

MICHAELS STORES INC
Form 11-K
June 29, 2001

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [NO FEE REQUIRED]

For the calendar year ending December 31, 2000

or

TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 [NO FEE REQUIRED]

For the transition period from _____ to _____

Commission file number 0-11822

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

MICHAELS STORES, INC. EMPLOYEES 401(K) PLAN

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive offices:

**MICHAELS STORES, INC.
8000 Bent Branch Drive, Irving, Texas 75063
P.O. Box 619566, DFW, Texas 75261-9566**

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REPORT OF INDEPENDENT AUDITORS

Administration Committee
 Michaels Stores, Inc. Employees 401(k) Plan

We have audited the accompanying statements of net assets available for plan benefits of the Michaels Stores, Inc. Employees 401(k) Plan as of December 31, 2000 and 1999, and the related statement of changes in net assets available for plan benefits for the year ended December 31, 2000. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan at December 31, 2000 and 1999, and the changes in its net assets available for plan benefits for the year ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2000 is presented for purposes of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ ERNST & YOUNG LLP

ERNST & YOUNG LLP

Dallas, Texas
 June 28, 2001

MICHAELS STORES, INC. EMPLOYEES 401(K) PLAN

STATEMENTS OF NET
ASSETS AVAILABLE FOR PLAN BENEFITS

(In thousands)

| | December 31, 2000 | December 31, 1999 |
|---|----------------------|----------------------|
| Assets | | |
| Cash | \$ 206 | \$ |
| Investment in Michaels Stores, Inc. common stock | 10,227 | 12,142 |
| Investment in shares of registered investment companies | 18,154 | 14,648 |
| Investment in collective trust | 12,738 | 13,646 |
| Investment in short term investment funds | | 62 |
| Participant loans receivable | 1,935 | 1,545 |
| Contributions receivable: | | |
| Participants | 179 | |
| Employer | 67 | |
| | <u>43,506</u> | <u>42,043</u> |
| Liabilities | | |
| Contributions refundable: | | |
| Participants | (351) | |
| Employer | (210) | |
| | <u>(561)</u> | |
| Net assets available for plan benefits | <u>\$ 42,945</u> | <u>\$ 42,043</u> |

See accompanying notes to financial statements.

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MICHAELS STORES, INC. EMPLOYEES 401(K) PLAN

STATEMENT OF CHANGES IN
NET ASSETS AVAILABLE FOR PLAN BENEFITS

Year Ended December 31, 2000

(In thousands)

| | | |
|---|--|------------|
| Investment income: | | |
| Interest | | \$ 104 |
| Dividends | | 845 |
| Net depreciation in fair value of investments | | (386) |
| | | <u>563</u> |
| Contributions: | | |

| | |
|---|-----------|
| Participants | 5,345 |
| Employer | 1,640 |
| | <hr/> |
| Total additions | 7,548 |
| Distributions to participants | (6,646) |
| | <hr/> |
| Net increase | 902 |
| Net assets available for plan benefits: | |
| Beginning of year | 42,043 |
| | <hr/> |
| End of year | \$ 42,945 |
| | <hr/> |

See accompanying notes to financial statements.

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MICHAELS STORES, INC. EMPLOYEES 401(K) PLAN

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2000

1. Description of the Plan and Basis of Presentation.

The Michaels Stores, Inc. Employees 401(k) Plan (the "Plan") became effective on February 1, 1987, for eligible employees of Michaels Stores, Inc. (the "Employer" or the "Company") and its subsidiaries. The Plan is a defined contribution plan designed to comply with the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

The following is a brief description of the Plan. Participants should refer to the plan document for complete information regarding the Plan.

Participation Employees become eligible to participate in the Plan once they have reached the age of 21 and have either completed 500 hours of service to the Company during the previous six months, or who have completed 1,000 hours of service to the Company during the previous twelve months. The Administration Committee has developed and implemented a system to notify each employee upon his or her initial eligibility to participate in the Plan. Eligible employees who desire to participate in the Plan must elect to participate by phoning the voice response system maintained by the Plan's recordkeeper to authorize the Employer to make payroll deductions for participant contributions to the Plan.

Contributions Each participant may elect to have his or her compensation reduced, in increments of whole percents, at a minimum of 1% up to a maximum of 15% of the participant's considered compensation, as defined by the Plan, and have the Employer contribute to the Plan the amount of such reduction ("Salary Reduction Contribution"). A participant's Salary Reduction Contribution may not exceed an amount determined by the Internal Revenue Service (IRS) each calendar year (\$10,500 in 2000). Each participant may also elect to make voluntary, after-tax contributions at a minimum of 1% up to a maximum of 10% of the participant's considered compensation ("Employee Contributions"). In addition, the Employer is required to make a biweekly contribution ("Employer Matching Contributions") to the account of each participant in an amount equal to 50% of the participant's Salary Reduction Contribution up to 6% of each participant's considered compensation in such pay period.

Employer Matching Contributions are net of forfeitures, as defined in the Plan, and are deposited as soon as administratively feasible after the Employer Matching Contribution for the applicable pay period has been determined. All Employer Matching Contributions are invested based upon the participants' investment elections.

Participants may elect to invest their entire Plan account balance into one of, or in any combination of, a variety of investment options, which have been selected by the Plan's Investment Committee.

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Administration of the Plan The Plan is administered by an Administration Committee consisting of two people, both employees of the Employer, appointed by the Employer's Board of Directors. The members of the Administration Committee serve at the discretion of the Board of Directors without compensation for their services.

A separate account is maintained in the Plan for each participant. The account balances for participants are adjusted periodically as follows:

- (a) All contributions are allocated to participants' accounts biweekly with each Company payroll.
- (b) Participants' withdrawal requests are processed weekly.

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- (c) Income and gains and losses from investments are allocated to the participants' accounts daily.
- (d) Transfers are processed on a daily basis.

Custodian of Investments The assets of the Plan are held in a trust and managed by a trustee ("Trustee"), who may be an employee of the Company. Smith Barney Trust Company serves as the Trustee of the Plan. The Company pays the fees and expenses of the Trustee.

Vesting Participants become partially vested in the Employer Matching Contributions (including investment income and gains and losses thereon) at the rate of 33% after one year of service and 67% after two years of service. Employer Matching Contributions vest 100% upon the participant completing three years of service; attaining the age of 65; or death. Salary Reduction Contributions and Employee Contributions are 100% vested and non-forfeitable at all times.

Withdrawals Upon termination of employment with the Company, participants are entitled to, and may withdraw from the Plan, the vested portion of Employer Matching Contributions and 100% of Salary Reduction Contributions and Employee Contributions. In-service withdrawal provisions of the Plan allow for early withdrawal of Employee Contributions and rollover contributions at any time and for any reason. However, in-service withdrawals may be subject to ordinary income taxes and early distribution penalty taxes. Hardship withdrawals of Salary Reduction Contributions may be made under certain limited circumstances while the participant is employed by the Company. Participants may request distribution of their account any time after their employee termination date, and must begin receiving payments from their account balance by April 1 of the calendar year following the later of the year of employment termination or the year in which they reach age 70^{1/2}.

Loans Active participants of the Plan may obtain loans from their account balance subject to certain requirements without incurring income taxes or penalty taxes. Participant loans are repaid, with interest, on an after-tax basis through payroll deductions. Loan repayments (including interest) are deposited to each participant's account and invested according to their investment elections in effect at the time of repayment. Participants may borrow the lesser of 50% of their vested account balance or \$50,000.

Income Tax Status The Plan has received a determination letter from the IRS dated February 20, 1997 stating that the Plan is qualified under Section 401(a) of the Internal Revenue Code (IRC) and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the IRC to maintain its qualification. The Administration Committee believes that the Plan is designed and currently operated in compliance with the applicable requirements of the IRC, and therefore, believes that the Plan is qualified and the related trust is tax exempt.

Termination of the Plan While the Company has not expressed any intent to discontinue the Plan, the Company may terminate the Plan at any time. In the event the Plan is terminated, the Plan accounts of all participants would become fully vested.

2. Summary of Significant Accounting Policies.

Basis of Accounting

The financial statements of the Plan are prepared under the accrual method of accounting.

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Investment Valuation

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Investment in the common stock of the Company is valued at the last reported sales price on the last business day of the Plan year as quoted through The Nasdaq Stock Market, Inc. Investment in shares of registered investment companies is valued based on published prices which represent the net asset values of shares held by the Plan on the last business day of the Plan year. Investment in the collective trust is valued periodically by Union Bond & Trust Company based upon the current fair value of the underlying assets of the collective trust. Participant loans receivable and short-term investment funds are recorded at cost, which approximates fair value. Security transactions are recorded on a trade date basis. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires the use of estimates that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Investments.

The fair value of investments that represent 5% or more of the Plan's net assets available for plan benefits at December 31, 2000 are as follows:

| | Fair Value |
|------------------------------------|-----------------------|
| | (In thousands) |
| Michaels Stores, Inc. common stock | \$ 10,227 |
| MCM Stable Value Portfolio Fund | 12,738 |
| Smith Barney S&P 500 Index Fund | 6,858 |
| Scudder Growth and Income Fund | 3,245 |

The fair value of investments that represent 5% or more of the Plan's net assets available for plan benefits at December 31, 1999 are as follows:

| | Fair Value |
|------------------------------------|-----------------------|
| | (In thousands) |
| Michaels Stores, Inc. common stock | \$ 12,142 |
| MCM Stable Value Portfolio Fund | 13,646 |
| Smith Barney S&P 500 Index Fund | 5,933 |
| Scudder Growth and Income Fund | 2,852 |

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During 2000 the Plan's investments (including investments purchased, sold or held during the year) appreciated (depreciated) in fair value as follows:

| | Net Appreciation (Depreciation) in Fair Value of Investments |
|---|---|
| | (In thousands) |
| Michaels Stores, Inc. common stock | \$ 582 |
| Shares of registered investment companies | (1,645) |
| Collective trust and other | 677 |
| Total | \$ (386) |

4. Related Party Transactions.

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Under the terms of the Plan, the Employer pays all recordkeeping and administrative expenses of the Plan. The Employer paid approximately \$187,000 for recordkeeping and administrative expenses on behalf of the Plan for 2000.

5. Reconciliation of Financial Statements to Form 5500.

The following is a reconciliation of net assets available for plan benefits per the financial statements to the Form 5500:

| | <u>2000</u> | <u>1999</u> |
|---|----------------|---------------|
| | (In thousands) | |
| Net assets available for plan benefits per the financial statements | \$ 42,945 | \$ 42,043 |
| Amounts allocated to withdrawn participants | (5) | (28) |
| | <u>42,940</u> | <u>42,015</u> |
| Net assets available for plan benefits per the Form 5500 | \$ 42,940 | \$ 42,015 |

The following is a reconciliation of distributions to participants per the financial statements to the Form 5500:

| | <u>2000</u> |
|--|----------------|
| | (In thousands) |
| Distributions to participants per the financial statements | \$ 6,646 |
| Add: Amounts allocated to withdrawn participants at December 31, 2000 | 5 |
| Less: Amounts allocated to withdrawn participants at December 31, 1999 | (28) |
| | <u>6,623</u> |
| Distributions to participants per the Form 5500 | \$ 6,623 |

Amounts allocated to withdrawn participants are recorded on the Form 5500 for participant distributions that have been processed and approved for payment prior to year-end but not yet paid.

MICHAELS STORES, INC. EMPLOYEES 401(K) PLAN
Schedule H; Line 4i: SCHEDULE OF ASSETS (HELD AT END OF YEAR)
As of December 31, 2000
(In thousands)

| a. | b. Identity of Issuer, Borrower, Lessor or Similar Party | c. Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value | e. Current Value |
|----|---|---|---------------------|
| * | Michaels Stores, Inc. | Common stock, par value \$.10 per share | \$ 10,227 |
| | Union Bond & Trust Company | MCM Stable Value Portfolio Fund | 12,738 |
| * | Smith Barney Trust Company | Smith Barney S&P 500 Index Fund | 6,858 |
| | The Scudder Family of Funds | Scudder Growth and Income Fund | 3,245 |
| | The Glenmede Fund, Inc. | Glenmede Institutional International Fund | 2,041 |

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MICHAELS STORES, INC. EMPLOYEES 401(K) PLAN STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS Year Ended December 31, 2000 (In thousands)

MICHAELS STORES, INC. EMPLOYEES 401(K) PLAN NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2000

MICHAELS STORES, INC. EMPLOYEES 401(K) PLAN Schedule H; Line 4i: SCHEDULE OF ASSETS (HELD AT END OF YEAR) As of December 31, 2000 (In thousands)

SIGNATURES