

MICHAELS STORES: Nov. 3 Balance Sheet Upside-Down by \$2.94 Billion

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Michaels Stores Inc. reported unaudited financial results for the fiscal 2007 third quarter ended Nov. 3, 2007.

The company incurred net loss of \$18.1 million in the third quarter of fiscal 2007, a \$53.1 million decrease from a net income of \$35 million in the third quarter of fiscal 2006.

Year-to-date net loss was \$84.6 million compared to a net income of \$108.3 million in the same period last year. The decrease in net income for both periods was due to interest expense.

"During the quarter, we made significant progress on our key strategic initiatives, particularly our global sourcing and pricing/promotion programs," Brian Cornell, chief executive officer, said. "Importantly, we are confident in our approach to evolve into a stronger consumer facing and customer driven organization while maintaining our focus on operations and cost management."

Balance Sheet and Cash Flow

At Nov. 3, 2007, the company's balance sheet showed total assets of \$1.95 billion, total liabilities of \$4.89 billion, resulting to a shareholders' deficit of \$2.94 billion.

The company's cash balance at the end of the third quarter was \$56.7 million. Third quarter debt levels totaled \$4.18 billion, up \$83.3 million from the end of second quarter as a result of holiday working capital needs. During the quarter, the company made a \$5.9 million amortization payment on its Senior Secured Term Loan.

Average inventory per Michaels store at the end of the third quarter of fiscal 2007, inclusive of distribution centers, was up 1.5% to \$1.02 million compared to \$1.01 million at the end of the third quarter for fiscal 2006. The increase in average inventory is due to the timing of holiday inventory receipts.

Capital spending for the nine months ending Nov. 3, 2007, totaled \$85.9 million, with \$48.5 million attributable to real estate activities, such as new, relocated, existing and remodeled stores, and \$35.9 million for strategic initiatives such as the new Centralia, Washington distribution center, a Workforce Management System and other merchandise system enhancements.

During the first nine months of fiscal 2007, the company opened 43 new stores, relocated 11 stores, remodeled 39 stores and closed three Michaels stores. In addition, the company opened two and closed one Aaron Brothers stores during this period.

About Michaels Stores Inc.

Headquartered in Inving, Texas, Michaels Stores Inc. (NA: MIK) -- <http://www.michaels.com/> -- is a specialty retailer of arts, crafts, framing, floral, wall decor, and seasonal merchandise for the hobbyist and do-it-yourself home decorator. As of Nov. 28, 2007, the company owns and operates 964 Michaels stores in 48 states and Canada, 168 Aaron Brothers stores, 11 Recollections stores, and four Star Wholesale operations.

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As reported in the Troubled Company Reporter on Oct. 31, 2007, Standard & Poor's Ratings Services revised its ratings outlook on Michaels Stores Inc. to positive from developing. At the same time, S&P affirmed all of its ratings, including the 'B-' corporate credit rating.