockholders and Quarterly Reports on Form 10-Q of Michaels;

certain other communications from Michaels to its stockholders; and

certain internal financial analyses and forecasts for Michaels prepared by its management.

Goldman Sachs also held discussions with members of our senior management regarding their assessment of our past and current business operations, financial condition, and future prospects. In addition, Goldman Sachs reviewed the reported price and trading activity for our common stock, compared certain financial and stock market information for Michaels with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the retail industry specifically and in other industries generally and performed such other studies and analyses, and considered such other factors, as it considered appropriate.

Goldman Sachs relied upon the accuracy and completeness of all of the financial, accounting, legal, tax and other information discussed with or reviewed by it and assumed such accuracy and completeness for purposes of rendering the opinion described above. In addition, Goldman Sachs did not make an independent evaluation or appraisal of the assets and liabilities (including any contingent, derivative or off-balance-sheet assets and liabilities) of Michaels or any of our subsidiaries, nor was any evaluation or appraisal of the assets or liabilities of Michaels or any of our subsidiaries furnished to Goldman Sachs. Goldman Sachs opinion does not address the underlying business decision of Michaels to engage in the transaction. Goldman Sachs opinion is necessarily based on economic, monetary, market and other conditions as in effect on, and the information made available to it as of, the date of the opinion.

The following is a summary of the material financial analyses delivered by Goldman Sachs to the special advisory committee of our board of directors and our board of directors in connection with rendering the opinion described above. The following summary, however, does not purport to be a complete description of the financial analyses performed by Goldman Sachs, nor does the order of analyses described represent relative importance or weight given to those analyses by Goldman Sachs. Some of the summaries of the financial analyses include information presented in tabular format. The tables must be read together with the full text of each summary and are alone not a complete description of Goldman Sachs financial analyses. Except as otherwise noted, the following quantitative information, to the extent that it is based on market data, is based on market data as it existed on or before June 28, 2006 and is not necessarily indicative of current market conditions.

Table of Contents***Historical Stock Trading Analysis***

Goldman Sachs reviewed the historical trading prices for our common stock for the one-year period ended June 28, 2006. Goldman Sachs noted that during the one-year period ended June 28, 2006, our common stock closed at a low of \$30.76 on October 13, 2005, and a high of \$41.92 on July 5, 2005. Goldman Sachs also noted that on June 28, 2006, our common stock closed at \$37.73, and on March 17, 2006, the last public trading date prior to Michaels announcing that it was exploring strategic alternatives including a possible sale of the company, our common stock closed at \$33.96. Goldman Sachs also noted that our common stock traded at an all-time high of \$43.61.

Selected Companies Analysis

Goldman Sachs calculated and compared the ratio of the price per share to the estimated 2006 earnings per share of Michaels and the following companies that it selected based on financial data as of June 28, 2006, information it obtained from SEC filings, estimates provided by the Institutional Brokerage Estimate System (a data service that compiles estimates issued by securities analysts), or IBES, for the selected companies, and information and forecasts for Michaels provided by our management. The price per share to the estimated 2006 earnings per share ratio of Michaels was calculated using the closing price of our common stock on both March 17, 2006 and June 28, 2006 and the price per share to the estimated 2006 earnings per share ratios of the selected companies were calculated using the selected companies' closing prices on June 28, 2006. Although none of the selected companies is directly comparable to Michaels, the companies included were chosen because they are publicly traded companies with operations that for purposes of analysis may be considered similar to certain operations of Michaels. The results of these analyses are summarized as follows:

Selected Company	Estimated 2006 P/E Multiples
AC Moore Arts & Crafts, Inc.	23.3x
American Greetings Corporation	24.2x
Barnes & Noble, Inc.	15.8x
Bed Bath & Beyond Inc.	15.5x
Best Buy Co., Inc.	19.4x
Borders Group, Inc.	13.4x
Circuit City Stores, Inc.	25.1x
GameStop Corp.	18.7x
The Home Depot, Inc.	11.8x
Jo-Ann Stores, Inc.	NM
Lowe's Companies, Inc.	14.8x
Office Depot, Inc.	21.3x
Staples, Inc.	19.4x
Radioshack Corporation	14.3x
Williams-Sonoma, Inc.	17.0x

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Selected Company	Estimated 2006 P/E Multiples
Yankee Candle Company, Inc.	12.0x
<i>High</i>	25.1x
<i>Median</i>	18.0x
<i>Low</i>	11.8x
Michaels (based on closing price and estimated 2006 earnings as of March 17, 2006)	17.0x
Michaels (based on closing price and estimated 2006 earnings as of June 28, 2006)	19.3x
Michaels (based on \$44.00 per share)	21.6x

Present Value of Future Stock Price Analysis

Goldman Sachs performed an illustrative analysis of the implied present value of the future stock price of Michaels, which is designed to provide an indication of the present value of a theoretical future value of a company's equity as a function of such company's estimated future earnings and its assumed price to future earnings per share multiple. For this analysis, Goldman Sachs used the financial projections for Michaels prepared by our management. Goldman Sachs first calculated implied per share values for our common stock as of June 30 for each of the fiscal years 2007 to 2010 by applying price to forward earnings per share multiples of 16.0x to 20.0x to estimates prepared by our management of fiscal years 2007 to 2010 earnings per share. Goldman Sachs then calculated the implied per share future equity values for our common stock from 2007 to 2010, and then discounted those values to June 30, 2006, using discount rates of 10.0% and 13.0%. This analysis resulted in a range of implied present values of \$33.04 to \$52.35 per share of our common stock.

Discounted Cash Flow Analysis

Goldman Sachs performed an illustrative discounted cash flow analysis to determine a range of implied present values per share of our common stock. All cash flows were discounted to July 31, 2006, and terminal values were based upon EBITDA multiples of estimated fiscal year 2010 EBITDA. Forecasted financial information used in this analysis was based on projections provided by our management. Goldman Sachs used discount rates ranging from 9.0% to 13.0%, reflecting estimates of the weighted average cost of capital of Michaels and terminal EBITDA multiples ranging from 8.0x to 10.0x based on historical EBITDA multiples for Michaels. This analysis resulted in a range of implied present values of \$40.31 to \$53.82 per share of our common stock.

Using the same projections provided by our management, Goldman Sachs also performed a sensitivity analysis to analyze the effect of increases or decreases in annual sales growth and EBITDA margin from 2006 to 2010. The analysis utilized (1) a range of EBITDA margin compounded annual growth rates of 0.0% to 5.6% from fiscal years 2006 to 2010, (2) a range of compounded annual sales growth rates of 4.4% to 8.4% from fiscal years 2006 to 2010 and (3) terminal EBITDA multiple of 9.0x and a discount rate of 11.0% discounted to July 31, 2006. The EBITDA margin compounded annual growth rates of 0.0% to 5.6% from the fiscal years 2006 to 2010 implies a range of estimated EBITDA margin in 2010 of 13.6%, which is equal to the estimated EBITDA margins in 2006 assumed to remain constant in the projections provided by our management, up to 17.0% through the projection period, which is 1.3% higher than the estimated EBITDA margin in 2010 assumed in the projections provided by our management. The sales growth rates of 4.4% to 8.4% from fiscal years 2006 to 2010 represent a range of -3.0% to 1.0% change in the annual sales growth assumption of the financial projections provided by our management. This resulted in a range of implied present values of \$38.21 to \$51.47 per share of our common stock.

Table of Contents***Selected Transactions Analysis***

Goldman Sachs reviewed publicly available information for the following announced merger or acquisition transactions in the U.S. involving companies in the retail industries. While none of the companies participating in the selected transactions are directly comparable to Michaels, the companies participating in the selected transactions are companies with operations that, for the purposes of analysis, may be considered similar to certain operations of Michaels. Goldman Sachs calculated and compared the enterprise values as a multiple of the target company's publicly reported latest twelve months, or LTM, EBITDA prior to announcement of the applicable transaction. For purposes of this analysis, the enterprise value was calculated by adding the announced transaction price for the equity of the target company to the book value of the target company's net debt based on public information available prior to the announcement of the applicable transaction. The following tables set forth the transactions reviewed (listed by acquiror/target and month and year announced) and the enterprise value multiple of LTM EBITDA for each and the results of the analysis. The \$44.00 per share of our common stock to be paid to our stockholders in this transaction implies an enterprise value multiple of LTM EBITDA of 12.1x.

Acquiror/Target	Enterprise Value Multiple of LTM EBITDA
Supervalu Inc., CVS Corporation, Cerebus Capital Management, L.P./Albertson's, Inc. (January 2006)	7.3x
Leonard Green & Partners, L.P./The Sports Authority, Inc. (January 2006)	7.9
Bain Capital Partners, LLC/Burlington Coat Factory Warehouse Corporation (January 2006)	6.7
Apollo Management V, L.P./Linens 'n Things, Inc. (November 2005)	8.7
The Bon-Ton Stores, Inc./Northern Department Store Group of Saks Incorporated (October 2005)	7.3
Prentice Capital Management, LP, GMM Capital LLC/Goody's Family Clothing, Inc. (October 2005)	13.6
Sun Capital Partners, Inc./Shopko Stores Inc. (October 2005)	6.2
Berkshire Partners LLC, Weston Presidio/Party City Corporation (September 2005)	12.3
TPG Advisers III, Inc, TPG Advisers IV, Inc., Warburg Pincus & Co., Warburg Pincus LLC, Warburg Pincus Partners LLC/The Neiman Marcus Group, Inc. (May 2005)	10.3
GameStop Corp./Electronic Boutique Holdings Corp.(April 2005)	13.2
OSIM International Ltd, J.W. Childs Associates, L.P., Temasek Capital (Private) Limited/Brookstone, Inc. (April 2005)	8.3
Kohlberg Kravis Roberts & Co., Bain Capital Partners LLC and Vornado Realty Trust/Toy R Us, Inc. (March 2005)	9.7
Federated Department Stores, Inc./The May Department Stores Company (February 2005)	8.7
Movie Gallery, Inc./Hollywood Entertainment Corporation (November 2004)	N/A
Kmart Holding Corporation/Sears, Roebuck and Co. (November 2004)	7.6

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Acquiror/Target	Enterprise Value Multiple of LTM EBITDA
Jones Apparel Group, Inc./Barneys New York, Inc. (November 2004)	8.1
Cerebus Capital Management, L.P., Sun Capital Partners Group, Inc./Target Corporation, Mervyn's Holdings, LLC (July 2004)	5.9
The May Department Stores Company/Target Corporation, Marshall Field's (June 2004)	14.4
Circuit City Stores, Inc./InterTan, Inc. (May 2004)	N/A
Boise Cascade Corporation/OfficeMax, Inc. (July 2003)	10.4
<i>High</i>	14.4x
<i>Median</i>	8.7x
<i>Mean</i>	9.4x
<i>Low</i>	5.9x

Leveraged Buyout Analysis

Goldman Sachs performed an illustrative analysis of the range of the price per share of our common stock that an acquiror would theoretically pay if Michaels were acquired in a leverage buyout transaction that closed as of October 31, 2006. Assuming, among other things, (i) a sponsor targeted equity return range of 15.0% to 20.0%, (ii) Michaels would be valued at the end of 2010 at 8.0 to 10.0x EBITDA, (iii) a range of EBITDA margin compounded annual growth rates of 0.0% to 5.6% from years 2006 to 2010, and (iv) a range of sales compounded annual growth rates of 4.4% to 8.4% from years 2006 to 2010, the analysis resulted in a range of implied values of \$37.79 to \$56.67 per share of our common stock.

Recapitalization Analysis

Goldman Sachs analyzed certain illustrative recapitalization transactions involving Michaels and the theoretical value that our stockholders could receive in such transactions. In the first illustrative recapitalization transaction, Michaels used excess cash and the proceeds of new debt financings to finance a special dividend to its stockholders in the range of \$1.25 billion to \$1.75 billion, or \$9.47 to \$13.25 per share. The theoretical post-recapitalization trading value of our shares was based upon estimated price to earnings ratios of 14.0x to 20.0x and projections for Michaels provided by our management after giving effect to the use of excess cash and the additional leverage. Goldman Sachs then calculated the implied per share future equity values for our common stock from 2007 to 2010, and then discounted those values to June 30, 2006, using discount rates of 11.0% and 14.0%. This analysis resulted in a range of implied present values, inclusive of the special dividend amount, of \$33.56 and \$57.53 per share of our common stock. In the second illustrative recapitalization transaction, the analysis assumed that Michaels used excess cash and the proceeds of new debt financings to finance a cash tender offer in the range of \$40.00 to \$41.00 per share of our common stock for \$1.25 billion to \$1.75 billion of its outstanding shares. The theoretical post-recapitalization trading value of the shares not purchased in the tender offer was based upon estimated price to earnings ratios of 14.0x to 20.0x and projections for Michaels provided by our management after giving effect to the use of excess cash and the additional leverage. Goldman Sachs then calculated the implied per share future equity values for our common stock from 2007 to 2010, and then discounted those values to June 30, 2006, using discount rates of 11.0% and 14.0%. This analysis resulted in a range of implied present values, inclusive of the cash tender amount, of \$31.04 and \$62.29 per share of our common stock.

The preparation of a fairness opinion is a complex process and is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analyses or of the summary set forth above, without

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considering the analyses as a whole, could create an incomplete view of the processes underlying Goldman Sachs opinion. In arriving at its fairness determination, Goldman Sachs considered the results of all o