

TOYS R US INC  
Form 10-K  
March 24, 2011  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended January 29, 2011**

**Commission file number 1-11609**

**TOYS R US, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**

**22-3260693**

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(State or other jurisdiction of  
incorporation or organization)  
**One Geoffrey Way**  
**Wayne, New Jersey**  
(Address of principal executive offices)  
**(973) 617-3500**  
(Registrant's telephone number, including area code)

(IRS Employer  
Identification Number)  
**07470**  
(Zip code)

## Securities registered pursuant to Section 12(b) or 12(g) of the Act:

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐  
Non-accelerated filer ☒ (Do not check if a smaller reporting company) Smaller reporting company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of March 23, 2011, there were outstanding 48,958,133 shares of common stock, \$0.001 par value per share, of Toys R Us, Inc., none of which were publicly traded.

## DOCUMENTS INCORPORATED BY REFERENCE

None

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### **Forward-Looking Statements**

This Annual Report on Form 10-K, the other reports, statements, that we have or may in the future file with the Securities and Exchange Commission and other publicly released materials, both oral and written, that we have made or may make in the future, may contain forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and such disclosures are intended to be covered by the safe harbors created thereby. These forward looking statements reflect our current views with respect to, among other things, our operations and financial performance. All statements herein or therein that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. We generally identify these statements by words or phrases, such as anticipate, estimate, plan, project, expect, believe, intend, foresee, forecast, will, may, could, might, negative version of these words or other similar words or phrases. These statements discuss, among other things, our strategy, store openings, integration and remodeling, the development, implementation and integration of our internet business, future financial or operational performance, projected sales or earnings per share for certain periods, comparable store net sales from one period to another, cost savings, results of store closings and restructurings, outcome or impact of pending or threatened litigation, domestic or international developments, nature, amount and allocation of future capital expenditures, enhancements of our information technology systems, growth initiatives, inventory levels, cost of goods, selection and type of merchandise, marketing positions, implementation of safety standards, future financings and other goals and targets and statements of the assumptions underlying or relating to any such statements.

These statements are subject to risks, uncertainties and other factors, including, among others, the seasonality of our business, competition in the retail industry, economic factors and consumer spending patterns, the availability of adequate financing, access to trade credit, changes in consumer preferences, our dependence on key vendors for our merchandise, political and other developments associated with our international operations, domestic and international events affecting the delivery of toys and other products to our stores, product safety issues including product recalls, the existence of adverse litigation, changes in laws that impact our business, our substantial level of indebtedness and related debt-service obligations, restrictions imposed by covenants in our debt agreements and other risks, uncertainties and factors set forth under Item 1A entitled RISK FACTORS of this Annual Report on Form 10-K and in our other reports and documents filed with the Securities and Exchange Commission. In addition, we typically earn a disproportionate part of our annual operating earnings in the fourth quarter as a result of seasonal buying patterns and these buying patterns are difficult to forecast with certainty. These factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements that are included in this report. We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update these statements in light of subsequent events or developments unless required by the Securities and Exchange Commission's rules and regulations. Actual results may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

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### **PART I**

#### **ITEM 1. BUSINESS**

As used herein, the Company, we, us, or our means Toys R Us, Inc., and its consolidated subsidiaries, except as expressly indicated or unless context otherwise requires. Our fiscal year ends on the Saturday nearest to January 31 of each calendar year. This Annual Report on Form 10-K focuses on our last three fiscal years ended as follows: fiscal 2010 ended January 29, 2011; fiscal 2009 ended January 30, 2010; and fiscal 2008 ended January 31, 2009. References to 2010, 2009 and 2008 are to our fiscal years unless otherwise specified.

#### **Our Business**

We are the leading global specialty retailer of toys and juvenile products as measured by net sales. For over 50 years, Toys R Us has been recognized as the toy and baby authority. We sell a variety of products in the core toy, entertainment, juvenile, learning and seasonal categories through our retail locations and the Internet. Our brand names are highly recognized in North America, Europe and Asia, and our expertise in the specialty toy and juvenile retail space, our broad range of product offerings, our substantial scale and geographic footprint and our strong vendor relationships account for our market-leading position and distinguish us from the competition. We believe we offer the most comprehensive year-round selection of toys and juvenile products, including a broad assortment of private label and exclusive merchandise unique to our stores.

As of January 29, 2011, we operated 1,392 stores and licensed an additional 220 stores. These stores are located in 34 countries and jurisdictions around the world under the Toys R Us, Babies R Us and FAO Schwarz banners. In addition to these stores, we operate Toys R Us Express stores ( Express stores ), smaller format stores primarily open on a short-term basis during the holiday season. During the fiscal 2010 holiday season, we operated 656 Express stores, of which 95 were still open as of January 29, 2011. Of the 95 Express stores that remained open, 19 have been included in our overall store count as they each have a cumulative lease term of at least two years. We also own and operate websites including Toysrus.com, Babiesrus.com, eToys.com, FAO.com and babyuniverse.com, as well as other Internet sites we operate in our international markets. For fiscal 2010, we generated net sales of \$13.9 billion, net earnings of \$168 million and Adjusted EBITDA of \$1.1 billion. For the definition of Adjusted EBITDA, an explanation of why we present it and a description of the limitations of this non-GAAP measure, as well as a reconciliation to net earnings, see Item 6 entitled **SELECTED FINANCIAL DATA** of this Annual Report on Form 10-K.

#### *History*

Our Company was founded in 1948 when Charles Lazarus opened a baby furniture store, Children s Bargain Town, in Washington, D.C. The Toys R Us name made its debut in 1957. In 1978, we completed an initial public offering of our common stock. When Charles Lazarus retired as our Chief Executive Officer in 1994, the Company operated or licensed over 1,000 stores in 17 countries and jurisdictions. In 1996, we established the Babies R Us brand, further solidifying our reputation as a leading consumer destination for children and their families.

On July 21, 2005, we were acquired by an investment group led by entities advised by or affiliated with Bain Capital Partners, LLC, Kohlberg Kravis Roberts & Co. L.P., and Vornado Realty Trust. We refer to this collective ownership group as our Sponsors . Upon the completion of this acquisition, we became a private company.

#### *Strategy*

We have developed a juvenile integration strategy which includes new store formats with an integrated one-stop shopping environment for our guests by combining the Toys R Us and Babies R Us merchandise offerings under one roof. We call these formats side-by-side ( SBS ) and Superstores ( SSBS ), depending on the store size. SBS stores are a combination of Toys R Us stores and Babies R Us stores. Our SSBS stores are conceptually similar to SBS stores, except that they are larger in size. Either format may be the result of a conversion or relocation and, in certain cases, may be accompanied by the closure of one or more existing stores. In addition, SBS stores and SSBS stores may also be constructed in a new location and market.

The integration of juvenile merchandise (including baby products) with toy and entertainment offerings has allowed us to create a one-stop shopping experience for our guests, and enabled us to obtain the sales and operating benefits associated with combining product lines under one roof. Our product assortment allows us to capture new parents as customers during pregnancy, helping them prepare for the arrival of their newborn. We then become a resource for infant products such as baby formula, diapers and solid foods, as well as baby clothing and learning aids. We believe this opportunity to establish first contact with new parents enables us to develop long-lasting customer relationships with them as their children grow and they transition to becoming consumers of our toy products. We continue to build on these relationships as these children mature and eventually become parents themselves. Additionally, juvenile merchandise such as baby formula, diapers and infant

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clothing provide us with a mitigant to the inherent seasonality in the toy business.

In connection with our juvenile integration strategy, we continue to increase the number of SBS and SSBS stores both domestically and internationally. Through the end of fiscal 2010, we converted 202 existing stores into SBS store format and three existing stores into SSBS store format. In addition, during the same period, we have opened 51 SBS and SSBS stores (28 of which were relocations

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of existing stores). We expect that our integrated store formats will continue to be a significant driver of our revenue and profit growth going forward.

In addition to our SBS and SSBS store formats, we continue to enhance our juvenile integration strategy with our Babies R Us Express ( BRU Express ) and Juvenile Expansion formats which devote additional square footage to our juvenile products within our traditional Toys R Us stores. Since implementing this integrated store format, we have augmented 86 existing Toys R Us stores with these layouts.

During our prime holiday selling season in fiscal 2010, we operated 656 Express stores globally in shopping malls, outlet malls and other shopping centers. These locations typically range in size from approximately 2,000 to 7,000 square feet, and provide our customers with greater convenience and accessibility during the holiday selling season. Express stores with a cumulative lease term of at least two years, primarily outlet mall locations, are included in our overall store count, while the remaining locations are excluded. As of January 29, 2011, there were 95 Express stores open, 19 of which have been included in our overall store count. We expect to continue our strategy for operating temporary holiday Express locations in the future, the amount of which will depend on market opportunities.

We plan to further expand and leverage our e-commerce business by continuing to integrate our Internet capabilities with our stores. In a limited number of stores in the United States and all stores in the United Kingdom, our websites allow guests to determine if an item is in-stock at a particular store and we offer in-store pick-up of on-line orders. We expect to expand these capabilities to all stores in the United States and select foreign markets in the near future. We also allow customers to return items purchased on-line at our stores. Additionally, our loyalty programs, including baby registry, birthday club and Rewards R Us programs, all offer on-line functionality which deepens our relationship with our guests and complements the in-store experience. In addition to our existing online presence in Australia, Canada, Japan and the United Kingdom, in fiscal 2010, we introduced websites in Austria, France and Germany, expanding our global reach. In the near future, we plan on further extending our online presence by rolling out websites in the Netherlands, Portugal, Spain and Switzerland. We believe our global e-commerce platform provides the on-going potential to enter new international markets where we do not have any physical stores. For fiscals 2010, 2009 and 2008, our e-commerce business generated net sales of approximately \$782 million, \$602 million and \$578 million, respectively.

We believe that we have the potential to grow the number of stores in our store portfolio. We believe this opportunity exists in the United States and our existing international markets, as well as new international markets, particularly those in the emerging economies which are seeing overall GDP growth and rising incomes.

Additionally, we will continue to focus on expanding our gross margins primarily through optimizing pricing, merchandising and store productivity initiatives, increasing our private label penetration, increasing our use of direct sourcing and managing our selling, general and administrative expenditures.

As of the end of fiscal 2010, we operated all of the R Us branded retail stores in the United States and Puerto Rico and approximately 70% of the 744 R Us branded retail stores internationally. The balance of the R Us branded retail stores outside the United States are operated by licensees. License fees did not have a material impact on our Net sales.

As of January 29, 2011, we operated 1,392 retail stores and licensed an additional 220 retail stores worldwide in the following formats:

### *Operated Stores*

844 traditional toy stores, which typically range in size from 30,000 to 50,000 square feet and devote approximately 7,000 square feet to boutique areas for juvenile (including baby) products (BRU Express and Juvenile Expansion formats devote approximately an additional 4,000 square feet and 1,000 square feet, respectively, for juvenile - including baby - products);

270 juvenile stores, which typically range in size from 30,000 to 45,000 square feet and devote approximately 4,000 to 5,000 square feet to traditional toy products;

224 SBS stores, which typically range in size from 30,000 to 50,000 square feet and devote approximately 20,000 to 30,000 square feet to traditional toy products and approximately 10,000 to 20,000 square feet to juvenile (including baby) products;



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32 SSBS stores, which typically range in size from 55,000 to 70,000 square feet by combining a traditional domestic toy store of approximately 30,000 to 40,000 square feet with a domestic juvenile (including baby) store of approximately 25,000 to 30,000 square feet;

19 Express stores, which typically range in size from 2,000 to 7,000 square feet, each with a cumulative lease term of at least two years; and

3 flagship store locations (the Toys R Us store in Times Square, the FAO Schwarz store on 5<sup>th</sup> Avenue and the Babies R Us store in Union Square all in New York City), which range in size from 55,000 to 100,000 square feet.

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### *Licensed Stores*

220 R Us branded retail stores ranging in various sizes.

In addition to these stores, during the fiscal 2010 holiday season, we operated an additional 637 temporary Express store locations located in high traffic areas, 76 of which remained open as of January 29, 2011. These locations typically range in size from approximately 2,000 to 7,000 square feet, each has a cumulative lease term of less than two years and is not included in our overall store count.

Our extensive experience in retail site selection has resulted in a portfolio of stores that includes attractive locations in many of our chosen markets. Markets for new stores and formats are selected on the basis of proximity to other R Us branded stores, demographic factors, population growth potential, competitive environment, availability of real estate and cost. Once a potential market is identified, we select a suitable location based upon several criteria, including size of the property, access to major commercial thoroughfares, proximity of other strong anchor stores or other destination superstores, visibility and parking capacity.

### *Our Business Segments*

Our business has two reportable segments: Toys R Us Domestic ( Domestic ) and Toys R Us International ( International ). See Note 12 to our Consolidated Financial Statements entitled SEGMENTS for our segments financial results for fiscals 2010, 2009 and 2008. The following is a brief description of our segments:

**Domestic** Our Domestic segment sells a variety of products in the core toy, entertainment, juvenile (including baby), learning and seasonal categories through 868 stores that operate in 49 states in the United States and Puerto Rico and through the Internet. Domestic Net sales in fiscal 2010 were derived from 455 traditional toy stores (including 79 BRU Express and Juvenile Expansion formats), 252 juvenile stores, 107 SBS stores, 32 SSBS stores, 19 permanent Express stores and our 3 flagship stores in New York City. Additionally, we generate Net sales through our temporary Express store locations. Based on sales, we are the largest specialty retailer of toys in the United States and Puerto Rico. Domestic Net sales were \$8.6 billion for fiscal 2010, which accounts for 62% of our consolidated Net sales.

**International** Our International segment sells a variety of products in the core toy, entertainment, juvenile (including baby), learning and seasonal categories through 524 owned and 220 licensed stores in 33 countries and jurisdictions and through the Internet. In addition to fees received from licensed stores, International Net sales in fiscal 2010 were derived from 389 traditional toy stores (including seven BRU Express formats), 117 SBS stores and 18 juvenile stores. Additionally, we generate Net sales through our temporary Express store locations. Our operated stores are in Australia, Austria, Canada, France, Germany, Japan, Portugal, Spain, Switzerland and the United Kingdom. International Net sales were \$5.3 billion for fiscal 2010, which accounts for 38% of our consolidated Net sales.

### *Strengths*

We believe we offer our guests the most comprehensive year-round selection of merchandise in the retail toy and juvenile categories through our R Us branded stores and through the Internet. On average, our Domestic and International stores offer approximately 11,000 and 9,000 items year-round, respectively. Express stores, due to their size, typically carry approximately 1,500 items. We believe that our differentiated product assortment, proportionately higher private label and exclusively licensed product offerings, and quality service levels enable us to command a reputation as the shopping destination for toys and juvenile (including baby) products. We seek to differentiate ourselves from our competitors in several key areas, including product selection, product presentation, service, in-store experience and marketing. We are able to provide vendors with a year-round distribution outlet for the broadest assortment of their products. We continue to grow and strengthen our Domestic and International segments by:

focusing on the expansion of our juvenile product offerings through our SBS, SSBS, BRU Express and Juvenile Expansion store formats;

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expanding our presence during the holiday season through temporary Express stores in malls and shopping centers;

enhancing our product offerings and adding private label and exclusive products to our mix including unique and exceptional items sold through the FAO Schwarz brand;

offering value to customers through a convenient multi-channel (store and Internet) shopping experience;

renovating and updating or relocating our existing stores to enhance the shopping experience and continually reviewing the market for new store opportunities;

reaching customers, through differentiated value propositions, with our portfolio of e-commerce brands;

achieving a high degree of customer interaction by leveraging our comprehensive, state-of-the-art baby registry and birthday club in the United States and our world-wide Rewards R Us program; and

continuing to refine our in-store guest experience and improving customer service.

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### *Product Selection and Merchandise*

Our product offerings are focused on serving the needs of parents, grandparents and other gift-givers interested in purchasing merchandise in our primary product categories:

*Core Toy* boys and girls toys, such as dolls and doll accessories, action figures, role play toys and vehicles, games, plush toys and puzzles;

*Entertainment* video game systems and software, electronics, computer software, DVDs and other related products;

*Juvenile* focused on serving newborns and children up to four years of age. Offer a broad array of products, such as baby gear, infant care products, apparel, commodities, furniture, bedding, room décor and infant toys;

*Learning* educational electronics and developmental toys, such as our Imaginarium products in the United States and World of Imagination products at our International locations, and pre-school merchandise which includes learning products, activities and toys; and

*Seasonal* toys and other products geared toward holidays (including Christmas, Hanukkah, Three Kings, Carnival, Easter, Golden Week and Halloween) and summer activities, as well as bikes, sporting goods, play sets and other outdoor products.

We offer a wide selection of popular national toy and juvenile brands including many products that are exclusively offered at, or launched at, our stores. Over the past few years, we have worked with key resources to obtain exclusive products and expand our private label brands enabling us to earn higher margins and offer products that our customers will not find elsewhere. We offer a broad selection of private label merchandise under names such as Babies R Us, KOALA BABY, IMAGINARIUM, AVIGO, FAST LANE, YOU & ME, JUST LIKE HOME and FAO SCHWARZ in our stores. We believe these private label brands provide a platform on which we can expand our product offerings in the future and will further differentiate our products and allow us to enhance profitability. In fiscal 2010, we opened a sourcing office in China to work with our vendors and expand our private label product offerings.

### *Marketing*

We believe that we have achieved our leading market position largely as a result of building highly recognized brand names, strong loyalty programs and delivering superior service to our customers. We use a variety of broad-based and targeted marketing and advertising strategies to reach consumers. These strategies include mass marketing programs such as direct mail, e-mail marketing, targeted magazine advertisements, catalogs/rotos and other inserts in national or local newspapers, national television and radio broadcasts, targeted door-to-door distribution, direct mailings to loyalty program members and in-store marketing. Our most significant single piece of advertising is the Big Book promotional catalog release, which is distributed through direct mail, newspapers and in-stores during the fourth quarter holiday selling season.

Our direct marketing program for the specialty juvenile market includes mailings to expecting mothers and new parents. In addition, we offer unique benefits such as loyalty programs to our customers, including the Rewards R Us program, which provides customers with a variety of exclusive one-time and ongoing benefits, and Geoffrey's Birthday Club, which provides members with exciting birthday surprises.

Our comprehensive baby registry offered in our stores and on the Internet allows an expectant parent to list desired products and enables gift-givers to tailor purchases to the expectant parent's specific needs and wishes. Our baby registry also facilitates our direct marketing and customer relationship initiatives.

The merchandising and marketing teams work closely to present the products in an engaging and innovative manner and we are focused on enhancing our in-store signage, which is carefully coordinated so that it is consistent with the current television, radio and print advertisements. We regularly change our banners and in-store promotions, which are advertised throughout the year, to attract consumers to visit the stores, to generate strong customer frequency and to increase average sales per customer. Our websites are used to support and supplement the promotion of products in R Us branded stores.

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### *Customer Service*

Compared with multi-line mass merchandisers, we believe we are able to provide superior service to our customers through our highly trained sales force. We train our store associates extensively to deepen their product knowledge and enhance their targeted selling skills in order to improve customer service in our stores. We are continually working to improve the allocation of products within our stores and reduce waiting times at checkout counters. For the added convenience of our customers, we offer a layaway program and in select stores we provide a home delivery program.

In addition to our baby registry, we offer a variety of helpful publications and innovative programs and services for the expectant parent, including frequent in-store product demonstrations.

### *Safety Focus*

We have taken a leadership position on safety. We believe that we have put in place industry-leading product safety standards that meet or exceed United States federally mandated and/or global regulatory requirements in the countries in which we operate. In

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addition, through our dedicated safety micro site, safety boards in stores, e-mail blasts and partnerships with noted safety experts and organizations, we provide resources that are used by parents, grandparents and childcare providers to ensure they have the most up-to-date information on product safety and recalls.

### *Corporate Philanthropy and Community Service*

We are proud to have a long tradition at Toys R Us of supporting numerous children's charities. Toys R Us Children's Fund Inc., a non-profit organization, and Toys R Us, Inc. have contributed millions of dollars to charities that help keep children safe and help them in times of need. We actively support charities such as the Marine Toys For Tots Foundation, Autism Speaks and Save the Children, among others. Each year the Company also produces a special toy selection guide for differently-abled children. The Company encourages its employees to become active in charitable endeavors by matching contributions they make to charities of their choice. The Company also manages the Geoffrey Fund, Inc., a non-profit organization. The Geoffrey Fund's sole purpose is to provide assistance to employees affected by natural and personal disasters and relies on donations from employees and funds from the Company to carry out its mission.

### *Market and Competition*

We are the leading global specialty retailer of toys and juvenile products as measured by net sales. As a specialty retailer, we are able to focus solely on the toys and juvenile products market. We operate in an attractive industry that has proven to be resilient due to the demand for toys and juvenile (including baby) products, driven by the desire of families to spend on their children and by population growth.

In these markets, we compete with mass merchandisers, such as Wal-Mart, Target and Kmart; consumer electronics retailers, such as Best Buy and GameStop; Internet and catalog businesses, such as Amazon.com ( Amazon ); national and regional specialty, department and discount store chains; as well as local retailers in the geographic areas we serve. Our baby registry competes with baby registries of mass merchandisers, other specialty retail formats and regional retailers.

In the International toy and electronics markets, we compete with mass merchandisers, discounters and specialty retailers such as Argos, Auchan, Bic Camera, Carrefour, El Corte Ingles, King Jouet, Mothercare, Spielmax, Wal-Mart, Yamada Dinky, Yodobashi, and Zellers. The mass merchandisers and discounters aggressively price items in the traditional toy and electronic product categories with larger dedicated selling space during the holiday season in order to build traffic for other store departments.

We believe the principal competitive factors in the specialty toy, juvenile (including baby) and video game products markets are product variety, quality, safety, availability, price, advertising and promotion, convenience or store location and customer support and service. We believe we are able to effectively compete by providing a broader range of merchandise, maintaining in-stock positions, as well as convenient locations, superior customer service and competitive pricing.

### *Seasonality*

Our global business is highly seasonal with sales and earnings highest in the fourth quarter due to the fourth quarter holiday selling season. During fiscals 2010, 2009 and 2008 approximately 43%, 43% and 40%, respectively, of our total Net sales were generated in the fourth quarter. It is typically the case that we incur net losses in each of the first three quarters of the year, with a substantial portion of our cash flows from operations being generated in the fourth quarter. We seek to continuously improve our ability to manage the numerous demands of a highly seasonal business, from the areas of product sourcing and distribution, to the challenges of delivering high sales volumes and excellent customer service during peak business periods. Over the past 60 years, we have developed substantial experience and expertise in managing the increased demand during the holiday season which we believe favorably differentiates us from our competition.

### *License Agreements*

We have license agreements with unaffiliated third party operators located outside the United States. The agreements are largely structured with royalty income paid as a percentage of sales for the use of our trademarks, trade name and branding. While this business format remains a small piece of our overall International business operations, we continue to look for opportunities for market expansion. Our preferred approach is to open stores in our successful Company operated format, but we may choose partnerships or licensed arrangements where we believe business climate and risks may dictate.

**Table of Contents***Geographic Distribution of Domestic Stores*

The following table sets forth the location of our Domestic stores as of January 29, 2011:

<b>Location</b>	<b>Number of Stores</b>
Alabama	9
Alaska	1
Arizona	15
Arkansas	5
California	109
Colorado	10
Connecticut	14
Delaware	3
Florida	59
Georgia	28
Hawaii	2
Idaho	3
Illinois	39
Indiana	17
Iowa	7
Kansas	6
Kentucky	10
Louisiana	10
Maine	3
Maryland	19
Massachusetts	21
Michigan	32
Minnesota	11
Mississippi	5
Missouri	16
Montana	1
Nebraska	4
Nevada	9
New Hampshire	7
New Jersey	43
New Mexico	3
New York	62
North Carolina	21
North Dakota	1
Ohio	37
Oklahoma	7
Oregon	8
Pennsylvania	47
Rhode Island	2
South Carolina	10
South Dakota	2
Tennessee	17
Texas	59
Utah	8
Vermont	1
Virginia	27
Washington	15
West Virginia	4
Wisconsin	11
Puerto Rico	8

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Total (1)	868
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- <sup>(1)</sup> This includes 19 Express stores that each have a cumulative lease term of at least two years and excludes the remaining 60 temporary Express store locations which remained open as of January 29, 2011. At the peak of this initiative in fiscal 2010, there were 615 Express stores open Domestically.



**Table of Contents***Geographic Distribution of International Stores*

The following table sets forth the location of our International operated stores as of January 29, 2011:

<b>Location</b>	<b>Number of Stores Operated</b>
Australia	36
Austria	14
Canada	70
France	42
Germany	58
Japan	167
Portugal	8
Spain	46
Switzerland	7
United Kingdom	76
Total (1)	524

(1) This excludes the 16 temporary Express store locations which remained open as of January 29, 2011. At the peak of this initiative in fiscal 2010, there were 41 Express stores open Internationally.

The following table sets forth the location of our International licensed stores as of January 29, 2011:

<b>Location</b>	<b>Number of Stores Licensed</b>
Bahrain	1
China	20
Denmark	15
Egypt	4
Finland	4
Hong Kong	11
Iceland	3
Israel	22
Kuwait	1
Macau	1
Malaysia	18
Norway	8
Oman	1
Philippines	12
Qatar	1
Saudi Arabia	10
Singapore	6
South Africa	25
South Korea	10
Sweden	16
Taiwan	18
Thailand	7
United Arab Emirates	6
Total	220

## **Employees**

As of January 29, 2011, we employed approximately 71,000 full-time and part-time individuals worldwide, with approximately 47,000 in the United States and 24,000 internationally. These numbers do not include the individuals employed by licensees of our stores. Due to the seasonality of our business, we employed approximately 123,000 full-time and part-time employees during the fiscal 2010 holiday season. We consider the relationships with our employees to be positive. We believe that the benefits offered to our employees are competitive in relation to those offered by other companies in the retail sector.

## **Distribution**

We operate 18 distribution centers including 9 that support our Domestic retail stores and 9 that support our International retail stores (excluding licensed operations). These distribution centers employ warehouse management systems and material handling equipment that help to minimize overall inventory levels and distribution costs. We believe the flexibility afforded by our warehouse/distribution system and by our operation of the fleet of trucks used to distribute merchandise provide us with operating efficiencies and the ability to maintain a superior in-stock inventory position at our stores. We continuously seek to improve our supply chain management, optimize our inventory assortment and upgrade our automated replenishment system to improve inventory turnover.

To support delivery of products sold through our websites, we have an agreement with Exel, Inc., a leading North American contract logistics provider, who provides warehousing and fulfillment services for our Internet operations in the United States. We utilize various third party providers who furnish similar services in our international markets.

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### **Our Vendors**

We procure the merchandise that we offer to our customers from a wide variety of domestic and international vendors. As of fiscal 2010, we had approximately 3,500 active vendor relationships. For fiscal 2010, our top 20 vendors worldwide, based on our purchase volume in U.S. dollars, represented approximately 40% of the total products we purchased. In fiscal 2010, we opened a sourcing office in China to work with our vendors and expand our private label product offering.

Given our market leadership position, we have been able to develop strategic partnerships with many of our vendors. We provide vendors with a year-round platform for their brand and let them use our stores to test their products, giving vendors a meaningful opportunity to display new merchandise and reach consumers throughout the year. We use our New York City flagship stores (our Toys R Us Times Square store, our FAO Schwarz 5<sup>th</sup> Avenue store and our Babies R Us Union Square store) as venues to introduce new products. In addition, we are able to provide our vendors with a wide variety of data on global sales trends and marketing guidance and support, as well as early feedback on their product development initiatives through the depth and longevity of our experienced merchandising team. In return, we obtain greater access to products in demand, support for advertising and marketing efforts, and exclusive access to merchandise.

### **Financial Information About Our Segments**

Financial information about our segments and our operations in different geographical areas for the last three fiscal years is set forth in Note 12 to the Consolidated Financial Statements entitled SEGMENTS.

### **Trademarks and Licensing**

TOYS R<sup>®</sup>US BABIES R<sup>®</sup>USMAGINARIUM, GEOFFREY, KOALA BABY, ANIMAL ALLEY, FAST LANE, DREAM DAZZLERS<sup>®</sup>, ESPECIALLY FOR BABY, YOU AND ME, the reverse R monogram logo and the Geoffrey character logo, as well as variations of our family of R Us marks, either have been registered, or have trademark applications pending, with the United States Patent and Trademark Office and with the trademark registries of many other countries. These trademarks are material to our business operations. In addition, we own the United States trademarks (along with certain trademark rights in other countries) associated with eToys.com, babyuniverse.com and KB Toys. We also own the exclusive right and license to use the FAO SCHWARZ trademarks.

### **Available Information**

Our investor relations website is Toysrusinc.com. On this website under INVESTOR RELATIONS, SEC FILINGS, we make available, free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, as well as amendments to those reports as soon as reasonably practicable after we electronically file with the Securities and Exchange Commission ( SEC ).

Our website contains the Toys R Us, Inc. Chief Executive Officer and Senior Financial Officers Code of Ethics ( CEO and Senior Financial Officers Code ). Any waivers from the CEO and Senior Financial Officers Code that apply to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer, or persons performing similar functions, will be promptly disclosed on the Company s website. These materials are also available in print, free of charge, to any investor who requests them by writing to: Toys R Us, Inc., One Geoffrey Way, Wayne, New Jersey 07470, Attention: Investor Relations.

We are not incorporating by reference in this Annual Report on Form 10-K any information from our websites.

The public may read and copy any materials the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

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### **ITEM 1A. RISK FACTORS**

Investors should carefully consider the risks described below together with all of the other information in this Annual Report on Form 10-K. The risks and uncertainties described below are not the only ones that we face. Additional risks and uncertainties not presently known to us, or that we currently believe to be less significant than the following risk factors, may also adversely affect our business and operations. If any of the following risks actually occur, our business, financial condition, cash flows or results of operations could be materially adversely affected.

#### **Risks Relating to Our Business**

*Our business is highly seasonal, and our financial performance depends on the results of the fourth quarter of each fiscal year and, as a result, our operating results could be materially adversely affected if we achieve less than satisfactory sales prior to or during the holiday season.*

Our business is highly seasonal. During fiscals 2010, 2009 and 2008 approximately 43%, 43% and 40%, respectively, of our total Net sales were generated in the fourth quarter. It is typically the case that we incur net losses in each of the first three quarters of the year, with a substantial portion of our cash flows from operations being generated in the fourth quarter. As a result, we depend significantly upon the fourth quarter holiday selling season. If we achieve less than satisfactory sales, operating earnings or cash flows from operating activities during the fourth quarter, we may not be able to compensate sufficiently for the lower sales, operating earnings or cash flows from operating activities during the first three quarters of the fiscal year. Our results in any given period may be affected by dates on which important holidays fall and the shopping patterns relating to those holidays. Additionally, the concentrated nature of our seasonal sales means that the Company's operating results could be materially adversely affected by natural disasters and labor strikes, work stoppages, terrorist acts or disruptive global political events, prior to or during the holiday season, as described below.

*Our industry is highly competitive and competitive conditions may adversely affect our revenues and overall profitability.*

The retail industry is highly and increasingly competitive and our results of operations are sensitive to, and may be adversely affected by, competitive pricing, promotional pressures, additional competitor store openings and other factors. As a specialty retailer that primarily focuses on toys and juvenile products we compete with discount and mass merchandisers, such as Wal-Mart and Target, electronics retailers, national and regional specialty chains, as well as local retailers in the geographic areas we serve. We also compete with national and local discount stores, department stores, supermarkets and warehouse clubs, as well as Internet and catalog businesses. We may be vulnerable to the special competitive pressures from the growing e-commerce activity in the market, both as they may impact our own e-commerce business, and as they may impact the operating results and investment values of our existing physical stores. Competition is principally based on product variety, quality, availability, price, convenience or store location, advertising and promotion, customer support and service. We believe that some of our competitors in the toys market and juvenile products market, as well as in the other markets in which we compete, have a larger market share than our market share. In addition, some of our competitors have greater financial resources, lower merchandise acquisition costs and lower operating expenses than we do.

Much of the merchandise we sell is also available from various retailers at competitive prices. Discount and mass merchandisers use aggressive pricing policies and enlarged toy-selling areas during the holiday season to increase sales and build traffic for other store departments. Our business is vulnerable to shifts in demand and pricing, as well as consumer preferences. Competition in the video game market has increased in recent years as mass merchandisers have expanded their offerings in this market, and as alternative sales channels (such as the Internet) have grown in importance.

The baby registry market is highly competitive, with competition based on convenience, quality and selection of merchandise offerings and functionality. Our baby registry primarily competes with the baby registries of mass merchandisers and other specialty format and regional retailers. Some of our competitors have been aggressively advertising and marketing their baby registries through national television and magazine campaigns. Within the past few years, the number of multiple registries and on-line registries has steadily increased. These trends present consumers with more choices for their baby registry needs, and as a result, increase competition for our baby registry.

If we fail to compete successfully, we could face lower sales and may decide or be compelled to offer greater discounts to our customers, which could result in decreased profitability.

*Our sales may be adversely affected by changes in economic factors and changes in consumer spending patterns.*

Many economic and other factors outside our control, including consumer confidence, consumer spending levels, employment levels, consumer debt levels, inflation and deflation, as well as the availability of consumer credit, affect consumer spending habits. A significant deterioration in the global financial markets and economic environment, recessions or an uncertain economic outlook adversely affects consumer spending habits and results in lower levels of economic activity. The domestic and international political situation, including the economic health of

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various political jurisdictions, also affects economic conditions and consumer confidence. Any of these events and factors could cause consumers to curtail spending and could have a negative impact on our financial performance and position in future fiscal periods.

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*Our operations have significant liquidity and capital requirements and depend on the availability of adequate financing on reasonable terms. If our lenders are unable to fund borrowings under their credit commitments or we are unable to borrow, it could have a significant negative effect on our business.*

We have significant liquidity and capital requirements. Among other things, the seasonality of our businesses requires us to purchase merchandise well in advance of the fourth quarter holiday selling season. We depend on our ability to generate cash flows from operating activities, as well as on borrowings under our revolving credit facilities and our credit lines, to finance the carrying costs of this inventory and to pay for capital expenditures and operating expenses. As of January 29, 2011, we had outstanding borrowings of \$17 million under the Toys R Us Japan, Ltd. ( Toys Japan ) unsecured credit lines and no outstanding borrowings under the \$1.85 billion secured revolving credit facility ( ABL Facility ) and the European and Australian asset-based revolving credit facility (the European ABL ). For fiscal 2010, peak borrowings under our various credit lines were \$793 million as we purchased merchandise for the fourth quarter holiday selling season. If our lenders are unable to fund borrowings under their credit commitments or we are unable to borrow, it could have a significant negative effect on our business. In addition, any adverse change to our credit ratings could negatively impact our ability to refinance our debt on satisfactory terms and could have the effect of increasing our financing costs. While we believe we currently have adequate sources of funds to provide for our ongoing operations and capital requirements for the next 12 months, any inability on our part to have future access to financing, when needed, would have a negative effect on our business.

*A loss of, or reduction in, trade credit from our vendors could reduce our liquidity, increase our working capital needs and/or limit our ability to purchase products.*

Trade credit from our vendors is an important source of financing for the acquisition of the inventory we sell in our stores. Accordingly, the loss of, or reduction in, trade credit could have a significant adverse impact on our inventory levels and operating cash flow and negatively impact our liquidity. Our vendors may seek credit insurance to protect against non-payment of amounts due to them. If credit insurance is not available to vendors at reasonable terms or at all, vendors may demand accelerated payment of amounts due to them or require advance payments or letters of credit before goods are shipped to us. Any adverse changes in our trade credit for these or other reasons could increase the costs to us of financing our inventory or negatively impact our ability to deliver products to our customers, which could in turn negatively affect our financial performance.

*We may not retain or attract customers if we fail to successfully implement our strategic initiatives, which could result in lower sales and a failure to realize the benefit of the expenditures incurred for these initiatives.*

We continue to implement a series of customer-oriented strategic programs designed to differentiate and strengthen our core merchandise content and service levels and to expand and enhance our merchandise offerings. We seek to improve the effectiveness of our marketing and advertising programs for our R Us stores and on-line business. The success of these and other initiatives will depend on various factors, including the implementation of our growth strategy, the appeal of our store formats, our ability to offer new products to customers, our financial condition, our ability to respond to changing consumer preferences and competitive and economic conditions. We continuously endeavor to minimize our operating expenses, without adversely affecting the profitability of the business. If we fail to implement successfully some or all of our strategic initiatives, we may be unable to retain or attract customers, which could result in lower sales and a failure to realize the benefit of the expenditures incurred for these initiatives.

*If we cannot implement our juvenile integration strategy or open new stores, our future growth will be adversely affected.*

Our growth is dependent on both increases in sales in existing stores and the ability to successfully implement our juvenile integration strategy and open profitable new stores. Increases in sales in existing stores are dependent on factors such as competition, merchandise selection, store operations and other factors discussed in these Risk Factors. Our ability to successfully implement our juvenile integration strategy in a timely and cost effective manner or open new stores and expand into additional market areas depends in part on the following factors, which are in part beyond our control:

the availability of attractive store locations and the ability to accurately assess the demographic or retail environment and customer demand at a given location;

the ability to negotiate favorable lease terms and obtain the necessary permits and zoning approvals;

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the absence of occupancy delays;

the ability to construct, furnish and supply a store in a timely and cost effective manner;

the ability to hire and train new personnel, especially store managers, in a cost effective manner;

costs of integration, which may be higher than anticipated;

general economic conditions; and

the availability of sufficient funds for the expansion.

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Delays or failures in successfully implementing our juvenile integration strategy and opening new stores, or achieving lower than expected sales in integrated or new stores, or drawing a greater than expected proportion of sales in integrated or new stores from existing stores, could materially adversely affect our growth and/or profitability. In addition, we may not be able to anticipate all of the challenges imposed by the expansion of our operations and, as a result, may not meet our targets for integrating, opening new stores or relocating stores or expanding profitably.

Some of our new stores may be located in areas where we have little or no meaningful experience. Those markets may have different market conditions, consumer preferences and discretionary spending patterns than our existing markets, which may cause our new stores to be less successful than stores in our existing markets. Other new stores may be located in areas where we have existing stores. Although we have experience in these markets, increasing the number of locations may result in unanticipated over-saturation of markets and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

*Our sales may be adversely affected if we fail to respond to changes in consumer preferences in a timely manner.*

Our financial performance depends on our ability to identify, originate and define product trends, as well as to anticipate, gauge and react to changing consumer preferences in a timely manner. Our products must appeal to a broad range of consumers whose preferences cannot be predicted with certainty and are subject to change. Our business fluctuates according to changes in consumer preferences dictated in part by fashion trends, perceived value and season. These fluctuations affect the merchandise in stock since purchase orders are written well in advance of the holiday season and, at times, before fashion trends and high-demand brands are evidenced by consumer purchases. If we overestimate the market for our products, we may be faced with significant excess inventories, which could result in increased expenses and reduced margins associated with having to liquidate obsolete inventory at lower prices. Conversely, if we underestimate the market for our products, we will miss opportunities for increased sales and profits, which would place us at a competitive disadvantage.

*Sales of video games and video game systems tend to be cyclical, which may result in fluctuations in our results of operations, and may be adversely affected if products are sold through alternative channels.*

Sales of video games and video game systems, which have accounted for 9%, 11% and 14% of our annual net sales for fiscals 2010, 2009 and 2008, respectively, have been cyclical in nature in response to the introduction and maturation of new technology. Following the introduction of new video game systems, sales of these systems and related software and accessories generally increase due to initial demand, while sales of older systems and related products generally decrease. Moreover, competition within the video game market has increased in recent years and, due to the large size of this product category, fluctuations in this market could have a material adverse impact on our sales and profits trends. Additionally, if video game system manufacturers fail to develop new hardware systems, or if new video products are sold in channels other than traditional retail stores, including through direct online distribution to customers, our sales of video game products could decline, which would negatively impact our financial performance.

*The success and expansion of our on-line business depends on our ability to provide quality service to our Internet customers and if we are not able to provide such services, our future growth will be adversely affected.*

Our Internet operations are subject to a number of risks and uncertainties which are beyond our control, including the following:

changes in consumer willingness to purchase goods via the Internet;

increases in software filters that may inhibit our ability to market our products through e-mail messages to our customers and increases in consumer privacy concerns relating to the Internet;

changes in technology;

changes in applicable federal and state regulation, such as the Federal Trade Commission Act, the Children's Online Privacy Act, the Fair Credit Reporting Act and the Gramm-Leach-Bliley Act and similar types of international laws;



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breaches of Internet security;

failure of our Internet service providers to perform their services properly and in a timely and efficient manner;

failures in our Internet infrastructure or the failure of systems or third parties, such as telephone or electric power service, resulting in website downtime or other problems;

failure by us to process on-line customer orders properly and on time, which may negatively impact future on-line and in-store purchases by such customers; and

failure by our service provider to provide warehousing and fulfillment services, which may negatively impact future on-line and in

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store purchases by customers.

If we are not able to provide satisfactory service to our Internet customers, our future growth will be adversely affected. Further, we may be vulnerable to the special competitive pressures from the growing e-commerce activity in our market, both as they may impact our own e-commerce business, and as they may impact the operating results and investment values of our existing physical stores.

*We depend on key vendors to supply the merchandise that we sell to our customers and our vendors' failure to supply quality merchandise in a timely manner may damage our reputation and brands and harm our business.*

Our performance depends, in part, on our ability to purchase our merchandise in sufficient quantities at competitive prices. We purchase our merchandise from numerous international and domestic manufacturers and importers. We have no contractual assurances of continued supply, pricing or access to new products, and any vendor could change the terms upon which they sell to us or discontinue selling to us at any time. We may not be able to acquire desired merchandise in sufficient quantities on terms acceptable to us in the future. Better than expected sales demand may also lead to customer backorders and lower in-stock positions of our merchandise.

As of fiscal 2010, we had approximately 3,500 active vendor relationships through which we procure the merchandise that we offer to our guests. For fiscal 2010, our top 20 vendors worldwide, based on our purchase volume in U.S. dollars, represented approximately 40% of the total products we purchased. An inability to acquire suitable merchandise on acceptable terms or the loss of one or more key vendors could have a negative effect on our business and operating results and could cause us to miss products that we feel are important to our assortment. We may not be able to develop relationships with new vendors, and products from alternative sources, if any, may be of a lesser quality and/or more expensive than those from existing vendors.

In addition, our vendors are subject to various risks, including raw material costs, inflation, labor disputes, union organizing activities, financial liquidity, product merchantability, inclement weather, natural disasters and general economic and political conditions that could limit our vendors' ability to provide us with quality merchandise on a timely basis and at prices and payment terms that are commercially acceptable. For these or other reasons, one or more of our vendors might not adhere to our quality control standards, and we might not identify the deficiency before merchandise ships to our stores or customers. In addition, our vendors may have difficulty adjusting to our changing demands and growing business. Our vendors' failure to manufacture or import quality merchandise in a timely and effective manner could damage our reputation and brands, and could lead to an increase in customer litigation against us and an attendant increase in our routine and non-routine litigation costs. Further, any merchandise that does not meet our quality standards could become subject to a recall, which could damage our reputation and brands and harm our business.

*If our vendors fail to provide promotional support consistent with past levels, our sales, earnings and cash flow could be adversely affected.*

Our vendors typically provide us with promotional support for the sale of their products in our store and on our website. We also receive allowances for volume-related purchases. As part of this support, we receive allowances, payments and credits from the vendors which reduces our cost of goods sold, supports the promotion and merchandising of the products we sell and drives sales at our stores and on our website. We cannot assure you that vendors will continue to provide this support consistent with past levels. If our vendors fail to do so, our sales, earnings and cash flow could be adversely affected.

*The decrease of birth rates in countries where we operate could negatively affect our business.*

Most of our end-customers are newborns and children and, as a result, our revenues are dependent on the birth rates in countries where we operate. In recent years, many countries have experienced a sharp drop in birth rates as their population ages and education and income levels increase. A continued and significant decline in the number of newborns and children in these countries could have a material adverse effect on our operating results.

*If current store locations become unattractive, and attractive new locations are not available for a reasonable price, our ability to implement our growth strategy will be adversely affected.*

The success of any store depends in substantial part on its location. There can be no assurance that current locations will continue to be attractive as demographic patterns change. Neighborhood or economic conditions where stores are located could decline in the future, resulting in potentially reduced sales in these locations. If we cannot obtain desirable locations at reasonable prices, our ability to implement our growth strategy will be adversely affected.

*We have substantial obligations under long-term leases that could adversely affect our financial condition and prevent us from fulfilling our obligations.*

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As of January 29, 2011, we leased 1,023 of our properties from third-parties pursuant to long-term space and ground leases. Total rent expense, net of sublease income, was \$570 million, \$519 million and \$503 million for fiscals 2010, 2009 and 2008, respectively, and is expected to be approximately \$566 million for fiscal 2011. Many of our leases provide for scheduled increases in rent. The substantial obligations under our leases could further exacerbate the risks described below under Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our

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industries, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our various debt instruments and/or our other obligations.

*If we are unable to renew or replace our current store leases or if we are unable to enter into leases for additional stores on favorable terms, or if one or more of our current leases are terminated prior to expiration of their stated term and we cannot find suitable alternate locations, our growth and profitability could be negatively impacted.*

We currently have ground and store leasehold interests in approximately 73% of our domestic and international store locations. Most of our current leases provide for our unilateral option to renew for several additional rental periods at specific rental rates. Our ability to re-negotiate favorable terms on an expiring lease or to negotiate favorable terms for a suitable alternate location, and our ability to negotiate favorable lease terms for additional store locations could depend on conditions in the real estate market, competition for desirable properties and our relationships with current and prospective landlords or may depend on other factors that are not within our control. Any or all of these factors and conditions could negatively impact our growth and profitability.

*Our business, financial condition and results of operations are subject to risks arising from the international scope of our operations which could negatively impact our financial condition and results of operations.*

We conduct a significant portion of our business outside the United States. For fiscals 2010, 2009 and 2008, approximately 38%, 39% and 38% of our Net sales, respectively, were generated outside the United States. In addition, as of January 29, 2011 and January 30, 2010, approximately 37% and 36% of our long-lived assets, respectively, were located outside of the United States. All of our foreign operations are subject to risks inherent in conducting business abroad, including the challenges of different economic conditions in each of the countries, possible nationalization or expropriation, price and currency exchange controls, fluctuations in the relative values of currencies as described below, political instability and restrictive governmental actions.

*Our business is subject to fluctuations in foreign currency exchange rates and such fluctuations may have a material adverse effect on our business, financial condition and results of operations.*

Exchange rate fluctuations may affect the translated value of our earnings and cash flow associated with our international operations, as well as the translation of net asset or liability positions that are denominated in foreign currencies. In countries outside of the United States where we operate stores, we generate revenues and incur operating expenses and selling, general and administrative expenses denominated in local currencies. In many countries where we do not operate stores, our licensees pay royalties in U.S. dollars. However, as the royalties are calculated based on local currency sales, our revenues are still impacted by fluctuations in exchange rates. In fiscal years 2010, 2009 and 2008, 38%, 39% and 38% of our Net sales, respectively, were completed in a currency other than the U.S. dollar, the majority of which were denominated in yen, euros, canadian dollars and pounds. In fiscal 2010, our reported operating earnings would have decreased or increased \$37 million if all foreign currencies uniformly weakened or strengthened by 10% relative to the U.S. dollar.

We enter into foreign exchange agreements from time to time with financial institutions to reduce our exposure to fluctuations in currency exchange rates referred to as hedging activities. However, these hedging activities may not eliminate foreign currency risk entirely and involve costs and risks of their own. Although we hedge some exposures to changes in foreign currency exchange rates arising in the ordinary course of business, foreign currency fluctuations may have a material adverse effect on our business, financial condition and results of operations.

*Our results may be adversely affected by fluctuations in raw material and energy costs.*

Our results may be affected by the prices of the components and raw materials used in the manufacture of our toys and juvenile products. These prices may fluctuate based on a number of factors beyond our control, including: oil prices, changes in supply and demand, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates and government regulation. In addition, energy costs have fluctuated dramatically in the past. These fluctuations may result in an increase in our transportation costs for distribution, utility costs for our retail stores and overall costs to purchase products from our vendors.

We may not be able to adjust the prices of our products, especially in the short-term, to recover these cost increases in raw materials and energy. A continual rise in raw material and energy costs could adversely affect consumer spending and demand for our products and increase our operating costs, both of which could have a material adverse effect on our financial condition and results of operations.

*A significant disruption to our distribution network or to the timely receipt of inventory could adversely impact sales or increase our transportation costs, which would decrease our profits.*

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We rely on our ability to replenish depleted inventory in our stores through deliveries to our distribution centers from vendors and then from the distribution centers or direct ship vendors to our stores by various means of transportation, including shipments by sea, rail, air and truck. Unexpected delays in those deliveries or increases in transportation costs (including from increased fuel costs) could significantly decrease our ability to make sales and earn profits. In addition, labor shortages or labor disagreements in the transportation industry or long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries could negatively affect our business.

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*Product safety issues, including product recalls, could harm our reputation, divert resources, reduce sales and increase costs.*

The products we sell in our stores are subject to regulation by the federal Consumer Product Safety Commission and similar state and international regulatory authorities. As a result, such products have been and could be in the future subject to recalls and other remedial actions. Product safety concerns may require us to voluntarily remove selected products from our stores. Such recalls and voluntary removal of products can result in, among other things, lost sales, diverted resources, potential harm to our reputation and increased customer service costs, which could have a material adverse effect on our financial condition.

*Our business exposes us to personal injury and product liability claims which could result in adverse publicity and harm to our brands and our results of operations.*

We are from time to time subject to claims due to the injury of an individual in our stores or on our property. In addition, we have in the past been subject to product liability claims for the products that we sell. Subject to certain exceptions, our purchase orders generally require the manufacturer to indemnify us against any product liability claims; however, if the manufacturer does not have insurance or becomes insolvent, there is a risk we would not be indemnified. Any personal injury or product liability claim made against us, whether or not it has merit, could be time consuming and costly to defend, resulting in adverse publicity, or damage to our reputation, and have an adverse effect on our results of operations.

*Adverse litigation judgments or settlements resulting from legal proceedings in which we may be involved could expose us to monetary damages or limit our ability to operate our business.*

We are involved in private actions, investigations and various other legal proceedings by employees, suppliers, competitors, shareholders, government agencies or others. The results of such litigation, investigations and other legal proceedings are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and divert significant resources. If any of these legal proceedings were to be determined adversely to us, there could be a material adverse effect on our business, financial condition and results of operations.

*We are subject to certain regulatory and legal requirements. If we fail to comply with regulatory or legal requirements, our business and financial results may be adversely affected.*

We are subject to numerous regulatory and legal requirements. Our policies, procedures and internal controls are designed to comply with all applicable laws and regulations, including those imposed by the Federal Trade Commission, the Sarbanes-Oxley Act of 2002 and the SEC. In addition, our business activities require us to comply with complex regulatory and legal issues on a local, national and worldwide basis (including, in some cases, more stringent local labor law or regulations). Failure to comply with such laws and regulations could adversely affect our operations and financial results, involve significant expense and divert management's attention and resources from other matters, which in turn could harm our business.

*Our business operations could be disrupted if our information technology systems fail to perform adequately or we are unable to protect the integrity and security of our customers' information.*

We depend largely upon our information technology systems in the conduct of all aspects of our operations. If our information technology systems fail to perform as anticipated, we could experience difficulties in virtually any area of our operations, including but not limited to replenishing inventories or in delivering our products to store locations in response to consumer demands. Any of these or other systems-related problems could, in turn, adversely affect our sales and profitability.

Additionally, a compromise of our security systems (or a design flaw in our system environment) could result in unauthorized access to certain personal information about our customers (including credit card information) which could adversely affect our reputation with our customers and others, as well as our operations, and could result in litigation against us or the imposition of penalties. In addition, a security breach could require that we expend significant additional resources related to our information security systems.

*Natural disasters, inclement weather, pandemic outbreaks, terrorist acts or disruptive global political events could cause permanent or temporary distribution center or store closures, impair our ability to purchase, receive or replenish inventory, or decrease customer traffic, all of which could result in lost sales and otherwise adversely affect our financial performance.*

The occurrence of one or more natural disasters, such as hurricanes, fires, floods, earthquakes, tornados and volcano eruptions, or inclement weather such as frequent or unusually heavy snow, ice or rain storms, or extended periods of unseasonable temperatures, or the occurrence of

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pandemic outbreaks, labor strikes, work stoppages, terrorist acts or disruptive global political events, such as civil unrest in countries in which our suppliers are located, or similar disruptions could adversely affect our operations and financial performance. To the extent these events impact one or more of our key vendors or result in the closure of one or more of our distribution centers or a significant number of stores, our operations and financial performance could be materially adversely affected through an inability to make deliveries to our stores and through lost sales. In addition, these events could result in increases in fuel (or other energy) prices or a fuel shortage, delays in opening new stores, the temporary lack of an adequate work force in a market, the temporary or long-term disruption in the supply of products from some local and overseas vendor, the temporary disruption in the transport of goods from overseas, delay in the delivery of goods to our distribution centers or stores, the temporary reduction in the availability of products in our stores and disruption to our information systems. These events also can have indirect consequences such as increases in the costs of insurance if they result in significant loss of property or other insurable damage.

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On March 11, 2011, earthquakes followed by tsunamis hit the Northeast coast of Japan, causing significant damage in the surrounding region, including a number of our stores. As of March 23, 2011, six of our Japanese stores remain closed. In addition to the damage and store closings, the concurrent disruption of transportation systems and fuel and power shortages in Japan is likely to have a negative impact on our ability to accept vendor deliveries and conduct business activities in Japan and our Japanese stores' operating performance.

*Our results of operations could suffer if we lose key management or are unable to attract and retain experienced senior management for our business.*

Our future success depends to a significant degree on the skills, experience and efforts of our senior management team. The loss of services of any of these individuals, or the inability by us to attract and retain qualified individuals for key management positions, could harm our business and financial performance.

*Because of our extensive international operations, we could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.*

The United States Foreign Corrupt Practices Act, and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. Despite our training and compliance program, we cannot assure you that our internal control policies and procedures always will protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and result in a material adverse effect on our financial condition, results of operations and cash flows.

*International events could delay or prevent the delivery of products to our stores, which could negatively affect our sales and profitability.*

A significant portion of products we sell are manufactured outside of the United States, primarily in Asia. As a result, any event causing a disruption of imports, including labor strikes, work stoppages, boycotts, safety issues on materials, the imposition of trade restrictions in the form of tariffs, embargoes or export controls, anti-dumping duties, port security or other events that could slow port activities, could increase the cost and reduce the supply of products available to us. In addition, port-labor issues, rail congestion and trucking shortages can have an impact on all direct importers. Although we attempt to anticipate and manage such situations, both our sales and profitability could be adversely impacted by any such developments in the future. These and other international events could negatively affect our sales and profitability.

*We may experience fluctuations in our tax obligations and effective tax rate, which could materially and adversely affect our results of operations.*

We are subject to taxes in the United States and numerous international jurisdictions. We record tax expense based on current tax payments and our estimates of future tax payments, which include reserves for estimates of probable settlements of international and domestic tax audits. At any one time, many tax years are subject to audit by various taxing jurisdictions. The results of these audits and negotiations with taxing authorities may affect the ultimate settlement of these issues. As a result, we expect that throughout the year there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are re-evaluated. Further, our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of earnings by taxing jurisdiction or by changes to existing accounting rules or regulations. Fluctuations in our tax obligations and effective tax rate could materially and adversely affect our results of operations.

*Changes to accounting rules or regulations may adversely affect our results of operations.*

Changes to existing accounting rules or regulations may impact our future results of operations or cause the perception that we are more highly leveraged. Other new accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future. For instance, the SEC is currently considering whether issuers in the United States should be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) instead of accounting principles generally accepted in the United States (GAAP). IFRS is a comprehensive set of accounting standards promulgated by the International Accounting Standards Board (IASB). The SEC has indicated that it will decide in 2011 whether IFRS will be required for issuers in the United States. Additionally, the Financial Accounting Standards Board (FASB) is considering various changes to GAAP, some of which may be significant, as part of a joint effort with the IASB to converge accounting standards. For instance, the FASB and IASB have issued an exposure draft that would require us to record lease obligations on our balance sheet and make other changes to our financial statements. These and other future changes to accounting rules or regulations may materially adversely affect our results of operations and financial position.

*Our total assets include goodwill and substantial amounts of property and equipment. Changes to estimates or projections related to such assets, or operating results that are lower than our current estimates at certain store locations, may cause us to incur impairment charges that*



*could adversely affect our results of operations.*

Our total assets include substantial amounts of property, equipment and goodwill. We make certain estimates and projections in connection with impairment analyses for these assets, in accordance with FASB Accounting Standards Codification ( ASC ) Topic 360, Property, Plant and Equipment ( ASC 360 ), and ASC Topic 350, Intangibles Goodwill and Other ( ASC 350 ). We also review the carrying value of these assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable in accordance with ASC 360 or ASC 350. We will record an impairment loss when the carrying value of the underlying asset, asset group or reporting unit exceeds its fair value. These calculations require us to make a number of estimates and projections of future results. If these estimates or projections change, we may be required to record additional impairment charges on certain of these assets. If these impairment charges are significant, our results of operations would be adversely affected.

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*We may from time to time pursue acquisitions, which could have an adverse impact on our business, as could the integration of the businesses following acquisition.*

We may from time to time acquire complementary companies or businesses. Acquisitions may result in unanticipated costs, delays or other operational or financial problems related to integrating the acquired company and business with our Company, which may result in the diversion of our capital and our management's attention from other business issues and opportunities. We may not be able to successfully integrate operations that we acquire, including their personnel, technology, financial systems, distribution and general business operations and procedures. We cannot assure you that any acquisition we make will be successful and our operating results may be adversely impacted by the integration of a new business and its financial results.

## **Risks Related to Our Substantial Indebtedness**

*Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industries, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our various debt instruments.*

We are highly leveraged. As of January 29, 2011, our total indebtedness was \$5.3 billion, of which \$2.8 billion was secured indebtedness and \$2.0 billion of which matures before the end of fiscal 2013. Our substantial indebtedness could have significant consequences, including, among others, the following:

increasing our vulnerability to general economic and industry conditions;

requiring a substantial portion of cash flows from operating activities to be dedicated to the payment of principal and interest on our indebtedness, and as a result, reducing our ability to use our cash flows to fund our operations and capital expenditures, capitalize on future business opportunities, expand our business and execute our strategy;

increasing the difficulty for us to make scheduled payments on our outstanding debt, as our business may not be able to generate sufficient cash flows from operating activities to meet our debt service obligations;

exposing us to the risk of increased interest expense due to changes in borrowing spreads and short-term interest rates;

causing us to make non-strategic divestitures;

limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements and general, corporate or other purposes; and

limiting our ability to adjust to changing market conditions and reacting to competitive pressure, placing us at a competitive disadvantage compared to our competitors who are less leveraged.

We may be able to incur additional indebtedness in the future, including under our current revolving credit agreements, subject to the restrictions contained in our debt instruments. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

*We may not be able to generate sufficient cash to service all of our indebtedness and may not be able to refinance our indebtedness on favorable terms. If we are unable to do so, we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.*

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Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, our lenders' financial stability, which are subject to prevailing global economic and market conditions and to certain financial, business and other factors beyond our control. Even if we were able to refinance or obtain additional financing, the costs of new indebtedness could be substantially higher than the costs of our existing indebtedness.

If our cash flows and capital resources are insufficient to fund our debt service obligations or we are unable to refinance our indebtedness, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt

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service obligations. If our operating results and available cash are insufficient to meet our debt service obligations, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. We may not be able to consummate those dispositions, or the proceeds from the dispositions may not be adequate to meet any debt service obligations then due. If we were unable to repay amounts when due, the lenders could proceed against the collateral granted to them to secure that indebtedness.

*Our debt agreements contain covenants that limit our flexibility in operating our business.*

Toys R Us, Inc. is a holding company and conducts its operations through its subsidiaries, certain of which have incurred their own indebtedness. As specified in certain of our subsidiaries' debt agreements, there are restrictions on our ability to obtain funds from our subsidiaries through dividends, loans or advances. The agreements governing our indebtedness contain various covenants that limit our ability to engage in specified types of transactions, and may adversely affect our ability to operate our business. Among other things, these covenants limit our and our subsidiaries' ability to:

incur certain additional indebtedness;

transfer money between the parent company and our various subsidiaries;

pay dividends on, repurchase or make distributions with respect to our or our subsidiaries' capital stock or make other restricted payments;

issue stock of subsidiaries;

make certain investments, loans or advances;

transfer and sell certain assets;

create or permit liens on assets;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;

enter into certain transactions with our affiliates; and

amend certain documents.

A breach of any of these covenants could result in default under one or more of our debt agreements, which could prompt the lenders to declare all amounts outstanding under the debt agreements to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure that indebtedness. If the lenders under the debt agreements accelerate the repayment of borrowings, we may not have sufficient assets and funds to repay the borrowings under our debt agreements.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**Table of Contents****ITEM 2. PROPERTIES**

The following summarizes our worldwide operating stores and distribution centers as of January 29, 2011 (excluding licensed operations in our International segment):

	Ow ned	Ground Leased (1)	Leased (2)	Total	Total Gross Square Feet (3) (In millions)
<b>Stores:</b>					
Domestic	297	230	341	868	35
International	78	26	420	524	19
	375	256	761	1,392	54
<b>Distribution Centers:</b>					
Domestic	7		2	9	7
International	5		4	9	4
	12		6	18	11
<b>Total Operating Stores and Distribution Centers</b>	<b>387</b>	<b>256</b>	<b>767</b>	<b>1,410</b>	<b>65</b>

(1) Owned buildings on leased land.

(2) This includes 19 Express stores within our Domestic segment that each have a cumulative lease term of at least two years and excludes the remaining 76 temporary Express store locations which remained open as of January 29, 2011. At the peak of this initiative in fiscal 2010, there were 615 Domestic and 41 International Express stores open.

(3) Represents total square footage occupied, excluding any space dedicated to mezzanines (with the exception of our flagship stores), catwalks, parking lots and decks.

See also the sections of Item 1 entitled Geographic Distribution of Domestic Stores and Geographic Distribution of International Stores of this Annual Report on Form 10-K.

As described above, a significant part of our properties are ground leased (i.e. properties where we own the building but we do not retain fee ownership in the underlying land) or space leased (i.e. we lease a store from a property owner). We lease properties from unrelated third parties, pursuant to leases that vary as to their terms, rental provisions and expiration dates. Substantially all of our leases are considered triple-net leases, which require us to pay all costs and expenses arising in connection with the ownership, operation, leasing, use, maintenance and repair of these properties. These costs include real estate taxes and assessments, utility charges, license and permit fees and insurance premiums, among other things. Virtually all of our leases include options that allow us to renew or extend the lease term beyond the initial lease period, subject to terms and conditions. In addition, many of our leases include early termination options, which we may exercise under specified conditions, including, upon damage, destruction or condemnation of a specified percentage of the value or land area of the property. A portion of our leased stores have contingent rentals, where the lease payments depend on factors that are not measurable at the inception of the lease, such as future sales volume. Contingent rent expense was \$12 million, \$10 million and \$9 million for fiscals 2010, 2009 and 2008, respectively.

We own our headquarters, comprising approximately 585,000 square feet of space, in Wayne, New Jersey.

As of January 29, 2011, we maintained 121 former stores that are no longer part of our operations. Approximately half of these surplus facilities are owned and the remaining locations are leased. We have tenants in more than half of these facilities, and we continue to market those facilities without tenants for disposition or leasing opportunities. The net costs associated with these facilities are reflected in our Consolidated Financial Statements, but the number of surplus facilities is not included above.

Portions of our debt are secured by direct and indirect interests in certain of our properties. See Note 2 to the Consolidated Financial Statements entitled LONG-TERM DEBT for further details.

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We believe that our current operating stores and distribution centers are adequate to support our business operations.

### **ITEM 3. LEGAL PROCEEDINGS**

On July 15, 2009, the United States District Court for the Eastern District of Pennsylvania (the District Court ) granted the class plaintiffs motion for class certification in a consumer class action commenced in January 2006, which was consolidated with an action brought by two Internet retailers that was commenced in December 2005. Both actions allege that Babies R Us agreed with certain baby product manufacturers (collectively, with the Company, the Defendants ) to impose, maintain and/or enforce minimum price agreements in violation of antitrust laws. In addition, in December 2009, a third Internet retailer filed a similar action and another consumer class action was commenced making similar allegations involving most of the same Defendants. In January 2011, the parties in the consumer class actions referenced above entered into a settlement agreement, which has been preliminarily approved

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by the District Court. As part of the settlement, in March 2011 the Company made a payment of approximately \$17 million towards the overall settlement. In addition, in January 2011, the plaintiffs, the Company and certain other Defendants in the Internet retailer actions referenced above entered into a settlement agreement pursuant to which the Company made a payment of approximately \$5 million towards the overall settlement. In addition, on or about November 23, 2010, the Company entered into a Stipulation with the Federal Trade Commission ( FTC ) ending the FTC 's investigation related to the Company 's compliance with a 1998 FTC Final Order and settling all claims in full. Pursuant to the settlement, the Company will pay approximately \$1 million as a civil penalty.

In addition to the litigation discussed above, we are, and in the future, may be involved in various other lawsuits, claims and proceedings incident to the ordinary course of business. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our Consolidated Financial Statements taken as a whole.

**ITEM 4. (REMOVED AND RESERVED)**

**PART II**

**ITEM 5. MARKET FOR THE REGISTRANT 'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our shares of common stock, \$0.001 par value ( Common Stock ) are privately held by our Sponsors, our officers, certain employees and a private investor and there is no established public trading market for our Common Stock. As of January 29, 2011, there were approximately 84 holders of our Common Stock. During fiscals 2010, 2009 and 2008, no dividends were paid out to shareholders. See Note 2 to our Consolidated Financial Statements entitled LONG-TERM DEBT for a discussion of our debt agreements which restrict our ability to obtain funds from certain of our subsidiaries through dividends, loans or advances.

On November 30, 2010, a former employee exercised 10,569 options on a net settlement basis, which resulted in the issuance of 3,134 shares of Common Stock to this individual, pursuant to Section 4(2) of the Securities Act of 1933, as amended.



**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

(In millions, except share data and number of stores)	Fiscal Years Ended (1)				
	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008	February 3, 2007
<b>Operations</b>					
Net sales	\$ 13,864	\$ 13,568	\$ 13,724	\$ 13,794	\$ 13,050
Net earnings (2)(3)	167 <sup>(4)</sup>	304 <sup>(5)</sup>	211 <sup>(6)(7)</sup>	155 <sup>(7)</sup>	108
Net earnings attributable to Toys R Us, Inc. (2)(3)	168 <sup>(4)</sup>	312 <sup>(5)</sup>	218 <sup>(6)(7)</sup>	153 <sup>(7)</sup>	109
<b>Per Share Data</b>					
Earnings per common share attributable to Toys R Us, Inc.					
Basic	\$ 3.43	\$ 6.37	\$ 4.45	\$ 3.13	\$ 2.24
Diluted	3.36	6.33	4.43	3.11	2.22
Weighted average shares used in computing per share amounts					
Basic earnings per common share	48,941,118	48,962,152	48,936,391	48,829,385	48,754,772
Diluted earnings per common share	49,981,504	49,304,963	49,226,421	49,186,860	49,136,115
<b>Financial Position at Year End</b>					
Working capital	\$ 534	\$ 619	\$ 617	\$ 685	\$ 347
Property and equipment, net	4,061	4,084	4,187	4,385	4,333
Total assets	8,832	8,577	8,411	8,952	8,295
Long-term debt (8)	4,718	5,034	5,447	5,824	5,772
Total equity (deficit)	343	117	(152)	(235)	(540)
<b>Other Financial and Operating Data</b>					
Number of stores - Domestic (at period end)	868	849	846	845	837
Number of stores - International - Operated (at period end)	524	514	504	504	488
Total operated stores (at period end)	1,392	1,363	1,350	1,349	1,325
Number of stores - International - Licensed (at period end)	220	203	209	211	190
Adjusted EBITDA (9)	\$ 1,109	\$ 1,130	\$ 990	\$ 1,095	\$ 982

(1) Our fiscal year ends on the Saturday nearest to January 31 of each calendar year. With the exception of fiscal 2006, which included 53 weeks, all other fiscal years presented are based on a 52 week period.

(2) Includes the impact of restructuring and other charges. See Note 10 to our Consolidated Financial Statements entitled **RESTRUCTURING AND OTHER CHARGES** for further information.

(3) Includes \$20 million, \$20 million, \$78 million, \$17 million and \$15 million of pre-tax gift card breakage income in fiscals 2010, 2009, 2008, 2007 and 2006, respectively. Also includes \$11 million of pre-tax gift card dormancy income in fiscal 2006. See Note 1 to our Consolidated Financial Statements entitled **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** for further details.

Includes pre-tax impairment losses on long-lived assets of \$11 million, \$7 million, \$33 million, \$13 million and \$5 million in fiscals 2010, 2009, 2008, 2007 and 2006, respectively. See Note 1 to our Consolidated Financial Statements entitled **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** for further details.

Includes the pre-tax impact of net gains on sales of properties of \$10 million, \$6 million, \$5 million, \$33 million and \$110 million in fiscals 2010, 2009, 2008, 2007 and 2006, respectively. See Note 5 to our Consolidated Financial Statements entitled **PROPERTY AND EQUIPMENT** for further details.

(4) Includes \$23 million in pre-tax litigation settlement expenses for certain legal matters. See Note 15 to our Consolidated Financial Statements entitled **LITIGATION AND LEGAL PROCEEDINGS** for further details.

Includes a \$16 million pre-tax non-cash cumulative correction of prior period straight-line lease accounting. See Note 1 to our Consolidated Financial Statements entitled **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** for further details.

Includes a \$6 million pre-tax incremental compensation expense related to the repurchase of awards by the company upon termination.

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Includes \$6 million in pre-tax state and city property transfer taxes recognized in fiscal 2010 related to the merger transaction in fiscal 2005.

- (5) Includes a \$51 million pre-tax gain related to the litigation settlement with Amazon. See Note 15 to our Consolidated Financial Statements entitled LITIGATION AND LEGAL PROCEEDINGS for further details.
- (6) Includes a \$39 million pre-tax gain related to the substantial liquidation of the operations of TRU (HK) Limited, our wholly-owned subsidiary. See Note 1 to our Consolidated Financial Statements entitled SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for further details.

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- (7) Includes a contract termination payment of \$19 million related to the pre-tax settlement between Toys-Japan and McDonald's Holding Company (Japan), Ltd. ( McDonald's Japan ) in fiscal 2008. A \$5 million pre-tax reserve had previously been established in fiscal 2007.
- (8) Excludes current portion of long-term debt. See Note 2 to our Consolidated Financial Statements entitled LONG-TERM DEBT for further details.
- (9) Adjusted EBITDA is defined as EBITDA (earnings before net interest income (expense), income tax (benefit) expense, depreciation and amortization), as further adjusted to exclude the effects of certain income and expense items that management believes make it more difficult to assess the Company's actual operating performance. Although the nature of many of these income and expense items is recurring, we have historically excluded such impact from internal performance assessments. We believe that excluding items such as sponsors' management and advisory fees, asset impairment charges, restructuring charges, impact of litigation, non-controlling interest, gain on sale of properties, gift card breakage accounting change and the other charges specified below, helps investors compare our operating performance with our results in prior periods. We believe it is appropriate to exclude these items as they are not related to ongoing operating performance and, therefore, limit comparability between periods and between us and similar companies.

We believe Adjusted EBITDA is useful to investors because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. Investors of the Company regularly request Adjusted EBITDA as a supplemental analytical measure to, and in conjunction with, the Company's GAAP financial data. We understand that these investors use Adjusted EBITDA, among other things, to assess our period-to-period operating performance and to gain insight into the manner in which management analyzes operating performance.

In addition, we believe that Adjusted EBITDA is useful in evaluating our operating performance compared to that of other companies in our industry because the calculation of EBITDA and Adjusted EBITDA generally eliminates the effects of financing and income taxes and the accounting effects of capital spending and acquisitions, which items may vary for different companies for reasons unrelated to overall operating performance. We use these non-GAAP financial measures for planning and forecasting and measuring results against the forecast and in certain cases we use similar measures for bonus targets for certain of our employees. Using several measures to evaluate the business allows us and investors to assess our relative performance.

Although we believe that Adjusted EBITDA can make an evaluation of our operating performance more consistent because it removes items that do not reflect our core operations, other companies, even in the same industry, may define Adjusted EBITDA differently than we do. As a result, it may be difficult to use Adjusted EBITDA or similarly named non-GAAP measures that other companies may use to compare the performance of those companies to our performance. The Company does not, and investors should not, place undue reliance on EBITDA or Adjusted EBITDA as measures of operating performance.

Reconciliation of Net earnings attributable to Toys R Us, Inc. to EBITDA and Adjusted EBITDA is as follows:

(In millions)	Fiscal Years Ended				
	January 29, 2011	January 30, 2010	January 31, 2009	February 2, 2008	February 3, 2007
Net earnings attributable to Toys R Us, Inc.	\$ 168	\$ 312	\$ 218	\$ 153	\$ 109
Add:					
Income tax (benefit) expense	(35)	40	7	65	35
Interest expense, net	514	440	403	476	506
Depreciation and amortization	388	376	399	394	409
<b>EBITDA</b>	<b>1,035</b>	<b>1,168</b>	<b>1,027</b>	<b>1,088</b>	<b>1,059</b>
Adjustments:					
Litigation settlement expenses (a)	23				
Sponsors management and advisory fees (b)	20	15	18	18	20
Prior period lease accounting (c)	16				
Impairment on long-lived assets (d)	11	7	33	13	5
Compensation expense (e)	6				
Transfer taxes (f)	6				
Restructuring (g)	3	5	8	2	9
Gain on sale of properties (h)	(10)	(6)	(5)	(33)	(110)
Net (loss) gain attributable to noncontrolling interest (i)	(1)	(8)	(7)	2	(1)
Gain on settlement on litigation (j)		(51)			
McDonald's Japan contract termination (k)			14	5	
Gift card breakage accounting change (l)			(59)		

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Gain on liquidation of TRU (HK) Limited (m)

(39)

Adjusted EBITDA	<b>\$ 1,109</b>	\$ 1,130	\$ 990	\$ 1,095	\$ 982
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- (a) Represents the litigation settlement expenses recorded for certain legal matters.
- (b) Represents the fees paid to the Sponsors in accordance with the advisory agreement. The advisory fee paid to the Sponsors increases 5% per year during the ten-year term of the agreement with the exception of fiscal 2009.
- (c) Represents a non-cash cumulative correction of prior period straight-line lease accounting.
- (d) Asset impairments primarily due to the identification of underperforming stores and the relocation of certain stores.

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- (e) Represents the incremental compensation expense related to the repurchase of awards by the company upon termination.
- (f) Represents state and city property transfer taxes recognized in fiscal 2010 related to the merger transaction in fiscal 2005.
- (g) Restructuring and other charges consist primarily of costs incurred from the Company's 2003 and 2005 restructuring initiatives. The additional charges are primarily due to changes in management's estimates for events such as lease terminations, assignments and sublease income adjustments.
- (h) During fiscals 2010 and 2009, we sold idle properties which resulted in gains of approximately \$10 million and \$6 million, respectively. During fiscal 2008, we sold property resulting in a gain of \$14 million. At the time of the sale, we leased back a portion of the property. Due to the leaseback, we recognized \$4 million of the gain and deferred the remaining \$10 million. During fiscal 2007, we sold an idle distribution center and properties, which resulted in gains of approximately \$23 million. In addition, we consummated a lease termination agreement resulting in a gain of \$10 million.  
During fiscal 2006, we sold 38 properties resulting in a gain of \$91 million. In addition, during fiscal 2006 we sold our interest in and assets related to a leased property, resulting in a gain of \$21 million.
- (i) Excludes noncontrolling interest in Toys Japan.
- (j) Represents a \$51 million gain recorded in Other income, net related to the litigation settlement with Amazon in fiscal 2009.
- (k) In fiscal 2008, a settlement was reached in which Toys Japan and McDonald's Japan agreed to the termination of the service agreement and the payment by Toys Japan of \$19 million to McDonald's Japan. The Company had previously established a reserve of \$5 million in fiscal 2007.
- (l) During fiscal 2008, the Company changed its method for recording gift card breakage income to recognize breakage income and derecognize the gift card liability for unredeemed gift cards in proportion to actual redemptions of gift cards. As a result, the adjustment recorded in fiscal 2008 resulted in an additional \$59 million of gift card breakage income.
- (m) In fiscal 2008, the operations of TRU (HK) Limited, our wholly-owned subsidiary, were substantially liquidated. As a result, we recognized a \$39 million gain.

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### **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to help facilitate an understanding of our historical results of operations during the periods presented and our financial condition. This MD&A should be read in conjunction with our Consolidated Financial Statements and the accompanying notes, and contains forward-looking statements that involve risks and uncertainties. See Forward-Looking Statements and Item 1A entitled RISK FACTORS of this Annual Report on Form 10-K. Our MD&A includes the following sections:

EXECUTIVE OVERVIEW provides an overview of our business.

RESULTS OF OPERATIONS provides an analysis of our financial performance and of our consolidated and segment results of operations for fiscal 2010 compared to fiscal 2009 and fiscal 2009 compared to fiscal 2008.

LIQUIDITY AND CAPITAL RESOURCES provides an overview of our financing, capital expenditures, cash flows and contractual obligations.

CRITICAL ACCOUNTING POLICIES provides a discussion of our accounting policies that require critical judgment, assumptions and estimates.

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS provides a brief description of significant accounting standards which were adopted during fiscal 2010. This section also refers to Note 21 to our Consolidated Financial Statements entitled RECENT ACCOUNTING PRONOUNCEMENTS for accounting standards which we have not yet been required to implement and may be applicable to our future operations.

### **EXECUTIVE OVERVIEW**

#### ***Our Business***

We are the leading global specialty retailer of toys and juvenile products as measured by net sales. For over 50 years, Toys R Us has been recognized as the toy and baby authority. We sell a variety of products in the core toy, entertainment, juvenile, learning and seasonal categories through our retail locations and the Internet. Our brand names are highly recognized in North America, Europe and Asia, and our expertise in the specialty toy and juvenile retail space, our broad range of product offerings, our substantial scale and geographic footprint and our strong vendor relationships account for our market-leading position and distinguish us from the competition. We believe we offer the most comprehensive year-round selection of toys and juvenile products, including a broad assortment of private label and exclusive merchandise unique to our stores.

As of January 29, 2011, we operated 1,392 stores and licensed an additional 220 stores. These stores are located in 34 countries and jurisdictions around the world under the Toys R Us, Babies R Us and FAO Schwarz banners. In addition to these stores, we operate Express stores, smaller format stores primarily open on a short-term basis during the holiday season. During the fiscal 2010 holiday season, we operated 656 Express stores, of which 95 were still open as of January 29, 2011. Of the 95 Express stores that remained open, 19 have been included in our overall store count as they each have a cumulative lease term of at least two years. We also own and operate websites including Toysrus.com, Babiesrus.com, eToys.com, FAO.com and babyuniverse.com, as well as other Internet sites we operate in our international markets. For fiscal 2010, we generated net sales of \$13.9 billion, net earnings of \$168 million and Adjusted EBITDA of \$1.1 billion. For the definition of Adjusted EBITDA, an explanation of why we present it and a description of the limitations of this non-GAAP measure, as well as a reconciliation to net earnings, see Item 6 entitled SELECTED FINANCIAL DATA of this Annual Report on Form 10-K.

We have developed a juvenile integration strategy which includes new store formats with an integrated one-stop shopping environment for our guests by combining the Toys R Us and Babies R Us merchandise offerings under one roof. We call these formats side-by-side ( SBS ) and Superstores ( SSBS ), depending on the store size. SBS stores are a combination of Toys R Us stores and Babies R Us stores. Our SSBS stores are conceptually similar to SBS stores, except that they are larger in size. Either format may be the result of a conversion or relocation and, in certain cases, may be accompanied by the closure of one or more existing stores. In addition, SBS stores and SSBS stores may also be constructed in a new location and market.

The integration of juvenile merchandise (including baby products) with toy and entertainment offerings has allowed us to create a one-stop shopping experience for our guests, and enabled us to obtain the sales and operating benefits associated with combining product lines under one roof. Our product assortment allows us to capture new parents as customers during pregnancy, helping them prepare for the arrival of their newborn. We then become a resource for infant products such as baby formula, diapers and solid foods, as well as baby clothing and learning aids. We believe this opportunity to establish first contact with new parents enables us to develop long-lasting customer relationships with them.

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as their children grow and they transition to becoming consumers of our toy products. We continue to build on these relationships as these children mature and eventually become parents themselves. Additionally, juvenile merchandise such as baby formula, diapers and infant clothing provide us with a mitigant to the inherent seasonality in the toy business.



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In connection with our juvenile integration strategy, we continue to increase the number of SBS and SSBS stores both domestically and internationally. Through the end of fiscal 2010, we converted 202 existing stores into SBS store format and three existing stores into SSBS store format. In addition, during the same period, we have opened 51 SBS and SSBS stores (28 of which were relocations of existing stores). We expect that our integrated store formats will continue to be a significant driver of our revenue and profit growth going forward.

In addition to our SBS and SSBS store formats, we continue to enhance our juvenile integration strategy with our BRU Express and Juvenile Expansion formats which devote additional square footage to our juvenile products within our traditional Toys R Us stores. Since implementing this integrated store format, we have augmented 86 existing Toys R Us stores with these layouts.

During our prime holiday selling season in fiscal 2010, we operated 656 Express stores globally in shopping malls, outlet malls and other shopping centers. These locations typically range in size from approximately 2,000 to 7,000 square feet, and provide our customers with greater convenience and accessibility during the holiday selling season. Express stores with a cumulative lease term of at least two years, primarily outlet mall locations, are included in our overall store count, while the remaining locations are excluded. As of January 29, 2011, there were 95 Express stores open, 19 of which have been included in our overall store count. We expect to continue our strategy for operating temporary holiday Express locations in the future, the number of which will depend on market opportunities.

We plan to further expand and leverage our e-commerce business by continuing to integrate our Internet capabilities with our stores. In a limited number of stores in the United States and all stores in the United Kingdom, our websites allow guests to determine if an item is in-stock at a particular store and we offer in-store pick-up of on-line orders. We expect to expand these capabilities to all stores in the United States and select foreign markets in the near future. We also allow customers to return items purchased on-line at our stores. Additionally, our loyalty programs, including baby registry, birthday club and Rewards R Us programs, all offer on-line functionality which deepens our relationship with our guests and complements the in-store experience. In addition to our existing online presence in Australia, Canada, Japan and the United Kingdom, in fiscal 2010, we introduced websites in Austria, France and Germany, expanding our global reach. In the near future, we plan on further extending our online presence by rolling out websites in the Netherlands, Portugal, Spain and Switzerland. We believe our global e-commerce platform provides the on-going potential to enter new international markets where we do not have any physical stores. For fiscals 2010, 2009 and 2008, our e-commerce business generated net sales of approximately \$782 million, \$602 million and \$578 million, respectively.

We believe that we have the potential to grow the number of stores in our store portfolio. We believe this opportunity exists in the United States and our existing international markets, as well as new international markets, particularly those in the emerging economies which are seeing overall GDP growth and rising incomes.

Additionally, we will continue to focus on expanding our gross margins primarily through optimizing pricing, merchandising and store productivity initiatives, increasing our private label penetration, increasing our use of direct sourcing and managing our selling, general and administrative expenditures.

As of the end of fiscal 2010, we operated all of the R Us branded retail stores in the United States and Puerto Rico and approximately 70% of the 744 R Us branded retail stores internationally. The balance of the R Us branded retail stores outside the United States are operated by licensees. License fees did not have a material impact on our Net sales.

As of January 29, 2011, we operated 1,392 retail stores and licensed an additional 220 retail stores worldwide in the following formats:

### *Operated Stores*

844 traditional toy stores, which typically range in size from 30,000 to 50,000 square feet and devote approximately 7,000 square feet to boutique areas for juvenile (including baby) products (BRU Express and Juvenile Expansion formats devote approximately an additional 4,000 square feet and 1,000 square feet, respectively, for juvenile - including baby - products);

270 juvenile stores, which typically range in size from 30,000 to 45,000 square feet and devote approximately 4,000 to 5,000 square feet to traditional toy products;

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224 SBS stores, which typically range in size from 30,000 to 50,000 square feet and devote approximately 20,000 to 30,000 square feet to traditional toy products and approximately 10,000 to 20,000 square feet to juvenile (including baby) products;

32 SSBS stores, which typically range in size from 55,000 to 70,000 square feet by combining a traditional domestic toy store of approximately 30,000 to 40,000 square feet with a domestic juvenile (including baby) store of approximately 25,000 to 30,000 square feet;

19 Express stores, which typically range in size from 2,000 to 7,000 square feet, each with a cumulative lease term of at least two years; and

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3 flagship store locations (the Toys R Us store in Times Square, the FAO Schwarz store on 5<sup>th</sup> Avenue and the Babies R Us store in Union Square – all in New York City), which range in size from 55,000 to 100,000 square feet.

### *Licensed Stores*

220 R Us branded retail stores ranging in various sizes.

In addition to these stores, during the fiscal 2010 holiday season, we operated an additional 637 temporary Express store locations located in high traffic areas, 76 of which remained open as of January 29, 2011. These locations typically range in size from approximately 2,000 to 7,000 square feet, each has a cumulative lease term of less than two years and is not included in our overall store count.

Our extensive experience in retail site selection has resulted in a portfolio of stores that includes attractive locations in many of our chosen markets. Markets for new stores and formats are selected on the basis of proximity to other R Us branded stores, demographic factors, population growth potential, competitive environment, availability of real estate and cost. Once a potential market is identified, we select a suitable location based upon several criteria, including size of the property, access to major commercial thoroughfares, proximity of other strong anchor stores or other destination superstores, visibility and parking capacity.

### *Our Business Segments*

Our business has two reportable segments: Domestic and International. See Note 12 to our Consolidated Financial Statements entitled SEGMENTS for our segments' financial results for fiscals 2010, 2009 and 2008. The following is a brief description of our segments:

***Domestic*** Our Domestic segment sells a variety of products in the core toy, entertainment, juvenile (including baby), learning and seasonal categories through 868 stores that operate in 49 states in the United States and Puerto Rico and through the Internet. Domestic Net sales in fiscal 2010 were derived from 455 traditional toy stores (including 79 BRU Express and Juvenile Expansion formats), 252 juvenile stores, 107 SBS stores, 32 SSBS stores, 19 permanent Express stores and our 3 flagship stores in New York City. Additionally, we generate Net sales through our temporary Express store locations. Based on sales, we are the largest specialty retailer of toys in the United States and Puerto Rico. Domestic Net sales were \$8.6 billion for fiscal 2010, which accounts for 62% of our consolidated Net sales.

***International*** Our International segment sells a variety of products in the core toy, entertainment, juvenile (including baby), learning and seasonal categories through 524 owned and 220 licensed stores in 33 countries and jurisdictions and through the Internet. In addition to fees received from licensed stores, International Net sales in fiscal 2010 were derived from 389 traditional toy stores (including seven BRU Express formats), 117 SBS stores and 18 juvenile stores. Additionally, we generate Net sales through our temporary Express store locations. Our operated stores are in Australia, Austria, Canada, France, Germany, Japan, Portugal, Spain, Switzerland and the United Kingdom. International Net sales were \$5.3 billion for fiscal 2010, which accounts for 38% of our consolidated Net sales.

In order to properly judge our business performance, it is necessary to be aware of the following challenges and risks:

***Seasonality*** Our business is highly seasonal with sales and earnings highest in the fourth quarter. During fiscals 2010, 2009 and 2008, approximately 43%, 43% and 40%, respectively, of the Net sales from our worldwide business and a substantial portion of our cash flows from operations were generated in the fourth quarter. Our results of operations depend significantly upon the fourth quarter holiday selling season.

***Spending patterns and product migration*** Many economic and other factors outside our control, including consumer confidence, consumer spending levels, employment levels, consumer debt levels and inflation, as well as the availability of consumer credit, affect consumer spending habits.

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**Increased competition** Our businesses operate in a highly competitive retail market. We compete on the basis of breadth of merchandise assortment, product variety, quality, safety, availability, price, advertising and promotion, convenience or store location and customer service. We face strong competition from discount and mass merchandisers, national and regional chains and department stores, local retailers in the market areas we serve and Internet and catalog businesses. Price competition in our retailing business continued to be intense during the 2010 fourth quarter holiday season.

**Video games and video game systems** Video games and video game systems represent a significant portion of our entertainment category. Video games and video game systems have accounted for 9%, 11% and 14% of our annual Net sales for fiscals 2010, 2009 and 2008, respectively. Due to the intensified competition as well as the maturation of this category, sales of video games and video game systems will periodically experience volatility that may impact our financial performance. Our entertainment category, which includes video games and video game systems, had a selling margin rate between 14% and 15% for the past three fiscal years.

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On March 11, 2011, earthquakes followed by tsunamis hit the Northeast coast of Japan, causing significant damage in the surrounding region, including a number of our stores. As of March 23, 2011, six of our Japanese stores remain closed. In addition to the damage and store closings, the concurrent disruption of transportation systems and fuel and power shortages in Japan is likely to have a negative impact on our ability to accept vendor deliveries and conduct business activities in Japan and our Japanese stores' operating performance. It is too early to assess the impact of the situation in Japan on our Consolidated Financial Statements.

**RESULTS OF OPERATIONS*****Financial Performance***

As discussed in more detail in this MD&A, the following financial data represents an overview of our financial performance for fiscals 2010, 2009 and 2008:

(\$ In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
Net sales	\$ 13,864	\$ 13,568	\$ 13,724
Gross margin as a percentage of Net sales	35.5%	35.2%	34.6%
Selling, general and administrative expenses as a percentage of Net sales	28.4%	27.5%	28.1%
Net earnings attributable to Toys R Us, Inc.	\$ 168	\$ 312	\$ 218

Net sales for fiscal 2010 increased by \$296 million primarily due to net sales from new locations, which includes Express stores, as well as increased comparable store net sales at our Domestic segment. The Domestic segment comparable store net sales increase was largely driven by an increase in the number of transactions, net sales from our Internet operations and locations that were recently converted or relocated to our SBS and SSBS store formats. Partially offsetting these increases were decreased comparable store net sales at our International segment primarily driven by lower average transaction amounts and a decrease in the number of transactions. Foreign currency translation increased Net sales by approximately \$93 million for fiscal 2010.

Gross margin, as a percentage of Net sales, was primarily impacted by improvements in sales mix away from lower margin products such as video game systems.

Selling, general and administrative expenses ( SG&A ), as a percentage of Net sales, for fiscal 2010 increased primarily as a result of an increase in store-level costs largely associated with new locations (including Express stores). Additionally, advertising and promotional expenses increased at our Domestic segment and we incurred additional expenses associated with the fulfillment of increased online sales. In addition, in fiscal 2010, the Company recorded litigation settlement expenses for certain legal matters and a non-cash cumulative correction of prior period straight-line lease accounting. Foreign currency translation increased SG&A by approximately \$30 million for fiscal 2010.

Net earnings attributable to Toys R Us, Inc. for fiscal 2010 decreased primarily as a result of an increase in SG&A and Interest expense, as well as a decrease in Other income, net. Partially offsetting these amounts was an increase in Gross margin and a favorable impact from income taxes.

***Comparable Store Net Sales***

In computing comparable store net sales, we include stores that have been open for at least 56 weeks (1 year and 4 weeks) from their soft opening date. A soft opening is typically two weeks prior to the grand opening. Express stores with a cumulative lease term of at least two years and that have been open for at least 56 weeks from their soft opening date are also included in our comparable store net sales computation.

Comparable stores include the following:

stores that have been remodeled (including conversions) while remaining open;

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stores that have been relocated and/or expanded to new buildings within the same trade area, in which the new store opens at about the same time as the old store closes;

stores that have expanded within their current locations; and

sales from our Internet businesses.

By measuring the year-over-year sales of merchandise in the stores that have been open for a full comparable 56 weeks or more, we can better gauge how the core store base is performing since it excludes the impact of store openings and closings.

Various factors affect comparable store net sales, including the number of and timing of stores we open, close, convert, relocate or expand, the number of transactions, the average transaction amount, the general retail sales environment, current local and global economic conditions, consumer preferences and buying trends, changes in sales mix among distribution channels, our ability to efficiently source and distribute

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products, changes in our merchandise mix, competition, the timing of the release of new merchandise and our promotional events, the success of marketing programs and the cannibalization of existing store net sales by new stores. Among other things, weather conditions can affect comparable store net sales because inclement weather may discourage travel or require temporary store closures, thereby reducing customer traffic. These factors have caused our comparable store net sales to fluctuate significantly in the past on a monthly, quarterly, and annual basis and, as a result, we expect that comparable store net sales will continue to fluctuate in the future.

The following table discloses the change in our comparable store net sales for the fiscal years ended January 29, 2011, January 30, 2010 and January 31, 2009:

	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
Domestic	1.7%	(3.0)%	(0.1)%
International	(3.1)%	(2.8)%	(3.4)%

**Percentage of Net Sales by Product Category**

	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
<b>Domestic:</b>			
Core Toy	15.4%	14.8%	14.1%
Entertainment	14.0%	15.5%	17.3%
Juvenile	36.9%	37.2%	37.9%
Learning	20.3%	19.6%	17.6%
Seasonal	12.2%	11.7%	11.7%
Other (1)	1.2%	1.2%	1.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(1) Consists primarily of shipping and other non-product related revenues.

	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
<b>International:</b>			
Core Toy	21.3%	20.3%	19.3%
Entertainment	13.4%	15.6%	19.1%
Juvenile	21.7%	20.7%	20.3%
Learning	26.9%	27.0%	25.5%
Seasonal	15.9%	15.7%	15.1%
Other (1)	0.8%	0.7%	0.7%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(1) Consists primarily of license fees from unaffiliated third parties and other non-product related revenues.

**Table of Contents****Store Count by Segment**

	Fiscal 2010				
	January 29, 2011	Opened	Closed (5)	Conversions	January 30, 2010
Domestic:					
Standalone stores (1)(3)	729	18		(39)	759
Side-by-side stores	107	3		38	64
R Superstores	32			1	26
<b>Total Domestic</b>	<b>868</b>	<b>21</b>			<b>849</b>
International:					
Standalone stores (2)(3)	407	7	(2)	(35)	437
Side-by-side stores	117	5		35	77
<b>Total International</b>	<b>524</b>	<b>12</b>	<b>(2)</b>		<b>514</b>
<b>Total Operated (3)(4)</b>	<b>1,392</b>	<b>33</b>	<b>(2)</b>		<b>1,363</b>
	Fiscal 2009				
	January 30, 2010	Opened	Closed (5)	Conversions	January 31, 2009
Domestic:					
Standalone stores (1)(3)	759	4	(3)	(11)	774
Side-by-side stores	64			11	53
R Superstores	26	2			19
<b>Total Domestic</b>	<b>849</b>	<b>6</b>	<b>(3)</b>		<b>846</b>
International:					
Standalone stores (2)(3)	437	6		(7)	438
Side-by-side stores	77	4		7	66
<b>Total International</b>	<b>514</b>	<b>10</b>			<b>504</b>
<b>Total Operated (3)(4)</b>	<b>1,363</b>	<b>16</b>	<b>(3)</b>		<b>1,350</b>

(1) Store count as of January 29, 2011 includes 14 BRU Express stores and 65 Juvenile Expansions. Store count as of January 30, 2010 included 13 BRU Express stores and 64 Juvenile Expansions. Store count as of January 31, 2009 included 12 BRU Express and 63 Juvenile Expansions.

(2) Store count as of January 29, 2011 includes seven BRU Express stores. Store count as of January 30, 2010 and January 31, 2009 included two BRU Express stores, respectively.

(3) Express stores with a cumulative lease term of at least two years are included in our overall store count, while remaining locations are excluded. As of January 29, 2011, there were 79 Domestic and 16 International Express stores open, 19 of which have been included in our overall store count within our Domestic segment. As of January 30, 2010, there were 29 Domestic Express stores open and 1 International Express store open, none of which have been included in our overall store count. As of January 31, 2009, there were no Express stores open.

(4) Excluded from our overall store count are 220, 203 and 209 International licensed stores for fiscals 2010, 2009 and 2008, respectively.

(5) Excludes stores closed as a result of conversions and relocations.



<sup>(6)</sup> Of the seven relocations in fiscal 2010, two were accompanied by multiple store closings.

**Table of Contents****Fiscal 2010 Compared to Fiscal 2009****Net Earnings Attributable to Toys R Us, Inc.**

(In millions)	Fiscal 2010	Fiscal 2009	Change
Toys R Us - Consolidated	<b>\$ 168</b>	\$ 312	\$ (144)

Net earnings attributable to Toys R Us, Inc. decreased by \$144 million to \$168 million in fiscal 2010, compared to \$312 million in fiscal 2009. The decrease in Net earnings attributable to Toys R Us, Inc. was primarily due to an increase in SG&A of \$212 million predominantly related to store-level costs largely associated with new locations (including Express stores), as well as an increase in advertising and promotional expenses and expenses associated with the fulfillment of increased online sales. Additionally contributing to the increase in SG&A were litigation settlement expenses for certain legal matters and a non-cash cumulative correction of prior period straight-line lease accounting. Further contributing to the decrease in Net earnings was an increase in Interest expense of \$74 million resulting primarily from higher effective interest rates, as well as a decrease in Other income, net of \$61 million primarily due to a prior year gain of \$51 million from a litigation settlement with Amazon. Partially offsetting these amounts was an increase in Gross margin of \$147 million primarily due to higher Net sales and an increase in margin rate. In addition, we had a favorable impact from income taxes of \$75 million.

**Net Sales**

(\$ In millions)	Fiscal 2010	Fiscal 2009	\$ Change	% Change	Percentage of Net sales	
					Fiscal 2010	Fiscal 2009
Domestic	<b>\$ 8,621</b>	\$ 8,317	\$ 304	3.7%	<b>62.2%</b>	61.3%
International	<b>5,243</b>	5,251	(8)	(0.2)%	<b>37.8%</b>	38.7%
Toys R Us - Consolidated	<b>\$ 13,864</b>	\$ 13,568	\$ 296	2.2%	<b>100.0%</b>	100.0%

Net sales increased by \$296 million or 2.2%, to \$13,864 million in fiscal 2010, compared to \$13,568 million in fiscal 2009. Net sales for fiscal 2010 included the impact of foreign currency translation which increased Net sales by approximately \$93 million.

Excluding the impact of foreign currency translation, the increase in Net sales for fiscal 2010 was primarily due to net sales from new locations, which includes Express stores, as well as increased comparable store net sales at our Domestic segment. The Domestic segment comparable store net sales increase was largely driven by an increase in the number of transactions, net sales from our Internet operations and locations that were recently converted or relocated to our SBS and SSBS store formats. Partially offsetting these increases were decreased comparable store net sales at our International segment primarily driven by lower average transaction amounts and a decrease in the number of transactions.

**Domestic**

Net sales for the Domestic segment increased by \$304 million or 3.7%, to \$8,621 million in fiscal 2010, compared to \$8,317 million in fiscal 2009. The increase in Net sales was primarily a result of an increase in net sales from new locations, which includes Express stores, as well as an increase in comparable store net sales of 1.7%.

The increase in comparable store net sales resulted primarily from an increase in our juvenile (including baby), learning and core toy categories. The increase in our juvenile category was primarily due to increased sales of commodities and infant care products. The increase in our learning category was primarily due to increased sales of educational products and construction toys. The increase in our core toy category was primarily due to increased sales of dolls and collectibles. Partially offsetting these increases was a decrease in our entertainment category which was driven by fewer releases of new video game systems and software.

**International**

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Net sales for the International segment decreased by \$8 million or 0.2%, to \$5,243 million in fiscal 2010, compared to \$5,251 million in fiscal 2009. Excluding a \$93 million increase in Net sales due to foreign currency translation, International Net sales decreased primarily as a result of a decrease in comparable store net sales of 3.1%. Partially offsetting the decrease was an increase in net sales from new locations.

The decrease in comparable store net sales resulted primarily from decreases in our entertainment and seasonal categories. The decrease in our entertainment category was driven by fewer releases of new video game systems and software. The decrease in our seasonal category was primarily due to a decline in sales of outdoor products. Partially offsetting these decreases was an increase in our core toy category primarily as a result of strong sales of collectibles.

**Table of Contents*****Cost of Sales and Gross Margin***

We record the costs associated with operating our distribution networks as a part of SG&A, including those costs that primarily relate to transporting merchandise from distribution centers to stores. Therefore, our consolidated Gross margin may not be comparable to the gross margins of other retailers that include similar costs in their cost of sales.

The following are reflected in Cost of sales :

the cost of merchandise acquired from vendors;

freight in;

provision for excess and obsolete inventory;

shipping costs to consumers;

provision for inventory shortages; and

credits and allowances from our merchandise vendors.

(\$ In millions)				Percentage of Net sales		
	Fiscal 2010	Fiscal 2009	\$ Change	Fiscal 2010	Fiscal 2009	Change
Domestic	\$ 3,004	\$ 2,893	\$ 111	34.8%	34.8%	
International	1,921	1,885	36	36.6%	35.9%	0.7%
Toys R Us - Consolidated	\$ 4,925	\$ 4,778	\$ 147	35.5%	35.2%	0.3%

Gross margin increased by \$147 million to \$4,925 million in fiscal 2010, compared to \$4,778 million in fiscal 2009. Foreign currency translation accounted for approximately \$27 million of the increase in Gross margin. Gross margin, as a percentage of Net sales, increased by 0.3 percentage points in fiscal 2010 compared to fiscal 2009. Gross margin, as a percentage of Net sales, was primarily impacted by improvements in sales mix away from lower margin products.

**Domestic**

Gross margin increased by \$111 million to \$3,004 million in fiscal 2010, compared to \$2,893 million in fiscal 2009. Gross margin, as a percentage of Net sales, remained unchanged in fiscal 2010 compared to fiscal 2009.

Gross margin, as a percentage of Net sales, was primarily impacted by improvements in sales mix away from lower margin products such as video game systems, as well as increased sales of higher margin learning and core toy products. These increases were offset by increased sales of products on promotion.

**International**

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Gross margin increased by \$36 million to \$1,921 million in fiscal 2010, compared to \$1,885 million in fiscal 2009. Foreign currency translation accounted for approximately \$27 million of the increase in Gross margin. Gross margin, as a percentage of Net sales, increased by 0.7 percentage points in fiscal 2010 compared to fiscal 2009.

The increase in Gross margin, as a percentage of Net sales, resulted primarily from improvements in sales mix away from lower margin products such as video game systems.

### *Selling, General and Administrative Expenses*

The following are the types of costs included in SG&A:

store payroll and related payroll benefits;

rent and other store operating expenses;

advertising and promotional expenses;

costs associated with operating our distribution network, including costs related to transporting merchandise from distribution centers to stores;

restructuring charges; and

other corporate-related expenses.

(\$ In millions)				Percentage of Net Sales		
	Fiscal 2010	Fiscal 2009	\$ Change	Fiscal 2010	Fiscal 2009	Change
Toys R Us - Consolidated	\$ 3,942	\$ 3,730	\$ 212	28.4%	27.5%	0.9%

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SG&A increased by \$212 million to \$3,942 million in fiscal 2010 compared to \$3,730 million in fiscal 2009. Foreign currency translation accounted for approximately \$30 million of the increase. As a percentage of Net sales, SG&A increased by 0.9 percentage points.

Excluding the impact of foreign currency translation, the increase in SG&A was primarily due to increases in payroll expenses of \$55 million, rent expense of \$25 million and pre-opening costs of \$18 million largely associated with new locations. The impact associated with new locations primarily relates to the Company's expanded fiscal 2010 Express store presence. Additionally, advertising and promotional expenses increased by \$20 million at our Domestic segment due primarily to an increase in promotional activity as compared to the same period last year, and we incurred an additional \$14 million of expenses primarily associated with the fulfillment of increased online sales.

In addition, the Company recorded litigation settlement expenses for certain legal matters of approximately \$23 million and a \$16 million non-cash cumulative correction of prior period straight-line lease accounting.

***Depreciation and Amortization***

(In millions)	Fiscal 2010	Fiscal 2009	Change
Toys R Us - Consolidated	\$ 388	\$ 376	\$ 12

Depreciation and amortization increased by \$12 million to \$388 million in fiscal 2010 compared to \$376 million in fiscal 2009. The increase primarily resulted from the addition of new and recently converted or relocated stores to our SBS and SSBS formats and increased accelerated depreciation related to store closures as a result of relocations in fiscal 2010. Additionally, foreign currency translation accounted for approximately \$3 million of the increase.

***Other Income, Net***

Other income, net includes the following:

gift card breakage income;

credit card program income;

net gains on sales of properties;

impairment on long-lived assets;

foreign exchange gains and losses;

gain on litigation settlement; and

other operating income and expenses.

(In millions)	Fiscal 2010	Fiscal 2009	Change
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Toys R Us - Consolidated	\$ 51	\$ 112	\$ (61)
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Other income, net decreased by \$61 million to \$51 million in fiscal 2010 compared to \$112 million in fiscal 2009. The decrease was primarily the result of a \$51 million gain from a litigation settlement with Amazon in fiscal 2009 and a decrease of \$12 million in credit card program income compared to the last fiscal year.

Refer to Note 1 to our Consolidated Financial Statements entitled SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for further details.

### *Interest Expense*

(In millions)	Fiscal 2010	Fiscal 2009	Change
Toys R Us - Consolidated	\$ 521	\$ 447	\$ 74

Interest expense increased by \$74 million to \$521 million in fiscal 2010 compared to \$447 million in fiscal 2009. This was largely due to an increase of \$81 million predominantly related to higher effective interest rates on our debt due principally to prior year refinancings. Additionally contributing to the increase were deferred financing charges of \$16 million primarily due to the write-off of deferred financing costs as a result of the current year refinancings. These increases were partially offset by a reduction of \$23 million in charges related to the change in fair value of our derivative instruments.

**Table of Contents****Interest Income**

(In millions)	Fiscal 2010	Fiscal 2009	Change
Toys R Us - Consolidated	\$ 7	\$ 7	\$

Interest income remained consistent at \$7 million for fiscal 2010, compared to the same period last year.

**Income Tax (Benefit) Expense**

(\$ In millions)	Fiscal 2010	Fiscal 2009	Change
Toys R Us - Consolidated	\$ (35)	\$ 40	\$ (75)
Consolidated effective tax rate	(26.5)%	11.6%	(38.1)%

The net decrease in income tax expense of \$75 million in fiscal 2010 compared to fiscal 2009 was principally due to the decrease in pre-tax earnings. Our income tax benefit in fiscal 2010 was also favorably impacted by certain non-routine items, including benefits associated with a decrease in the valuation allowance due to the development of tax planning strategies, as well as the improved operating performance of one of our foreign subsidiaries. Also contributing to the benefit was a reduction in the liability for unrecognized tax benefits due to the resolution of ongoing tax examinations in various jurisdictions, receiving a favorable ruling from a taxing authority and making protective elections. These benefits were offset by non-routine items that provided a benefit in fiscal 2009 that are not present in fiscal 2010, including the fiscal 2009 benefits associated with a change in tax classification of certain foreign entities, as well as the fiscal 2009 benefit for the reversal of deferred tax liabilities associated with the undistributed earnings of two of our subsidiaries as it is management's intention to permanently reinvest those earnings.

The U.S. Federal statutory tax rate is 35%. Our income tax benefit in fiscal 2010 was favorably impacted by certain non-routine items, including benefits associated with a decrease in the valuation allowance due to the development of tax planning strategies, as well as the improved operating performance of one of our foreign subsidiaries. The benefit was also favorably impacted by the reduction in the liability for unrecognized tax benefits due to the resolution of ongoing tax examinations in various jurisdictions, receiving a favorable ruling from a taxing authority and making protective elections.

For fiscal 2011, we estimate that our effective tax rate will be approximately 25%, which includes benefits from certain non-routine items, including items related to our foreign operations and unrecognized tax benefits. As these non-routine items may not provide a benefit in future periods, we estimate that our effective tax rate will be approximately 38% in fiscal 2012 and future periods. There are many factors beyond our control that affect our tax rate, including changes in tax laws, and therefore the actual tax rates may vary from these estimates and such variations may be material (see also RISK FACTORS). We may experience fluctuations in our tax obligations and effective tax rate, which could materially and adversely affect our results of operations. Refer to Note 11 to the Consolidated Financial Statements entitled INCOME TAXES for further details.

**Fiscal 2009 Compared to Fiscal 2008****Net Earnings Attributable to Toys R Us, Inc.**

(In millions)	Fiscal 2009	Fiscal 2008	Change
Toys R Us - Consolidated	\$ 312	\$ 218	\$ 94

We generated Net earnings attributable to Toys R Us, Inc. of \$312 million in fiscal 2009 compared to \$218 million in fiscal 2008. The increase in Net earnings attributable to Toys R Us, Inc. was primarily due to a reduction in SG&A of \$126 million resulting primarily from initiatives to reduce our operating expenses, an increase in Gross margin of \$30 million due to improvements in sales mix away from lower margin products and a decrease in Depreciation and amortization of \$23 million. This increase in Net earnings attributable to Toys R Us, Inc. was partially offset by an increase in net interest expense of \$37 million, an increase in Income tax expense of \$33 million and a decrease in Other income, net of \$16 million. Each of these changes includes the effect of foreign currency translation, which accounted for approximately \$28 million of the



increase in Net earnings attributable to Toys R Us, Inc.

**Table of Contents****Net Sales**

(\$ In millions)					Percentage of Net sales	
	Fiscal 2009	Fiscal 2008	\$ Change	% Change	Fiscal 2009	Fiscal 2008
Domestic	\$ 8,317	\$ 8,480	\$ (163)	(1.9)%	61.3%	61.8%
International	5,251	5,244	7	0.1%	38.7%	38.2%
<b>Toys R Us - Consolidated</b>	<b>\$ 13,568</b>	<b>\$ 13,724</b>	<b>\$ (156)</b>	<b>(1.1)%</b>	<b>100.0%</b>	<b>100.0%</b>

Net sales decreased by \$156 million, or 1.1%, to \$13,568 million in fiscal 2009, compared with \$13,724 million in fiscal 2008. Net sales for fiscal 2009 included the impact of foreign currency translation that increased Net sales by approximately \$83 million.

Excluding the impact of foreign currency translation, the decrease in Net sales for fiscal 2009 was primarily due to decreased comparable store net sales across both our segments. Comparable store net sales were primarily impacted by the overall slowdown in the global economy, a lower average transaction amount at both of our segments and a decrease in the number of transactions at our International segment. Partially offsetting this decrease was an increase in comparable store net sales attributable to stores in our SBS and SSBS store formats.

**Domestic**

Net sales for the Domestic segment decreased by \$163 million, or 1.9%, to \$8,317 million in fiscal 2009, compared with \$8,480 million in fiscal 2008. The decrease in Net sales was primarily a result of a decrease in comparable store net sales of 3.0%.

The decrease in comparable store net sales resulted primarily from a decrease in our entertainment, juvenile (including baby) and seasonal categories, which were all affected by the overall slowdown in the economy. The decrease in our entertainment category was driven by a slowdown in demand for certain video game systems and related accessories as well as fewer new software releases. The juvenile category decreased primarily as a result of the phasing out of certain size apparel offerings, along with declines in sales of baby gear, furniture and bedding. Sales of seasonal products, such as outdoor play equipment, decreased primarily due to cooler weather. These decreases were partially offset by increases in our learning and core toy categories. The learning category increased as a result of strong sales of construction toys, while increased sales in the core toy category were primarily driven by an increase in sales of collectibles and dolls.

**International**

Net sales for the International segment increased by \$7 million, or 0.1%, to \$5,251 million in fiscal 2009, compared with \$5,244 million in fiscal 2008. Excluding an \$83 million increase in Net sales due to foreign currency translation, there was a decrease in Net sales at our International segment which was primarily a result of a decrease in comparable store net sales of 2.8%.

The decrease in comparable store net sales resulted primarily from a decrease in our entertainment and juvenile (including baby) categories, which were both affected by the slowdown in the global economy. The entertainment category decreases were primarily attributable to a slowdown in demand for certain video game systems and related accessories as well as fewer new software releases. The juvenile category decreased primarily from declines in sales of nursery equipment and apparel. These decreases were partially offset by increases in our learning and core toy categories. The increase in the learning category was primarily a result of strong sales of educational products and construction toys. The increase in the core toy category was primarily attributable to increased sales of action figures.

**Cost of Sales and Gross Margin**

(\$ In millions)					Percentage of Net sales	
	Fiscal 2009	Fiscal 2008	\$ Change	Fiscal 2009	Fiscal 2008	Change
Domestic	\$ 2,893	\$ 2,910	\$ (17)	34.8%	34.3%	0.5%
International	1,885	1,838	47	35.9%	35.0%	0.9%

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Toys R Us - Consolidated	\$ 4,778	\$ 4,748	\$ 30	35.2%	34.6%	0.6%
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Gross margin increased by \$30 million to \$4,778 million in fiscal 2009, compared with \$4,748 million in fiscal 2008. Gross margin, as a percentage of Net sales, for fiscal 2009 increased by 0.6 percentage points. Foreign currency translation accounted for approximately \$15 million of the increase in Gross margin. The increase in Gross margin, as a percentage of Net sales, was primarily the result of improvements in sales mix away from lower margin products.

**Table of Contents****Domestic**

Gross margin decreased by \$17 million to \$2,893 million in fiscal 2009, compared with \$2,910 million in fiscal 2008. Gross margin, as a percentage of Net sales, for fiscal 2009 increased by 0.5 percentage points.

The increase in Gross margin, as a percentage of Net sales, resulted primarily from improvements in sales mix away from lower margin products such as video game systems, and overall improvements in margin on full price sales and promotional sales in the learning and core toy categories. These increases were partially offset by increased sales of lower margin commodities within the juvenile category.

**International**

Gross margin increased by \$47 million to \$1,885 million in fiscal 2009, compared with \$1,838 million in fiscal 2008. Foreign currency translation accounted for approximately \$15 million of the increase. Gross margin, as a percentage of Net sales, for fiscal 2009 increased by 0.9 percentage points.

The increase in Gross margin, as a percentage of Net sales, resulted primarily from improvements in sales mix toward sales of higher margin learning and core toy products as well as decreased sales of lower margin video game systems compared to fiscal 2008.

***Selling, General and Administrative Expenses***

(\$ In millions)	Percentage of Net Sales					
	Fiscal 2009	Fiscal 2008	\$ Change	Fiscal 2009	Fiscal 2008	Change
Toys R Us - Consolidated	\$ 3,730	\$ 3,856	\$ (126)	27.5%	28.1%	(0.6)%

SG&A decreased \$126 million to \$3,730 million in fiscal 2009 compared to \$3,856 million in fiscal 2008. Foreign currency translation accounted for approximately \$5 million of the decrease. As a percentage of Net sales, SG&A decreased by 0.6 percentage points.

Excluding the impact of foreign currency translation, the decrease in SG&A was primarily from strong initiatives to reduce overall operating expenses, which includes decreases of \$29 million in advertising and promotional expenses, \$23 million in travel and transportation costs, \$17 million in store labor and other compensation expenses and \$17 million in professional fees at our Domestic and International segments.

Additionally, SG&A decreased at our International segment due to the contract termination fee paid by the Company related to the settlement between Toys Japan and McDonald's Japan, which increased SG&A by \$14 million in fiscal 2008. The remainder of the decrease resulted from a \$7 million decrease in signage expense, a \$6 million decrease in hiring and retention costs, a \$4 million decrease in security costs and nominal reductions in general operating expenses.

***Depreciation and Amortization***

(In millions)	Fiscal 2009	Fiscal 2008	Change
Toys R Us - Consolidated	\$ 376	\$ 399	\$ (23)

Depreciation and amortization decreased by \$23 million to \$376 million in fiscal 2009 compared to \$399 million in fiscal 2008. The decrease was primarily due to a decrease of \$11 million in accelerated depreciation related to store relocations and disposals in fiscal 2008, a decrease of \$8 million related to assets which became fully amortized during the first half of fiscal 2009, as well as the addition of fewer new Company operated stores due to the curtailment of capital spending during fiscal 2009. Additionally, foreign currency translation accounted for approximately \$1 million of the decrease.

***Other Income, Net***

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(In millions)	Fiscal 2009	Fiscal 2008	Change
Toys R Us - Consolidated	\$ 112	\$ 128	\$ (16)

Other income, net decreased by \$16 million to \$112 million in fiscal 2009 compared to \$128 million in fiscal 2008. The decrease was primarily due to the recognition of an additional \$59 million of gift card breakage income in fiscal 2008 resulting from the change in estimate effected by a change in accounting principle, and a \$39 million gain recognized in fiscal 2008 on the liquidation of our Hong Kong subsidiary representing a cumulative translation adjustment. These decreases were partially offset by a \$51 million litigation settlement with Amazon in fiscal 2009, a decrease in impairment losses on long-lived assets of \$26 million, and a \$4 million decrease in foreign currency translation gains compared to the same period last year.

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Refer to Note 1 to our Consolidated Financial Statements entitled SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for further details.

**Interest Expense**

(In millions)	Fiscal 2009	Fiscal 2008	Change
Toys R Us - Consolidated	\$ 447	\$ 419	\$ 28

Interest expense increased by \$28 million for fiscal 2009 compared to fiscal 2008. The increase was largely due to an increase of \$20 million primarily as a result of the write-off of fees related to the repayment of our \$1,267 million unsecured credit agreement and our \$800 million secured real estate loans. In addition, there was an increase of \$5 million related primarily to higher effective interest rates, partially offset by a reduction in average debt balances.

**Interest Income**

(In millions)	Fiscal 2009	Fiscal 2008	Change
Toys R Us - Consolidated	\$ 7	\$ 16	\$ (9)

Interest income decreased by \$9 million for fiscal 2009 compared to fiscal 2008 primarily due to lower effective interest rates in fiscal 2009.

**Income Tax Expense**

(\$ In millions)	Fiscal 2009	Fiscal 2008	Change
Toys R Us - Consolidated	\$ 40	\$ 7	\$ 33
Consolidated effective tax rate	11.6%	3.2%	8.4%

The net increase in income tax expense of \$33 million in fiscal 2009 compared to fiscal 2008 was principally due to the increase in pre-tax earnings. Other increases due to a change in the mix of pre-tax earnings, an increase in permanent items, and a net increase in valuation allowances and liabilities for unrecognized tax benefits, were offset by a benefit for the reversal of deferred tax liabilities associated with the undistributed earnings of two of our subsidiaries as it is management's intention to permanently reinvest those earnings, as well as benefits associated with a change in the tax classification of certain foreign entities. Refer to Note 11 to the Consolidated Financial Statements entitled INCOME TAXES for further details.

**LIQUIDITY AND CAPITAL RESOURCES****Overview**

As of January 29, 2011, we were in compliance with all of our covenants related to our outstanding debt. On August 10, 2010, Toys-Delaware, a direct wholly-owned subsidiary, and certain of its subsidiaries amended and restated the credit agreement for its ABL Facility in order to extend the maturity date of the facility and amend certain other provisions. The ABL Facility as amended provides for \$1.85 billion of revolving commitments maturing on August 10, 2015 which could increase by \$650 million, subject to certain conditions. At January 29, 2011, under our secured revolving credit facility, we had no outstanding borrowings, a total of \$101 million of outstanding letters of credit and excess availability of \$1.013 billion. This amount is also subject to the minimum excess availability covenant, which was \$125 million at January 29, 2011, with remaining availability of \$888 million in excess of the covenant.

Toys-Japan currently has a credit agreement with a syndicate of financial institutions, which established two unsecured loan commitment lines of credit (Tranche 1 and Tranche 2). Under the agreement, Tranche 1 is available in amounts of up to ¥20 billion (\$244 million at January 29, 2011), and expires on March 30, 2011. At January 29, 2011, we had outstanding long-term borrowings of \$17 million under Tranche 1, with \$227 million of remaining availability.

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On September 30, 2010, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 1. As a result, beginning on March 30, 2011, Tranche 1 will be available in amounts of up to ¥14.9 billion (\$182 million at January 29, 2011), expiring on June 30, 2013.

On February 26, 2010, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 2. Additionally, on March 29, 2010, Toys-Japan modified Tranche 2 to include an additional lender. As a result, Tranche 2 is now available in amounts of up to ¥14 billion (\$171 million at January 29, 2011), expiring on March 28, 2011. At January 29, 2011, we had no outstanding borrowings under Tranche 2 with \$171 million of remaining availability. During the fiscal year ended January 29, 2011, we had no short-term borrowings under Tranche 2. On March 18, 2011, Toys-Japan entered into an agreement with a syndicate

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of financial institutions to refinance Tranche 2. As a result, Tranche 2 will be available on March 28, 2011 in amounts of up to ¥10 billion (\$124 million at March 18, 2011), expiring on June 29, 2012.

Additionally, certain of our foreign subsidiaries currently have a European and Australian asset-based revolving credit facility (the "European ABL"), which provides for a three-year £124 million (\$197 million at January 29, 2011) senior secured asset-based revolving credit facility which expires on October 15, 2012. At January 29, 2011, we had no outstanding borrowings and \$77 million of remaining availability under the European ABL. On March 8, 2011, certain of our foreign subsidiaries amended and restated the credit agreement for the European ABL (the "New European ABL") in order to extend the maturity date of the facility and amend certain other provisions. The New European ABL facility as amended provides for a five-year £128 million (\$207 million at March 8, 2011) asset-based senior secured revolving credit facility which will expire in March 2016.

We are dependent on the borrowings provided by the lenders to support our working capital needs and capital expenditures. As of January 29, 2011, we have funds available to finance our operations under our ABL Facility through August 2015, our European ABL through October 2012 and our Toys-Japan unsecured credit lines with a Tranche maturing March 2011 and a Tranche maturing June 2013. Our lenders may be unable to fund borrowings under their credit commitments to us if these lenders face bankruptcy or failure. If our cash flow and capital resources do not provide the necessary liquidity, it could have a significant negative effect on our results of operations.

In general, our primary uses of cash are providing for working capital purposes, which principally represent the purchase of inventory, servicing debt, remodeling existing stores (including conversions), financing construction of new stores and paying expenses, such as payroll costs, to operate our stores. Our working capital needs follow a seasonal pattern, peaking in the third quarter of the year when inventory is purchased for the fourth quarter holiday selling season. For fiscal 2010, peak borrowings under our revolving credit facilities and credit lines amounted to \$793 million. Our largest source of operating cash flows is cash collections from our customers. We have been able to meet our cash needs principally by using cash on hand, cash flows from operations and borrowings under our revolving credit facilities and credit lines.

Although we believe that cash generated from operations, along with our existing cash, revolving credit facilities and credit lines will be sufficient to fund our expected cash flow requirements and planned capital expenditures for at least the next 12 months, any world-wide financial market disruption could have a negative impact on our available resources in the future. We believe that we have the ability to repay or refinance our current outstanding borrowings maturing within the next 12 months. Our minimum projected obligations for fiscal 2011 and beyond are set forth below under "Contractual Obligations."

### Capital Expenditures

A component of our long-term strategy is our capital expenditure program. Our capital expenditures are primarily for financing construction of new stores, remodeling existing stores (including conversions), as well as improving and enhancing our information technology systems and are funded primarily through cash provided by operating activities, as well as available cash. Throughout fiscal 2009, we curtailed our capital spending due to the prevailing economic environment. For fiscal 2010, we increased our capital spending to grow our business through a continued focus on our integrated strategy, recognizing the synergies between our toy and juvenile categories. For fiscal 2011, we plan to increase our capital spending with a continued emphasis on our toy and juvenile integration strategy.

The following table presents our capital expenditures for each of the past three fiscal years:

(In millions)	Fiscal 2010	Fiscal 2009	Fiscal 2008
Conversion projects (1)	\$ 117	\$ 35	\$ 118
New stores (2)	65	39	98
Information technology	62	45	72
Other store-related projects (3)	51	46	86
Distributions centers	30	27	21
Total capital expenditures	\$ 325	\$ 192	\$ 395



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- (1) Primarily includes SBS conversions as well as other remodels pursuant to our juvenile integration strategy.
- (2) Primarily includes SSBS and SBS relocations as well as single format stores (including Express stores).
- (3) Includes other store-related projects (other than conversion projects) such as store updates and expenses incurred in connection with the maintenance of our stores.

**Table of Contents****Cash Flows**

(In millions)	Fiscal 2010	Fiscal 2009	Fiscal 2008
Net cash provided by operating activities	\$ 220	\$ 1,014	\$ 525
Net cash used in investing activities	(281)	(37)	(259)
Net cash used in financing activities	(53)	(626)	(223)
Effect of exchange rate changes on cash and cash equivalents	1	(8)	(11)
Net (decrease) increase during period in cash and cash equivalents	\$ (113)	\$ 343	\$ 32

**Cash Flows Provided by Operating Activities**

Net cash provided by operating activities for fiscal 2010 was \$220 million, a decrease of \$794 million compared to fiscal 2009. The decrease in net cash provided by operating activities was primarily the result of an increase in payments on accounts payable due to the timing of vendor payments at year-end, an increase in purchases of merchandise inventories primarily for fiscal 2010 and related to the early replenishment of inventory for fiscal 2011 at our existing locations as well as new stores, an increase in interest payments as compared to the prior year and a cash settlement received in the prior year as a result of a litigation settlement.

Net cash provided by operating activities for fiscal 2009 was \$1,014 million, an increase of \$489 million compared to fiscal 2008. The increase in net cash provided by operating activities was primarily the result of decreased payments on accounts payable due to the timing of vendor payments at year-end, a reduction in SG&A primarily attributable to initiatives to reduce overall operating expenses and decreased payments for income taxes.

**Cash Flows Used in Investing Activities**

Net cash used in investing activities for fiscal 2010 was \$281 million, an increase of \$244 million compared to fiscal 2009. The increase in net cash used in investing activities was primarily due to an increase in capital expenditures of \$133 million and a decrease of \$122 million attributed to the change in restricted cash primarily due to the refinancings in fiscal 2009. These increases were partially offset by \$14 million paid to acquire e-commerce websites and other business assets in the prior year.

Net cash used in investing activities for fiscal 2009 was \$37 million, a decrease of \$222 million compared to fiscal 2008. The decrease in net cash used in investing activities was primarily due to a decrease of \$214 million in restricted cash primarily as a result of the repayment of our \$1,267 million unsecured credit agreement and our \$800 million secured real estate loans, and a reduction in capital expenditures of \$203 million due to the curtailment of capital spending as a result of the slowdown in the economy. These changes were partially offset by a decrease of \$167 million from the sale of short-term investments in fiscal 2008.

**Cash Flows Used in Financing Activities**

Net cash used in financing activities was \$53 million for fiscal 2010, a decrease of \$573 million compared to fiscal 2009. The decrease in net cash used in financing activities was primarily due to a \$491 million decrease in debt repayments, a decrease of \$47 million related to purchases of Toys-Japan common stock and a decrease of \$37 million in debt issuance costs.

Refer to the description of changes to our debt structure below, as well as Note 2 to the Consolidated Financial Statements entitled LONG-TERM DEBT for more information.

Net cash used in financing activities was \$626 million for fiscal 2009, an increase of \$403 million compared to fiscal 2008. The increase in net cash used in financing activities was primarily due to the repayment of our \$1,267 million unsecured credit agreement, the repayment of \$800 million of our secured real estate loans, an increase of \$104 million in debt issuance costs and an increase of \$32 million related to purchases of Toys-Japan common stock. These increases were partially offset by the proceeds of \$925 million from the offering of the Notes, the proceeds of \$715 million received from the offering of the Propco II Notes and the reduced repayments on our Toys Japan credit lines of \$147 million as compared to the prior year.

***Debt***

Our credit facilities, loan agreements and indentures contain customary covenants, including, among other things, covenants that restrict our ability to incur certain additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, and place restrictions on the ability of certain of our subsidiaries to provide funds to us through dividends, loans or advances. The amount of net assets that were subject to these restrictions was approximately \$872 million as of January 29, 2011.

Certain of our agreements also contain various and customary events of default with respect to the loans and notes, including, without limitation, the failure to pay interest or principal when the same is due under the agreements, cross default provisions, the failure of representations and warranties contained in the agreements to be true and certain insolvency events. If an event of default occurs and is continuing, the principal amounts outstanding thereunder, together with all accrued unpaid interest and other amounts owed thereunder, may be declared immediately due and payable by the lenders. Were such an event to occur, we would be forced to seek new financing that may not be on as favorable terms as our current facilities or be available at all. As of January 29, 2011, we had total

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indebtedness of \$5.3 billion, of which \$2.8 billion was secured indebtedness. We have three revolving credit facilities, including our ABL Facility, our European ABL and our Toys Japan unsecured credit lines. As of January 29, 2011, we had outstanding borrowings of \$17 million under the Toys-Japan unsecured credit lines and no outstanding borrowings on the ABL Facility and the European ABL. Our ability to refinance our indebtedness on favorable terms, or at all, is directly affected by the current global economic and financial conditions and other economic factors that may be outside our control. In addition, our ability to incur secured indebtedness (which may enable us to achieve better pricing than the incurrence of unsecured indebtedness) depends in part on the covenants in our credit facilities and indentures and the value of our assets, which depends, in turn, on the strength of our cash flows, results of operations, economic and market conditions and other factors. We are currently in compliance with our covenants relating to our debt. Refer to Note 2 to the Consolidated Financial Statements entitled LONG-TERM DEBT for more information regarding our debt covenants.

During fiscal 2010, we made the following significant changes to our debt structure:

On February 26, 2010, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 2. Additionally, on March 29, 2010, Toys-Japan modified Tranche 2 to include an additional lender. As a result, Tranche 2 is now available in amounts of up to ¥14 billion (\$171 million at January 29, 2011), expiring on March 28, 2011.

On July 8, 2010, Toys R Us Property Company I, LLC ( TRU Propco I ) completed a registered exchange offer with respect to the Notes.

On August 10, 2010, Toys-Delaware, a direct wholly-owned subsidiary, and certain of its subsidiaries amended and restated the credit agreement for its ABL Facility in order to extend the maturity date of the facility and amend certain other provisions. The ABL Facility as amended provides for \$1.85 billion of revolving commitments maturing on August 10, 2015, which could increase by \$650 million, subject to certain conditions.

On August 24, 2010, Toys-Delaware completed the offering of the Toys-Delaware Secured Notes. Additionally, concurrent with the offering of the Toys-Delaware Secured Notes, Toys-Delaware amended and restated the Secured Term Loan to extend the maturity date of this loan facility and amend certain other provisions (as amended and restated, the New Secured Term Loan ). The New Secured Term Loan is in an aggregate principal amount of \$700 million. The Toys-Delaware Secured Notes were issued at par, while the New Secured Term Loan was issued at a discount of \$11 million which resulted in the receipt of gross proceeds of approximately \$1,039 million. The gross proceeds were used to repay our outstanding loan balance of \$800 million under our secured term loan facility (the Secured Term Loan ) and \$181 million under unsecured credit facility (the Unsecured Credit Facility ).

On September 30, 2010, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 1. As a result, beginning on March 30, 2011, Tranche 1 will be available in amounts of up to ¥14.9 billion (\$182 million at January 29, 2011), expiring on June 30, 2013.

On September 30, 2010, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance three Toys-Japan bank loans, which matured on January 17, 2011. Under the new agreement beginning on January 17, 2011, the loan for ¥11.5 billion (\$140 million at January 29, 2011) will mature on January 29, 2016.

On November 16, 2010, Toys R Us Property Company II, LLC ( TRU Propco II ) completed a registered exchange offer with respect to the Propco II Notes.

### *Subsequent Events*

On March 18, 2011, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 2. As a result, Tranche 2 will be available on March 28, 2011 in amounts of up to ¥10 billion (\$124 million at March 18, 2011), expiring on June 29, 2012, and bears an

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interest rate of Tokyo Interbank Offered Rate ( TIBOR ) plus 0.80% per annum.

On March 8, 2011, certain of our foreign subsidiaries amended and restated the credit agreement for the European ABL (the New European ABL ) in order to extend the maturity date of the facility and amend certain other provisions. The New European ABL facility as amended provides for a five-year £128 million (\$207 million at March 8, 2011) asset-based senior secured revolving credit facility which will expire in March 2016. Loans under the New European ABL bear interest at a rate based on the London Interbank Offered Rate ( LIBOR )/the Euro Interbank Offered Rate ( EURIBOR ) plus a margin of 2.50% through the second quarter of fiscal 2011 and thereafter 2.25%, 2.50% or 2.75% depending on historical excess availability.

We and our subsidiaries, as well as our Sponsors or their affiliates, may from time to time acquire debt or debt securities issued by us or our subsidiaries in open market transactions, tender offers, privately negotiated transactions or otherwise. Any such transactions, and the amounts involved, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. Refer to Note 17 to our Consolidated Financial Statements entitled RELATED PARTY TRANSACTIONS.

**Table of Contents****Contractual Obligations**

Our contractual obligations consist mainly of payments related to Long-term debt and related interest, operating leases related to real estate used in the operation of our business and product purchase obligations. The following table summarizes our contractual obligations associated with our Long-term debt and other obligations as of January 29, 2011:

(In millions)	Payments Due By Period				Total
	Fiscal 2011	Fiscals 2012 & 2013	Fiscals 2014 & 2015	Fiscals 2016 and thereafter	
Operating leases (1)	\$ 586	\$ 1,055	\$ 849	\$ 1,685	\$ 4,175
Less: sub-leases to third parties	20	29	18	15	82
Net operating lease obligations	566	1,026	831	1,670	4,093
Capital lease obligations	36	56	44	99	235
Long-term debt (2)(3)	550	1,390	99	3,072	5,111
Interest payments (4)(5)	395	655	562	428	2,040
Purchase obligations (6)	1,306				1,306
Other (7)	122	149	71	36	378
Total contractual obligations (8)	\$ 2,975	\$ 3,276	\$ 1,607	\$ 5,305	\$ 13,163

- (1) Excluded from the minimum rental commitments displayed above are approximately \$2.0 billion related to options to extend ground lease terms that are reasonably assured of being exercised, the balance of which is predominantly related to fiscals 2016 and thereafter.
- (2) Reflects the issuance of \$350 million of Toys-Delaware Secured Notes and the New Secured Term Loan of \$700 million, which extended the maturity to fiscal 2016. The proceeds were used to repay the outstanding loan balance of \$800 million under the Secured Term Loan and \$181 million under the Unsecured Credit Facility. See Note 2 to our Consolidated Financial Statements entitled LONG-TERM DEBT for further details.
- (3) Excludes finance obligations associated with capital projects and capital lease obligations, which are included in Capital lease obligations.
- (4) In an effort to manage interest rate exposures, we periodically enter into interest rate swaps and interest rate caps.
- (5) Interest payments for our ABL Facility, European ABL and our Toys-Japan unsecured credit lines were estimated based on the average borrowings under each of the facilities in fiscal 2010.
- (6) Purchase obligations consist primarily of open purchase orders for merchandise as well as an agreement to purchase fixed or minimum quantities of goods that are not included in our Consolidated Balance Sheet as of January 29, 2011.
- (7) Includes pension obligations, risk management liabilities, and other general obligations and contractual commitments.
- (8) The above table does not reflect liabilities for uncertain tax positions of \$38 million, which includes \$9 million of current liabilities. The amount and timing of payments with respect to these items are subject to a number of uncertainties such that we are unable to make sufficiently reliable estimates of the timing and amount of future payments.

Obligations under our operating leases and capital leases in the above table do not include contingent rent payments, payments for maintenance and insurance or real estate taxes. The following table presents these amounts which were recorded in SG&A in our Consolidated Statements of Operations for fiscals 2010, 2009 and 2008:

(In millions)	Fiscal 2010	Fiscal 2009	Fiscal 2008
Real estate taxes	\$ 70	\$ 67	\$ 62
Maintenance and insurance	60	62	55
Contingent rent	12	10	9
Total	\$ 142	\$ 139	\$ 126

***Off-balance Sheet Arrangements***

We have an off-balance sheet arrangement as a result of the February 2006 credit agreement between Toys R Us Properties (UK) Limited ( Toys Properties ) and Vanwall Finance PLC ( Vanwall ), a special purpose entity established with the limited purpose of issuing notes, and entering into the credit agreement with Toys Properties. On February 9, 2006, Vanwall issued \$620 million of multiple classes of commercial mortgage backed floating rate notes (the Floating Rate Notes ) to third party investors, which are publicly traded on the Irish Stock Exchange Limited. The proceeds from the Floating Rate Notes issued by Vanwall were used to fund the Senior Loan to Toys Properties. On July 14, 2010, we acquired from an unaffiliated party \$17 million of face value debt securities of Vanwall for approximately \$9 million.

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Pursuant to the credit agreement, Vanwall is required to maintain an interest rate swap which effectively fixes the variable LIBOR rate at 4.56%, the same as the fixed interest less the applicable credit spread paid by Toys Properties to Vanwall. The fair value of this interest rate swap at January 29, 2011 and January 30, 2010 was a liability of approximately \$34 million and \$40 million, respectively. In accordance with Accounting Standards Update (ASU) 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (ASU 2009-17) effective January 31, 2010, we reassessed our loan from Vanwall and concluded that we were not the primary beneficiary of the variable interest entity (VIE). The Company has not identified any subsequent changes to Vanwall's governing documents or contractual arrangements that would change the characteristics or adequacy of the entity's equity investment at risk in accordance with ASC 810. Refer to Note 2 to our Consolidated Financial Statements entitled "LONG-TERM DEBT" for further details.

### ***Effects of Inflation***

Our results of operations and financial condition are presented based on historical cost. While it is difficult to accurately measure the impact of inflation due to the imprecise nature of the estimates required, we believe the effects of inflation, if any, on our results of operations and financial condition have been immaterial.

### ***CRITICAL ACCOUNTING POLICIES***

Our Consolidated Financial Statements have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures of contingent assets and liabilities as of the date of the Consolidated Financial Statements and during the applicable periods. We base these estimates on historical experience and on other factors that we believe are reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions and could have a material impact on our Consolidated Financial Statements.

We believe the following are our most critical accounting policies that include significant judgments and estimates used in the preparation of our Consolidated Financial Statements. We consider an accounting policy to be critical if it requires assumptions to be made that were uncertain at the time they were made, and if changes in these assumptions could have a material impact on our consolidated financial condition or results of operations.

#### ***Merchandise Inventories***

We value our merchandise inventories at the lower of cost or market, as determined by the weighted average cost method. Cost of sales under the weighted average cost method represents the weighted average cost of the individual items sold. Cost of sales under the weighted average cost method is also affected by adjustments to reflect current market conditions, merchandise allowances from vendors, expected inventory shortages and estimated losses from obsolete and slow-moving inventory.

Merchandise inventories and related reserves are reviewed on an interim basis and adjusted, as appropriate, to reflect management's current estimates. These estimates are derived using available data, our historical experience, estimated inventory turnover and current purchase forecasts. Various types of negotiated allowances received from our vendors are generally treated as adjustments to the purchase price of our Merchandise inventories. We adjust our estimates for vendor allowances and our provision for expected inventory shortage to actual amounts at the completion of our physical inventory counts and finalization of all vendor allowance agreements. In addition, we perform an inventory-aging analysis for identifying obsolete and slow-moving inventory. We establish a reserve to reduce the cost of our inventory to its estimated net realizable value based on certain loss indicators which include aged inventory and excess supply on hand, as well as specific identification methods.

Our estimates may be impacted by changes in certain underlying assumptions and may not be indicative of future activity. For example, factors such as slower inventory turnover due to changes in competitors' tactics, consumer preferences, consumer spending and inclement weather could cause excess inventory requiring greater than estimated markdowns to entice consumer purchases. Such factors could also cause sales shortfalls resulting in reduced purchases from vendors and an associated reduction in vendor allowances. Based on our inventory aging analysis for identifying obsolete and slow-moving inventory, a 10% change in our reserve would have impacted pre-tax earnings by approximately \$4 million for fiscal 2010.

#### ***Long-lived Asset Impairment***

We evaluate the carrying value of all long-lived assets, such as property and equipment, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, in accordance with ASC 360. When evaluating operating



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stores for impairment, our asset group is at an individual store level, as that is the lowest level for which cash flows are identifiable. Cash flows for individual operating stores include an allocation of applicable overhead. We will record an impairment loss when the carrying value of the underlying asset group exceeds its estimated fair value.

In determining whether long-lived assets are recoverable, our estimate of undiscounted future cash flows over the estimated life or lease term of a store is based upon our experience, historical operations of the store, an estimate of future store profitability and economic conditions. The future estimates of store profitability require estimating such factors as sales growth, inflation and the overall economic conditions. Since we forecast our future undiscounted cash flows for up to 25 years, our estimates are subject to variability as future results can be difficult to predict. If a long-lived

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asset is found to be non-recoverable, we record an impairment charge equal to the difference between the asset's carrying value and fair value. We estimate the fair value of a reporting unit or asset using a valuation method such as discounted cash flow or a relative, market-based approach.

In fiscal 2010, we recorded \$11 million of impairment charges related to non-recoverable long-lived assets. These impairments were primarily due to the identification of underperforming stores, the relocation of certain stores and a decrease in real estate market values. In the future, we plan to relocate additional stores which may result in additional asset impairments.

### ***Goodwill Impairment***

Goodwill is evaluated for impairment annually or whenever we identify certain triggering events or circumstances that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Events or circumstances that might indicate an interim evaluation is warranted include, among other things, unexpected adverse business conditions, economic factors, unanticipated competitive activities, loss of key personnel and acts by governments and courts.

In accordance with ASC 350, we test for goodwill impairment by comparing the fair values and carrying values of our reporting units as of the first day of the fourth quarter of each fiscal year, or October 31, 2010 for fiscal 2010. Our Domestic reporting unit had \$361 million of goodwill at January 29, 2011. Our Toys Japan reporting unit (included in our International segment) had \$23 million of goodwill at January 29, 2011.

We estimate the fair values of our reporting units by blending results from the market multiples approach and the income approach. These valuation approaches consider a number of factors that include, but are not limited to, expected future cash flows, growth rates, discount rates, and comparable multiples from publicly traded companies in our industry, and require us to make certain assumptions and estimates regarding industry economic factors and future profitability of our business. It is our policy to conduct impairment testing based on our most current business plans, projected future revenues and cash flows, which reflect changes we anticipate in the economy and the industry. The cash flows are based on five-year financial forecasts developed internally by management and are discounted to a present value using discount rates that properly account for the risk and nature of the respective reporting unit's cash flows and the rates of return market participants would require to invest their capital in our reporting units. If the carrying value exceeds the fair value, we would then calculate the implied fair value of our reporting unit goodwill as compared to its carrying value to determine the appropriate impairment charge. Although we believe our assumptions are reasonable, actual results may vary significantly and may expose us to material impairment charges in the future. Our methodology for determining fair values remained consistent for the periods presented.

At October 31, 2010, we determined that none of the goodwill associated with our reporting units were impaired. The estimated fair values of each of our reporting units substantially exceeded their carrying values at the date of testing. We applied a hypothetical 10% decrease to the fair values of each reporting unit, which at October 31, 2010, would not have triggered additional impairment testing and analysis.

### ***Self-Insured Liabilities***

We self-insure a substantial portion of our workers' compensation, general liability, auto liability, property, medical, prescription drug and dental insurance risks, in addition to maintaining third party insurance coverage. We estimate our provisions for losses related to self-insured risks using actuarial techniques and estimates for incurred but not reported claims. We record the liability for workers' compensation on a discounted basis. We also maintain insurance coverage to limit the exposure related to certain risks. The assumptions underlying the ultimate costs of existing claim losses can vary, which can affect the liability recorded for such claims.

Although we feel our reserves are adequate to cover our estimated liabilities, changes in the underlying assumptions and future economic conditions could have a considerable effect upon future claim costs, which could have a material impact on our Consolidated Financial Statements. Our reserve for self-insurance was \$89 million as of January 29, 2011. A 10% change in the value of our self-insured liabilities would have impacted pre-tax earnings by approximately \$9 million for the fiscal year ended January 29, 2011.

### ***Revenue Recognition***

We recognize revenue in accordance with ASC Topic 605, Revenue Recognition. Revenue related to merchandise sales, which is approximately 99.4% of total revenues, is generally recognized for retail sales at the point of sale in the store and when the customer receives the merchandise shipped from our websites. Discounts provided to customers are accounted for as a reduction of sales. We record a reserve for estimated product returns in each reporting period based on historical return experience and changes in customer demand. Actual returns may differ from historical product return patterns, which could impact our financial results in future periods.

***Gift Cards and Breakage***

We sell gift cards to customers in our retail stores, through our websites and through third parties and, in certain cases, provide gift cards for returned merchandise and in connection with promotions. We recognize income from gift card sales when the customer redeems the gift card, as well as an estimated amount of unredeemed liabilities ( breakage ). Gift card breakage is recognized proportionately, based on management

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estimates and assumptions of redemption patterns, the useful life of the gift card and an estimated breakage rate of unredeemed liabilities. Our estimated gift card breakage represents the remaining unused portion of the gift card liability for which the likelihood of redemption is remote and for which we have determined that we do not have a legal obligation to remit the value to the relevant jurisdictions. Income related to customer gift card redemption is included in Net sales, whereas income related to gift card breakage is recorded in Other income, net in the Consolidated Statements of Operations.

During fiscal 2010, we recognized \$20 million of net gift card breakage income. A change of 10% in the estimated gift card breakage rate would have impacted our pre-tax earnings by approximately \$2 million for the fiscal year ended January 29, 2011.

### ***Income Taxes***

We account for income taxes in accordance with ASC Topic 740, *Income Taxes* (ASC 740). Our provision for income taxes and effective tax rates are calculated by legal entity and jurisdiction and are based on a number of factors, including our income tax planning strategies, differences between tax laws and accounting rules, statutory tax rates and credits, uncertain tax positions, and valuation allowances. We use significant judgment and estimates in evaluating our tax positions. Our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of earnings by taxing jurisdiction.

Tax law and accounting rules often differ as to the timing and treatment of certain items of income and expense. As a result, the tax rate reflected in our tax return (our current or cash tax rate) is different from the tax rate reflected in our Consolidated Financial Statements. Some of the differences are permanent, while other differences are temporary as they will reverse over time. We record deferred tax assets and liabilities for any temporary differences between the assets and liabilities in our Consolidated Financial Statements and their respective tax bases. We establish valuation allowances when we believe it is more likely than not that our deferred tax assets will not be realized. In assessing the need for a valuation allowance, management weighs the available positive and negative evidence, including limitations on the use of tax loss and other carryforwards due to changes in ownership, historic information, projections of future sources of taxable income, including future reversals of taxable temporary differences and future taxable income exclusive of reversing temporary differences and carryforwards, and tax planning strategies. For example, we would establish a valuation allowance for the tax benefit associated with a tax loss carryforward in a tax jurisdiction if we did not expect to generate sufficient taxable income of the appropriate character to utilize the tax loss carryforward prior to its expiration. Changes in future taxable income, tax liabilities and our tax planning strategies may impact our effective tax rate, valuation allowances and the associated carrying value of our deferred tax assets and liabilities.

At any one time our tax returns for numerous tax years are subject to examination by U.S. Federal, state and foreign taxing jurisdictions. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attributes for income tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an uncertain tax position taken or expected to be taken on an income tax return must be recognized in the financial statements at the largest amount that is more-likely-than-not to be sustained. An uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not to be sustained. We adjust these tax liabilities, as well as the related interest and penalties, based on the latest facts and circumstances, including recently enacted tax law changes, published rulings, court cases, and outcomes of tax audits. While we do not expect material changes, it is possible that our actual tax liability will differ from our established tax liabilities for unrecognized tax benefits, and our effective tax rate may be materially impacted. While it is often difficult to predict the final outcome of, the timing of, or the tax treatment of any particular tax position or deduction, we believe that our tax balances reflect the more-likely-than-not outcome of known tax contingencies.

### ***Stock-Based Compensation***

The fair value of the common stock shares utilized in valuing stock-based payment awards was determined by the Executive Committee based on management's recommendations. We engage an independent valuation specialist to assist management and the Executive Committee in determining the fair value of our common stock for these purposes. Management and the Executive Committee rely on the valuations provided by the independent valuation specialist as well as their review of the Company's historical financial results, business milestones, financial forecast and business outlook as of each award date.

The fair value of common stock shares is based on total enterprise value ranges and the total equity value ranges estimated on a non-marketable and minority basis utilizing both the income approach and the market approach guidelines. A range of the two methods was utilized to determine the fair value of the ordinary shares. The income approach is a valuation technique that provides an estimation of the fair value of a business based upon the cash flows that it can be expected to generate over time. The market approach is a valuation technique that provides an estimation of fair value based on market prices of publicly traded companies and the relationship to financial results. The income and market approaches are given equal weight when developing our fair value range.

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The income approach utilized begins with an estimation of the annual cash flows that a business is expected to generate over a discrete projection period. The estimated cash flows for each of the years in the period are then converted to their present value equivalent using a discount rate considered appropriate given the risk of achieving the projected cash flows. The present value of the estimated cash flows are then added to the present value equivalent of the terminal value of the business at the end of the projection period to arrive at an estimate

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of fair value. Such an approach necessarily relies on estimations of future cash flows that are inherently uncertain, as well as a determination of an appropriate discount rate in order to derive present value equivalents of both the projected cash flows and the terminal value of the business at the end of the period. The use of different estimations of future cash flows or a different discount rate could result in a different indication of fair value.

The market approach utilizes in part a comparison to publicly traded companies deemed to be in similar lines of business. Such companies were then analyzed to determine which were most comparable based on various factors, including industry similarity, financial risk, company size, geographic diversification, growth opportunities, similarity of reaction to macroeconomic factors, profitability, financial data availability and active trading volume. Seven companies were included as comparable companies in the market comparable approach. Alternate determinations of which publicly traded entities constituted comparable companies could result in a different indication of fair value.

### ***RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS***

In March 2010, the FASB issued ASU No. 2010-11, *Derivatives and Hedging (Topic 815): Scope Exception Related to Embedded Credit Derivatives* (ASU 2010-11). ASU 2010-11 clarifies the only form of embedded credit derivative that is exempt from embedded derivative bifurcation requirements is one that is related only to the subordination of one financial instrument to another. As a result, entities that have contracts containing an embedded credit derivative feature in a form other than such subordination may need to separately account for the embedded credit derivative feature. The amendments in this ASU are effective at the beginning of a reporting entity's first fiscal quarter beginning after June 15, 2010. Effective August 1, 2010, the Company has adopted ASU 2010-11. The adoption of ASU 2010-11 did not have an impact on our Consolidated Financial Statements.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* (ASU 2010-06). This ASU provides amendments that will require more robust disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2 and 3. ASU 2010-06 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. Early application is permitted. Effective for the fiscal 2010 Form 10-K, the Company has adopted ASU 2010-06. Other than the enhanced disclosures, the adoption of ASU 2010-06 did not have a material impact on our Consolidated Financial Statements.

In December 2009, the FASB issued ASU No. 2009-17, *Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. Effective January 31, 2010, the Company adopted ASU 2009-17, which requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. In addition, the required changes provide guidance on shared power and joint venture relationships, remove the scope exemption for qualified special purpose entities, revise the definition of a variable interest entity, and require additional disclosures.

In accordance with ASU 2009-17, we reassessed our lending vehicles, including our loan from Vanwall Finance PLC and concluded that we were not the primary beneficiary of that VIE. Accordingly, the adoption of this standard did not have an impact on our Consolidated Financial Statements.

Refer to Note 21 to our Consolidated Financial Statements entitled **RECENT ACCOUNTING PRONOUNCEMENTS** for a discussion of accounting standards which we have not yet been required to implement and may be applicable to our future operations, and their impact on our Consolidated Financial Statements.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to market risk from potential changes in interest rates and foreign currency exchange rates. We regularly evaluate our exposure to these risks and take measures to mitigate these risks on our consolidated financial results. We enter into derivative financial instruments to economically manage our market risks related to interest rate and foreign currency exchange. We do not participate in speculative derivative trading. The analysis below presents our sensitivity to selected hypothetical, instantaneous changes in market interest rates and foreign currency exchange rates as of January 29, 2011.

***Foreign Exchange Exposure***

Our foreign currency exposure is primarily concentrated in the United Kingdom, Continental Europe, Canada, Australia and Japan. We believe the countries in which we own assets and operate stores are politically stable. We face currency translation exposures related to translating the results of our worldwide operations into U.S. dollars because of exchange rate fluctuations during the reporting period.

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We face foreign currency exchange transaction exposures related to short-term, cross-currency intercompany loans and merchandise purchases:

We enter into short-term, cross-currency intercompany loans with our foreign subsidiaries. This exposure is economically hedged through the use of foreign currency exchange forward contracts. Our exposure to foreign currency risk related to exchange forward contracts on our short-term, cross-currency intercompany loans has not materially changed from fiscal 2009 to fiscal 2010. As a result, a 10% change in foreign currency exchange rates against the U.S. dollar would not have an impact on our pre-tax earnings related to our short-term, cross-currency intercompany loans.

In addition, our foreign subsidiaries make U.S. dollar denominated merchandise purchases through the normal course of business. From time to time, we enter into foreign exchange forward contracts under our merchandise import program. As of January 29, 2011, a 10% change in foreign currency exchange rates against the U.S. dollar would impact our earnings by \$17 million, related to these contracts.

The above sensitivity analysis on our foreign currency exchange transaction exposures related to our short-term, cross-currency intercompany loans assumes our mix of foreign currency-denominated debt instruments and derivatives and all other variables will remain constant in future periods. These assumptions are made in order to facilitate the analysis and are not necessarily indicative of our future intentions.

Changes in foreign exchange rates affect interest expense recorded in relation to our foreign currency-denominated derivative instruments and debt instruments. As of January 29, 2011 and January 30, 2010, we estimate that a 10% hypothetical change in foreign exchange rates would impact our pre-tax earnings due to the effect of foreign currency translation on interest expense related to our foreign currency-denominated derivative instruments and debt instruments by \$7 million and \$9 million, respectively.

**Interest Rate Exposure**

We have a variety of fixed and variable rate debt instruments and are exposed to market risks resulting from interest rate fluctuations. In an effort to manage interest rate exposures, we periodically enter into interest rate swaps and interest rate caps. A change in interest rates on variable rate debt impacts our pre-tax earnings, whereas a change in interest rates on fixed rate debt impacts the fair value of debt. A portion of our interest rate contracts are designated for hedge accounting as cash flow and fair value hedges. For designated cash flow hedges, the effective portion of the changes in the fair value of derivatives are recorded in other comprehensive income (loss) and subsequently recorded in the Consolidated Statements of Operations at the time the hedged item affects earnings. For designated fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk is recorded in Interest expense in the Consolidated Statements of Operations.

The following table illustrates the estimated sensitivity of a 1% change in interest rates to our future pre-tax earnings on our derivative instruments and variable rate debt instruments at January 29, 2011:

(In millions)	Impact of 1% Increase	Impact of 1% Decrease
Interest rate swaps/caps (1)	\$ 12	\$ (8)
Variable rate debt	(12)	12
<b>Total pre-tax income exposure to interest rate risk</b>	<b>\$</b>	<b>\$ 4</b>

(1) The difference of \$4 million related to a 1% hypothetical change in interest rates is due to the changes in fair value of our interest rate caps that do not qualify for hedge accounting. Therefore, a hypothetical change in interest rates may not result in a uniform impact.

The above sensitivity analysis assumes our mix of financial instruments and all other variables will remain constant in future periods. These assumptions are made in order to facilitate the analysis and are not necessarily indicative of our future intentions. As of January 30, 2010, we estimated that a 1% hypothetical increase or decrease in interest rates could potentially have caused either a \$20 million increase or a \$16 million decrease on our pre-tax earnings, respectively. The difference in our exposure to interest rate risk in fiscal 2010 from fiscal 2009 is



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primarily due to the December 2010 expiration of the \$1.3 billion interest rate swap that we entered into in fiscal 2008 and due to the \$350 million interest rate swap that we entered into during December 2010, which is designated as a fair value hedge. Refer to our Consolidated Financial Statements for further discussion in Note 3 entitled DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES. At this time, we do not anticipate material changes to our interest rate risk exposure or to our risk management policies. We believe that we could mitigate potential losses on pre-tax earnings through our risk management objectives, if material changes occur in future periods.

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**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of

Toys R Us, Inc.:

We have audited the accompanying consolidated balance sheets of Toys R Us, Inc. and subsidiaries (the Company) as of January 29, 2011 and January 30, 2010, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the three fiscal years in the period ended January 29, 2011. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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, such consolidated financial statements present fairly, in all material respects, the financial position of Toys R Us, Inc. and subsidiaries as of January 29, 2011 and January 30, 2010, and the results of their operations and their cash flows for each of the three fiscal years in the period ended January 29, 2011, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in the fourth quarter of the fiscal year ended January 31, 2009 the Company recognized a change in accounting estimate effected by a change in accounting principle related to gift card breakage.

As discussed in Note 1 to the consolidated financial statements, effective February 1, 2009, the Company adopted new guidance on the accounting for non-controlling interests.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 29, 2011, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 23, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

New York, New York

March 23, 2011

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**Toys R Us, Inc. and Subsidiaries**  
**Consolidated Statements of Operations**

(In millions, except share data)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
Net sales	\$ 13,864	\$ 13,568	\$ 13,724
Cost of sales	8,939	8,790	8,976
Gross margin	4,925	4,778	4,748
Selling, general and administrative expenses	3,942	3,730	3,856
Depreciation and amortization	388	376	399
Other income, net	(51)	(112)	(128)
Total operating expenses	4,279	3,994	4,127
Operating earnings	646	784	621
Interest expense	(521)	(447)	(419)
Interest income	7	7	16
Earnings before income taxes	132	344	218
Income tax (benefit) expense	(35)	40	7
Net earnings	167	304	211
Less: Net loss attributable to noncontrolling interest	(1)	(8)	(7)
Net earnings attributable to Toys R Us, Inc.	\$ 168	\$ 312	\$ 218
Earnings per common share attributable to Toys R Us, Inc.:			
Basic (Note 1)	\$ 3.43	\$ 6.37	\$ 4.45
Diluted (Note 1)	3.36	6.33	4.43
Weighted average shares used in computing per share amounts:			
Basic (Note 1)	48,941,118	48,962,152	48,936,391
Diluted (Note 1)	49,981,504	49,304,963	49,226,421

See Notes to the Consolidated Financial Statements.

**Table of Contents****Toys R Us, Inc. and Subsidiaries****Consolidated Balance Sheets**

(In millions - except share amounts)	January 29, 2011	January 30, 2010
<b>ASSETS</b>		
<i><b>Current Assets:</b></i>		
Cash and cash equivalents	\$ 1,013	\$ 1,126
Accounts and other receivables	255	202
Merchandise inventories	2,104	1,810
Current deferred tax assets	107	102
Prepaid expenses and other current assets	145	144
Total current assets	3,624	3,384
Property and equipment, net	4,061	4,084
Goodwill	384	382
Deferred tax assets	215	181
Restricted cash	16	44
Other assets	532	502
	\$ 8,832	\$ 8,577
<b>LIABILITIES AND EQUITY</b>		
<i><b>Current Liabilities:</b></i>		
Accounts payable	\$ 1,560	\$ 1,680
Accrued expenses and other current liabilities	903	851
Income taxes payable	57	72
Current portion of long-term debt	570	162
Total current liabilities	3,090	2,765
Long-term debt	4,718	5,034
Deferred tax liabilities	119	63
Deferred rent liabilities	310	275
Other non-current liabilities	252	323
<i><b>Equity:</b></i>		
Common stock (par value \$0.001 and \$0.001; shares authorized 55,000,000 and 55,000,000; shares issued and outstanding 48,958,133 and 48,951,836 at January 29, 2011 and January 30, 2010, respectively)		
Treasury stock	(8)	(7)
Additional paid-in capital	31	25
Retained earnings	280	112
Accumulated other comprehensive income (loss)	40	(45)
Toys R Us, Inc. stockholders' equity	343	85
Noncontrolling interest		32
Total equity	343	117
	\$ 8,832	\$ 8,577

See Notes to the Consolidated Financial Statements.



**Table of Contents****Toys R Us, Inc. and Subsidiaries****Consolidated Statements of Cash Flows**

(In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
<b>Cash Flows from Operating Activities:</b>			
Net earnings	\$ 167	\$ 304	\$ 211
Adjustments to reconcile earnings to net cash provided by operating activities:			
Depreciation and amortization	388	376	399
Amortization and write-off of debt issuance costs	69	54	34
Net gains on sales of properties	(10)	(6)	(5)
Deferred income taxes	18	(15)	64
Non-cash portion of impairments, restructuring and other charges	23	20	52
Other	15	(17)	12
Changes in operating assets and liabilities:			
Accounts and other receivables	(39)	32	25
Merchandise inventories	(260)	47	106
Prepaid expenses and other operating assets	31	10	27
Accounts payable, accrued expenses and other liabilities	(186)	226	(306)
Income taxes payable and receivable	4	(17)	(94)
<i>Net cash provided by operating activities</i>	220	1,014	525
<b>Cash Flows from Investing Activities:</b>			
Capital expenditures	(325)	(192)	(395)
Sale of short-term investments			167
Purchase of long-term investments	(9)		
Decrease (increase) in restricted cash	28	150	(64)
Proceeds from sales of fixed assets	26	19	33
Acquisitions	(1)	(14)	
<i>Net cash used in investing activities</i>	(281)	(37)	(259)
<b>Cash Flows from Financing Activities:</b>			
Long-term debt borrowings	2,883	3,907	1,123
Short-term debt borrowings		73	156
Long-term debt repayment	(2,841)	(4,354)	(1,294)
Short-term debt repayment		(75)	(166)
Capitalized debt issuance costs	(73)	(110)	(6)
Purchase of Toys-Japan shares	(19)	(66)	(34)
Other	(3)	(1)	(2)
<i>Net cash used in financing activities</i>	(53)	(626)	(223)
Effect of exchange rate changes on cash and cash equivalents	1	(8)	(11)
<b>Cash and cash equivalents:</b>			
Net (decrease) increase during period	(113)	343	32
Cash and cash equivalents at beginning of period	1,126	783	751
Cash and cash equivalents at end of period	\$ 1,013	\$ 1,126	\$ 783

**Supplemental Disclosures of Cash Flow Information:**

Interest paid	\$ 437	\$ 357	\$ 352
Income taxes paid, net of refunds	\$ 62	\$ 42	\$ 146

See Notes to the Consolidated Financial Statements.



**Table of Contents****Toys R Us, Inc. and Subsidiaries****Consolidated Statements of Stockholders Equity (Deficit)**

(In millions)	Toys R Us, Inc. Stockholders Total Retained Accumulated								
	Common Stock		Additional	Earnings	Other	Toys R Us, Inc.		Noncontrolling	Total
	Issued Shares	Treasury Amount	Paid-in Capital	(Accumulated Deficit)	Comprehensive Income (Loss)	Stockholders Equity (Deficit)	Interest		
<b>Balance, February 2, 2008</b>	49	\$	\$ 11	\$ (419)	\$ 20	\$ (388)	\$ 153	\$	(235)
Net earnings (loss) for the period				218		218	(7)		211
Foreign currency translation adjustments, net of tax					(56)	(56)	16		(40)
Unrealized loss on hedged transactions, net of tax					(21)	(21)			(21)
Unrealized actuarial gain (loss), net of tax					3	3	(1)		2
Foreign currency effect on liquidation of foreign subsidiary					(39)	(39)			(39)
<b>Total comprehensive income</b>						105	8		113
Cumulative effect of change in accounting principle, net of tax				1		1			1
Acquisition of 14.35% of Toys-Japan shares							(37)		(37)
Dividends paid							(2)		(2)
Stock compensation expense			8			8			8
<b>Balance, January 31, 2009</b>	49	\$	\$ 19	\$ (200)	\$ (93)	\$ (274)	\$ 122	\$	(152)
Net earnings (loss) for the period		\$	\$	\$ 312	\$	\$ 312	\$ (8)	\$	304
Foreign currency translation adjustments, net of tax					19	19			19
Unrealized gain on hedged transactions, net of tax					10	10			10
Unrealized actuarial loss, net of tax					(1)	(1)			(1)
<b>Total comprehensive income (loss)</b>						340	(8)		332
Acquisition of 28.12% of Toys-Japan shares			(4)		20	16	(82)		(66)
Stock compensation expense			4			4			4
Repurchase of common stock		(8)				(8)			(8)
Issuance of common stock		1	6			7			7
<b>Balance, January 30, 2010</b>	49	\$ (7)	\$ 25	\$ 112	\$ (45)	\$ 85	\$ 32	\$	117
Net earnings (loss) for the period		\$	\$	\$ 168	\$	\$ 168	\$ (1)	\$	167
Foreign currency translation adjustments, net of tax					55	55	(1)		54
Unrealized gain on hedged transactions, net of tax					15	15			15
Unrealized actuarial gains, net of tax					9	9			9
<b>Total comprehensive income (loss)</b>						247	(2)		245
Acquisition of approximately 9% of Toys-Japan shares			3		6	9	(30)		(21)
Stock compensation expense			5			5			5

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Repurchase of common stock	(9)	(1)	(10)	(10)			
Issuance of common stock	8	(1)	7	7			
<b>Balance, January 29, 2011</b>	49	\$ (8)	\$ 31	\$ 280	\$ 40	\$ 343	\$ 343

See Notes to the Consolidated Financial Statements.

**Table of Contents****Toys R Us, Inc. and Subsidiaries****Notes to Consolidated Financial Statements****NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***Organization*

As used herein, the Company, we, us, or our means Toys R Us, Inc., and its consolidated subsidiaries, except as expressly indicated or unless context otherwise requires. We are the leading global specialty retailer of toys and juvenile products as measured by net sales. For over 50 years, Toys R Us has been recognized as the toy and baby authority. We sell a variety of products in the core toy, entertainment, juvenile, learning and seasonal categories through our retail locations and the Internet. Our brand names are highly recognized in North America, Europe and Asia, and our expertise in the specialty toy and juvenile retail space, our broad range of product offerings, our substantial scale and geographic footprint and our strong vendor relationships account for our market-leading position and distinguish us from the competition.

As of January 29, 2011, we operated 1,392 stores and licensed an additional 220 stores. These stores are located in 34 countries and jurisdictions around the world under the Toys R Us, Babies R Us and FAO Schwarz banners. In addition to these stores, we operate Toys R Us Express stores ( Express stores ), smaller format stores primarily open on a short-term basis during the holiday season. We also own and operate websites including Toysrus.com, Babiesrus.com, eToys.com, FAO.com and babyuniverse.com, as well as other Internet sites we operate in our international markets.

Our Company was founded in 1948 when Charles Lazarus opened a baby furniture store, Children's Bargain Town, in Washington, D.C. The Toys R Us name made its debut in 1957. In 1978, we completed an initial public offering of our common stock. When Charles Lazarus retired as our Chief Executive Officer in 1994, the Company operated or licensed over 1,000 stores in 17 countries and jurisdictions. In 1996, we established the Babies R Us brand, further solidifying our reputation as a leading consumer destination for children and their families.

On July 21, 2005, we were acquired through a \$6.6 billion merger (the Merger ) by an investment group led by entities advised by or affiliated with Bain Capital Partners, LLC ( Bain ), Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, KKR ) and Vornado Realty Trust ( Vornado ) (collectively, the Sponsors ). Upon the completion of this acquisition, we became a private company.

*Fiscal Year*

Our fiscal year ends on the Saturday nearest to January 31 of each calendar year. Unless otherwise stated, references to years in this report relate to the fiscal years below:

<b>Fiscal Year</b>	<b>Number of Weeks</b>	<b>Ended</b>
2010	52	January 29, 2011
2009	52	January 30, 2010
2008	52	January 31, 2009

*Principles of Consolidation*

The Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries. We eliminate all inter-company balances and transactions.

*Variable Interest Entities*

The Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 810, Consolidation ( ASC 810 ), requires the consolidation of entities that are controlled by a company through interests other than voting interests. We evaluate our lending vehicles, including our commercial mortgage-backed securities, structured loans and any joint venture interests to determine whether we are the primary beneficiary of a variable interest entity ( VIE ). The primary beneficiary will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both, as a result of holding a VIE.

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During fiscal 2006, we identified Vanwall Finance PLC ( Vanwall ) as a VIE and concluded that in accordance with ASC 810, Vanwall should not be consolidated. In December 2009, the FASB issued Accounting Standards Update ( ASU ) 2009-17, Consolidations (Topic 810) Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities ( ASU 2009-17 ). Effective January 31, 2010, the Company adopted ASU 2009-17, which requires an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a variable interest entity as the enterprise that has (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. In addition, the required changes provide guidance on shared power and joint venture relationships, remove the scope exemption for qualified special purpose entities, revise the definition of a variable interest entity and require additional disclosures.

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In accordance with ASU 2009-17, we reassessed our lending vehicles, including our loan from Vanwall and concluded that we were not the primary beneficiary of that VIE. Accordingly, the adoption of this standard did not have an impact on our Consolidated Financial Statements. The Company has not identified any subsequent changes to Vanwall's governing documents or contractual arrangements that would change the characteristics or adequacy of the entity's equity investment at risk in accordance with ASC 810. Refer to Note 2 entitled "LONG-TERM DEBT" for further details.

### *Use of Estimates*

The preparation of our Consolidated Financial Statements requires us to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the related disclosures of contingent assets and liabilities as of the date of the Consolidated Financial Statements and during the applicable periods. We base these estimates on historical experience and other factors that we believe are reasonable under the circumstances. Actual results may differ materially from these estimates and such differences could have a material impact on our Consolidated Financial Statements.

### *Prior Period Corrections*

During fiscal 2010, we recorded a \$16 million non-cash charge in Selling, General and Administrative Expenses (SG&A), \$9 million net of tax, in our Consolidated Statement of Operations related to the cumulative correction of prior period straight-line lease accounting.

During fiscal 2010, we recorded an \$8 million charge in SG&A and Interest expense, \$6 million net of tax, in our Consolidated Statement of Operations for state and city property transfer taxes related to the merger transaction in fiscal 2005.

Management concluded that these corrections did not have a material impact on the current or any previously reported Consolidated Financial Statements.

### *Cash and Cash Equivalents*

We consider our highly liquid investments with original maturities of three months or less at acquisition to be cash equivalents. Book cash overdrafts are reclassified to accounts payable.

### *Restricted Cash*

Restricted cash represents collateral and other cash that is restricted from withdrawal. As of January 29, 2011 and January 30, 2010, we had restricted cash of \$16 million and \$44 million, respectively. The decrease in restricted cash is primarily the result of the expiration of interest rate swaps in fiscal 2010. Refer to Note 3 entitled "DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES" for further details.

### *Accounts and Other Receivables*

Accounts and other receivables consist primarily of receivables from vendor allowances and consumer credit card and debit card transactions.

### *Merchandise Inventories*

We value our merchandise inventories at the lower of cost or market, as determined by the weighted average cost method. Cost of sales represents the weighted average cost of the individual items sold and is affected by adjustments to reflect current market conditions, merchandise allowances from vendors, estimated inventory shortages and estimated losses from obsolete and slow-moving inventory.

### *Property and Equipment, Net*

We record property and equipment at cost. Leasehold improvements represent capital improvements made to our leased properties. We record depreciation and amortization using the straight-line method over the shorter of the estimated useful lives of the assets or the terms of the respective leases, if applicable.

We capitalize interest for new store construction-in-progress in accordance with ASC Topic 835, Interest. Capitalized interest amounts are immaterial.

*Asset Retirement Obligations*

We account for asset retirement obligations ( ARO ) in accordance with ASC Topic 410, Asset Retirement and Environmental Obligations, which requires us to recognize a liability for the fair value of obligations to retire tangible long-lived assets when there is a legal obligation to incur such costs. We recognize a liability for asset retirement obligations, capitalize asset retirement costs and amortize these costs over the life of the assets. As of January 29, 2011 and January 30, 2010, we had approximately \$69 million and \$61 million, respectively, recorded for ARO.

**Table of Contents***Goodwill*

Details on goodwill by segment are as follows:

(In millions)	January 29, 2011	January 30, 2010
Domestic	\$ 361	\$ 361
International (1)	23	21
<b>Total</b>	<b>\$ 384</b>	<b>\$ 382</b>

(1) Foreign currency translation accounted for the \$2 million increase.

In fiscal 2009, we acquired certain assets and liabilities of FAO Schwarz which resulted in \$2 million of goodwill. Refer to Note 18 entitled ACQUISITIONS for further details.

Goodwill is evaluated for impairment annually or whenever we identify certain triggering events that may indicate impairment, in accordance with the provisions of ASC Topic 350, Intangibles Goodwill and Other (ASC 350). We test goodwill for impairment by comparing the fair values and carrying values of our reporting units.

We estimated the fair values of our reporting units on the first day of the fourth quarter of each year, which for fiscal 2010 was October 31, 2010, using the market multiples approach and the discounted cash flow analysis approach. Based on our estimates of our reporting units' fair values at October 31, 2010, we determined that none of the goodwill associated with our reporting units was impaired.

*Debt Issuance Costs*

We defer debt issuance costs, which are classified as non-current other assets, and amortize the costs into Interest expense over the term of the related debt facility. Unamortized amounts at January 29, 2011 and January 30, 2010 were \$148 million and \$145 million, respectively. Deferred financing fees amortized to Interest expense for fiscals 2010, 2009 and 2008 were \$69 million, \$54 million and \$34 million, respectively, which is inclusive of accelerated amortization due to certain debt repayments and refinancings.

*Acquisition of Debt Securities*

During fiscal 2010, we acquired from an unaffiliated party \$17 million face value debt securities of Vanwall for approximately \$9 million. This debt matures on April 7, 2013. These debt securities are included in Other assets within the Consolidated Balance Sheets, classified as held-to-maturity debt and reported at amortized cost.

*Insurance Risks*

We self-insure a substantial portion of our workers' compensation, general liability, auto liability, property, medical, prescription drug and dental insurance risks, in addition to maintaining third party insurance coverage. Provisions for losses related to self-insured risks are based upon actuarial techniques and estimates for incurred but not reported claims. We record the liability for workers' compensation on a discounted basis. We also maintain insurance coverage above retention amounts of \$15 million for employment practices liability, \$8 million for catastrophic events, \$5 million for property, \$5 million for general liability, \$4 million for auto liability and a minimum of approximately \$1 million for workers' compensation to limit the exposure related to such risks. The assumptions underlying the ultimate costs of existing claim losses are subject to a high degree of unpredictability, which can affect the liability recorded for such claims. As of January 29, 2011 and January 30, 2010, we had approximately \$89 million and \$93 million, respectively, of reserves for self-insurance risk which have been included in Accrued expenses and other current liabilities and Other non-current liabilities in our Consolidated Balance Sheets.

*Commitments and Contingencies*

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We are subject to various claims and contingencies related to lawsuits and commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. For additional information on our commitments and contingencies, refer to Note 16 entitled COMMITMENTS AND CONTINGENCIES.



*Leases*

We lease store locations, distribution centers, equipment and land used in our operations. We account for our leases under the provisions of ASC Topic 840, *Leases* (ASC 840), which require that leases be evaluated and classified as operating or capital leases for financial reporting purposes. Assets held under capital lease are included in Property and equipment, net. As of January 29, 2011 and January 30, 2010, accumulated depreciation related to capital leases for property and equipment was \$58 million and \$49 million, respectively.

Operating leases are recorded on a straight-line basis over the lease term. At the inception of a lease, we determine the lease term by assuming the exercise of renewal options that are reasonably assured. Renewal options are exercised at our sole discretion. The expected lease term is used to determine whether a lease is capital or operating and is used to calculate straight-line rent expense.

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Additionally, the useful life of buildings and leasehold improvements are limited by the expected lease term. Refer to Note 9 entitled **LEASES** for further details.

Substantially all of our leases include options that allow us to renew or extend the lease term beyond the initial lease period, subject to terms and conditions agreed upon at the inception of the lease. Such terms and conditions include rental rates agreed upon at the inception of the lease that could represent below or above market rental rates later in the life of the lease, depending upon market conditions at the time of such renewal or extension. In addition, many leases include early termination options, which can be exercised under specified conditions, including upon damage, destruction or condemnation of a specified percentage of the value or land area of the property.

### *Deferred Rent*

We recognize fixed minimum rent expense on non-cancelable leases on a straight-line basis over the term of each individual lease starting at the date of possession, including the build-out period, and record the difference between the recognized rental expense and amounts payable under the leases as a deferred rent liability or asset. Deferred rent liabilities are recorded in our Consolidated Balance Sheets in the total amount of \$321 million and \$284 million at January 29, 2011 and January 30, 2010, respectively, of which \$11 million and \$9 million are recorded in Accrued expenses and other current liabilities, respectively. Landlord incentives and abatements are included in Deferred rent liabilities and amortized over the term of the lease.

### *Financial Instruments*

We enter into foreign exchange forward contracts to minimize the risk associated with currency fluctuations relating to our foreign subsidiaries. We also enter into derivative financial arrangements such as interest rate swaps and interest rate caps to hedge interest rate risk associated with our long-term debt. We account for derivative financial instruments in accordance with ASC Topic 815, **Derivatives and Hedging** (ASC 815) and record all derivatives as either assets or liabilities on the Consolidated Balance Sheets measured at estimated fair value and recognize the changes in fair value as unrealized gains and losses. The recognition of these gains and losses depends on our intended use of the derivatives and resulting designation. We record the changes in fair value of derivative instruments, which do not qualify and therefore are not designated for hedge accounting, in our Consolidated Statements of Operations. If we determine that we do qualify for hedge accounting treatment, the following is a summary of the impact on our Consolidated Financial Statements:

For designated cash flow hedges, the effective portion of the changes in the fair value of derivatives are recorded in Accumulated other comprehensive income (loss) and subsequently recorded in Interest expense in the Consolidated Statements of Operations at the time the hedged item affects earnings.

For designated cash flow hedges, the ineffective portion of a hedged derivative instrument's change in fair value is immediately recognized in Interest expense in the Consolidated Statements of Operations.

For designated fair value hedges, the change in the fair value of the derivative as well as the offsetting change in fair value of the hedged item attributable to the hedged risk are recorded in Interest expense in the Consolidated Statements of Operations.

Refer to Note 3 entitled **DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES** for more information related to our accounting for derivative financial instruments. We did not have significant credit risk related to our financial instruments at January 29, 2011 and January 30, 2010.

### *Revenue Recognition*

We generally recognize sales, net of customer coupons and other sales incentives, at the time the customer takes possession of merchandise, either at the point of sale in our stores or at the time the customer receives shipment for products purchased from our websites. We recognize the sale from lay-away transactions when our customer satisfies all payment obligations and takes possession of the merchandise. Sales are recorded net of sales, use and value added taxes.

Other revenues of \$77 million, \$79 million and \$93 million for fiscals 2010, 2009 and 2008, respectively, are included in Net sales. Other revenues consist of shipping, licensing fees, warranty and consignment income and non-core product related revenue.

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### *Reserve for Sales Returns*

We reserve amounts for sales returns for estimated product returns by our customers based on historical return experience, changes in customer demand, known returns we have not received, and other assumptions. The balances of our reserve for sales returns were \$10 million and \$9 million at January 29, 2011 and January 30, 2010, respectively.

### *Cost of Sales and SG&A Expenses*

The following table illustrates what is reflected in each expense category:

<b>Cost of sales</b>	<b>SG&amp;A</b>
the cost of merchandise acquired from vendors;	store payroll and related payroll benefits;
freight in;	rent and other store operating expenses;

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provision for excess and obsolete inventory;

advertising and promotional expenses;

shipping costs to consumers;

costs associated with operating our distribution network, including costs related to transporting merchandise from distribution centers to stores;

provision for inventory shortages; and

restructuring charges; and

credits and allowances from our merchandise vendors.

other corporate-related expenses.

### *Credits and Allowances Received from Vendors*

We receive credits and allowances that are related to formal agreements negotiated with our vendors. These credits and allowances are predominantly for cooperative advertising, promotions and volume related purchases. We generally treat credits and allowances, including cooperative advertising allowances, as a reduction of product cost in accordance with the provisions of ASC Topic 605, Revenue Recognition (ASC 605) since such funds are not a reimbursement of specific, incremental, identifiable costs incurred by us in selling the vendors' products.

In addition, we record sales net of in-store coupons that are redeemed, in accordance with ASC 605.

### *Advertising Costs*

Gross advertising costs are recognized in SG&A at the point of first broadcast or distribution and were \$445 million, \$428 million and \$453 million in fiscals 2010, 2009 and 2008, respectively.

### *Pre-opening Costs*

The cost of start-up activities, including organization costs, related to new store openings are expensed as incurred.

### *Costs of Computer Software*

We capitalize certain costs associated with computer software developed or obtained for internal use in accordance with the provisions of ASC 350. We capitalize those costs from the acquisition of external materials and services associated with developing or obtaining internal use computer software. We capitalize certain payroll costs for employees that are directly associated with internal use computer software projects once specific criteria of ASC 350 are met. We expense those costs that are associated with preliminary stage activities, training, maintenance, and all other post-implementation stage activities as they are incurred. We amortize all costs capitalized in connection with internal use computer software projects on a straight-line basis over a useful life of five years, beginning when the software is ready for its intended use. We amortized computer software costs of \$19 million, \$25 million and \$32 million for fiscals 2010, 2009 and 2008, respectively.

### *Other Income, net*

Other income, net includes the following:

(In millions)	Fiscal Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
Gift card breakage income	\$ (20)	\$ (20)	\$ (78)

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Credit card program income	(19)	(31)	(35)
Net gains on sales of properties	(10)	(6)	(5)
Impairment of long-lived assets	11	7	33
Gain on litigation settlement		(51)	
Gain on liquidation of a foreign subsidiary			(39)
Other (1)	(13)	(11)	(4)
<b>Total</b>	<b>\$ (51)</b>	<b>\$ (112)</b>	<b>\$ (128)</b>

<sup>(1)</sup> Includes gains and losses resulting from foreign currency translation related to operations, fixed asset write-offs and other miscellaneous income and expense charges.

### *Gift Cards and Breakage*

We sell gift cards to customers in our retail stores, through our websites and through third parties and, in certain cases, provide gift cards for returned merchandise and in connection with promotions. We recognize income from gift card sales when the customer redeems the gift card, as well as an estimated amount of unredeemed liabilities ( breakage ). Gift card breakage is recognized proportionately, utilizing management estimates and assumptions based on actual redemptions, the estimated useful life of the gift card and an estimated breakage rate of unredeemed liabilities. Our estimated gift card breakage represents the remaining unused portion of the gift card liability for which the likelihood of redemption is remote and for which we have determined that we do not have a legal obligation to remit the value to the relevant jurisdictions. Income related to customer gift card redemption is included in Net sales, whereas income related to gift card breakage is recorded in Other income, net in our Consolidated Financial Statements.

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Prior to the fourth quarter of fiscal 2008, the Company recognized breakage income when gift card redemptions were deemed remote and the Company determined that there was no legal obligation to remit the unredeemed gift cards to the relevant tax jurisdiction ( *Cliff Method* ), based on historical information. At the end of the fourth quarter of fiscal 2008, the Company concluded it had accumulated a sufficient level of historical data from a large pool of homogeneous transactions to allow management to reasonably and objectively determine an estimated gift card breakage rate and the pattern of actual gift card redemptions. Accordingly, the Company changed its method for recording gift card breakage income to recognize breakage income and derecognize the gift card liability for unredeemed gift cards in proportion to actual redemptions of gift cards ( *Redemption Method* ). As a result, the cumulative catch up adjustment recorded in fiscal 2008 resulted in an additional \$59 million of gift card breakage income. In addition, we recognized \$20 million, \$20 million and \$19 million of gift card breakage income in fiscals 2010, 2009 and 2008, respectively.

In the second quarter of fiscal 2010, the State of New Jersey (the *State* ) enacted a law that would require us to turn over to the State unused balances of certain gift cards purchased in New Jersey on which there had been no activity for a two-year period. In November 2010, the United States District Court for the District of New Jersey (the *District Court* ) preliminarily enjoined the State from enforcing this section of the law. The State appealed that decision to the United States Court of Appeals for the Third Circuit (the *Third Circuit* ), and that appeal is pending. The New Jersey law also requires us to obtain and maintain the zip codes of customers who purchase gift cards in New Jersey. In January 2011, the District Court declined to enjoin enforcement of this section of the law. However, on or about January 31, 2011, the Third Circuit granted a preliminary injunction preventing enforcement of this section of the law pending appeal.

### *Credit Card Program*

We currently operate under a Credit Card Program agreement (the *Agreement* ) with a third-party credit lender to offer co-branded and private label credit cards to our customers. The current agreement expires in June 2012. The credit lender provides financing for our customers to purchase merchandise at our stores and other businesses and funds and administers the customer loyalty program for credit card holders. We received an up-front incentive payment for entering into the Agreement, which is deferred and is being amortized ratably over the life of the Agreement. In addition, we receive bounty fees for credit card activations and royalties on the co-branded and private label credit cards. Bounty fees and royalties are recognized when earned and realizable. During fiscals 2010, 2009 and 2008, we recognized \$19 million, \$31 million and \$35 million of other income, respectively, relating to the credit card program.

### *Net Gains on Sales of Properties*

Net gains on sales of properties were \$10 million, \$6 million and \$5 million for fiscals 2010, 2009 and 2008, respectively. Refer to Note 5 entitled *PROPERTY AND EQUIPMENT* for further information.

### *Impairment of Long-Lived Assets and Costs Associated with Exit Activities*

We evaluate the carrying value of all long-lived assets, which include property, equipment and finite-lived intangibles, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable, in accordance with ASC Topic 360,

*Property, Plant and Equipment* ( *ASC 360* ). If a long-lived asset is found to be non-recoverable, we record an impairment charge equal to the difference between the asset's carrying value and fair value. This evaluation requires management to make judgments relating to future cash flows, growth rates, and economic and market conditions. These evaluations are based on determining the fair value of an asset using a valuation method such as discounted cash flow or a relative, market-based approach.

During fiscals 2010, 2009 and 2008, we recorded total impairment losses of \$11 million, \$7 million and \$33 million, respectively. Impairment losses are recorded in Other income, net within our Consolidated Statement of Operations. These impairments were primarily due to the identification of underperforming stores and the relocation of certain stores.

For any store closing where a lease obligation still exists, we record the estimated future liability associated with the rental obligation less any estimated sublease income on the date the store is closed in accordance with ASC Topic 420, *Exit or Disposal Cost Obligations*. Refer to Note 10 entitled *RESTRUCTURING AND OTHER CHARGES* for charges related to restructuring initiatives.

### *Gain on Litigation Settlement*

In fiscal 2009, we recognized a \$51 million gain related to the litigation settlement with Amazon.com ( *Amazon* ) which was recorded in Other income, net. Refer to Note 15 entitled *LITIGATION AND LEGAL PROCEEDINGS* for further information.

### *Gain on Liquidation of a Foreign Subsidiary*

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In fiscal 2008, the operations of TRU (HK) Limited, our wholly-owned subsidiary, were substantially liquidated. As a result, we recognized a \$39 million gain representing a cumulative translation adjustment, in accordance with ASC Topic 830, Foreign Currency Matters. The gain is included in Other income, net in our Consolidated Statements of Operations and as Foreign currency effect on liquidation of foreign subsidiary in our Consolidated Statement of Stockholders' Equity (Deficit).

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### *Foreign Currency Translation*

The functional currencies of our foreign subsidiaries are as follows:

Australian dollar for our subsidiary in Australia;

British pound sterling for our subsidiary in the United Kingdom ( U.K. );

Canadian dollar for our subsidiary in Canada;

Euro for subsidiaries in Austria, France, Germany, Spain and Portugal;

Japanese yen for our subsidiary in Japan; and

Swiss franc for our subsidiary in Switzerland.

Assets and liabilities are translated into U.S. dollars using the current exchange rates in effect at the balance sheet date, while revenues and expenses are translated using the average exchange rates during the applicable reporting period. The resulting translation adjustments are recorded in Accumulated other comprehensive income (loss) within Stockholders' Equity (Deficit).

Gains and losses resulting from foreign currency transactions related to operations have been immaterial and are included in Other income, net. Foreign currency transactions related to short-term, cross-currency intercompany loans amounted to a gain of \$10 million, a gain of \$28 million and a loss of \$38 million for fiscals 2010, 2009 and 2008, respectively. Such amounts were included in Interest expense.

We economically hedge these short-term, cross-currency intercompany loans with foreign currency forward contracts. These derivative contracts were not designated as hedges and are recorded on our Consolidated Balance Sheets at fair value with a gain or loss recorded on the Consolidated Statements of Operations in Interest expense. For fiscals 2010, 2009 and 2008, we recorded a loss of \$10 million, a loss of \$28 million and a gain of \$38 million, respectively. Refer to Note 3 entitled **DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES** for further details.

### *Income Taxes*

We account for income taxes in accordance with ASC Topic 740, **Income Taxes** ( ASC 740 ). Our provision for income taxes and effective tax rates are calculated by legal entity and jurisdiction and are based on a number of factors, including our income tax planning strategies, differences between tax laws and accounting rules, statutory tax rates and credits, uncertain tax positions and valuation allowances. We use significant judgment and estimates in evaluating our tax positions. Our effective tax rate in a given financial statement period may be materially impacted by changes in the mix and level of earnings by taxing jurisdiction.

Under ASC 740, deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements. Valuation allowances are established when, in management's judgment, it is more likely than not that our deferred tax assets will not be realized. In assessing the need for a valuation allowance, management weighs the available positive and negative evidence, including limitations on the use of tax loss and other carryforwards due to changes in ownership, historic information, projections of future sources of taxable income, including future reversals of taxable temporary differences and future taxable income exclusive of reversing temporary differences and carryforwards, and tax planning strategies.

At any one time, our tax returns for numerous tax years are subject to examination by U.S. Federal, state and foreign taxing jurisdictions. ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attributes for income tax positions taken or expected to be taken on a tax return. Under ASC 740, the impact of an



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uncertain tax position taken or expected to be taken on an income tax return must be recognized in the financial statements at the largest amount that is more-likely-than-not to be sustained. An uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not to be sustained. We adjust these tax liabilities, as well as the related interest and penalties, based on the latest facts and circumstances, including recently enacted tax law changes, published rulings, court cases and outcomes of tax audits. While we do not expect material changes, it is possible that our actual tax liability will differ from our established tax liabilities for unrecognized tax benefits, and our effective tax rate may be materially impacted. While it is often difficult to predict the final outcome of, the timing of, or the tax treatment of any particular tax position or deduction, we believe that our tax balances reflect the more-likely-than-not outcome of known tax contingencies.

At January 29, 2011 and January 30, 2010, we reported unrecognized tax benefits in Accrued expenses and other current liabilities and Other non-current liabilities in our Consolidated Balance Sheets. These tax liabilities do not include a portion of our unrecognized tax benefits, which have been recorded as a reduction of Deferred tax assets related to tax loss carryforwards. For further information, refer to Note 11 entitled INCOME TAXES.

### *Stock-Based Compensation*

Under the provisions of ASC Topic 718, Compensation—Stock Compensation (ASC 718), stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period. We have applied ASC 718 to new awards and to awards modified, repurchased or cancelled since January 29, 2006. We continue to account for any portion of awards outstanding at January 29, 2006 that have not been modified, repurchased or cancelled using the provisions of Accounting Principles Board Opinion 25. For further information refer to Note 7 entitled STOCK-BASED COMPENSATION.

**Table of Contents***Earnings per share*

Earnings per share is computed as follows (in millions, except for share data):

	January 29, 2011			Fiscal Years Ended January 30, 2010			January 31, 2009		
	Net Earnings Attributable to Toys R Us, Inc.	Weighted Average Shares	Per Share Amount	Net Earnings Attributable to Toys R Us, Inc.	Weighted Average Shares	Per Share Amount	Net Earnings Attributable to Toys R Us, Inc.	Weighted Average Shares	Per Share Amount
Basic earnings per share	\$ 168	48,941,118	\$ 3.43	\$ 312	48,962,152	\$ 6.37	\$ 218	48,936,391	\$ 4.45
Effect of dilutive share-based awards		1,040,386	(0.07)		342,811	(0.04)		290,030	(0.02)
Dilutive earnings per share	\$ 168	49,981,504	\$ 3.36	\$ 312	49,304,963	\$ 6.33	\$ 218	49,226,421	\$ 4.43

Basic earnings per share is computed by dividing Net earnings attributable to Toys R Us, Inc. by the weighted average number of shares of common stock outstanding during the fiscal years ended January 29, 2011, January 30, 2010 and January 31, 2009. Diluted earnings per share is determined based on the dilutive effect of share-based awards using the treasury stock method.

Options to purchase shares of common stock that were outstanding and restricted stock that were unvested at the end of the respective periods, but were not included in the computation of diluted earnings per share because the effect of exercising or converting such awards in common stock would be anti-dilutive were nominal, 1.6 million and 0.3 million for fiscals 2010, 2009 and 2008, respectively.

**Table of Contents****NOTE 2 LONG-TERM DEBT**

A summary of the Company's consolidated Long-term debt as well as the effective interest rates on our outstanding variable rate debt as of January 29, 2011 and January 30, 2010, respectively, is outlined in the table below:

(In millions)	January 29, 2011	January 30, 2010
7.625% notes, due fiscal 2011 (1)	\$ 503	\$ 507
Toys-Japan 2.45%-2.85% loans due fiscals 2012-2015 (2)	177	172
Secured term loan facility, due fiscal 2012 (7.39%) (3)(4)		798
Unsecured credit facility, due fiscal 2012 (8.14%) (3)(4)		180
French real estate credit facility, due fiscal 2012 (4.51% and 4.51%)	84	86
Spanish real estate credit facility, due fiscal 2012 (4.51% and 4.51%)	175	180
European and Australian asset-based revolving credit facility expires fiscal 2012		
U.K. real estate senior credit facility, due fiscal 2013 (5.02% and 5.02%)	555	562
U.K. real estate junior credit facility, due fiscal 2013 (6.84% and 6.84%)	97	99
7.875% senior notes, due fiscal 2013 (1)	396	395
Toys-Japan unsecured credit line due fiscal 2013 (5)	17	
Secured revolving credit facility, expires fiscal 2015 (3)(6)		
Secured term loan facility, due fiscal 2016 (6.0%) (3)(4)	687	
7.375% senior secured notes, due fiscal 2016 (3)(4)	348	
10.750% senior notes, due fiscal 2017 (7)	929	926
8.500% senior secured notes, due fiscal 2017 (8)	716	715
7.375% senior notes, due fiscal 2018 (1)	405	406
8.750% debentures, due fiscal 2021 (9)	22	22
Finance obligations associated with capital projects	123	101
Capital lease obligations	54	47
	<b>5,288</b>	<b>5,196</b>
Less current portion (10)	<b>570</b>	<b>162</b>
<b>Total Long-term debt (11)</b>	<b>\$ 4,718</b>	<b>\$ 5,034</b>

(1) Represents obligations of Toys R Us, Inc. legal entity. For further details on parent company information, refer to Schedule I Parent Company Condensed Financial Statements and Notes to the Condensed Financial Statements.

(2) On September 30, 2010, Toys R Us-Japan, Ltd. (Toys-Japan) entered into an agreement to refinance, at maturity, three of its outstanding bank loans, which extended their maturity date from January 2011 to January 2016. Pursuant to the terms of the new agreement, Toys-Japan is required to make principal payments of approximately ¥1.6 billion (\$20 million at January 29, 2011) annually with the remaining principal and interest due upon maturity.

(3) Represents obligations of Toys R Us-Delaware, Inc. (Toys-Delaware).

(4) On August 24, 2010, Toys-Delaware repaid the outstanding loan balances, plus accrued interest and fees under the secured term loan facility (the Secured Term Loan) and unsecured credit facility (the Unsecured Credit Facility) in conjunction with the offering of \$350 million aggregate principal amount of 7.375% senior secured notes due fiscal 2016 (Toys-Delaware Secured Notes) and the amendment and restatement of the Secured Term Loan, which among other things, provided for a term loan of \$700 million and extended the maturity to fiscal 2016. Pursuant to the terms of the amended and restated Secured Term Loan Toys-Delaware is required to make quarterly principal payments equal to 0.25% (\$7 million per year) of the original principal amount of the loan. As such, this amount has been classified as Current portion of Long-term debt on our Consolidated Balance Sheet as of January 29, 2011.

(5) On September 30, 2010, Toys-Japan entered into an agreement to refinance, at maturity, Tranche 1 of its committed lines of credit to extend the maturity date of the agreement and amend certain other provisions.

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- (6) On August 10, 2010, Toys-Delaware and certain of its subsidiaries amended and restated the credit agreement to provide for a facility of up to \$1.85 billion and to extend the maturity date of the facility and amend certain other provisions.
- (7) Represents obligations of Toys R Us Property Company I, LLC ( TRU Propco I ) and its subsidiaries.
- (8) Represents obligations of Toys R Us Property Company II, LLC ( TRU Propco II ).
- (9) Represents obligations of Toys R Us, Inc. and Toys Delaware, Inc.

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(10) Current portion of Long-term debt as of January 29, 2011 is primarily comprised of \$503 million of the 7.625% notes maturing on August 1, 2011. Current portion of Long-term debt as of January 30, 2010 was primarily comprised of \$127 million of Toys Japan bank loans which matured on January 17, 2011.

(11) We maintain derivative instruments on certain of our long-term debt, which impact our effective interest rates. Refer to Note 3 entitled DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES for further details.

As of January 29, 2011, we had total indebtedness of \$5.3 billion, of which \$2.8 billion was secured indebtedness. Toys R Us, Inc. is a holding company and conducts its operations through its subsidiaries, certain of which have incurred their own indebtedness. Our credit facilities, loan agreements and indentures contain customary covenants, including, among other things, covenants that restrict our and our subsidiaries abilities to:

incur certain additional indebtedness;

transfer money between the parent company and our various subsidiaries;

pay dividends on, repurchase or make distributions with respect to our or our subsidiaries capital stock or make other restricted payments;

issue stock of subsidiaries;

make certain investments, loans or advances;

transfer and sell certain assets;

create or permit liens on assets;

consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;

enter into certain transactions with our affiliates; and

amend certain documents.

The amount of net assets that were subject to such restrictions was approximately \$872 million and \$709 million as of January 29, 2011 and January 30, 2010, respectively. Our agreements also contain various and customary events of default with respect to the loans, including, without limitation, the failure to pay interest or principal when the same is due under the agreements, cross default provisions, the failure of representations and warranties contained in the agreements to be true and certain insolvency events. If an event of default occurs and is continuing, the principal amounts outstanding thereunder, together with all accrued unpaid interest and other amounts owed thereunder, may be declared immediately due and payable by the lenders.

We are dependent on the borrowings provided by the lenders to support our working capital needs and capital expenditures. As of January 29, 2011, we have funds available to finance our operations under our secured revolving credit facility through August 2015, our European and Australian asset-based revolving credit facility ( European ABL ) through October 2012 and our Toys Japan unsecured credit lines with a Tranche maturing March 2011 and a Tranche maturing June 2013. Our lenders may be unable to fund borrowings under their credit commitments to us if these lenders face bankruptcy or failure. If our cash flow and capital resources do not provide the necessary liquidity, it could have a significant negative effect on our results of operations.

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The total fair values of our Long-term debt, with carrying values of \$5.3 billion and \$5.2 billion at January 29, 2011 and January 30, 2010, were \$5.4 billion and \$4.8 billion, respectively. The fair values of our Long-term debt are estimated using the quoted market prices for the same or similar issues and other pertinent information available to management as of the end of the respective periods.

The annual maturities of our Long-term debt, including current portions, at January 29, 2011 are as follows:

<b>(In millions)</b>	<b>Annual Maturities</b>
2011	\$ 570
2012	312
2013	1,101
2014	38
2015	71
2016 and subsequent	3,196
<b>Total</b>	<b>\$ 5,288</b>

**Table of Contents*****European ABL expires fiscal 2012 (\$0 at January 29, 2011)***

On October 15, 2009, certain of our foreign subsidiaries entered into the European ABL, which provides for a three-year £112 million senior secured asset-based revolving credit facility which expires October 15, 2012. On November 19, 2009, we partially exercised the accordion feature which increased availability to include additional lender commitments. This increased the ceiling of the facility from £112 million to £124 million (\$197 million at January 29, 2011). Borrowings under the European ABL are subject, among other things, to the terms of a borrowing base derived from the value of eligible inventory and eligible accounts receivable of certain of Toys R Us Europe, LLC's (Toys Europe) and Toys R Us Australia Holdings, LLC's (Toys Australia) subsidiaries. The terms of the European ABL include a customary cash dominion trigger requiring the cash of certain of Toys Europe's and Toys Australia's subsidiaries to be applied to pay down outstanding loans if availability falls below certain thresholds. The European ABL also contains a springing fixed charge coverage ratio of 1.10 to 1.00 based on the EBITDA and fixed charges of Toys Europe, Toys Australia and their subsidiaries. Loans under the European ABL bear interest at a rate based on the London Interbank Offered Rate (LIBOR)/the Euro Interbank Offered Rate (EURIBOR) plus a margin of 4.00% for the first year and thereafter, 3.75%, 4.00% or 4.25% depending on availability. A commitment fee accrues on any unused portion of the commitments at a rate per annum also based on usage. Borrowings under the European ABL are guaranteed to the extent legally possible and practicable by Toys Europe, Toys Australia and certain of their material subsidiaries. Borrowings are secured by substantially all assets which are not already pledged, of Toys Europe, Toys Australia and certain U.K. and Australian obligors, as well as by share pledges over the shares of (and certain assets of) other material subsidiaries. The European ABL contains covenants that, among other things, restrict the ability of Toys Europe and Toys Australia and their respective subsidiaries to incur certain additional indebtedness, create or permit liens on assets, repurchase or pay dividends or make certain other restricted payments on capital stock, make acquisitions and investments or engage in mergers or consolidations. At January 29, 2011, we had no outstanding borrowings and \$77 million of availability under the European ABL. At January 29, 2011, deferred financing expenses for this credit facility were \$5 million and have been included in Other assets on our Consolidated Balance Sheets.

***Subsequent Event***

On March 8, 2011, certain of our foreign subsidiaries amended and restated the credit agreement for the European ABL (the New European ABL) in order to extend the maturity date of the facility and amend certain other provisions. The New European ABL facility as amended provides for a five-year £128 million (\$207 million at March 8, 2011) asset-based senior secured revolving credit facility which will expire in March 8, 2016. Loans under the New European ABL bear interest at a rate of LIBOR/EURIBOR plus a margin of 2.50% through the second quarter of fiscal 2011 and thereafter 2.25%, 2.50% or 2.75% depending on historical excess availability. In addition, a commitment fee accrues on any unused portion of the commitments at a rate per annum of 0.375% or 0.50% based on usage. In connection with the amendment and restatement of the credit agreement, we incurred approximately \$4 million in fees.

Borrowings under the New European ABL are subject, among other things, to the terms of a borrowing base derived from the value of eligible inventory and/or eligible accounts receivable of certain of Toys Europe's and Toys Australia's subsidiaries organized in Australia, England and France. The terms of the New European ABL include a customary cash dominion trigger requiring the cash of certain of Toys Europe's and Toys Australia's subsidiaries to be applied to pay down outstanding loans if availability falls below certain thresholds. The New European ABL also contains a springing fixed charge coverage ratio of 1.00 to 1.00 based on the EBITDA (as defined in the agreement governing the New European ABL) and fixed charges of Toys Europe, Toys Australia and their subsidiaries. Borrowings under the New European ABL are guaranteed by Toys Europe, Toys Australia and certain of their material subsidiaries, with certain customary local law limitations and to the extent such guarantees do not result in adverse tax consequences. Borrowings are secured by substantially all assets of Toys Europe, Toys Australia and the U.K. and Australian Obligors, as well as by share pledges over the shares of other material subsidiaries and pledges over certain of their assets (including bank accounts and certain receivables). The New European ABL contains covenants that, among other things, restrict the ability of Toys Europe and Toys Australia and their respective subsidiaries to incur certain additional indebtedness, create or permit liens on assets, repurchase or pay dividends or make certain other restricted payments on capital stock, make acquisitions and investments or engage in mergers or consolidations.

***Toys Japan Unsecured Credit Lines, expires fiscals 2011-2013 (\$17 million at January 29, 2011)***

Toys-Japan currently has an agreement with a syndicate of financial institutions, which includes two unsecured loan commitment lines of credit (Tranche 1 and Tranche 2). Under the agreement, Tranche 1 is available in amounts of up to ¥20 billion (\$244 million at January 29, 2011), which expires on March 30, 2011. At January 29, 2011, we had outstanding borrowings of \$17 million under Tranche 1, with \$227 million of remaining availability.

On September 30, 2010, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 1. As a result beginning on March 30, 2011, Tranche 1 will be available in amounts of up to ¥14.9 billion (\$182 million at January 29, 2011), expiring on June 30, 2013, and will bear an interest rate of Tokyo Interbank Offered Rate (TIBOR) plus 0.90% per annum. We paid fees of \$2 million to refinance Tranche 1, which are capitalized as deferred debt issuance costs and amortized over the term of the agreement. As of January 29, 2011,

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deferred financing expenses for this agreement were \$2 million and have been included in Other assets on our Consolidated Balance Sheets.



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On February 26, 2010, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 2. Additionally, on March 29, 2010, Toys-Japan modified Tranche 2 to include an additional lender. As a result, Tranche 2 is now available in amounts of up to ¥14 billion (\$171 million at January 29, 2011), expiring on March 28, 2011, and bears an interest rate of TIBOR plus 0.80% per annum. We paid fees of \$2 million to refinance Tranche 2, which are capitalized as deferred debt issuance costs and amortized over the term of the agreement. At January 29, 2011, we had no outstanding Short-term debt under Tranche 2, with \$171 million of remaining availability. As of January 29, 2011, deferred financing expenses for this agreement were nominal and have been included in Prepaid expenses and other current assets on our Consolidated Balance Sheets.

These agreements contain covenants, including, among other things, covenants that require Toys Japan to maintain a certain level of net assets and profitability during the agreement terms. The agreement also restricts Toys Japan from paying dividends or making loans to affiliates without lender consent.

*Subsequent Event*

On March 18, 2011, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 2. As a result, Tranche 2 will be available on March 28, 2011 in amounts of up to ¥10 billion (\$124 million at March 18, 2011), expiring on June 29, 2012, and bears an interest rate of TIBOR plus 0.80% per annum. We paid fees of \$1 million to refinance Tranche 2, which will be capitalized as deferred debt issuance costs and amortized over the term of the agreement.

***\$1.85 billion senior secured revolving credit facility, expires fiscal 2015 (\$0 million at January 29, 2011)***

On August 10, 2010, Toys-Delaware, a direct wholly-owned subsidiary, and certain of its subsidiaries amended and restated the credit agreement for its secured revolving credit facility ( ABL Facility ) in order to extend the maturity date of the facility and amend certain other provisions. The ABL Facility as amended provides for \$1.85 billion of revolving commitments maturing on August 10, 2015, which could increase by \$650 million, subject to certain conditions. The ABL Facility as amended bears a tiered floating interest rate of LIBOR plus a margin of between 2.50% and 3.00% depending on usage. In connection with the amendment and restatement of the credit agreement, we paid approximately \$37 million in fees, including fees paid to the Sponsors pursuant to their advisory agreement. In addition, as a result of the amendment and restatement of the credit agreement, we expensed approximately \$9 million of deferred financing costs associated with our secured revolving credit facility in fiscal 2010.

This secured revolving credit facility is available for general corporate purposes and the issuance of letters of credit. Borrowings under this credit facility are secured by tangible and intangible assets of Toys-Delaware and certain of its subsidiaries, subject to specific exclusions stated in the credit agreement. The credit agreement contains covenants, including, among other things, covenants that restrict Toys-Delaware's ability to incur certain additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, pay dividends, repurchase capital stock, make other restricted payments, make loans or advances, engage in transactions with affiliates, or amend material documents. The ABL Facility, as amended pursuant to the amended and restated credit agreement, requires Toys-Delaware to maintain minimum excess availability at all times of no less than \$125 million and to sweep cash toward prepayment of the loans if excess availability falls below \$150 million for any three days in a 30-day period. Availability is determined pursuant to a borrowing base, consisting of specified percentages of eligible inventory and eligible credit card receivables and certain real estate less any applicable availability reserves. At January 29, 2011, under our secured revolving credit facility, we had no outstanding borrowings, a total of \$101 million of outstanding letters of credit and excess availability of \$1.013 billion. This amount is also subject to the minimum excess availability covenant, which was \$125 million at January 29, 2011, with remaining availability of \$888 million in excess of the covenant. At January 29, 2011, deferred financing expenses for this credit facility were \$59 million and have been included in Other assets on our Consolidated Balance Sheets.

***7.625% notes, due fiscal 2011 (\$503 million at January 29, 2011)***

On July 24, 2001, we issued \$500 million of notes bearing interest at 7.625% per annum maturing on August 1, 2011. The notes were issued at a discount of \$1 million which resulted in the receipt of proceeds of \$499 million. Simultaneously with the issuance of the notes, we entered into interest rate swap agreements. We subsequently terminated the interest rate swap agreements and received a payment of \$27 million which is being amortized over the remaining term of the notes. Interest is payable semi-annually on February 1 and August 1 of each year. These notes carry a limitation on creating liens on domestic real property or improvements or the stock or indebtedness of domestic subsidiaries (subject to certain exceptions) that exceed the greater of 10% of the consolidated net tangible assets or 15% of the consolidated capitalization. The covenants also restrict sale and leaseback transactions (subject to certain exceptions) unless net proceeds are at least equal to the sum of all costs incurred in connection with the acquisition of the principal property and a lien would be permitted on such principal property. At January 29, 2011, deferred financing expenses for these notes were nominal and have been included in Other assets on our Consolidated Balance Sheets.



**Table of Contents*****Japan Bank Loans (2.45% to 2.85%) loans due fiscals 2012-2015 (\$177 million at January 29, 2011)***

Toys-Japan currently has five bank loans with various financial institutions totaling \$177 million at January 29, 2011. On September 30, 2010, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance three bank loans, which matured on January 17, 2011. Under the new agreement, which began on January 17, 2011, the loan for ¥11.5 billion (\$140 million at January 29, 2011) will mature on January 29, 2016 and bear an interest rate of TIBOR plus 1.50% per annum. In conjunction with the new agreement we entered into an interest rate swap, converting the variable rate of interest to a fixed rate of 2.45% on January 17, 2011. The swap has been designated as a cash flow hedge. Toys-Japan is required to make principal payments of approximately ¥1.6 billion (\$20 million at January 29, 2011) annually in January of each year commencing on January 2012 with the remaining principal and interest due upon maturity. Toys-Japan paid fees of \$3 million to refinance these loans, which are capitalized as deferred debt issuance costs and amortized over the term of the agreement. The remaining four bank loans, representing \$37 million, are amortizing and mature between fiscal 2012 and fiscal 2014. As of January 29, 2011, deferred financing expenses for this agreement were \$3 million and have been included in Other assets on our Consolidated Balance Sheets.

These agreements contain covenants, including, among other things, covenants that require Toys Japan to maintain a certain level of net assets and profitability during the agreement terms. The agreement also restricts Toys Japan from paying dividends or making loans to affiliates without lender agreement.

***62 million French and 129 million Spanish real estate credit facilities, due fiscal 2012 (\$84 million and \$175 million at January 29, 2011, respectively)***

On January 23, 2006, our indirect wholly-owned subsidiaries Toys R Us France Real Estate SAS and Toys R Us Iberia Real Estate S.L. entered into the French and Spanish real estate credit facilities, respectively. These facilities are secured by, among other things, selected French and Spanish real estate. The maturity date for each of these loans is February 1, 2013. The loans have interest rates of EURIBOR plus 1.50% plus mandatory costs per annum. The loan agreements contain covenants that restrict the ability of the borrowers to engage in mergers or consolidations, incur additional indebtedness, or create or permit additional liens on assets. The loan agreements also require the borrower to maintain interest coverage ratios of 110%. If the coverage ratio is less than 110% there is a 10 day window to prevent default. The borrower has an option to pay down the loan to increase the coverage up to 110%, acquire new properties or deposit collateral into an appropriate account. However, this cannot occur in two consecutive periods or more than six times during the life of the debt instrument. At January 29, 2011, deferred financing expenses for these facilities were \$4 million and have been included in Other assets on our Consolidated Balance Sheets.

***£350 million U.K. real estate senior and £61 million U.K. real estate junior credit facilities, due fiscal 2013 (\$555 million and \$97 million at January 29, 2011, respectively)***

On February 8, 2006, Toys R Us Properties (UK) Limited (Toys Properties), our indirect wholly-owned subsidiary, entered into a series of secured senior and junior loans with Vanwall as the Issuer and Senior Lender and The Royal Bank of Scotland PLC as Junior Lender. These facilities are secured by, among other things, selected U.K. real estate. The U.K. real estate senior credit facility bears interest of 5.02% plus mandatory costs. The U.K. real estate junior credit facility bears interest at an annual rate of LIBOR plus a margin of 2.25% plus mandatory costs. At January 29, 2011, deferred financing expenses for these credit facilities were \$3 million and have been included in Other assets on our Consolidated Balance Sheets.

The credit agreements contain covenants that restrict the ability of Toys Properties to incur certain additional indebtedness, create or permit liens on assets, dispose of or acquire further property, vary or terminate the lease agreements, conclude further leases or engage in mergers or consolidations. Toys Properties is required to repay the loans in part in quarterly installments. The final maturity date for these credit facilities is April 7, 2013.

Vanwall is a variable interest entity established with the limited purpose of issuing and administering the notes under the credit agreement with Toys Properties. On February 9, 2006, Vanwall issued \$620 million of multiple classes of commercial mortgage backed floating rate notes (the Floating Rate Notes) to third party investors (the Bondholders), which are publicly traded on the Irish Stock Exchange Limited. The proceeds from the Floating Rate Notes issued by Vanwall were used to fund the Senior Loan to Toys Properties. Pursuant to the Credit Agreement, Vanwall is required to maintain an interest rate swap which effectively fixed the variable LIBOR rate at 4.56%, the same as the fixed interest rate less the applicable credit spread paid by Toys Properties to Vanwall. The fair value of this interest rate swap was a liability of approximately \$34 million and \$40 million at January 29, 2011 and January 30, 2010, respectively. For further details regarding the consolidation of Vanwall, refer to Note 1 entitled SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

***7.875% Senior Notes, due fiscal 2013 (\$396 million at January 29, 2011)***

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On April 8, 2003, Toys R Us, Inc. issued \$400 million in notes bearing interest at a coupon rate of 7.875%, maturing on April 15, 2013. The notes were issued at a discount of \$7 million which resulted in the receipt of proceeds of \$393 million. Simultaneously with the sale of the notes, we entered into interest rate swap agreements. We subsequently terminated the swaps at a loss of \$6 million which is being amortized over the remaining term of the notes. Interest is payable semi-annually on April 15 and October 15 of each year. These notes carry a limitation on creating liens on domestic real property or improvements or the stock or indebtedness of domestic subsidiaries (subject to certain exceptions) that exceed the greater of 10% of the consolidated net tangible assets or 15% of

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the consolidated capitalization. The covenants also restrict sale and leaseback transactions (subject to certain exceptions) unless net proceeds are at least equal to the sum of all costs incurred in connection with the acquisition of the principal property and a lien would be permitted on such principal property. At January 29, 2011, deferred financing expenses for these notes were \$1 million and have been included in Other assets on our Consolidated Balance Sheets.

### ***Senior Secured Notes and New Secured Term Loan, due fiscal 2016 (\$348 million and \$687 million at January 29, 2011, respectively)***

On August 24, 2010, Toys-Delaware completed the offering of the Toys-Delaware Secured Notes. Additionally, concurrent with the offering of the Toys-Delaware Secured Notes, Toys-Delaware amended and restated the Secured Term Loan to extend the maturity date of this loan facility and amend certain other provisions (as amended and restated, the New Secured Term Loan). The New Secured Term Loan is in an aggregate principal amount of \$700 million.

The Toys-Delaware Secured Notes were issued at par; while the New Secured Term Loan was issued at a discount of \$11 million which resulted in the receipt of gross proceeds of approximately \$1,039 million. The gross proceeds were used to repay our outstanding loan balance of \$800 million under the Secured Term Loan and \$181 million under the Unsecured Credit Facility. In addition, the gross proceeds were used to pay transaction fees of approximately \$24 million, including fees paid to the Sponsors pursuant to their advisory agreement and prepayment penalty fees of \$2 million under the Unsecured Credit Facility. In connection with the offering of the Toys-Delaware Secured Notes and the New Secured Term Loan, Toys-Delaware also retained \$28 million of cash for general corporate purposes. An investment fund advised by affiliates of KKR owned an aggregate of \$5 million of the Toys-Delaware Secured Notes as of January 29, 2011. Additionally, KKR owned 6% of the New Secured Term Loan as of January 29, 2011. Fees paid in connection with the offering of the Toys-Delaware Secured Notes and New Secured Term Loan totaled approximately \$11 million and \$15 million, respectively, and were deferred and expensed over the life of the instruments. As a result of the repayment of the Secured Term Loan and Unsecured Credit Facility, Toys-Delaware expensed approximately \$16 million and \$1 million, respectively, of deferred financing costs in fiscal 2010. During the fourth quarter of 2010, Toys-Delaware repaid \$2 million of the New Secured Term Loan. At January 29, 2011, deferred financing expenses for the Toys-Delaware Secured Notes and the New Secured Term Loan were \$10 million and \$14 million, respectively, and have been included in Other assets on our Consolidated Balance Sheets. Further, the Toys-Delaware Secured Notes and the New Secured Term Loan are guaranteed by certain of Toys-Delaware subsidiaries and the borrowings thereunder are secured by the trademarks and certain other intellectual property of Geoffrey LLC, our wholly owned subsidiary, and the assets securing the ABL Facility including inventory, accounts receivable, equipment and certain other personal property owned or acquired by Toys-Delaware and certain of its subsidiaries.

The indenture governing Toys-Delaware Secured Notes contains covenants, including, among other things, covenants that restrict the ability of Toys-Delaware to incur additional indebtedness, pay dividends or make other distributions, make investments and other restricted payments or create liens. These covenants are subject to a number of important qualifications and limitations. Certain covenants will be suspended at any time Toys-Delaware Secured Notes are rated investment grade. In addition, the indenture contains customary terms and covenants, including certain events of default after which Toys-Delaware Secured Notes may be due and payable immediately. The Toys-Delaware Secured Notes may be redeemed, in whole or in part, at any time prior to September 1, 2013, at a price equal to 100% of the principal amount plus a make-whole premium, plus accrued and unpaid interest, if any, as of the date of redemption. The Toys-Delaware Secured Notes will be redeemable, in whole or in part, at any time on or after September 1, 2013 at the specified redemption prices, plus accrued and unpaid interest. Toys-Delaware may also redeem up to 35% of the Toys-Delaware Secured Notes prior to September 1, 2013, with the net cash proceeds from certain equity offerings at a redemption price equal to 107.375% of the principal amount of Toys-Delaware Secured Notes plus accrued and unpaid interest to the date of redemption. Following specified kinds of changes of control with respect to Toys-Delaware, Toys-Delaware will be required to offer to purchase Toys-Delaware Secured Notes at a purchase price in cash equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase. Interest on the Toys-Delaware Secured Notes is payable in cash semi-annually in arrears through maturity on March 1 and September 1 of each year, commencing on March 1, 2011. Toys-Delaware Secured Notes have not been and will not be registered under the Securities Act of 1933, as amended (the Securities Act) and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The New Secured Term Loan as amended, provides for, among other things, an accordion feature that will allow Toys-Delaware to request one or more additional term loans be added to the New Secured Term Loan in an aggregate principal amount of up to \$700 million, to be reduced on a dollar-for-dollar basis by the aggregate principal amount of one or more additional series of senior secured notes that may be issued after the date of the initial issuance of the Toys-Delaware Secured Notes.

The New Secured Term Loan will continue to contain customary covenants applicable to Toys-Delaware and certain of its subsidiaries, including, among other things, covenants that restrict the ability of Toys Delaware and certain of its subsidiaries to incur certain additional indebtedness, create or permit liens on assets, or engage in mergers or consolidations, pay dividends, repurchase capital stock, make other restricted payments, make loans or advances, engage in transactions with affiliates, or amend material documents. These covenants are subject to certain exceptions, including among other things to allow for the debt represented by the



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Toys-Delaware Secured Notes, certain other additional debt incurrences including unsecured, later-maturing debt subject to a fixed charge coverage test, the prepayment or repayment of our 7.625% notes due fiscal 2011 and our 7.875% senior notes due fiscal 2013 subject to Toys-Delaware meeting a total leverage test and the provision of a cumulative credit exception allowing for Toys-Delaware and certain of its subsidiaries to make investments, pay dividends and make certain other restricted payments subject to Toys-Delaware meeting a fixed charge coverage test. If an event of default under the New Secured Term Loan occurs and is continuing, the principal amount outstanding, together with all accrued unpaid interest and other amounts owed may be declared immediately due and payable by the lenders. Toys-Delaware may optionally prepay the outstanding principal balance of the loan at any time. If such prepayment were to occur on or prior to August 24, 2011, Toys-Delaware would pay a premium equal to 1% of the remaining balance. The New Secured Term Loan will bear interest equal to LIBOR (at no time shall LIBOR be less than 1.50%) plus 4.50%, which is subject to a step down of 0.25% based on total leverage. In addition, pursuant to the terms of the agreement, Toys-Delaware is required to make quarterly principal payments equal to 0.25% (\$7 million per year) of the original principal amount of the loan. As such, this amount has been classified as Current portion of long-term debt on our Consolidated Balance Sheet as of January 29, 2011.

***10.75% Senior Notes, due fiscal 2017 (\$929 million at January 29, 2011)***

On July 9, 2009, TRU Propco I, formerly known as TRU 2005 RE Holding Co. I, LLC, one of our wholly-owned subsidiaries, completed the offering of \$950 million aggregate principal amount of senior unsecured 10.75% notes due 2017 (the "Notes"). The Notes were issued at a discount of \$25 million which resulted in the receipt of proceeds of \$925 million. The proceeds of \$925 million from the offering of the Notes, together with \$263 million of cash on hand and \$99 million of restricted cash released from restrictions were used to repay the outstanding loan balance under TRU Propco I's unsecured credit agreement of \$1,267 million plus accrued interest of approximately \$1 million and fees at closing of approximately \$19 million. Total fees paid in connection with the sale of the Notes totaled approximately \$23 million and were deferred and expensed over the life of the Notes. As a result of the repayment of our unsecured credit agreement, we expensed approximately \$8 million of deferred financing costs in fiscal 2009. At January 29, 2011, deferred financing expenses for these notes were \$19 million and have been included in Other assets on our Consolidated Balance Sheets.

The Notes are solely the obligation of TRU Propco I and its wholly-owned subsidiaries (the "Guarantors") and are not guaranteed by Toys R Us, Inc. or Toys Delaware. The Notes are guaranteed by the Guarantors, jointly and severally, fully and unconditionally, and the indenture governing the Notes contain covenants, including, among other things, covenants that restrict the ability of TRU Propco I and the Guarantors to incur additional indebtedness, pay dividends or make other distributions, make other restricted payments and investments, create liens, and impose restrictions on the ability of the Guarantors to pay dividends or make other payments. The indenture governing the Notes also contains covenants that limit the ability of Toys R Us, Inc. to cause or permit Toys Delaware to incur indebtedness or make restricted payments. These covenants are subject to a number of important qualifications and limitations. The Notes may be redeemed, in whole or in part, at any time prior to July 15, 2013 at a price equal to 100% of the principal amount plus a make-whole premium, plus accrued and unpaid interest to the date of redemption. The Notes will be redeemable, in whole or in part, at any time on or after July 15, 2013, at the specified redemption prices, plus accrued and unpaid interest, if any. In addition, TRU Propco I may redeem up to 35% of the Notes before July 15, 2012 with the net cash proceeds from certain equity offerings. Following specified kinds of changes of control with respect to Toys R Us, Inc. or TRU Propco I, TRU Propco I will be required to offer to purchase the Notes at a purchase price in cash equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to but not including the purchase date. Interest on the Notes is payable in cash semi-annually in arrears through maturity on January 15 and July 15 of each year, commencing on January 15, 2010.

On July 8, 2010, pursuant to a registration rights agreement between TRU Propco I and the initial purchasers of the Notes, TRU Propco I completed a registered exchange offer with respect to the Notes. In accordance with the indenture governing the Notes, we commenced a tender offer on June 25, 2010 to purchase for cash, up to an aggregate amount of approximately \$25 million at par. The tender offer expired on July 26, 2010 with no holders opting to tender at that time.

***8.50% Senior Secured Notes, due fiscal 2017 (\$716 million at January 29, 2011)***

On November 20, 2009, TRU Propco II, formerly known as Giraffe Properties, LLC, an indirect wholly-owned subsidiary, completed the offering of \$725 million aggregate principal amount of senior secured 8.50% notes due 2017 (the "Propco II Notes"). The Propco II Notes were issued at a discount of \$10 million which resulted in the receipt of proceeds of \$715 million. The proceeds of \$715 million, together with \$93 million in cash on hand and the release of \$22 million in cash from restrictions, were used to repay TRU Propco II's outstanding loan balance under the Secured real estate loan agreement of \$600 million, plus accrued interest of approximately \$1 million and paid fees of approximately \$29 million, which includes advisory fees of \$7 million paid to the Sponsors pursuant to their advisory agreement. Affiliates of KKR, an indirect equity owner of the Company, owned 2% of the notes as of January 29, 2011. In addition, in connection with the offering, MPO Properties, LLC an indirect wholly-owned subsidiary, repaid the \$200 million outstanding loan balance under the Secured real estate loan agreement. Fees paid in connection with the sale of the Propco II Notes were deferred and expensed over the life of the Propco II Notes. As a result of the repayment of our secured real estate loans, we expensed approximately \$3 million of deferred financing costs in fiscal 2009. The Propco II Notes are solely

the obligation of TRU Propco II and are not guaranteed by Toys R Us, Inc.



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or Toys-Delaware or any of our other subsidiaries. The Propco II Notes are secured by the first priority security interests in all of the existing and future real estate properties of TRU Propco II and its interest in the master lease agreement between TRU Propco II as landlord and Toys-Delaware as tenant (the TRU Propco II Master Lease ). Those real estate properties and interests in the TRU Propco II Master Lease are not available to satisfy or secure the obligations of the Company or its affiliates, other than the obligations of TRU Propco II under the Propco II Notes. At January 29, 2011, deferred financing expenses for these notes were \$25 million and have been included in Other assets on our Consolidated Balance Sheets.

The indenture governing the Propco II Notes contains covenants, including, among other things, covenants that restrict the ability of TRU Propco II to incur additional indebtedness, pay dividends or make other distributions, make other restricted payments and investments, create liens, and impose restrictions on dividends or make other payments. The indenture governing the Propco II Notes also contains covenants that limit the ability of Toys R Us, Inc. to cause or permit Toys-Delaware to incur indebtedness or make restricted payments. These covenants are subject to a number of important qualifications and limitations. The Propco II Notes may be redeemed, in whole or in part, at any time prior to December 1, 2013 at a price equal to 100% of the principal amount plus a make-whole premium, plus accrued and unpaid interest to the date of redemption. The Propco II Notes will be redeemable, in whole or in part, at any time on or after December 1, 2013, at the specified redemption prices, plus accrued and unpaid interest, if any. In addition, prior to December 1, 2013, during each twelve month period commencing December 1, 2009, TRU Propco II may redeem up to 10% of the aggregate principal amount of the Propco II Notes at a redemption price equal to 103% of the principal amount of the Propco II Notes plus accrued and unpaid interest to the date of redemption. TRU Propco II may also redeem up to 35% of the Propco II Notes prior to December 1, 2012, with the net cash proceeds from certain equity offerings, at a redemption price equal to 108.5% of the principal amount of the Propco II Notes plus accrued and unpaid interest to the date of redemption. Following specified kinds of changes of control with respect to Toys R Us, Inc. or TRU Propco II, TRU Propco II will be required to offer to purchase the Propco II Notes at a purchase price in cash equal to 101% of their principal amount, plus accrued and unpaid interest, if any to, but not including, the purchase date. Interest on the Propco II Notes is payable in cash semi-annually in arrears through maturity on June 1 and December 1 of each year, commencing on June 1, 2010.

On November 16, 2010, pursuant to a registration rights agreement between TRU Propco II and the initial purchasers of the Propco II Notes, TRU Propco II completed a registered exchange offer with respect to the Propco II Notes.

### ***7.375% Senior Notes, due fiscal 2018 (\$405 million at January 29, 2011)***

On September 22, 2003, Toys R Us, Inc. issued \$400 million in notes bearing interest at a coupon rate of 7.375%, maturing on October 15, 2018. The notes were issued at a discount of \$2 million which resulted in the receipt of proceeds of \$398 million. Simultaneously with the sale of the notes, we entered into interest rate swap agreements. We subsequently terminated the swaps and received a payment of \$10 million which is being amortized over the remaining term of the notes. Interest is payable semi-annually on April 15 and October 15 of each year. These notes carry a limitation on creating liens on properties owned or acquired at May 28, 2002 or thereafter without effectively securing the debt securities equally and ratably with that debt and such liens cannot exceed 10% of the consolidated net tangible assets or 15% of the consolidated capitalization. The covenants also restrict sale and leaseback transactions unless net proceeds are at least equal to the sum of all costs incurred in connection with the acquisition of the principal property. At January 29, 2011, deferred financing expenses for these notes were \$2 million and have been included in Other assets on our Consolidated Balance Sheets.

### ***8.750% Debentures, due fiscal 2021 (\$22 million at January 29, 2011)***

On August 29, 1991, Toys R Us, Inc. issued \$200 million in debentures bearing interest at a coupon rate of 8.750% (the Debentures ), maturing on September 1, 2021. Interest is payable semi-annually on March 1 and September 1 of each year. On November 2, 2006, Toys-Delaware commenced a cash tender offer for any and all of the outstanding Debentures (the Tender Offer ) and a related consent solicitation to effect certain amendments to the Indenture, eliminating all of the restrictive covenants and certain events of default in the Indenture. On November 30, 2006, the Tender Offer expired, and on December 1, 2006, Toys-Delaware consummated the Tender Offer of \$178 million (approximately 89.2%) of the outstanding Debentures in the Tender Offer using borrowings under the unsecured credit facility to purchase the tendered Debentures. At January 29, 2011, deferred financing expenses for these notes were nominal and have been included in Other assets on our Consolidated Balance Sheets.

## **NOTE 3 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

We are exposed to market risk from potential changes in interest rates and foreign currency exchange rates. We regularly evaluate our exposure and enter into derivative financial instruments to economically manage these risks. We record all derivatives as either assets or liabilities on the Consolidated Balance Sheets measured at estimated fair value and recognize the changes in fair value as unrealized gains and losses. The recognition of these gains or losses depends on our intended use of the derivatives and the resulting designation. In certain defined conditions, we may designate a derivative as a hedge for a particular exposure.



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**Table of Contents*****Interest Rate Contracts***

We and our subsidiaries have a variety of fixed and variable rate debt instruments and are exposed to market risks resulting from interest rate fluctuations. We enter into interest rate swaps and/or caps to reduce our exposure to variability in expected future cash outflows and changes in the fair value of certain Long-term debt, attributable to the changes in LIBOR, EURIBOR, GBP LIBOR and TIBOR rates. Our interest rate contracts contain credit-risk related contingent features and are subject to master netting arrangements. As of January 29, 2011, our interest rate contracts have various maturity dates through September 2016. A portion of our interest rate swaps and caps as of January 29, 2011 are designated as cash flow and fair value hedges in accordance with ASC 815.

The hedge accounting for a designated cash flow hedge requires that the effective portion be recorded to Accumulated other comprehensive income (loss); the ineffective portion of a cash flow hedge is recorded to Interest expense. We evaluate the effectiveness of our cash flow hedging relationships on an ongoing basis. For our derivatives that are designated as cash flow hedges, no material ineffectiveness was recorded for fiscals 2010, 2009 and 2008, respectively. Reclassifications from Accumulated other comprehensive income (loss) to Interest expense primarily relate to realized Interest expense on interest rate swaps and the amortization of gains (losses) recorded on previously terminated or de-designated swaps. We expect to reclassify a net gain of less than \$1 million in fiscal 2011 to Interest expense from Accumulated other comprehensive income (loss).

The hedge accounting for a designated fair value hedge requires that the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk be recognized in Interest expense. We evaluate the effectiveness of our fair value hedging relationship on an ongoing basis and recalculate the changes in fair values of the derivatives and the underlying hedged item separately. For our derivative that is designated as a fair value hedge, we recorded a \$1 million loss in earnings related to ineffectiveness for fiscal 2010.

Certain of our agreements with credit-risk related features contain provisions where we could be declared in default on our derivative obligations if we default on certain specified indebtedness. Additionally, we had one agreement, which expired in December 2010, with a provision requiring we maintain an investment grade credit rating from each of the major credit rating agencies. As our ratings were below investment grade during this agreement, we were required to post collateral for this contract. At January 29, 2011 and January 30, 2010, derivative liabilities related to agreements that contain credit-risk related features had a fair value of \$17 million and \$42 million, respectively. As of January 30, 2010, we had a minimum collateral posting threshold with certain derivative counterparties and posted collateral of \$33 million, which was recorded as Restricted cash on the Consolidated Balance Sheets. As of January 29, 2011, we were not required to post collateral with any derivative counterparties.

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The following table presents our outstanding interest rate contracts as of January 29, 2011 and January 30, 2010:

(In millions)	Effective Date	Maturity Date	January 29, 2011 Notional Amount	January 30, 2010 Notional Amount
<b>Interest Rate Swaps</b>				
3 Month EURIBOR Float to Fixed Interest Rate Swap	February 2006	February 2013	\$ 84	\$ 86
3 Month EURIBOR Float to Fixed Interest Rate Swap	February 2006	February 2013	175	180
3 Month GBP LIBOR Float to Fixed Interest Rate Swap	February 2006	April 2013	94	96
3 Month GBP LIBOR Float to Fixed Interest Rate Swap (1)	April 2007	April 2013	3	3
1 Month USD LIBOR Float to Fixed Interest Rate Swap (2)	May 2008	December 2010		750
1 Month USD LIBOR Float to Fixed Interest Rate Swap (3)	May 2008	December 2010		550
3 Month USD LIBOR Fixed to Float Interest Rate Swap (1) (4)	September 2010	September 2016	350	
6 Month JPY TIBOR Float to Fixed Interest Rate Swap (1) (5)	January 2011	January 2016	140	
<b>Interest Rate Caps</b>				
1 Month USD LIBOR Interest Rate Cap	July 2005	August 2010	\$	\$ 800
3 Month USD LIBOR Interest Rate Cap	August 2008	August 2010		600
1 Month USD LIBOR Interest Rate Cap (1) (6)	January 2011	April 2015	500	500
1 Month USD LIBOR Interest Rate Cap (6) (7)	January 2011	April 2015	500	500
1 Month USD LIBOR Interest Rate Cap (6) (8)	January 2012	April 2015	500	500
1 Month USD LIBOR Interest Rate Cap (6) (7)	January 2012	April 2015	500	500
1 Month USD LIBOR Interest Rate Cap (6)	January 2014	April 2015	311	311

(1) As of January 29, 2011, these derivatives were designated for hedge accounting.

(2) On August 24, 2010, in conjunction with the repayment of the Secured Term Loan and projected variable interest rate exposure, the Company de-designated its \$750 million interest rate swap. The remaining \$6 million loss recorded in Accumulated other comprehensive income (loss) was reclassified to earnings through December 2010.

(3) On November 10, 2009, in anticipation of the repayment of the \$800 million Secured real estate loan and projected future variable interest rate exposure, the Company de-designated its \$550 million interest rate swap. The remaining \$16 million loss recorded in Accumulated other comprehensive income (loss) was reclassified to earnings through December 2010.

(4) On December 7, 2010, we entered into a new interest rate swap to hedge our exposure to changes in fair value of the Toys Delaware Secured Notes. The interest rate swap has a notional amount of \$350 million and matures on September 1, 2016. This swap has been designated as a fair value hedge, swapping the fixed rate of interest on the Toys-Delaware Secured Notes, to a variable rate of interest. Under the interest rate swap agreement, we are entitled to receive semi-annual interest payments at a fixed rate of 7.375% and are required to make semi-annual interest payments at a floating rate equal to the 3 month LIBOR plus 5.104%.

(5) On December 20, 2010, we entered into a new interest rate swap to manage our future interest rate exposure. The interest rate swap has a notional amount of ¥11.5 billion (\$140 million at January 29, 2011) and matures on January 29, 2016. This swap has been designated as a cash flow hedge swapping the variable rate of interest on a Toys-Japan bank loan, to a fixed rate of interest. Under the interest rate swap agreement, we are entitled to receive semi-annual interest payments at a variable rate equal to the 6 month TIBOR plus 1.50% and are

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- required to make semi-annual interest payments at a fixed rate of 2.45%.
- (6) On April 3, 2009, we entered into five new forward-starting interest rate cap agreements to manage our future interest rate exposure. The total amount paid for the caps was \$15 million.
  - (7) On November 10, 2009, the Company de-designated two \$500 million forward-starting interest rate caps resulting in a reclassification from Accumulated other comprehensive income (loss) to earnings a gain of \$1 million; an additional \$2 million will be amortized from Accumulated other comprehensive income (loss) to earnings over the remaining life of the caps.
  - (8) On August 24, 2010, the Company de-designated a portion of this interest rate cap. The remaining \$1 million loss recorded in Accumulated other comprehensive income (loss) will be reclassified to earnings over the remaining life of the cap. As of January 29, 2011, 40% of the \$500 million forward-starting interest rate cap is designated as a cash flow hedge.

### ***Foreign Exchange Contracts***

We occasionally enter into foreign currency forward contracts to economically hedge the U.S. dollar merchandise purchases of our foreign subsidiaries and our short-term, cross-currency intercompany loans with our foreign subsidiaries. We enter into these contracts

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in order to reduce our exposure to the variability in expected cash outflows attributable to changes in foreign currency rates. These derivative contracts are not designated as hedges and are recorded on our Consolidated Balance Sheets at fair value with a gain or loss recorded on the Consolidated Statements of Operations in Interest expense.

Our foreign exchange contracts contain some credit-risk related contingent features, are subject to master netting arrangements and typically mature within 12 months. These agreements contain provisions where we could be declared in default on our derivative obligations if we default on certain specified indebtedness. At January 29, 2011 derivative liabilities related to agreements that contain credit-risk related contingent features had a fair value of \$2 million. At January 30, 2010, we had no derivative liabilities related to agreements that contain credit-risk related contingent features. We are not required to post collateral for these contracts.

The following table presents our outstanding foreign exchange contracts as of January 29, 2011 and January 30, 2010:

(In millions)	Effective Date	Maturity Date	January 29, 2011 Notional Amount	January 30, 2010 Notional Amount
<b>Foreign-Exchange Forwards</b>				
Short-term cross-currency intercompany loans	Varies	Varies	\$ 120	\$ 23
Merchandise purchases	Varies	Varies	171	111

The following table sets forth the net impact of the effective portion of derivatives designated as cash flow hedges on Accumulated other comprehensive income (loss) on our Consolidated Statements of Stockholders' Equity (Deficit) for the fiscal years ended January 29, 2011, January 30, 2010 and January 31, 2009:

(In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
<b>Derivatives designated as cash flow hedges:</b>			
Beginning balance	\$ (15)	\$ (25)	\$ (4)
Derivative loss - Interest Rate Contracts	(5)	(13)	(32)
Loss reclassified from Accumulated other comprehensive income (loss) (effective portion) - Interest Rate Contracts	20	23	11
	15	10	(21)
Ending balance	\$	\$ (15)	\$ (25)

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The following table sets forth the impact of derivatives on Interest expense on our Consolidated Statements of Operations for the fiscal years ended January 29, 2011, January 30, 2010 and January 31, 2009:

(In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
<b>Derivatives not designated for hedge accounting:</b>			
Loss on the change in fair value - Interest Rate Contracts	\$ (6)	\$ (3)	\$ (17)
(Loss) gain on the change in fair value - Intercompany Loan Foreign Exchange Contracts (1)	(10)	(28)	38
Gain (loss) on the change in fair value - Merchandise Purchases Program Foreign Exchange Contracts	2	(24)	(3)
	(14)	(55)	18
<b>Derivatives designated as cash flow hedges:</b>			
Loss reclassified from Accumulated other comprehensive income (loss) (effective portion) - Interest Rate Contracts	(31)	(36)	(19)
Gain amortized from terminated cash flow hedges - Interest Rate Contracts	1	1	1
	(30)	(35)	(18)
<b>Derivative designated as a fair value hedge:</b>			
Loss on the change in fair value (ineffective portion) - Interest Rate Contract	(1)		
Total Interest expense	\$ (45)	\$ (90)	\$

- (1) Gains and losses related to our short-term, intercompany loan foreign exchange contracts are recorded in Interest expense, in addition to the corresponding foreign exchange gains and losses related to our short-term, cross-currency intercompany loans. For further details related to gains and losses resulting from foreign currency transactions, refer to Note 1 entitled SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

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The following table contains the notional amounts and related fair values of our derivatives included within our Consolidated Balance Sheets as of January 29, 2011 and January 30, 2011:

(In millions)	January 29, 2011		January 30, 2010	
	Notional Amount	Fair Value Assets/ (Liabilities)	Notional Amount	Fair Value Assets/ (Liabilities)
<b>Interest Rate Contracts designated as cash flow hedges:</b>				
Other assets	\$ 700	\$ 2	\$ 800	\$ 7
Accrued expenses and other current liabilities			750	(18)
Other non-current liabilities	143	(2)	3	
<b>Interest Rate Contract designated as a fair value hedge:</b>				
Other non-current liabilities	\$ 350	\$ (5)	\$	\$
<b>Interest Rate Contracts not designated for hedge accounting:</b>				
Prepaid expenses and other current assets	\$	\$	\$ 1,400	\$
Other assets	1,611	4	1,511	10
Accrued expenses and other current liabilities			550	(13)
Other non-current liabilities	353	(10)	362	(11)
<b>Foreign Currency Contracts not designated for hedge accounting:</b>				
Prepaid expenses and other current assets	\$ 81	\$	\$ 134	\$ 3
Accrued expenses and other current liabilities	210	(2)		
<b>Total derivative contracts outstanding</b>				
Prepaid expenses and other current assets	\$ 81	\$	\$ 1,534	\$ 3
Other assets	2,311	6	2,311	17
Total derivative assets <sup>(1)</sup>	\$ 2,392	\$ 6	\$ 3,845	\$ 20
Accrued expenses and other current liabilities	\$ 210	\$ (2)	\$ 1,300	\$ (31)
Other non-current liabilities	846	(17)	365	(11)
Total derivative liabilities <sup>(1)</sup>	\$ 1,056	\$ (19)	\$ 1,665	\$ (42)

<sup>(1)</sup> Refer to Note 4 FAIR VALUE MEASUREMENTS for the fair value of our derivative instruments classified within the fair value hierarchy.

**NOTE 4 FAIR VALUE MEASUREMENTS**

To determine the fair value of our assets and liabilities, we utilize the established fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*



*Derivative Financial Instruments*

Currently, we use derivative financial arrangements to manage a variety of risk exposures, including interest rate risk associated with our Long-term debt and foreign currency risk relating to cross-currency intercompany lending and merchandise purchases. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates and implied volatilities.

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We incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

We evaluate the inputs used to value our derivatives at the end of each reporting period. Although certain inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. Based on this mixed input valuation we classify derivatives based on the lowest level in the fair value hierarchy that is significant to the fair value of the instrument. Any transfer into or out of a level of the fair value hierarchy is recognized based on the value of the instruments at the end of the reporting period. Changes in the fair value of our derivative financial instruments are recorded in Interest expense within the Consolidated Statements of Operations.

*Cash Equivalents*

Cash equivalents include highly liquid investments with an original maturity of three months or less at acquisition. We have determined that our cash equivalents in their entirety are classified as Level 1 within the fair value hierarchy.

The table below presents our assets and liabilities measured at fair value on a recurring basis as of January 29, 2011 and January 30, 2010, aggregated by level in the fair value hierarchy within which those measurements fall.

**Fiscal 2010**

(In millions)	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b><u>Assets</u></b>				
Cash equivalents	\$ 312	\$	\$	<b>\$ 312</b>
Derivative financial instruments:				
Interest rate contracts		6		<b>6</b>
Total assets	\$ 312	\$ 6	\$	<b>\$ 318</b>
<b><u>Liabilities</u></b>				
Derivative financial instruments:				
Interest rate contracts	\$	\$ 1	\$ 16	<b>\$ 17</b>
Foreign exchange contracts		2		<b>2</b>
Total liabilities	\$	\$ 3	\$ 16	<b>\$ 19</b>

**Fiscal 2009**

(In millions)	Quoted Prices in Active Markets for Identical Assets and Liabilities	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total

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(Level 1)

## Assets

Cash equivalents	\$	403	\$		\$	403
Derivative financial instruments:						
Interest rate contracts			8	9		17
Foreign exchange contracts			3			3
Total assets	\$	403	\$	11	\$	9 423

## Liabilities

Derivative financial instruments:						
Interest rate contracts	\$		\$	31	\$	11 42
Total liabilities	\$		\$	31	\$	11 42

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The table below presents the changes in the fair value of our derivative financial instruments within Level 3 of the fair value hierarchy for the periods ended January 29, 2011 and January 30, 2010.

<b>(In millions)</b>	<b>Level 3</b>
Balance, January 31, 2010	\$ (2)
Unrealized loss (1)	(6)
Purchases (1)(2)	(5)
Transfers out of Level 3 (3)	(3)
<b>Balance, January 29, 2011</b>	<b>\$ (16)</b>

  

<b>(In millions)</b>	<b>Level 3</b>
Balance, February 1, 2009	\$ (6)
Unrealized loss (1)	(1)
Purchases (4)	5
<b>Balance at January 30, 2010</b>	<b>\$ (2)</b>

- (1) Changes in the fair value of our Level 3 derivative financial instruments are recorded in Interest expense on our Consolidated Statements of Operations. The total amount of unrealized losses for the period included in Interest expense attributable to assets held at January 29, 2011 and January 30, 2010, were \$11 million and \$1 million, respectively.
- (2) On December 7, 2010, we entered into a new interest rate swap to hedge our exposure to changes in fair value of the Toys-Delaware Secured Notes. The interest rate swap has a notional amount of \$350 million and matures on September 1, 2016. Refer to Note 3 entitled DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES for further details.
- (3) Transferred from Level 3 to Level 2 as the Level 3 inputs were no longer considered significant to the fair value of these instruments.
- (4) On April 3, 2009, we entered into five new forward-starting interest rate cap agreements to manage our future interest rate exposure. Refer to Note 3 entitled DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES for further details.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

Certain of our assets and liabilities are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, whenever events or changes in circumstances indicate that a long-lived asset may be impaired). The fair value measurements related to long-lived assets held and used and held for sale in the following tables were determined using a valuation method such as discounted cash flow or a relative, market-based approach based on offers. We classify these measurements as Level 3 and Level 2, respectively.

The table below presents our long-lived assets evaluated for impairment measured at fair value on a nonrecurring basis for the fiscal years ended January 29, 2011 and January 30, 2010, aggregated by level in the fair value hierarchy within which those measurements fall. Because these assets are not measured at fair value on a recurring basis, certain carrying amounts and fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent their fair values at January 29, 2011 and January 30, 2010. As of January 29, 2011 and January 30, 2010, we did not have any long-lived assets classified as Level 1 within the fair value hierarchy.

**Fiscal 2010**

<b>(In millions)</b>	<b>Carrying Value</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Impairment Losses (1)</b>
Long-lived assets held and used	\$ 13	\$ 3	\$ 2	\$ 8

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Long-lived assets held for sale	10	7	3	
Total	\$ 23	\$ 10	\$ 2	\$ 11

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**Table of Contents****Fiscal 2009**

(In millions)	Carrying Value	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses (1)
Long-lived assets held and used	\$ 9	\$ 2	\$ 1	\$ 6
Long-lived assets held for sale	3	2		1
<b>Total</b>	<b>\$ 12</b>	<b>\$ 4</b>	<b>\$ 1</b>	<b>\$ 7</b>

<sup>(1)</sup> Refer to Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for further details.

**NOTE 5 PROPERTY AND EQUIPMENT**

(\$ In millions)	Useful life (in years)	January 29, 2011	January 30, 2010
Land		\$ 765	\$ 777
Buildings	45-50	2,120	2,114
Furniture and equipment	3-20	1,835	1,776
Leasehold improvements	10-25	2,485	2,357
Costs of computer software	5	170	176
Construction in progress		25	15
Leased equipment under capital lease	3-8	105	86
		<b>7,505</b>	<b>7,301</b>
Less: accumulated depreciation and amortization		<b>3,430</b>	<b>3,210</b>
		<b>4,075</b>	<b>4,091</b>
Less: net assets held for sale		<b>14</b>	<b>7</b>
<b>Total</b>		<b>\$ 4,061</b>	<b>\$ 4,084</b>

**Assets held for sale**

Assets held for sale represent assets owned by us that we have committed to sell in the near term. The following assets are classified as held for sale and are included in Prepaid expenses and other current assets on our Consolidated Balance Sheets:

(In millions)	January 29, 2011	January 30, 2010
Land	\$ 9	\$ 4
Buildings	7	6
Leasehold improvements	2	2
	<b>18</b>	<b>12</b>
Less: accumulated depreciation and amortization	<b>4</b>	<b>5</b>

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Net assets held for sale	\$	14	\$	7
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### *Net gains on sales of properties*

During fiscal 2010, we sold idle properties for gross proceeds of \$26 million which resulted in net gains of approximately \$10 million.

During fiscal 2009, we sold idle properties for gross proceeds of \$19 million which resulted in gains of approximately \$6 million. The sales included an idle distribution center which resulted in gross proceeds of \$14 million and a gain of \$5 million.

During fiscal 2008, Toys R Us Iberia Real Estate S.L., an indirect wholly-owned subsidiary, sold a property to an unrelated third party for gross proceeds of \$26 million, resulting in a gain of \$14 million. At the time of the sale, Toys R Us Iberia S.A., its parent

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company, leased back a portion of the property. Due to the leaseback, we recognized \$4 million of the gain and deferred the remaining \$10 million, which is being amortized over the 25-year life of the lease.

**NOTE 6 ACCOUNTS PAYABLE, ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

A summary of our Accounts payable, Accrued expenses and other current liabilities as of January 29, 2011 and January 30, 2010 is outlined in the table below:

(In millions)	January 29, 2011	January 30, 2010
Merchandise accounts payable (1)(2)	\$ 1,349	\$ 1,476
Non-merchandise accounts payable (3)	211	204
<b>Accounts payable</b>	<b>\$ 1,560</b>	<b>\$ 1,680</b>
 Gift card and certificate liability	 \$ 158	 \$ 133
Sales and use tax and value added tax payable	100	92
Accrued interest	74	66
Accrued bonus	59	94
Other (4)	512	466
 <b>Accrued expenses and other current liabilities</b>	 <b>\$ 903</b>	 <b>\$ 851</b>

(1) Includes \$121 million and \$92 million of book overdraft cash as of January 29, 2011 and January 30, 2010, respectively.

(2) The decrease was primarily the result of an increase in payments on accounts payable due to the timing of vendor payments at the end of fiscal 2010.

(3) Includes \$89 million and \$86 million of book overdraft cash as of January 29, 2011 and January 30, 2010, respectively.

(4) Other includes, among other items, accrued payroll and other benefits, and other accruals. No individual amount included exceeds 5% of Total current liabilities.

**NOTE 7 STOCK-BASED COMPENSATION***2010 Incentive Plan*

In fiscal 2010, we adopted the Toys R Us, Inc. 2010 Incentive Plan (the 2010 Incentive Plan). The 2010 Incentive Plan provides that the total number of shares of our common stock that may be issued under the 2010 Incentive Plan is 3,750,000 and the maximum number of such shares of common stock for which incentive stock options may be granted under the 2010 Incentive Plan is 500,000. The Board of Directors of the Company has discretion over the amount of shares available for future issuances of stock awards.

No awards have been issued under the 2010 Incentive Plan to officers and other key employees of the Company and its subsidiaries in fiscal 2010.

*Management Equity Plan*

On July 21, 2005, we adopted the 2005 Management Equity Plan (the Management Equity Plan). The Management Equity Plan originally provided for the granting of service-based and performance-based stock options, rollover options (i.e., options in the Company in lieu of options held prior to the Merger), and restricted stock to officers and other key employees of the Company and its subsidiaries.

Pursuant to a reorganization on June 10, 2008 and the subsequent dissolution of Toys R Us Holdings, Inc., our former parent (Former Parent), the 1,000 shares of the Company's common stock, \$0.01 par value held by Former Parent were exchanged for 48,955,808 new shares of the Company's common stock, \$0.001 par value (Common Stock). Prior to dissolution, Former Parent distributed the new shares of Common Stock



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to its shareholders. This reorganization did not have a material impact on our Consolidated Financial Statements. See Note 20 entitled REORGANIZATION for further details.

On June 8, 2009, the Management Equity Plan was modified to eliminate the performance conditions of certain stock options and to reduce the required service period from eight years to five years. The modification changed all performance-based options into options similar to our service-based options.

The fair value analysis performed at the date of modification determined that the modification reduced the fair value of the options. Therefore, total stock compensation expense, which was calculated as of the original grant date, was not affected by the modification. Due to the elimination of the performance condition, the modification did result in extended derived service periods as compared to

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the original options. We will record the remaining unrecognized compensation expense prospectively over the revised requisite service periods. This change had a nominal impact on stock compensation expense for fiscal 2009.

Commencing in February 2011, participants in the Management Equity Plan have the right to elect to be bound by the terms and conditions of Amendment No. 3 to the Management Equity Plan. This amendment, among other things, reduces the retirement age criteria, accelerates vesting of all options upon death, disability or retirement, makes all participants eligible for put rights upon death, disability or retirement and makes the non-competition period apply in the case of resignation for any reason and applies the non-competition period for the greater of 1 year and any severance period for termination without cause.

The service-based options generally cliff vest 40% on the second anniversary of the award with the remaining portion vesting ratably over the subsequent three years, subject to the participant's continued employment with the Company, and vest automatically upon a change of control of the Company. Prior to the modification, the performance-based options were scheduled to vest in the same manner as the service-based options but only if certain performance targets were achieved based on a specified internal rate of return realized by the Sponsors and the sale multiple realized by the Sponsors. The performance-based options vested on the eighth anniversary of the date of grant regardless of performance, subject to the participant's continued employment with the Company. All options expire on the tenth anniversary of the date of the grant.

At January 29, 2011, an aggregate of 358,177 shares were reserved for future option grants under the Management Equity Plan. Commencing in fiscal 2011, we expect to issue any future equity awards pursuant to the 2010 Incentive Plan. All outstanding options are scheduled to expire at dates ranging from April 1, 2013 to October 15, 2020. We expect to satisfy future option exercises by issuing shares held in treasury or authorized but unissued new shares.

*Restricted Stock*

The Management Equity Plan permits the sale of non-transferable, restricted stock to certain employees at a purchase price equal to the fair value of the Common Stock, and also permits grants of restricted stock without consideration. During fiscals 2010, 2009 and 2008, 9,668 shares, 74,140 shares and 35,186 shares of restricted stock were purchased by officers and certain employees of the Company at a weighted-average price of \$61.00 per share, \$27.12 per share and \$34.00 per share, respectively, which were the estimated fair values as of the respective dates of those purchases.

*Valuation Assumptions*

The fair value of each option award modified or granted under the Management Equity Plan is estimated on the date of modification or grant using a lattice option-pricing model that uses the assumptions noted in the following table, along with the associated weighted average fair values. We use historical data to estimate pre-vesting option forfeitures. To the extent actual results of forfeitures differ from the estimates, such amounts will be recorded as an adjustment in the period the estimates are revised. The expected volatilities are based on a combination of implied and historical volatilities of a peer group of companies, as the Company is a non-publicly traded company. The risk-free rate is based on the United States Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the options. The expected term represents the median time until exercise and is based on contractual terms of the awards, expectations of employee exercise behavior, and expectations of liquidity for the underlying shares. The expected dividend yield is based on an assumption that no dividends are expected to be approved in the near future. The following are the weighted average assumptions used:

	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
Volatility	50.0%	55.0%	55.0%
Risk-free interest rate	2.6%	3.5%	2.6%
Expected term	5.1 years	5.1 years	3.2 years
Dividend Yield	0.0%	0.0%	0.0%
Weighted average grant-date fair value per option:			
Service-based	\$ 28.77	\$ 13.20	\$ 13.28
Performance-based	N/A	N/A	\$ 11.48



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### Service-Based Options

A summary of service-based option activity under the Management Equity Plan during fiscals 2010, 2009 and 2008 is presented below:

	January 29, 2011		Fiscal Years Ended January 30, 2010		January 31, 2009	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of fiscal year	3,748,507	\$ 26.29	1,496,958	\$ 23.44	1,685,403	\$ 23.20
Granted	48,357	61.00	406,071	27.12	27,846	34.00
Exercised	(252,590)	22.79	(203,687)	26.67	(101,529)	14.04
Forfeited	(154,506)	29.43	(159,864)	27.00	(114,762)	30.91
Conversion from Performance-Based			2,209,029	28.15		
Outstanding at end of fiscal year	3,389,768	\$ 26.90	3,748,507	\$ 26.29	1,496,958	\$ 23.44

	Options	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Term (Years)
Vested or expected to vest at January 29, 2011	3,339,362	\$ 26.78	5.33
Exercisable at January 29, 2011	2,515,556	\$ 25.56	4.76

The total intrinsic value of service-based options exercised in fiscals 2010, 2009 and 2008 was approximately \$9 million, less than \$1 million and \$2 million, respectively, and the total fair value of service-based options vested during the same periods was approximately \$24 million, \$16 million and \$2 million, respectively. We received \$5 million, \$5 million and \$1 million from the exercise of service-based options in fiscals 2010, 2009 and 2008, respectively. We paid \$12 million, \$6 million and \$3 million in fiscals 2010, 2009 and 2008, respectively, to repurchase shares from the exercise of service-based options. We paid \$2 million, \$1 million and less than \$1 million in fiscals 2010, 2009 and 2008, respectively, to repurchase shares previously issued to employees. The tax benefits recognized as a result of the options exercised was \$3 million, less than \$1 million and approximately \$1 million in fiscals 2010, 2009 and 2008, respectively.

As of January 29, 2011, there was \$4 million of total unrecognized compensation cost related to option share-based compensation arrangements granted under the Management Equity Plan. That cost is expected to be recognized over a weighted-average period of 3.0 years.

The amount of stock-based compensation expense recognized in SG&A and the tax benefit recognized in Income tax (benefit) expense in fiscals 2010, 2009 and 2008 was as follows:

(In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
SG&A	\$ 10	\$ 4	\$ 8
Total recognized tax benefit	4	2	3

**Table of Contents****NOTE 8 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Total comprehensive income (loss) is included in the Consolidated Statements of Stockholders' Equity (Deficit). Accumulated other comprehensive income (loss), net of tax, is reflected in the Consolidated Balance Sheets, as follows:

(In millions)	January 29, 2011	January 30, 2010
Foreign currency translation adjustments, net of tax	\$ 16	\$ (39)
Unrealized loss on hedged transactions, net of tax		(15)
Unrealized actuarial losses, net of tax	(2)	(11)
Acquisition of Toys-Japan shares (1)	26	20
	\$ 40	\$ (45)

- (1) Upon acquisition of the additional ownership interest of 9% and 28%, Noncontrolling interest decreased by \$30 million and \$82 million, respectively, at January 29, 2011 and January 30, 2010. These balances represented the percentage of ownership purchased during the tender offer at historical cost. The difference between the fair value of the consideration paid and the carrying amount of the Noncontrolling interest acquired was recognized as a net increase in Stockholders' Equity (Deficit). See Note 19 entitled 'TOYS JAPAN SHARE ACQUISITION' for further details.

**NOTE 9 LEASES**

We lease a majority of the real estate used in our operations. Most leases require us to pay real estate taxes and other expenses and some leases require additional payments based on percentages of sales.

Minimum rental commitments under non-cancelable operating leases and capital leases as of January 29, 2011 are as follows:

(In millions)	Operating Leases (1)		Capital Leases	
	Gross Minimum Rentals	Sublease Income	Net Minimum Rentals	Lease Obligation
2011	\$ 586	\$ 20	\$ 566	\$ 36
2012	551	16	535	29
2013	504	13	491	27
2014	455	11	444	23
2015	394	7	387	21
2016 and subsequent	1,685	15	1,670	99
Total	\$ 4,175	\$ 82	\$ 4,093	\$ 235

- (1) Excluded from the minimum rental commitments displayed above are approximately \$2.0 billion related to options to extend ground lease terms that are reasonably assured of being exercised, the balance of which is predominantly related to fiscals 2016 and thereafter. As of January 29, 2011, we had 256 ground leases.

Total rent expense, net of sublease income, was \$570 million, \$519 million and \$503 million in fiscals 2010, 2009 and 2008, respectively. Sublease income was \$22 million, \$23 million and \$23 million in fiscals 2010, 2009 and 2008, respectively. We remain directly and primarily liable for lease payments to third party landlords for locations where we have subleased all or a portion of the locations to third parties. To the extent that sub-lessees fail to make sublease rental payments, our total net rent expense to the third party landlords would increase in direct proportion.

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We recognize rent expense on a straight-line basis and record the difference between the recognized rent expense and amounts payable under the leases as deferred rent liability. Deferred rent liabilities are recorded in our Consolidated Balance Sheets in the total amount of \$321 million and \$284 million at January 29, 2011 and January 30, 2010, respectively, of which \$11 million and \$9 million are recorded in Accrued expenses and other current liabilities, respectively. Virtually all of our leases include options that allow us to renew or extend the lease term beyond the initial lease period, subject to terms and conditions agreed upon at the inception of the lease. Such terms and conditions include rental rates agreed upon at the inception of the lease that could represent below or above market rental rates later in the life of the lease, depending upon market conditions at the time of such renewal or extension. In

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addition, many leases include early termination options, which can be exercised under specified conditions, including, upon damage, destruction or condemnation of a specified percentage of the value or land area of the property.

Lease payments that depend on factors that are not measurable at the inception of the lease, such as future sales volume, are contingent rentals and are excluded from minimum lease payments and included in the determination of total rental expense when it is probable that the expense has been incurred and the amount is reasonably estimable. Contingent rent expense was \$12 million, \$10 million and \$9 million for fiscals 2010, 2009 and 2008, respectively. Future payments for maintenance, insurance and taxes to which we are obligated are excluded from minimum lease payments. Tenant allowances received upon entering into certain store leases are recognized on a straight-line basis as a reduction to rent expense over the lease term.

**NOTE 10 RESTRUCTURING AND OTHER CHARGES**

In fiscal 2005, our Board of Directors approved the closing of 87 Toys R Us stores in the United States, resulting in the permanent closure of 75 stores. As a result of the store closings, approximately 3,000 employee positions were eliminated. In fiscal 2003, we decided to close all 146 freestanding Kids R Us stores and all 36 freestanding Imaginarium stores, as well as three distribution centers that supported these stores. In fiscal 2001, we closed stores, eliminated a number of staff positions, and consolidated five store support center facilities into our Global Store Support Center facility in Wayne, New Jersey. In fiscals 1998 and 1995, we had strategic initiatives to reposition our worldwide operations.

Selling, general and administrative expenses for fiscals 2010, 2009 and 2008 included net charges of approximately \$3 million, \$5 million and \$8 million, respectively, related to these restructuring initiatives and are primarily due to changes in management's estimates for events such as lease terminations, assignments and sublease income adjustments.

Our Consolidated Balance Sheets as of January 29, 2011 and January 30, 2010 include these restructuring reserves in Accrued expenses and other current liabilities and Other non-current liabilities, which we believe are adequate to cover our commitments. We currently expect to utilize our remaining reserves through January 2019.

Restructuring and other activity during fiscals 2010 and 2009 relate to lease commitments as follows:

(In millions)	2005 Initiative	2003 Initiative	2001 Initiative	1998 and 1995 Initiatives	Total
Balance at January 31, 2009	\$ 8	\$ 1	\$ 31	\$ 7	\$ 47
Charges	1		4	1	6
Reversals			(1)		(1)
Utilized	(2)	(1)	(10)	(2)	(15)
Balance at January 30, 2010	\$ 7	\$	\$ 24	\$ 6	\$ 37
Charges	2		2		4
Reversals				(1)	(1)
Utilized	(3)		(9)	(2)	(14)
Balance at January 29, 2011	\$ 6	\$	\$ 17	\$ 3	\$ 26

**NOTE 11 INCOME TAXES**

Earnings (loss) before income taxes are as follows:

Fiscal Years Ended

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(In millions)	January 29, 2011	January 30, 2010	January 31, 2009
U.S.	\$ (33)	\$ 287	\$ 20
Foreign	165	57	198
Earnings before income taxes	\$ 132	\$ 344	\$ 218



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Income tax (benefit) expense is as follows:

(In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
<b>Current:</b>			
U.S. Federal	\$ (95)	\$ 22	\$ 10
Foreign	56	26	(69)
State	(14)	7	2
Total current income tax (benefit) expense	\$ (53)	\$ 55	\$ (57)
<b>Deferred:</b>			
U.S. Federal	\$ 48	\$ (46)	\$ (14)
Foreign	(38)	44	83
State	8	(13)	(5)
Total deferred income tax (benefit) expense	\$ 18	\$ (15)	\$ 64
Total Income tax (benefit) expense	\$ (35)	\$ 40	\$ 7

Included within the total provision for income taxes are benefits of \$18 million and \$3 million related to interest and penalties in fiscals 2010 and 2008, respectively, and expense of \$2 million related to interest and penalties in fiscal 2009. The interest and penalties relate to tax payments and refunds for prior period tax filings made or to be made, as well as amounts associated with increases and decreases to unrecognized tax benefits.

We have not provided deferred taxes on approximately \$143 million of accumulated earnings of certain foreign subsidiaries as it is management's intention to reinvest those earnings indefinitely. The unrecognized deferred tax liability associated with distributing these earnings, net of foreign tax credits, is not material.

The effective tax rate reconciliations are as follows:

	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
U.S. Federal statutory tax rate	35.0%	35.0%	35.0%
State taxes, net of U.S. Federal benefit	(6.9)%	(0.5)%	(1.1)%
Foreign operations (1)	(28.8)%	(25.7)%	(15.9)%
U.S. Federal valuation allowance	2.8%	1.0%	(21.7)%
Unrecognized tax benefits (2)	(31.8)%	3.0%	8.0%
Other	3.2%	(1.2)%	(1.1)%
Effective tax rate	(26.5)%	11.6%	3.2%

- (1) Foreign operations include the net impact of: differences between local statutory rates and the U.S. Federal statutory rate; the impact of changes to foreign valuation allowances related to foreign operations; the net cost of foreign unrecognized tax benefits; the cost of repatriating foreign earnings, net of foreign tax credits; changes to our assertion regarding the permanent reinvestment of foreign earnings related to certain foreign entities; permanent items related to foreign operations; as well as changes in the tax status of foreign entities.

(2)

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In fiscal 2010, Unrecognized tax benefits include benefits related to the resolution of issues in connection with concluding tax examinations, receiving a favorable ruling from a taxing authority, making protective elections, as well as changes to and clarifications of tax rules and regulations. See Unrecognized Tax Benefits in this footnote.

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The tax effects of temporary differences that give rise to deferred tax assets and liabilities are:

(In millions)	January 29, 2011	January 30, 2010
<b>Deferred tax assets:</b>		
U.S. Federal tax credit and other carryforwards	\$ 93	\$ 83
State tax loss and other carryforwards	73	67
Foreign tax loss and other carryforwards	194	274
Straight line rent	133	120
Inventory	47	29
Insurance loss reserve	32	33
Restructuring charges	24	26
Deferred revenue	8	53
Other	108	115
Gross deferred tax assets before valuation allowance	712	800
Valuation allowance	(162)	(269)
Total deferred tax assets	\$ 550	\$ 531
<b>Deferred tax liabilities:</b>		
Fixed assets	\$ (204)	\$ (199)
Undistributed earnings of foreign subsidiaries	(80)	(49)
Foreign currency translation	(21)	(22)
Other	(47)	(45)
Total deferred tax liabilities	\$ (352)	\$ (315)
Net deferred tax assets	\$ 198	\$ 216

The deferred tax assets and liabilities above are reflected in the Consolidated Balance Sheets as follows:

(In millions)	January 29, 2011	January 30, 2010
Current deferred tax assets	\$ 107	\$ 102
Current deferred tax liabilities (1)	(5)	(4)
Non-current deferred tax assets	215	181
Non-current deferred tax liabilities	(119)	(63)
	\$ 198	\$ 216

(1) The current deferred tax liabilities are included as components of Accrued expenses and other current liabilities in the Consolidated Balance Sheets.

Our gross deferred tax assets above include an offset of \$21 million and \$32 million of unrecognized tax benefits related to tax loss carryforwards as of January 29, 2011 and January 30, 2010, respectively.

**Carryforwards**

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In addition to the unused portion of losses and credits reported on tax returns, our carryforwards also include interest deductions that are being carried forward due to thin-capitalization and other tax limitations, as well as credits that will be realized in connection with the undistributed earnings of foreign subsidiaries on which we have provided taxes.

Of our \$93 million of U.S. Federal tax credit and other carryforwards, less than \$1 million will expire during the next 5 to 7 years, and the remainder may be carried forward indefinitely. Of our \$73 million of state tax loss and other carryforwards, \$3 million will expire during the next 5 years, \$54 million will expire during the next 6 to 20 years, and \$16 million may be carried forward indefinitely. Of our \$194 million of foreign tax loss and other carryforwards, \$2 million will expire during the next 6 to 20 years, and \$192 million may be carried forward indefinitely.

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On July 21, 2005, the Company was acquired by the Sponsors. U.S. Federal and certain state and foreign taxing jurisdictions impose limitations on the amount of tax losses, credits and other carryforwards that can be used to offset current income and tax within any given year when there has been an ownership change.

**Valuation Allowance**

Management has established a valuation allowance to offset some of our deferred tax assets as we believe it is more likely than not these assets will not be realized. During fiscal 2010, our valuation allowance decreased by \$107 million. This includes a \$12 million increase of the valuation allowance for U.S. Federal and state tax loss and other carryforwards and a \$119 million decrease of the valuation allowance for foreign tax loss and other carryforwards. The \$119 million decrease of the valuation allowance for foreign tax loss and other carryforwards includes \$65 million of reductions related to tax loss carryforwards that are no longer available to the Company pursuant to an agreement with a foreign taxing authority and tax loss carryforwards for which we have established a liability for unrecognized tax benefits as a result of commencing settlement discussions with a foreign taxing authority, as well as \$53 million of reductions related to tax loss and other carryforwards for which it has become more likely than not that we will realize a benefit due to the development of tax-planning strategies, as well as the improved operating performance of one of our foreign subsidiaries.

Of our total valuation allowance of \$162 million, there is \$7 million related to the foreign valuation allowance which, if a benefit is subsequently recognized, will result in a reduction of another asset.

**Unrecognized Tax Benefits**

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits (excluding interest and penalties) is as follows:

(In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
Beginning balance	\$ 158	\$ 132	\$ 261
Additions for tax positions of the current year	11	26	11
Additions for tax positions of prior years	13	44	15
Reductions for tax positions of prior years (1)	(95)	(25)	(87)
Settlements	(30)	(21)	(37)
Currency translation adjustment		6	(28)
Lapse of statute of limitations		(4)	(3)
Ending balance	\$ 57	\$ 158	\$ 132

- (1) Reductions for tax positions of prior years include amounts related to the resolution of issues in connection with concluding tax examinations, making protective elections, receiving favorable rulings from tax authorities, as well as changes to and clarifications of tax rules and regulations.

At January 29, 2011, \$32 million of the \$57 million of unrecognized tax benefits would affect our effective tax rate, if recognized, and the remaining \$25 million would affect our deferred tax accounts. In addition, we had \$6 million and \$2 million of accrued interest and penalties, respectively, at January 29, 2011. We had \$26 million and less than \$1 million of accrued interest and penalties, respectively, at January 30, 2010, and \$14 million and \$2 million of accrued interest and penalties, respectively, at January 31, 2009.

The Company and its subsidiaries are subject to taxation in the United States and various foreign jurisdictions. Of the major jurisdictions, we are subject to examination in: the United States for U.S. Federal purposes for fiscal 2006 and forward and for state purposes for fiscal 2002 and forward; Australia for fiscal 2009 and forward; Canada for fiscal 2002 and forward; France for fiscal 2007 and forward; Germany for fiscal 2005 and forward; Japan for fiscal 2004 and forward; Spain for fiscal 2004 and forward; and the U.K. for fiscal 2006 and forward. While it is often difficult to predict whether we will prevail, we believe that our tax liabilities for unrecognized tax benefits reflect the more likely than not outcome of known tax contingencies.

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We believe that it is reasonably possible that the total amount of unrecognized tax benefits of \$65 million (inclusive of tax, interest and penalties) will decrease by as much as \$18 million during the next twelve months due to the resolution of ongoing tax examinations and lapses of applicable statutes of limitations.

### **NOTE 12 SEGMENTS**

We generate sales, earnings and cash flows by retailing numerous product offerings worldwide. We operate all of the R Us branded retail stores in the United States and Puerto Rico and approximately 70% of the 744 R Us branded retail stores internationally. The balance of the R Us branded retail stores outside the United States are operated by licensees. License fees did not have a material impact on our Net sales. We also own and operate websites including Toysrus.com, Babiesrus.com, eToys.com, FAO.com and babyuniverse.com, as well as other Internet sites we operate in our international markets.

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Our business has two reportable segments: Toys R Us Domestic ( Domestic ) and Toys R Us International ( International ). The following is a brief description of our segments:

**Domestic** Our Domestic segment sells a variety of products in the core toy, entertainment, juvenile (including baby), learning and seasonal categories through 868 stores that operate in 49 states in the United States and Puerto Rico and through the Internet. Domestic Net sales in fiscal 2010 were derived from traditional toy stores (including Babies R Us Express ( BRU Express ) and Juvenile Expansion formats), juvenile stores, side-by-side ( SBS ) stores, R Superstores ( SSBS ), permanent Express stores (cumulative lease term of at least two years) and our flagship stores in New York City. Additionally, we generate Net sales through our temporary Express store locations.

**International** Our International segment sells a variety of products in the core toy, entertainment, juvenile (including baby), learning and seasonal categories through 524 owned and 220 licensed stores in 33 countries and jurisdictions and through the Internet. In addition to fees received from licensed stores, International Net sales in fiscal 2010 were derived from traditional toy stores (including BRU Express formats), SBS stores and juvenile stores. Additionally, we generate Net sales through our temporary Express store locations. Our operated stores are in Australia, Austria, Canada, France, Germany, Japan, Portugal, Spain, Switzerland and the U.K.

The Chief Executive Officer, who is our Chief Operating Decision Maker, evaluates segment performance primarily based on Net sales and segment Operating earnings (loss). Segment operating earnings (loss) excludes corporate related charges and income. All intercompany transactions between the segments have been eliminated. Income tax information by segment has not been included as taxes are calculated at a company-wide level and are not allocated to each segment. Revenues from external customers are derived primarily from merchandise sales and we do not rely on any major customers as a source of revenue.

The following tables show our percentage of Net sales by product category:

	Fiscal Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
<b>Domestic:</b>			
Core Toy	15.4%	14.8%	14.1%
Entertainment	14.0%	15.5%	17.3%
Juvenile	36.9%	37.2%	37.9%
Learning	20.3%	19.6%	17.6%
Seasonal	12.2%	11.7%	11.7%
Other (1)	1.2%	1.2%	1.4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

(1) Consists primarily of shipping and other non-product related revenues.

	Fiscal Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
<b>International:</b>			
Core Toy	21.3%	20.3%	19.3%
Entertainment	13.4%	15.6%	19.1%
Juvenile	21.7%	20.7%	20.3%
Learning	26.9%	27.0%	25.5%
Seasonal	15.9%	15.7%	15.1%
Other (1)	0.8%	0.7%	0.7%

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Total	100%	100%	100%
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- <sup>(1)</sup> Consists primarily of license fees from unaffiliated third parties and other non-product related revenues.



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A summary of financial results by reportable segment is as follows:

(In millions)	Fiscal Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
Net sales			
Domestic	\$ 8,621	\$ 8,317	\$ 8,480
International	5,243	5,251	5,244
Total Net sales	\$ 13,864	\$ 13,568	\$ 13,724
Operating earnings (loss)			
Domestic (1)	\$ 579	\$ 659	\$ 593
International (2)(4)	367	341	193
Corporate and other (3)(4)	(300)	(216)	(165)
Operating earnings	646	784	621
Interest expense	(521)	(447)	(419)
Interest income	7	7	16
Earnings before income taxes	\$ 132	\$ 344	\$ 218

- (1) Includes impairment losses on long-lived assets of \$8 million, \$6 million and \$13 million for fiscals 2010, 2009 and 2008, respectively. Also includes the impact of Net gains on sales of properties of \$5 million and \$6 million for fiscals 2010 and 2009, respectively. In addition, fiscal 2010 includes approximately \$23 million in litigation settlement expenses for certain legal matters and a \$16 million non-cash cumulative correction of prior period straight-line lease accounting. Refer to Note 1 entitled SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Note 5 entitled PROPERTY AND EQUIPMENT and Note 15 entitled LITIGATION AND LEGAL PROCEEDINGS for further details.
- (2) Includes impairment losses on long-lived assets of \$3 million, \$1 million and \$20 million for fiscals 2010, 2009 and 2008, respectively. Also includes the impact of Net gains on sales of properties of \$5 million and \$4 million for fiscals 2010 and 2008, respectively. Additionally, fiscal 2008 includes a contract termination payment, of which we expensed \$14 million in fiscal 2008 related to a settlement between Toys-Japan and McDonald's Holding Company (Japan), Ltd. (McDonald's Japan). Refer to Note 1 entitled SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and Note 5 entitled PROPERTY AND EQUIPMENT for further details.
- (3) Includes gift card breakage income of \$18 million, \$18 million and \$78 million for fiscals 2010, 2009 and 2008, respectively. In addition, fiscal 2009 includes a \$51 million gain related to the litigation settlement with Amazon. Fiscal 2008 includes a \$39 million gain related to the substantial liquidation of the operations of TRU (HK) Limited, our wholly-owned subsidiary. Refer to Note 1 entitled SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES and Note 15 entitled LITIGATION AND LEGAL PROCEEDINGS for further details.
- (4) Includes certain overhead costs related to payroll of approximately \$17 million in fiscal 2010. Prior to fiscal 2010, these overhead costs were recorded in our International segment. Operating earnings for our International segment would have been \$350 million and operating losses for our Corporate and other division would have been \$283 million had we not changed the allocation of these overhead costs in fiscal 2010.

Certain corporate and other items are reported separately in our disclosure of segment Operating earnings (loss). In addition to the income items described above, charges include corporate office expenses and shared service center expenses, as well as certain other centrally managed expenses, which are not fully allocated to our reportable segments. The significant categories of expenses include salaries, benefits and related expenses, professional fees, corporate facility depreciation and amortization and insurance. Salaries, benefits and related expenses include salaries, bonus, payroll taxes and health insurance expenses for corporate office employees. Professional fees include costs related to internal control compliance, financial statement audits, legal, information technology and other consulting fees, which are engaged and managed through the corporate office. Depreciation and amortization includes depreciation of leasehold improvements for properties occupied by corporate office employees. Corporate insurance expense includes the cost of fire, liability and automobile premiums.



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(In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
Depreciation and amortization			
Domestic	\$ 232	\$ 220	\$ 225
International	115	122	138
Corporate	41	34	36
Total Depreciation and amortization	\$ 388	\$ 376	\$ 399
Capital expenditures			
Domestic	\$ 180	\$ 121	\$ 249
International	105	50	105
Corporate	40	21	41
Total Capital expenditures	\$ 325	\$ 192	\$ 395

(In millions)	January 29, 2011	January 30, 2010
Merchandise inventories		
Domestic	\$ 1,383	\$ 1,158
International	721	652
Total Merchandise inventories	\$ 2,104	\$ 1,810
Total Assets		
Domestic	\$ 4,622	\$ 4,421
International	2,636	2,513
Corporate and other (1)	1,574	1,643
Total Assets	\$ 8,832	\$ 8,577

(1) Includes cash and cash equivalents, deferred tax assets and other corporate assets.  
Our Net sales and long-lived assets by country or region are as follows:

(In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
Net sales			
United States (1)	\$ 8,621	\$ 8,317	\$ 8,480
Japan	1,866	1,791	1,786
Europe (2)	1,493	1,587	1,611
Canada	833	745	722
U.K.	792	891	902
Australia	243	223	208
Other (3)	16	14	15
Total Net sales	\$ 13,864	\$ 13,568	\$ 13,724

- (1) Includes our wholly-owned operations in Puerto Rico.
- (2) Includes our wholly-owned operations in Germany, Austria, Switzerland, France, Spain and Portugal.
- (3) Represents license fees from unaffiliated third parties.

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(In millions)	January 29, 2011	January 30, 2010
Long-lived assets		
United States (1)	\$ 2,813	\$ 2,856
Japan	621	607
Europe (2)	440	449
U.K.	302	303
Canada	237	224
Australia	24	20
Total Long-lived assets (3)	\$ 4,437	\$ 4,459

(1) Includes our wholly-owned operations in Puerto Rico.

(2) Includes our wholly-owned operations in Germany, Austria, Switzerland, France, Spain and Portugal.

(3) Includes a prior period correction of approximately \$145 million to remove deferred financing costs from fiscal 2009 amounts primarily in the United States.

**NOTE 13 DEFINED BENEFIT PENSION PLANS**

We sponsor defined benefit pension plans covering certain international employees in the U.K., Austria, Japan, and Germany, with such benefits accounted for on an accrual basis using actuarial assumptions. For our pension plans, we use a measurement date matching the end of our fiscal years.

The following tables provide information regarding our pension plans (in millions):

**Obligation and Funded Status at End of Fiscal Year:**

	January 29, 2011	January 30, 2010
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation at beginning of year	\$ 108	\$ 84
Service cost	6	6
Interest cost	5	4
Employee contributions	1	1
Benefits, expenses paid	(2)	(2)
Actuarial loss	1	10
Amendment (1)	(11)	
Foreign currency impact	3	5
Projected benefit obligation at end of year	\$ 111	\$ 108

(1) On April 1, 2010, we amended the U.K. defined benefit pension plan. Pursuant to the amendment, we capped our rate of compensation increase. The change in compensation increase assumption resulted in a reduction of the plan's liability by \$11 million in fiscal 2010.

	January 29, 2011	January 30, 2010
<b>Change in fair value of plan assets:</b>		

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Fair value of plan assets at beginning of year	\$	75	\$	52
Actual return on plan assets		7		11
Employer contributions		9		9
Employee contributions		1		1
Benefits, expenses paid		(2)		(2)
Foreign currency impact		2		4
Fair value of plan assets at end of year	\$	92	\$	75

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	January 29, 2011	January 30, 2010
<b>Reconciliation of funded status to total amount recognized:</b>		
Funded status	\$ (19)	\$ (33)
<b>Amounts recognized in Consolidated Balance Sheets:</b>		
Non-current liability	\$ (19)	\$ (33)
<b>Amounts recognized in Accumulated other comprehensive income (loss):</b>		
Unrecognized net actuarial losses, net of tax	\$ 2	\$ 11

Included in the \$2 million of unrecognized net actuarial losses, net of tax, in Accumulated other comprehensive income (loss) as of January 29, 2011, is an actuarial gain for defined benefit pension plans of approximately \$1 million, which is expected to be amortized into net periodic benefit cost in fiscal 2011.

**Information for Pension Plans with Accumulated Benefit Obligations in Excess of Plan Assets:**

	January 29, 2011	January 30, 2010
Projected benefit obligation	\$ 111	\$ 108
Accumulated benefit obligation (1)	98	98
Fair value of plan assets	92	75

(1) Represents the total Accumulated benefit obligation as of January 29, 2011 and January 30, 2010.

**Components of Net Periodic Benefit Cost During Each Fiscal Year:**

	Fiscal Years Ended		
	January 29, 2011	January 30, 2010	January 31, 2009
Service cost	\$ 6	\$ 6	\$ 6
Interest cost	5	4	4
Expected return on plan assets	(4)	(3)	(2)
Amortization of:			
Recognized actuarial loss	1	1	1
Net periodic benefit cost	\$ 8	\$ 8	\$ 9

**Contributions**

For fiscal 2011, we expect to contribute approximately \$8 million to our pension plans.

**Estimated Future Payments**

Pension benefit payments, including amounts to be paid from our assets, and reflecting expected future service, as appropriate, are expected to be paid as follows:

Pension  
Benefits

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2011	\$	2
2012		2
2013		2
2014		2
2015		2
2016 and thereafter		8
Total	\$	18



**Table of Contents****Weighted-average Assumptions Used to Determine Net Periodic Benefit Costs at Fiscal Year End:**

	January 29, 2011	January 30, 2010	January 31, 2009
Discount rate	4.4%	4.4%	4.7%
Long-term rate of return on plan assets	4.7%	4.7%	4.1%
Rate of compensation increase	2.8%	4.0%	4.3%

**Weighted-average Assumptions Used to Determine Benefit Obligations at Fiscal Year End:**

	Fiscal Years Ended	
	January 29, 2011	January 30, 2010
Discount rate	4.1%	4.4%
Rate of compensation increase	3.0%	3.8%

**Determination of Discount Rate**

In fiscal 2010, the discount rate used to determine benefit obligations for our pension plans has been developed based on the AA corporate bond yield curve, whose maturity is commensurate with the average remaining service period of existing employees. Due to the turmoil in the credit markets in 2008 and its impact on the corporate AA bond markets in 2009, there was a much greater range of yields among AA-rated bonds than would typically be expected. As a result, certain high yield bonds were excluded from the yield curve in determining the discount rate in fiscal 2009.

**Determination of Expected Return on Assets**

The expected return on assets is the rate of return expected to be achieved on pension fund assets in the long term, net of investment expenses. More than 90% of the plan assets relate to the U.K. and Japan pension plans. The U.K. and Japan pension plans expected return on assets assumption for fiscal 2011 has been determined by considering the return on the actual asset classes held as of the measurement date and our expectations of future rates of return on each asset class. For the U.K. and Japan pension plans, we determine the expected rate of return by utilizing the current return available on stocks, and government and corporate bonds and applying suitable risk premiums that consider historical market returns and current market expectations. The estimate of the expected rate of return is based on a long term view and considers the impact of economic conditions in the evaluation of historical market returns.

**Plan Assets***Investment policies and strategies*

Our overall investment policy and strategic management of the plan assets are the responsibility of the trustees (acting based on advice as they deem appropriate) and are driven by investment objectives as set out below. The remaining elements of our investment policy are part of the day-to-day management of the assets, which is delegated to a professional investment manager. The trustees of our defined benefit pension plans are guided by an overall objective of achieving, over the long-term, a return on the investments, which is consistent with the long-term assumptions made by the actuaries in determining funding of the plans.

The investment returns that the trustees expect to achieve are those that are broadly in line with or above the returns of the respective market indices and performance targets against which the investment manager is benchmarked. Over the longer term, the trustees expect to achieve an investment return in excess of the consumer price index.

*Weighted-average asset allocation by asset category*

The primary investment goal for our plans' assets is to maximize total asset returns while ensuring the plans' assets are available to fund the plans' liabilities as they become due. A change in the overall investment strategy could significantly impact the expected rate of return on plan assets.



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The following represents our pension plan target asset allocations for fiscal 2011, as well as the actual asset allocations as of January 29, 2011 and January 30, 2010:

	2011 Target Allocation	January 29, 2011	January 30, 2010
Equity securities	47%	46%	53%
Debt securities	44%	21%	29%
Insurance contracts	7%	7%	9%
Cash and cash equivalents	2%	26%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Risk management*

In managing the Company's plan assets, our investment managers evaluate and manage risk associated with funded status risk, interest rate risk, market risk, counterparty risk, liquidity risk and operational risk. Cash flow management and asset class diversification are central to our risk management strategy and are critical to the overall investment strategy of our pension plan assets.

*Fair value of plan assets*

The following tables present our plan assets by fair value hierarchy in accordance with ASC 820 as of January 29, 2011 and January 30, 2010. The fair value hierarchy is comprised of three levels based on the reliability of inputs used to determine fair value. Level 1 refers to fair values determined based on quoted prices in active markets for identical assets. Level 2 refers to fair values estimated using significant other observable inputs, while Level 3 includes the fair values estimated using significant non-observable inputs. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement of the instrument.

(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Equity Securities: (1)			
Domestic	\$	\$ 1	\$ 1
International		42	42
Fixed Income: (2)			
Domestic		5	5
International		14	14
Insurance Contracts (3)		7	7
Cash and cash equivalents (4)	23		23
<b>Balance at January 29, 2011</b>	<b>\$ 23</b>	<b>\$ 69</b>	<b>\$ 92</b>

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(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Equity Securities: (1)			
Domestic	\$	\$ 10	\$ 10
International		30	30
Fixed Income: (2)			
Domestic		8	8
International		14	14
Insurance Contracts (3)		6	6
Cash and cash equivalents (4)	7		7
Balance at January 30, 2010	\$ 7	\$ 68	\$ 75

- (1) Domestic and international equity securities categorized as Level 2 are valued using the Net Asset Value ( NAV ) per fund share, which is derived from quoted prices in active markets of the underlying securities.
- (2) Domestic and international fixed-income securities categorized as Level 2 are valued using the NAV per fund share, which is derived using a market approach with inputs that include broker quotes, benchmark yields, base spreads and reported trades.
- (3) Insurance contracts contain a minimum guaranteed return and are categorized as Level 2 as the fair value of the assets is equal to the total amount of all individual technical reserves plus the non allocated employer s financing fund reserves at the valuation date. The individual technical and financing fund reserves are equal to the accumulated paid contributions taking into account the insurance ratification and any allocated profit sharing return.
- (4) Cash and cash equivalents are highly liquid investments with original maturities of three months or less at the date of acquisition.

*Subsequent Event*

Toys-Japan maintains a tax qualified pension plan ( TQPP ) that covers substantially all employees of Toys-Japan. Pursuant to amended Japanese laws, existing TQPP plans, such as the current Toys-Japan pension plan have to be terminated or transferred to another defined benefit or defined contribution plan by March 31, 2012. Therefore, in accordance with Japanese law, on February 1, 2011, Toys-Japan s current TQPP plan was terminated and replaced with a defined benefit and defined contribution plan in the ratio of 70% and 30%, respectively. This change resulted in a plan curtailment and settlement. The plan curtailment will reduce the plan s liability by approximately \$1 million in the first quarter of fiscal 2011. No curtailment gain will be recognized because the reduction in liability will be offset by existing unrecognized net actuarial losses. Additionally, a settlement loss of approximately \$1 million will be recognized in the first quarter of fiscal 2011 upon the transfer of assets from the current Toys Japan pension plan to the new defined contribution plan.

**NOTE 14 OTHER EMPLOYEE RETIREMENT AND COMPENSATION BENEFITS**

We offer other employee retirement and compensation benefits for eligible employees. The Supplemental Executive Retirement Plan ( SERP ) provides supplemental retirement benefits to certain executive officers in excess of the limitations that are imposed by Section 401(a)(17) of the Internal Revenue Code of 1986, as amended, on contributions to our TRU Partnership Employees Savings and Profit Sharing Plan (the Savings Plan ). Participants are generally 100 percent vested in their SERP accounts after completing five years of employment with the Company. For each of fiscals 2010, 2009 and 2008, we recorded SERP expenses of approximately \$1 million. At January 29, 2011 and January 30, 2010, the SERP liability was \$4 million and \$3 million, respectively.

Included in our Savings Plan, we have a 401(k) salary deferral feature, company-matching contributions and a profit sharing component for eligible U.S.-based employees. Under the terms of the Savings Plan, annual employer profit sharing contributions are made at the discretion of the Board of Directors, subject to certain limitations. The Savings Plan may be terminated at our discretion. Effective January 1, 2009, eligibility for participation in the 401(k) savings account portion of the Savings Plan has changed from six months to twelve months, affecting those employees hired on or after July 1, 2008. In addition, effective January 1, 2009, Company matching contributions have changed from a maximum of 5% to a maximum of 4%, affecting all Savings Plan participants. We also



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have various defined contribution and other foreign government sponsored retirement plans for foreign employees, which are managed by each respective foreign location. Expenses related to the Savings Plan and other foreign defined contribution plans were \$21 million, \$19 million and \$21 million in fiscals 2010, 2009 and 2008, respectively. The Board of Directors did not elect to contribute to the profit sharing portion of the Savings Plan in fiscals 2010, 2009 and 2008.

We also offered other supplemental compensation benefits to our executive officers. Prior to the Merger, we offered our executive officers an additional life insurance coverage benefit ( Split Dollar Plan ), which entitled their beneficiaries to receive a death benefit of five times the executive officer's current compensation. As of March 2005, we discontinued this benefit to new employees. Pursuant to the Merger agreement, the endorsement split-dollar life insurance policies remained in a trust for the then existing participants until July 2010 at which time management liquidated the Plan assets of \$5 million. Effective July 21, 2010, the Company terminated the Split Dollar Plan. As of January 30, 2010, our Split Dollar Plan assets were \$5 million.

### **NOTE 15 LITIGATION AND LEGAL PROCEEDINGS**

On July 15, 2009, the United States District Court for the Eastern District of Pennsylvania (the District Court ) granted the class plaintiffs' motion for class certification in a consumer class action commenced in January 2006, which was consolidated with an action brought by two Internet retailers that was commenced in December 2005. Both actions allege that Babies' R' Us agreed with certain baby product manufacturers (collectively, with the Company, the Defendants ) to impose, maintain and/or enforce minimum price agreements in violation of antitrust laws. In addition, in December 2009, a third Internet retailer filed a similar action and another consumer class action was commenced making similar allegations involving most of the same Defendants. In January 2011, the parties in the consumer class actions referenced above entered into a settlement agreement, which has been preliminarily approved by the District Court. As part of the settlement, in March 2011 the Company made a payment of approximately \$17 million towards the overall settlement. In addition, in January 2011, the plaintiffs, the Company and certain other Defendants in the Internet retailer actions referenced above entered into a settlement agreement pursuant to which the Company made a payment of approximately \$5 million towards the overall settlement. In addition, on or about November 23, 2010, the Company entered into a Stipulation with the Federal Trade Commission ( FTC ) ending the FTC's investigation related to the Company's compliance with a 1998 FTC Final Order and settling all claims in full. Pursuant to the settlement, the Company will pay approximately \$1 million as a civil penalty.

On May 21, 2004, we filed a lawsuit against Amazon and its affiliated companies in the Superior Court of New Jersey, Chancery Division, Passaic County and Amazon subsequently filed a counterclaim against us and our affiliated companies and filed a lawsuit against us in the Superior Court of Washington, King County. All lawsuits were dismissed with prejudice and, pursuant to the terms of a settlement agreement, on July 21, 2009, Amazon paid the Company \$51 million which was recorded in Other income, net, in fiscal 2009.

In addition to the litigation discussed above, we are, and in the future, may be involved in various other lawsuits, claims and proceedings incident to the ordinary course of business. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our Consolidated Financial Statements taken as a whole.

### **NOTE 16 COMMITMENTS AND CONTINGENCIES**

We are subject to various claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations. We recognize liabilities for contingencies and commitments when a loss is probable and estimable. For claims and contingencies related to income taxes, see Note 11 entitled INCOME TAXES. Refer to Note 9 entitled LEASES for minimum rental commitments under non-cancelable operating leases having a term of more than one year as of January 29, 2011.

As of January 29, 2011, we remain contingently liable for amounts due or amounts that may become due under certain real estate lease agreements that have been assigned to third parties. In the event of default by the assignees, we could be liable for payment obligations associated with these leases which have future lease related payments (not discounted to present value) of approximately \$127 million through September 2032. The impact of these obligations is not material to our Consolidated Financial Statements.

### **NOTE 17 RELATED PARTY TRANSACTIONS**

The Sponsors provide management and advisory services to us pursuant to an advisory agreement executed at the closing of the merger transaction effective as of July 21, 2005 and amended June 10, 2008 and February 1, 2009. The advisory fee (the Advisory Fees ) paid to the Sponsors increases 5% per year during the ten-year term of the agreement with the exception of fiscal 2009. The fee paid to the Sponsors under the advisory agreement was approximately \$19 million, \$15 million and \$17 million for fiscals 2010, 2009 and 2008, respectively. During fiscal

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2010, we also paid the Sponsors fees of \$1 million for out-of-pocket expenses. During each of fiscals 2009 and 2008, we paid the Sponsors fees of less than \$1 million, respectively, for out-of-pocket expenses.

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Pursuant to an amendment to the advisory agreement, the advisory fee for fiscal 2009 was capped at \$15 million. The additional amount of approximately \$3 million of advisory fees that would have been due for fiscal 2009, absent the amendment, will be paid by the Company, if at all, at the time (and from the proceeds) of a successful initial public offering ( IPO ) of the Company's securities.

In the event that the advisory agreement is terminated by the Sponsors or us, the Sponsors will receive all unpaid Advisory Fees, all unpaid transaction fees and expenses due under the advisory agreement with respect to periods prior to the termination date plus the net present value of the Advisory Fees that would have been payable for the remainder of the applicable term of the advisory agreement. The initial term of the advisory agreement is ten years. After ten years, it extends annually for one year unless we or the Sponsors provide notice of termination to the other. Additionally, the advisory agreement provides that affiliates of the Sponsors will be entitled to receive a fee equal to 1% of the aggregate transaction value in connection with certain financing, acquisition, disposition and change of control transactions. In connection with a successful IPO, the parties intend to terminate the advisory agreement in accordance with its terms. The advisory agreement includes customary exculpation and indemnification provisions in favor of the Sponsors and their affiliates.

From time to time, the Sponsors or their affiliates may acquire debt or debt securities issued by the Company or its subsidiaries in open market transactions or through loan syndications. During fiscals 2010, 2009 and 2008, affiliates of Vornado and KKR, all equity owners of the Company, held debt and debt securities issued by the Company and its subsidiaries. The interest amounts paid on such debt and debt securities held by related parties were \$15 million, \$18 million and \$25 million in fiscals 2010, 2009 and 2008, respectively.

In connection with the amendment and restatement of the secured revolving credit facility on August 10, 2010, we paid approximately \$19 million in additional advisory fees to the Sponsors pursuant to the terms of the advisory agreement. Additionally, in conjunction with the offering of the Toys-Delaware Secured Notes and the amendment and restatement of the Secured Term Loan on August 24, 2010, we repaid our outstanding loan balance of approximately \$66 million and \$8 million to KKR under the Secured Term Loan and the Unsecured Credit Facility, respectively, and we repaid our outstanding loan balance of approximately \$27 million to Vornado under the Unsecured Credit Facility. We also paid approximately \$10 million in additional advisory fees to the Sponsors pursuant to the terms of the advisory agreement. Investment funds or accounts advised by KKR purchased an aggregate of \$5 million of the Toys-Delaware Secured Notes, all of which were subsequently sold after fiscal year ended January 29, 2011. In addition, investment funds or accounts advised by KKR owned 6% of the New Secured Term Loan as of January 29, 2011. In connection with the TRU Propco II financing during fiscal 2009, we paid the Sponsors \$7 million of transaction fees pursuant to the terms of the advisory agreement. Investment funds or accounts advised by KKR, an indirect equity owner of the Company, owned 2% of the Propco II Notes as of January 29, 2011. For further details, see Note 2 entitled LONG-TERM DEBT.

Additionally, under lease agreements with affiliates of Vornado, we or our affiliates paid an aggregate amount of approximately \$9 million, \$7 million and \$7 million in fiscals 2010, 2009 and 2008, respectively, with respect to approximately 1.2%, 1.1%, and 0.6%, respectively, of our operated stores, which include Express stores. Of these amounts, \$2 million, \$1 million and \$1 million, respectively, were allocable to joint-venture parties not otherwise affiliated with Vornado.

### **NOTE 18 ACQUISITIONS**

During fiscal 2009, we paid a total of \$14 million for the acquisitions described below. The acquisitions resulted in \$2 million of goodwill and we acquired \$9 million of finite-lived intangibles. These acquisitions did not have a material impact on our Consolidated Financial Statements.

In February 2009, we acquired the e-commerce websites eToys.com and babyuniverse.com as well as the Internet domain Toys.com and the parenting website ePregnancy.com.

On May 28, 2009, the Company acquired certain business assets of FAO Schwarz, a children's retailer. As part of the acquisition, the Company continues to operate the FAO Schwarz retail store in New York City along with the FAO Schwarz e-commerce and catalog businesses.

On September 3, 2009, the Company acquired the brand and other intellectual property assets of KB Toys, a toy retailer.

### **NOTE 19 TOYS JAPAN SHARE ACQUISITION**

As part of our global growth strategy, management continuously looks for opportunities to grow and strengthen our business in markets we currently participate in, as well as in other countries worldwide. Prior to the second quarter of fiscal 2008, we owned 48% of the outstanding common stock of Toys Japan and consolidated 100% of its financial results as we held a majority of the financial control through our positions on its Board of Directors.



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On May 13, 2008, TRU Japan Holdings 2, LLC ( Holdings 2 ), our newly formed wholly-owned subsidiary, announced an open tender offer to purchase a minimum of 4,519,000 shares of Toys Japan from McDonald s Japan and all public shareholders at ¥729

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(\$6.81 at June 10, 2008) per share. The tender offer closed on June 10, 2008, on which date Holdings 2 purchased 4,943,036 shares (approximately 14% of Toys Japan) for \$35 million, including \$1 million of transaction costs. As a result of this purchase, we owned 21,395,036 shares or approximately 62% of Toys Japan at January 31, 2009.

We allocated the \$35 million purchase price to our additional approximately 14% share of the acquired assets and liabilities assumed based upon their fair values at June 10, 2008, of which \$24 million adjusted the net book value of the assets acquired and liabilities assumed and \$11 million was recorded as goodwill in our Consolidated Balance Sheet and assigned to our Toys Japan reporting unit (included in our International segment). See Note 1 entitled SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for further details on Goodwill.

On September 24, 2009, Holdings 2 announced an open tender offer to purchase the remaining outstanding shares of Toys Japan from all public shareholders (excluding Toys R Us Japan Holdings, Inc. (Holdings 1), a wholly-owned subsidiary of Toys R Us, Inc.) at ¥587 (\$6.54 at November 11, 2009) per share. The tender offer closed on November 10, 2009, on which date Holdings 2 purchased 9,687,056 shares (approximately 28% of Toys Japan) for approximately \$66 million, including \$2 million of transaction costs. As a result of this purchase, we owned 31,226,284 shares or approximately 91% of Toys Japan at January 30, 2010.

As we maintained financial control of Toys Japan during the transaction, the additional ownership interest acquired in Toys Japan was accounted for as an equity transaction between owners in accordance with ASC 810. Upon acquisition of the additional ownership interest, Noncontrolling interest decreased by \$82 million, representing the percentage of ownership purchased during the tender offer at historical costs. The net \$16 million difference between the fair value of the consideration paid and the carrying amount of the Noncontrolling interest acquired was recognized as a net increase in Toys R Us, Inc. stockholders' equity, consisting of a \$4 million reduction in Additional paid-in-capital and a \$20 million reduction in Accumulated other comprehensive loss.

At a special shareholders' meeting of Toys Japan on January 19, 2010, the shareholders approved (through various steps) an exchange of the remaining outstanding common stock of Toys Japan (Toys Japan Common Stock) for a new class of stock (New Stock) at an exchange ratio of 1 to 3,289,647. This exchange resulted in all noncontrolling public shareholders receiving a fractional share of New Stock. As Toys Japan is not permitted to issue fractional shares, all shareholders entitled to fractional shares of New Stock are only entitled to cash in the amount of ¥587 for each share of Toys Japan Common Stock held by such shareholder. The acquisition of the fractional shares was approved by the court on April 15, 2010, resulting in the purchase of approximately 9% of Toys Japan and cash of approximately \$21 million, of which \$2 million is being held for payment to the fractional shareholders, as of January 29, 2011. Effective as of April 15, 2010, Holdings 1 and Holdings 2 are the sole shareholders of Toys Japan. Upon acquisition of the additional ownership interest, the remaining Noncontrolling interest of \$30 million was eliminated, and the difference between the purchase price paid and the carrying value of the Noncontrolling interest acquired was recognized as a net increase in Toys R Us, Inc. stockholders' equity, consisting of a \$3 million increase in Additional paid-in capital and a \$6 million reduction in Accumulated other comprehensive loss.

## **NOTE 20 REORGANIZATION**

On June 10, 2008, we entered into a plan of reorganization pursuant to Internal Revenue Code (IRC) §368(a) with Former Parent under which Former Parent transferred all of its assets (including 1,000 shares of our Pre-Reorganization Common Stock (as defined below)) and liabilities to us in exchange for us issuing 48,955,808 shares of our Post-Reorganization Stock (as defined below) to Former Parent. In addition, pursuant to the plan of reorganization, we assumed the obligations and succeeded the rights of Former Parent under the Management Equity Plan. In order to effect the plan of reorganization, we amended our Restated Certificate of Incorporation (as amended, the Certificate of Incorporation) on June 10, 2008, in order to authorize 55,000,000 shares of common stock, par value \$0.001 per share (the Post-Reorganization Common Stock) in addition to the already existing 3,000 shares of common stock, par value \$0.01 per share (the Pre-Reorganization Common Stock). After effecting the plan of reorganization, we amended and restated the Certificate of Incorporation on June 10, 2008 in order to change the authorized capital to consist of only 55,000,000 shares of Post-Reorganization Common Stock. Immediately after the exchange, Former Parent, pursuant to the plan of reorganization, was dissolved. In connection with the dissolution of Former Parent, Former Parent distributed all of its assets (consisting solely of the Post-Reorganization Common Stock) to its shareholders, in a ratio of one share of Post-Reorganization Stock for each share of Former Parent common stock owned by each shareholder. On June 10, 2008, our by-laws were also amended and restated in order to incorporate certain Sponsor-related provisions formerly contained in Former Parent's by-laws.

Accordingly, our common stock is now held directly by the former shareholders of Former Parent, including the Sponsors and certain members of management. In connection with the plan of reorganization, we also amended certain agreements in order for the Company to assume the responsibilities and obligations of Former Parent under those agreements, including the Advisory Agreement among Former Parent, the Company and affiliates of our Sponsors, dated as of July 21, 2005, and the Management Equity Plan, pursuant to which certain members of management of our Company hold common stock. We also assumed the responsibilities and obligations under the Stockholders Agreement among Former Parent, affiliates of our Sponsors and certain other persons, dated as of July 21, 2005, which, among other things, contains provisions regarding the composition of our Board of Directors and Sponsor



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approval of certain actions, including, but not limited to, a change in control of the Company, the incurrence of certain indebtedness by the Company and certain acquisitions and dispositions by the Company.

This reorganization has been reflected in these financial statements as if it had occurred as of the earliest period presented.

**NOTE 21 RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2010, the FASB issued ASU No. 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (ASU 2010-29). The amendments in this ASU specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplementary pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The adoption of ASU 2010-29 is not expected to have a material impact on our Consolidated Financial Statements.

In December 2010, the FASB issued ASU No. 2010-28, Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts (ASU 2010-28). For reporting units with zero or negative carrying amounts, this ASU requires that an entity perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of ASU 2010-28 is not expected to have an impact on our Consolidated Financial Statements.

**Table of Contents****QUARTERLY RESULTS OF OPERATIONS**

The following tables set forth certain unaudited quarterly financial information:

(In millions, except share data)	For the 13 Weeks Ended			
	May 1, 2010	July 31, 2010	October 30, 2010	January 29, 2011 <sup>(1)</sup>
<b>Fiscal 2010</b>				
Net sales	\$ 2,608	\$ 2,565	\$ 2,719	\$ 5,972
Gross margin	945	959	987	2,034
Selling, general and administrative expenses	858	855	957	1,272
Depreciation and amortization	94	98	93	103
Other income, net	(12)	(17)	(1)	(21)
Operating earnings (loss)	5	23	(62)	680
Net (loss) earnings (2)(3)	(56)	(14)	(93)	330
Net (loss) earnings attributable to Toys R Us, Inc.	\$ (55)	\$ (14)	\$ (93)	\$ 330
(Loss) earnings per common share attributable to Toys R Us, Inc.:				
Basic (Note 1)	\$ (1.12)	\$ (0.29)	\$ (1.90)	\$ 6.74
Diluted (Note 1)	(1.12)	(0.29)	(1.90)	6.58
Weighted average shares used in computing per share amounts:				
Basic (Note 1)	48,951,836	48,926,355	48,928,139	48,957,929
Diluted (Note 1)	48,951,836	48,926,355	48,928,139	50,185,656

(In millions, except share data)	For the 13 Weeks Ended			
	May 2, 2009	August 1, 2009	October 31, 2009	January 30, 2010 <sup>(1)</sup>
<b>Fiscal 2009</b>				
Net sales	\$ 2,477	\$ 2,567	\$ 2,667	\$ 5,857
Gross margin	890	951	950	1,987
Selling, general and administrative expenses	788	828	892	1,222
Depreciation and amortization	93	101	85	97
Other income, net (4)	(12)	(64)	(18)	(18)
Operating earnings (loss)	21	86	(9)	686
Net (loss) earnings (5)(6)	(40)	25	(69)	388
Net (loss) earnings attributable to Toys R Us, Inc.	\$ (35)	\$ 27	\$ (67)	\$ 387
(Loss) earnings per common share attributable to Toys R Us, Inc.:				
Basic (Note 1)	\$ (0.71)	\$ 0.55	\$ (1.37)	\$ 7.91
Diluted (Note 1)	(0.71)	0.54	(1.37)	7.86
Weighted average shares used in computing per share amounts:				
Basic (Note 1)	48,957,902	48,957,902	48,981,623	48,950,966
Diluted (Note 1)	48,957,902	49,559,954	48,981,623	49,210,968

- (1) Our Domestic and International businesses are highly seasonal with sales and earnings highest in the fourth quarter. During fiscals 2010, 2009 and 2008 approximately 43%, 43% and 40%, respectively, of our total Net sales were generated in the fourth quarter. Our results of operations depend significantly upon the fourth quarter holiday selling season.
- (2) For the second quarter of fiscal 2010, our effective tax rate was impacted by tax benefits of \$36 million resulting from changes to our liability for uncertain tax positions.
- (3) For the fourth quarter of fiscal 2010, our effective tax rate was impacted by a valuation allowance decrease of \$53 million related to certain tax loss and other carryforwards as we believe that it is more likely than not that such carryforwards will be used.
- (4)

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During the second quarter of fiscal 2009, we recognized a \$51 million gain on litigation settlement with Amazon. See Note 15 to our Consolidated Financial Statements entitled LITIGATION AND LEGAL PROCEEDINGS for further details.

- (5) For the second quarter of fiscal 2009, our effective tax rate was impacted by a tax benefit of \$41 million attributable to the reversal of deferred tax liabilities associated with undistributed earnings of one of our non-U.S. subsidiaries, as it was management's intention to reinvest those earnings indefinitely.
- (6) For the fourth quarter of fiscal 2009, our effective tax rate was impacted by a tax benefit of \$68 million resulting from a change in the tax classification of certain foreign entities.

**Table of Contents****PARENT COMPANY INFORMATION****Toys R Us, Inc.****Schedule I Condensed Statements of Operations**

<b>(In millions)</b>	<b>January 29, 2011</b>	<b>Fiscal Years Ended January 30, 2010</b>	<b>January 31, 2009</b>
Revenues	\$	\$ 23	\$ 26
General and administrative expenses	20	32	36
Depreciation and amortization	6	14	22
Other income, net	(1)	(51)	(2)
Total operating expenses (income)	25	(5)	56
Other (expense) income:			
Interest expense, net	(133)	(132)	(102)
Inter-company interest (expense) income, net	(4)	(1)	13
Equity in pre-tax earnings of consolidated subsidiaries	295	457	344
Earnings before income taxes	133	352	225
Income tax (benefit) expense	(35)	40	7
Net earnings	\$ 168	\$ 312	\$ 218

See accompanying notes to Condensed Financial Statements.

**Table of Contents****Toys R Us, Inc.****Schedule I Condensed Balance Sheets**

(In millions)	January 29, 2011	January 30, 2010
<b>ASSETS</b>		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 226	\$ 196
Current deferred tax assets		13
Prepaid expenses and other current assets	5	17
Total current assets	231	226
Property and equipment, net	12	18
Investments in and advances to/from subsidiaries	1,519	1,364
Deferred tax assets	53	66
Restricted cash		33
Other assets	48	15
	\$ 1,863	\$ 1,722
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<i>Current Liabilities:</i>		
Accrued expenses and other current liabilities	\$ 99	\$ 113
Income taxes payable	27	50
Current portion of long-term debt	503	
Total current liabilities	629	163
Long-term debt	823	1,330
Liabilities for uncertain tax positions	3	70
Other non-current liabilities	65	74
Stockholders' equity	343	85
	\$ 1,863	\$ 1,722

See accompanying notes to Condensed Financial Statements.



**Table of Contents****Toys R Us, Inc.****Schedule I Condensed Statement of Cash Flows**

(In millions)	January 29, 2011	Fiscal Years Ended January 30, 2010	January 31, 2009
<b>Cash Flows from Operating Activities</b>	<b>\$ 11</b>	<b>\$ 42</b>	<b>\$ 71</b>
<b>Cash Flows from Investing Activities:</b>			
Capital expenditures		(4)	(6)
Proceeds from sale of fixed assets			4
Sale of short-term investments			66
Purchase of long-term investments	(9)		
Investments in subsidiaries	(11)	(248)	(3)
Decrease (increase) in restricted cash	33	18	(51)
Intercompany loan repayment by subsidiaries	694	482	265
Loans to subsidiaries	(685)	(455)	(249)
<i>Net cash provided by (used in) investing activities</i>	<b>22</b>	(207)	26
<b>Cash Flows from Financing Activities:</b>			
Borrowings from subsidiaries		150	18
Other	(3)	(1)	
<i>Net cash (used in) provided by financing activities</i>	<b>(3)</b>	149	18
<b>Cash and cash equivalents:</b>			
Net increase (decrease) during period	<b>30</b>	(16)	115
Cash and cash equivalents at beginning of period	<b>196</b>	212	97
Cash and cash equivalents at end of period	<b>\$ 226</b>	\$ 196	\$ 212
<b>Supplemental Disclosures of Cash Flow Information:</b>			
Income taxes (received) paid, net of refunds	<b>\$</b>	\$ (1)	\$ 1
Interest paid	<b>\$ 134</b>	\$ 136	\$ 84

See accompanying notes to Condensed Financial Statements.

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**Toys R Us, Inc.**

**Schedule I Notes to Condensed Financial Statements**

**NOTE A BASIS OF PRESENTATION**

Toys R Us, Inc. (the Parent Company) is a holding company that conducts substantially all of its business operations through its subsidiaries. As specified in certain of its subsidiaries' debt agreements, there are restrictions on the Parent Company's ability to obtain funds from certain of its subsidiaries through dividends, loans or advances (refer to Note 2 to our Consolidated Financial Statements entitled "LONG-TERM DEBT"). Accordingly, these condensed financial statements have been presented on a parent-only basis. Under a parent-only presentation, the Parent Company's investments in its consolidated subsidiaries are presented under the equity method of accounting. These parent-only financial statements should be read in conjunction with Toys R Us, Inc.'s audited Consolidated Financial Statements included elsewhere herein.

On January 28, 2010, our direct wholly-owned subsidiary, Toys R Us International LLC (TRU-International) was merged with and into Parent Company (the Transaction). In fiscal 2009, the historical financial positions and results of operations of Parent Company and TRU-International began being presented on a combined basis. The Transaction was reflected in fiscal 2008 financial statements as if it had occurred as of the earliest period presented with prior year financial information combined retrospectively. In fiscals 2009 and 2008, TRU-International provided certain information technology, accounting and operational support to our foreign subsidiaries for a service fee. For fiscals 2009 and 2008, the service fees from the foreign subsidiaries were based on costs plus a premium and have been recorded in Revenues on an accrual basis. In fiscal 2010, Toys Delaware began providing these services to our foreign subsidiaries.

In connection with the July 21, 2005 Merger and subsequent reorganization, the Parent Company borrowed \$770 million and received a promissory note of \$887 million (£509 million) as a dividend from its indirect wholly-owned subsidiary, Toys R Us (UK) Limited (Toys Limited). The outstanding net intercompany receivable balance from Toys Limited was \$209 million and \$208 million as of January 29, 2011 and January 30, 2010, respectively, and was included in Investments in and advances to/from subsidiaries.

On June 10, 2008, we entered into a plan of reorganization pursuant to Internal Revenue Code (IRC) §368(a) with Toys R Us Holdings, Inc., our former parent (Former Parent) under which Former Parent transferred all of its assets (including 1,000 shares of Pre-Reorganization Common Stock) and liabilities to the Parent Company in exchange for issuing 48,955,808 shares of Parent Company Post-Reorganization Stock to Former Parent. In addition, pursuant to the plan of reorganization, the Parent Company assumed the obligations and succeeded the rights of Former Parent under the Management Equity Plan (refer to Note 7 to our Consolidated Financial Statements entitled "STOCK-BASED COMPENSATION"). Immediately after the exchange, Former Parent, pursuant to the plan of reorganization, was dissolved. On June 10, 2008, the Parent Company by-laws were also amended and restated in order to incorporate certain Sponsor-related provisions formerly contained in Former Parent's by-laws. Refer to Note 20 to our Consolidated Financial Statements entitled "REORGANIZATION".

Included in Investments in and advances to/from subsidiaries as of January 29, 2011 and January 30, 2010 are intercompany payables of \$397 million and \$366 million to Toys Delaware, which included \$250 million advanced in fiscal 2006 to repay principal on our 6.875% notes. In addition, Parent Company's intercompany payable balance with Toys Delaware at January 29, 2011 included \$21 million of accrued interest related to Parent Company's overall intercompany payable balance, which was recorded during fiscal 2010. Parent Company's intercompany payable to Toys Delaware at January 30, 2010 included \$150 million related to loan proceeds received from Toys Delaware and \$18 million of accrued interest related to Parent Company's overall intercompany payable balance, both of which were recorded during fiscal 2009. Also during fiscal 2009, Parent Company recorded a dividend-in-kind of a payable to Toys-Delaware in the aggregate amount of \$146 million established as a result of payments by Toys-Delaware to Parent Company in fiscals 2006 and 2007 for interest payments on Parent Company's publicly issued and outstanding notes.

For fiscals 2010, 2009 and 2008, the income tax benefit of \$35 million and income tax expense of \$40 million and \$7 million, respectively, in the attached Schedule I Condensed Statements of Operations represents the Parent Company's consolidated income tax (benefit) expense. Such amounts include income tax expense of \$65 million, \$76 million and \$34 million, respectively, related to our subsidiaries, which have not been consolidated for this presentation. The Parent Company is responsible for cash income tax payments on the separate company income of such subsidiaries for United States Federal and certain state filings.

During fiscal 2010, we acquired from an unaffiliated party \$17 million face value debt securities of Vanwall for approximately \$9 million. This debt matures on April 7, 2013. These debt securities are included in Other assets within the Condensed Balance Sheets, classified as held-to-maturity debt and reported at amortized cost.



**Table of Contents****NOTE B DEBT**

A summary of the Parent Company's Long-term debt as of January 29, 2011 and January 30, 2010 is outlined in the table below:

(In millions)	January 29, 2011	January 30, 2010
7.625% notes, due fiscal 2011	\$ 503	\$ 507
7.875% senior notes, due fiscal 2013	396	395
7.375% senior notes, due fiscal 2018	405	406
8.750% debentures, due fiscal 2021 (1)	22	22
	<b>1,326</b>	<b>1,330</b>
Less current portion (2)	<b>503</b>	
<b>Total Long-term debt</b>	<b>\$ 823</b>	<b>\$ 1,330</b>

(1) Represents obligations of Toys R Us, Inc. and Toys Delaware.

(2) Current portion of Long-term debt as of January 29, 2011 is comprised of \$503 million of the 7.625% notes maturing on August 1, 2011. The total fair values of the Parent Company's Long-term debt, with carrying values of \$1,326 million and \$1,330 million at January 29, 2011 and January 30, 2010, were \$1,351 million and \$1,304 million, respectively. The fair values of the Parent Company's Long-term debt are estimated using the quoted market prices for the same or similar issues and other pertinent information available to management as of the end of the respective periods.

The annual maturities of the Parent Company's Long-term debt at January 29, 2011 are as follows:

(In millions)	Annual Maturities
2011	\$ 503
2012	
2013	396
2014	
2015	
2016 and subsequent	427
<b>Total</b>	<b>\$ 1,326</b>

The Parent Company is a co-obligor of the outstanding debentures due fiscal 2021, as are shown in the Parent Company Condensed Balance Sheets for stand-alone reporting purposes. However, it is expected all future principal and interest payments will be funded through the operating cash flows of Toys Delaware. For each of fiscals 2010, 2009 and 2008, Toys Delaware recorded interest expense related to the outstanding debentures due fiscal 2021 of \$2 million, which is reflected as part of Equity in pre-tax earnings of consolidated subsidiaries in the Parent Company Condensed Statements of Operations.

The Parent Company currently guarantees 80% of three Toys Japan installment loans, totaling ¥2.1 billion (\$26 million at January 29, 2011). These loans have annual interest rates of 2.6% - 2.8%. In addition, the Parent Company has an agreement with McDonald's Japan, in which the Parent Company promises to promptly reimburse McDonald's Japan for any amounts it may be required to pay in connection with its guarantee of the remaining 20% these loans.

For a discussion of the debt obligations of the Parent Company and its subsidiaries, see Note 2 to the Consolidated Financial Statements entitled LONG-TERM DEBT.

**NOTE C DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

We are exposed to market risk from potential changes in interest rates and foreign currency exchange rates. We regularly evaluate our exposure and enter into derivative financial instruments to economically manage these risks. We record all derivatives as either assets or liabilities on the Condensed Balance Sheets measured at estimated fair value and recognize the changes in fair value as unrealized gains and losses. The recognition of these gains and losses depends on our intended use of the derivatives and the resulting designation. In certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure.

**Table of Contents****Interest Rate Contracts**

We and our subsidiaries have a variety of fixed and variable rate debt instruments and are exposed to market risks resulting from interest rate fluctuations. We enter into interest rate swaps and/or caps to reduce our exposure to variability in expected future cash outflows attributable to the changes in LIBOR rates. Our interest rate contracts contain credit-risk related contingent features and are subject to master netting arrangements. As of January 29, 2011, our interest rate contracts have various maturity dates through April 2015. As of January 29, 2011, we do not have any interest rate swaps or caps designated as cash flow hedges in accordance with ASC 815.

The hedge accounting for a designated cash flow hedge requires that the effective portion be recorded to Accumulated other comprehensive income (loss); the ineffective portion of a cash flow hedge is recorded to Interest expense, net. We evaluate the effectiveness of our cash flow hedging relationship on an ongoing basis. For our derivative that was designated as a cash flow hedge, no material ineffectiveness was recorded for fiscals 2010, 2009 and 2008, respectively. Reclassifications from Accumulated other comprehensive income (loss) to Interest expense, net primarily relate to realized Interest expense on interest rate swaps and the amortization of gains (losses) recorded on previously terminated or de-designated swaps. We expect to reclassify a net gain of less than \$1 million over the next 12 months to Interest expense, net from Accumulated other comprehensive income (loss).

Certain of our agreements with credit-risk related features contain provisions where we could be declared in default on its derivative obligations if we default on certain specified indebtedness. Additionally, we had one agreement, which expired in December 2010, with a provision requiring we maintain an investment grade credit rating from each of the major credit rating agencies. As our ratings were below investment grade during this agreement, we were required to post collateral for this contract. At January 29, 2011, we had no derivative liabilities related to agreements that contain credit-risk related contingent features. At January 30, 2010, derivative liabilities related to agreements that contain credit-risk related features had a fair value of \$31 million. As of January 30, 2010, we had a minimum collateral posting threshold with certain derivative counterparties and posted collateral of \$33 million, which was recorded as Restricted cash on the Condensed Balance Sheets. As of January 29, 2011, we were not required to post collateral with any derivative counterparties.

The following table presents our outstanding derivative contracts as of January 29, 2011 and January 30, 2010:

(In millions)	Effective Date	Maturity Date	January 29, 2011 Notional Amount	January 30, 2010 Notional Amount
<b>Interest Rate Swaps</b>				
1 Month USD LIBOR Float to Fixed Interest Rate Swap (1)	May 2008	December 2010	\$	\$ 750
1 Month USD LIBOR Float to Fixed Interest Rate Swap (2)	May 2008	December 2010		550
<b>Interest Rate Caps</b>				
1 Month USD LIBOR Interest Rate Cap (3)	January 2011	April 2015	\$ 500	\$ 500
1 Month USD LIBOR Interest Rate Cap (3)	January 2012	April 2015	500	500
1 Month USD LIBOR Interest Rate Cap (3)	January 2014	April 2015	311	311

- (1) On August 24, 2010, in conjunction with the repayment of the Secured Term Loan and projected variable interest rate exposure, the Company de-designated its \$750 million interest rate swap. The remaining \$6 million loss recorded in Accumulated other comprehensive income (loss) was reclassified to earnings through December 2010.
- (2) On November 10, 2009, in anticipation of the repayment of the \$800 million Secured real estate loan and projected future variable interest rate exposure, the Company de-designated its \$550 million interest rate swap. The remaining \$16 million loss recorded in Accumulated other comprehensive income (loss) was reclassified to earnings through December 2010.
- (3) On April 3, 2009, we entered into three new forward-starting interest rate cap agreements to manage our future interest rate exposure. The total amount paid for the caps was \$8 million. Subsequently, on November 10, 2009, the Company de-designated two \$500 million forward-starting interest rate caps resulting in a reclassification from Accumulated other comprehensive income (loss) to earnings a gain of \$1 million; an additional \$2 million will be amortized from Accumulated other comprehensive income (loss) to earnings over the remaining life of the caps.



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### ***Foreign Exchange Contracts***

We occasionally enter into foreign currency forward contracts to economically hedge our short-term, cross-currency intercompany loans with our foreign subsidiaries. We enter into these contracts in order to reduce our exposure to the variability in expected cash outflows attributable to changes in foreign currency rates. These derivative contracts are not designated as hedges and are recorded on our Condensed Balance Sheets at fair value with a gain or loss recorded on the Condensed Statements of Operations in Interest expense, net.

Our foreign exchange contracts contain some credit-risk related contingent features, are subject to master netting arrangements and typically mature within 12 months. These agreements contain provisions where we could be declared in default on our derivative obligations if we default on certain specified indebtedness. We are not required to post collateral for these contracts. At January 29, 2011 and January 30, 2010, we had no outstanding foreign exchange contracts.

The following table sets forth the net impact of the effective portion of derivatives on Accumulated other comprehensive income (loss) on our Condensed Statements of Stockholder's Equity (Deficit) for the fiscal years ended Jan