TOYS R US INC
Form 10-Q
September 15, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended August 1, 2015
Commission file number 1-11609
TOYS “R” US, INC.
(Exact name of registrant as specified in its charter)

Delaware	22-3260693
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
One Geoffrey Way Wayne, New Jersey	07470
(Address of principal executive offices)	(Zip code)

(973) 617-3500
(Registrant’s telephone number, including area code)
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 ¨
(Note: As a voluntary filer not subject to the filing requirements of Section 13(a) or 15(d) of the Exchange Act, the registrant has filed all reports pursuant to Section 13(a) or 15(d) of the Exchange Act during the preceding 12 months as if the registrant were subject to such filing requirements.)
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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (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 x
As of September 11, 2015, there were 49,389,042 outstanding shares of common stock of Toys “R” Us, Inc., none of which were publicly traded.

TOYS “R” US, INC. AND SUBSIDIARIES
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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

TOYS “R” US, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	August 1, 2015	January 31, 2015	August 2, 2014
ASSETS			
Current Assets:			
Cash and cash equivalents	$417	$698	$353
Accounts and other receivables	243	225	245
Merchandise inventories	2,211	2,064	2,344
Current deferred tax assets	41	45	22
Prepaid expenses and other current assets	149	122	164
Total current assets	3,061	3,154	3,128
Property and equipment, net	3,222	3,335	3,514
Goodwill	64	64	64
Deferred tax assets	128	133	153
Restricted cash	53	53	55
Other assets	343	376	416
Total Assets	$6,871	$7,115	$7,330
LIABILITIES, TEMPORARY EQUITY AND STOCKHOLDERS’ DEFICIT			
Current Liabilities:			
Accounts payable	$1,246	$1,571	$1,228
Accrued expenses and other current liabilities	889	1,032	903
Income taxes payable	27	20	24
Current portion of long-term debt	226	176	165
Total current liabilities	2,388	2,799	2,320
Long-term debt	5,056	4,612	5,247
Deferred tax liabilities	112	112	88
Deferred rent liabilities	342	347	359
Other non-current liabilities	260	255	229
Temporary equity	85	85	83
Total stockholders’ deficit	(1,372)	(1,095)	(996)
Total Liabilities, Temporary Equity and Stockholders’ Deficit	$6,871	$7,115	$7,330

See Notes to the Condensed Consolidated Financial Statements.

TOYS "R" US, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In millions)	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014	26 Weeks Ended August 1, 2015	26 Weeks Ended August 2, 2014
Net sales	$2,293	$2,440	$4,618	$4,919
Cost of sales	1,418	1,524	2,881	3,085
Gross margin	875	916	1,737	1,834
Selling, general and administrative expenses	796	878	1,623	1,795
Depreciation and amortization	86	95	173	199
Other income, net	(22)	(15)	(44)	(27)
Total operating expenses	860	958	1,752	1,967
Operating earnings (loss)	15	(42)	(15)	(133)
Interest expense	(106)	(102)	(220)	(210)
Interest income	—	1	1	2
Loss before income taxes	(91)	(143)	(234)	(341)
Income tax expense	6	4	2	2
Net loss	(97)	(147)	(236)	(343)
Less: Net earnings attributable to noncontrolling interest	2	1	3	1
Net loss attributable to Toys "R" Us, Inc.	$(99)	$(148)	$(239)	$(344)

See Notes to the Condensed Consolidated Financial Statements.

TOYS “R” US, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

(In millions)	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014	26 Weeks Ended August 1, 2015	26 Weeks Ended August 2, 2014
Net loss	$(97)	$(147)	$(236)	$(343)
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	(32)	(21)	(45)	1
Unrecognized actuarial losses	(1)	—	(1)	—
Total other comprehensive (loss) income, net of tax	(33)	(21)	(46)	1
Comprehensive loss, net of tax	(130)	(168)	(282)	(342)
Less: Comprehensive income attributable to noncontrolling interest	2	1	3	1
Comprehensive loss attributable to Toys “R” Us, Inc.	$(132)	$(169)	$(285)	$(343)

See Notes to the Condensed Consolidated Financial Statements.

TOYS “R” US, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In millions)	26 Weeks Ended August 1, 2015	August 2, 2014
Cash Flows from Operating Activities:		
Net loss	$(236)	$(343)
Adjustments to reconcile Net loss to Net cash used in operating activities:		
Depreciation and amortization	173	199
Amortization and write-off of debt issuance costs and debt discount	21	23
Deferred income taxes	2	4
Unrealized losses on foreign exchange	3	—
Other	(9)	10
Changes in operating assets and liabilities:		
Accounts and other receivables	4	27
Merchandise inventories	(166)	(166)
Prepaid expenses and other operating assets	(15)	(22)
Accounts payable, Accrued expenses and other liabilities	(435)	(304)
Income taxes payable and receivable	(17)	(25)
Net cash used in operating activities	(675)	(597)
Cash Flows from Investing Activities:		
Capital expenditures	(82)	(86)
Proceeds from sales of fixed assets	12	9
Decrease (increase) in restricted cash	1	(1)
Acquisitions	(2)	—
Net cash used in investing activities	(71)	(78)
Cash Flows from Financing Activities:		
Long-term debt borrowings	669	735
Long-term debt repayments	(205)	(341)
Short-term debt borrowings, net	8	—
Capitalized debt issuance costs	(2)	(13)
Net cash provided by financing activities	470	381
Effect of exchange rate changes on Cash and cash equivalents	(5)	3
Cash and cash equivalents:		
Net decrease during period	(281)	(291)
Cash and cash equivalents at beginning of period	698	644
Cash and cash equivalents at end of period	$417	$353

See Notes to the Condensed Consolidated Financial Statements.

TOYS “R” US, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS’ DEFICIT
(Unaudited)

	Toys “R” Us, Inc. Stockholders					
	Common Stock (1)					
(In millions)	Issued Shares	Treasury Amount	Additional Paid-in Capital	Total Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders’ Deficit
Balance, February 1, 2014	49	$ (9)	$ 49	$ (612)	$ (84)	$ (656)
Net loss attributable to Toys “R” Us, Inc.	—	—	—	(344)	—	(344)
Total other comprehensive income, net of tax	—	—	—	—	1	1
Issuance of restricted stock	—	2	(2)	—	—	—
Stock compensation expense	—	—	8	—	—	8
Adjustment of redeemable shares to redemption value	—	—	5	—	—	5
Adjustment of noncontrolling interest to redemption value	—	—	—	(10)	—	(10)
Balance, August 2, 2014	49	$ (7)	$ 60	$ (966)	$ (83)	$ (996)
Balance, January 31, 2015	49	$ (5)	$ 68	$ (914)	$ (244)	$ (1,095)
Net loss attributable to Toys “R” Us, Inc.	—	—	—	(239)	—	(239)
Total other comprehensive loss, net of tax	—	—	—	—	(46)	(46)
Issuance of restricted stock	—	4	(4)	—	—	—
Amortization of restricted stock	—	—	1	—	—	1
Stock compensation expense	—	—	4	—	—	4
Adjustment of noncontrolling interest to redemption value	—	—	—	3	—	3
Balance, August 1, 2015	49	$ (1)	$ 69	$ (1,150)	$ (290)	$ (1,372)

(1) For all periods presented, the par value amount of Common Stock issued is less than $1 million. The number of Common Stock shares in treasury is also less than 1 million.

See Notes to the Condensed Consolidated Financial Statements.

TOYS “R” US, INC. AND SUBSIDIARIES
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of presentation
As used herein, the “Company,” “we,” “us,” or “our” means Toys “R” Us, Inc., and its consolidated subsidiaries, except as expressly indicated or unless the context otherwise requires. The Condensed Consolidated Balance Sheets as of August 1, 2015, January 31, 2015 and August 2, 2014, the Condensed Consolidated Statements of Operations and the Condensed Consolidated Statements of Comprehensive Loss for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014 and the Condensed Consolidated Statements of Cash Flows and the Condensed Consolidated Statements of Stockholders’ Deficit for the twenty-six weeks ended August 1, 2015 and August 2, 2014, have been prepared by us in conformity with accounting principles generally accepted in the United States of America (“GAAP”) for interim reporting, and in accordance with the requirements of this Quarterly Report on Form 10-Q. Our interim Condensed Consolidated Financial Statements are unaudited and are subject to year-end adjustments. In the opinion of management, the financial statements include all known adjustments (which consist primarily of normal, recurring accruals, estimates and assumptions that impact the financial statements) necessary to present fairly the financial position at the balance sheet dates and the results of operations for the thirteen and twenty-six weeks then ended. The Condensed Consolidated Balance Sheet at January 31, 2015, presented herein, has been derived from our audited balance sheet included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015, but does not include all disclosures required by GAAP. These financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included within our Annual Report on Form 10-K for the fiscal year ended January 31, 2015. The results of operations for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014 are not necessarily indicative of operating results for the full year.

2. Short-term borrowings and long-term debt

A summary of the Company's consolidated Short-term borrowings and Long-term debt as of August 1, 2015, January 31, 2015 and August 2, 2014 is outlined in the table below:

(In millions)	August 1, 2015	January 31, 2015	August 2, 2014
Short-term borrowings			
Labuan uncommitted lines of credit	$8	$—	$12
Long-term debt			
Spanish real estate credit facility, due fiscal 2015	29	34	66
European and Australian asset-based revolving credit facility, expires fiscal 2016	70	—	61
Toys-Japan unsecured credit lines, expire fiscals 2016-2017 (1)	61	—	111
Secured term loan facility, due fiscal 2016 (2)	—	—	643
7.375% senior secured notes, due fiscal 2016 (2)	—	—	355
10.375% senior notes, due fiscal 2017 (3)	448	448	447
8.500% senior secured notes, due fiscal 2017 (4)	721	721	720
French real estate credit facility, due fiscal 2018	51	53	63
Incremental secured term loan facility, due fiscal 2018 (2)	131	133	371
Second incremental secured term loan facility, due fiscal 2018 (2)	66	67	209
7.375% senior notes, due fiscal 2018 (3)	402	402	403
$1.85 billion secured revolving credit facility, expires fiscal 2019 (2)	377	—	250
Senior unsecured term loan facility, due fiscal 2019 (5)	938	965	969
Tranche A-1 loan facility, due fiscal 2019 (2)	273	272	—
Secured term B-4 loan facility, due fiscal 2020 (2)	1,006	1,010	—
UK real estate credit facility, due fiscal 2020	411	396	443
Toys-Japan 1.85%-2.45% loans, due fiscals 2015-2021	57	63	86
8.750% debentures, due fiscal 2021 (6)	22	22	22
Finance obligations associated with capital projects	190	189	175
Capital lease and other obligations	29	13	18
	5,282	4,788	5,412
Less: current portion	226	176	165
Total Long-term debt (7)	$5,056	$4,612	$5,247

(1) Toys "R" Us - Japan, Ltd. ("Toys-Japan") currently has an agreement with a syndicate of financial institutions, which includes three unsecured loan commitment lines of credit ("Tranche 1A" due fiscal 2017, "Tranche 1B" due fiscal 2016 and "Tranche 2" due fiscal 2016). On June 30, 2015, Toys-Japan entered into an agreement to refinance its committed line of credit ("Tranche 1" due fiscal 2015) into Tranche 1A and Tranche 1B.

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

(3) Represents obligations of Toys "R" Us, Inc. (the "Parent Company").

(4) Represents obligations of Toys "R" Us Property Company II, LLC ("TRU Propco II").

(5) Represents obligations of Toys "R" Us Property Company I, LLC and its subsidiaries ("TRU Propco I").

(6) Represents obligations of the Parent Company and Toys-Delaware.

(7) 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.

The Parent Company 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 that, among other things, restrict our 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.

The amount of total net assets that were subject to such restrictions was $476 million as of August 1, 2015. Our agreements also contain various and customary events of default with respect to the indebtedness, including, without limitation, the failure to pay interest or principal when the same is due under the agreements, cross default and cross acceleration 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 and 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, capital expenditures and to service debt. As of August 1, 2015, we have funds available to finance our operations under our $1.85 billion secured revolving credit facility ("ABL Facility") through March 2019, subject to an earlier springing maturity, our Toys-Japan unsecured credit lines with two tranches maturing June 2016 and a tranche maturing June 2017 and our European and Australian asset-based revolving credit facility ("European ABL Facility") through March 2016. In addition, Toys (Labuan) Holding Limited ("Labuan") and Toys-Japan have uncommitted lines of credit due on demand.

Labuan uncommitted lines of credit, due on demand ($8 million at August 1, 2015)

Labuan has several uncommitted unsecured lines of credit with various financial institutions with total availability of HK$273 million ($35 million at August 1, 2015). As of August 1, 2015, we had $8 million of borrowings, which has been included in Accrued expenses and other current liabilities on our Condensed Consolidated Balance Sheet, and $4 million of bank guarantees issued under these facilities. The remaining availability under these facilities was $23 million. The average interest rate on the drawn borrowings was 1.50% and 2.39% at August 1, 2015 and August 2, 2014, respectively.

European and Australian asset-based revolving credit facility, expires fiscal 2016 ($70 million at August 1, 2015)

The European ABL Facility, as amended, provides for a five-year £138 million ($216 million at August 1, 2015) asset-based senior secured revolving credit facility which expires on March 8, 2016. As of August 1, 2015, we had outstanding borrowings of $70 million, with $40 million of remaining availability under the European ABL Facility. We are in the process of updating the European ABL Facility security documents to allow us to include inventory located in a new French distribution center in our borrowing base. We expect this process to be completed in the third fiscal quarter. The inclusion of this inventory in our borrowing base would have increased our remaining availability by an additional $9 million as of August 1, 2015.

Toys-Japan unsecured credit lines, expire fiscals 2016-2017 ($61 million at August 1, 2015)

Toys-Japan currently has an agreement with a syndicate of financial institutions, which includes three unsecured loan commitment lines of credit.

On June 30, 2015, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 1. As a result, Tranche 1 was refinanced into Tranche 1A and Tranche 1B. Tranche 1A is available in amounts of up to ¥9.45 billion ($76 million at August 1, 2015), expires on June 30, 2017 and bears an interest rate of Tokyo Interbank Offered Rate ("TIBOR") plus 0.80% per annum. As of August 1, 2015 we had outstanding borrowings of $46 million under Tranche 1A, with $30 million of remaining availability. Tranche 1B is available in amounts of up to ¥2.0 billion ($16 million at August 1, 2015), expires on June 30, 2016 and bears an interest rate of TIBOR plus 0.80% per annum. As of August 1, 2015 we had no outstanding borrowings under Tranche 1B, with $16 million of remaining availability. In addition, a commitment fee accrues on any unused portion of Tranche 1A and Tranche 1B at a rate of 0.250% 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.

The agreement contains covenants that require, among other things, Toys-Japan to maintain a certain level of net assets and profitability during the agreement terms, including provisions that require Toys-Japan to not incur two consecutive years of ordinary loss in accordance with accounting principles generally accepted in Japan, as defined in the credit agreement. The agreement also restricts Toys-Japan from paying dividends or making loans to affiliates without lender consent.

Tranche 2 is available in amounts of up to ¥3.5 billion ($28 million at August 1, 2015) and expires on June 30, 2016. As of August 1, 2015, we had outstanding borrowings of $15 million under Tranche 2, with $13 million of remaining availability.

Additionally, on June 30, 2015, Toys-Japan amended an uncommitted line of credit reducing its total availability from ¥1.5 billion to ¥1.0 billion ($8 million at August 1, 2015), which will renew August 1 of each year unless otherwise canceled. The uncommitted line of credit continues to bear an interest rate of TIBOR plus 0.50%. As of August 1, 2015 we had no outstanding borrowings under the uncommitted line of credit.

Toys-Japan has an additional uncommitted line of credit with total availability of ¥0.5 billion ($4 million at August 1, 2015). As of August 1, 2015 we had no outstanding borrowings under the uncommitted line of credit.

$1.85 billion secured revolving credit facility, expires fiscal 2019 ($377 million at August 1, 2015)

Under our ABL Facility which expires on March 21, 2019 subject to an earlier springing maturity, we had outstanding borrowings of $377 million, a total of $96 million of outstanding letters of credit and excess availability of $622 million as of August 1, 2015. We are also subject to a minimum excess availability covenant of $125 million, with remaining availability of $497 million in excess of the covenant at August 1, 2015.

Senior unsecured term loan facility, due fiscal 2019 ($938 million at August 1, 2015)

The senior unsecured term loan facility due fiscal 2019 (the “Propco I Term Loan Facility”) requires TRU Propco I to prepay outstanding term loans with 25% of TRU Propco I’s annual excess cash flow (as defined in the Propco I Term Loan Facility), commencing with the fiscal year ended January 31, 2015, subject to the rights of the lenders to decline such prepayment. As a result, TRU Propco I made a prepayment of $25 million on May 11, 2015.

Subsequent Event

The Propco I Term Loan Facility requires TRU Propco I to prepay outstanding term loans at specified times, subject to certain exceptions and reinvestment rights, in connection with certain asset sales in an amount equal to 65% of the appraised value (as defined in the Propco I Term Loan Facility) of the real property disposed of in such sale. As a result, on August 28, 2015, TRU Propco I made a prepayment of $16 million.

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 Condensed Consolidated Balance Sheets measured at estimated fair value and we do not offset assets and liabilities with the same counterparty. We 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.

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 London Interbank Offered Rate (“LIBOR”), Euro Interbank Offered Rate and TIBOR. Some of our interest rate contracts contain credit-risk related contingent features and are subject to master netting arrangements. As of August 1, 2015, our interest rate contracts have various maturity dates through February 2018 and are designated as cash flow hedges in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 815, “Derivatives and Hedging.”

The hedge accounting for a designated cash flow hedge requires that the effective portion be recorded to Accumulated other comprehensive 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 the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014, respectively. Reclassifications from Accumulated other comprehensive loss to Interest expense primarily relate to realized interest expense on interest rate swaps and caps and the amortization of gains recorded on de-designated caps. We expect to reclassify a net loss of less than $1 million over the next 12 months to Interest expense from Accumulated other comprehensive loss.

Certain of our agreements with credit-risk related contingent features contain cross-default provisions which provide that we could be declared in default on our derivative obligations if we default on certain specified indebtedness. At August 1, 2015, January 31, 2015 and August 2, 2014, there were no derivative liabilities related to agreements that contain credit-risk related contingent features. As of August 1, 2015, January 31, 2015 and August 2, 2014, we were not required to post collateral for any of these derivatives.

Foreign Exchange Contracts

We enter into foreign currency forward contracts to economically hedge the USD merchandise purchases of our foreign subsidiaries and our short-term, cross-currency intercompany loans with and between 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 Consolidated Balance Sheets at fair value with a gain or loss recorded on the Condensed Consolidated Statements of Operations in Interest expense.

Our foreign exchange contracts typically mature within 12 months. Some of these contracts contain credit-risk related contingent features and are subject to master netting arrangements. Some of these agreements contain provisions which provide that we could be declared in default on our derivative obligations if we default on certain specified indebtedness. At August 1, 2015, January 31, 2015 and August 2, 2014, derivative liabilities related to agreements that contain credit-risk related contingent features had a fair value of $2 million, $2 million and $1 million, respectively. As of August 1, 2015, January 31, 2015 and August 2, 2014, we were not required to post collateral for any of these derivatives.

The following table sets forth the net impact of the effective portion of derivatives designated as cash flow hedges on Accumulated other comprehensive loss on our Condensed Consolidated Statements of Stockholders' Deficit for the twenty-six weeks ended August 1, 2015 and August 2, 2014:

(In millions)	26 Weeks Ended August 1, 2015	August 2, 2014
Derivatives designated as cash flow hedges:		
Beginning balance	$—	$(1)
Change in fair value recognized in Accumulated other comprehensive loss - Interest Rate Contracts	—	—
Reclassifications from Accumulated other comprehensive loss - Interest Rate Contracts	—	—
Ending balance	$—	$(1)

The following table sets forth the impact of derivatives on Interest expense on our Condensed Consolidated Statements of Operations for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014:

(In millions)	13 Weeks Ended August 1, 2015	August 2, 2014	26 Weeks Ended August 1, 2015	August 2, 2014
Derivatives not designated for hedge accounting:				
Loss on the change in fair value - Intercompany Loan Foreign Exchange Contracts (1)	$(9)	$(8)	$(13)	$(15)
Loss on the change in fair value - Interest Rate Contract	—	(1)	—	(1)
Gain (loss) on the change in fair value - Merchandise Purchases Program Foreign Exchange Contracts	6	1	5	(1)
	(3)	(8)	(8)	(17)
Derivatives designated as cash flow hedges:				
Amortization of hedged caps	—	(1)	—	(1)
	—	(1)	—	(1)
Derivative designated as a fair value hedge:				
Loss on the change in fair value - Interest Rate Contract	—	—	—	(2)
Gain recognized in Interest expense on hedged item	—	—	—	2
	—	—	—	—
Total Interest expense	$(3)	$(9)	$(8)	$(18)

(1) 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.

The following table contains the notional amounts and related fair values of our derivatives included within our Condensed Consolidated Balance Sheets as of August 1, 2015, January 31, 2015 and August 2, 2014:

	August 1, 2015		January 31, 2015		August 2, 2014	
(In millions)	Notional Amount	Fair Value Assets/ (Liabilities)	Notional Amount	Fair Value Assets/ (Liabilities)	Notional Amount	Fair Value Assets/ (Liabilities)
Interest Rate Contracts designated as cash flow hedges:						
Prepaid expenses and other current assets (1)	$29	$ —	$734	$ —	$700	$ —
Other assets	51	—	53	—	129	—
Accrued expenses and other current liabilities	40	—	42	—	—	—
Other non-current liabilities	—	—	—	—	64	(1)
Interest Rate Contract designated as a fair value hedge:						
Other assets	—	—	—	—	—	—
Interest Rate Contracts not designated for hedge accounting:						
Prepaid expenses and other current assets (1)	—	—	1,611	—	1,611	—
Other assets	—	—	—	—	350	9
Foreign Currency Contracts not designated for hedge accounting:						
Prepaid expenses and other current assets	158	6	8	—	261	3
Accrued expenses and other current liabilities	$197	$ (3)	$90	$ (2)	$78	$ (1)
Total derivative contracts outstanding:						
Prepaid expenses and other current assets	$187	$ 6	$2,353	$ —	$2,572	$ 3
Other assets	51	—	53	—	479	9
Total derivative assets (2)	$238	$ 6	$2,406	$ —	$3,051	$ 12
Accrued expenses and other current liabilities	$237	$ (3)	$132	$ (2)	$78	$ (1)
Other non-current liabilities	—	—	—	—	64	(1)
Total derivative liabilities (2)	$237	$ (3)	$132	$ (2)	$142	$ (2)

(1) In April 2015, five interest rate caps matured.

(2) Refer to Note 4 entitled “Fair value measurements” for the classification of our derivative instruments within the fair value hierarchy.

Offsetting of Derivatives

We present our derivatives at gross fair values in the Condensed Consolidated Balance Sheets. However, some of our interest rate and foreign exchange contracts are subject to master netting arrangements which allow net settlements under certain conditions. The aggregate gross fair value of derivative liabilities which could be net settled against our derivative assets was less than $1 million as of August 1, 2015, and nominal as of January 31, 2015 and August 2, 2014, respectively. The aggregate gross fair value of derivative assets which could be net settled against our derivative liabilities was less than $1 million as of August 1, 2015, and nominal as of January 31, 2015 and August 2, 2014, respectively. As of August 1, 2015, January 31, 2015 and August 2, 2014, none of the master netting arrangements involved collateral.

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 our foreign currency contracts is determined using market-based foreign exchange rates, which are classified as Level 2 inputs.
The valuation of our interest rate contracts 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. We evaluate the inputs used to value our derivatives at the end of each reporting period.
For our interest rate contracts, we primarily use Level 2 inputs mentioned above to arrive at fair value. Additionally, for interest rate contracts 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 taking into account the impact of any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. We measure the credit risk of our derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio. The portfolio-level adjustments are then allocated each period to the individual assets or liabilities within the portfolio.
The credit valuation adjustments are calculated by determining the total expected exposure of the derivatives (which incorporates both the current and potential future exposure) and then applying each counterparty’s credit spread to the applicable exposure. The total expected exposure of a derivative is derived using market-observable inputs, such as yield curves and volatilities. The inputs utilized for our own credit spread are based on implied spreads from our debt, which are considered unobservable inputs. These credit valuation adjustments fall within Level 3 of the fair value hierarchy and include estimates of current credit spreads to evaluate the likelihood of default. For counterparties with publicly available credit information, the credit spreads over LIBOR used in the calculations represent implied credit default swap spreads obtained from a third party credit data provider. Generally, significant increases (decreases) in our own credit spread in isolation would result in significantly lower (higher) fair value measurement for these derivatives. Based on the mixed input valuation, we classify these derivatives based on the lowest level in the fair value hierarchy that is significant to the overall 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.
The table below presents our assets and liabilities measured at fair value on a recurring basis as of August 1, 2015, January 31, 2015 and August 2, 2014, aggregated by level in the fair value hierarchy within which those measurements fall.

(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)	Balance at August 1, 2015
Assets				
Derivative financial instruments:				
Interest rate contracts	$ —	$ —	$—	$—
Foreign exchange contracts	—	6	—	6
Total assets	$ —	$ 6	$—	$6
Liabilities				
Derivative financial instruments:				
Interest rate contracts	$ —	$ —	$—	$—
Foreign exchange contracts	—	3	—	3
Total liabilities	$ —	$ 3	$—	$3

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(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)	Balance at January 31, 2015
Liabilities				
Derivative financial instruments:				
Interest rate contracts	$ —	$ —	$—	$—
Foreign exchange contracts	—	2	—	2
Total liabilities	$ —	$ 2	$—	$2

(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)	Balance at August 2, 2014
Assets				
Derivative financial instruments:				
Interest rate contracts	$ —	$ 9	$—	$9
Foreign exchange contracts	—	3	—	3
Total assets	$ —	$ 12	$—	$12
Liabilities				
Derivative financial instruments:				
Interest rate contracts	$ —	$ 1	$—	$1
Foreign exchange contracts	—	1	—	1
Total liabilities	$ —	$ 2	$—	$2

For the periods ended August 1, 2015, January 31, 2015 and August 2, 2014, we had no derivative financial instruments within Level 3 of the fair value hierarchy.

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. We evaluate the carrying value of all long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Impairment of long-lived assets is included in Other income, net on our Condensed Consolidated Statements of Operations.

The fair value measurements related to long-lived assets held and used classified as Level 3 were determined using a discounted cash flow valuation method or a relative, market-based approach based on purchase offers or appraisals we have received from third parties. The inputs we use to calculate discounted cash flows include the projected cash flows for the asset group (generally by store location) and, when significant, a risk-adjusted rate of return we estimate would be used by a market participant in valuing the assets. The projected cash flows are based on the Company’s sales, gross margin and expense forecasts for each asset group, taking into consideration historical cash flows, as well as anticipated costs and/or proceeds from disposal. For our market-based valuations, we use purchase offers we receive from third parties, predominantly for our properties, which are classified as Level 3 because they are not received in an organized market or observable to market participants. Alternatively, when management commits to sell properties and no third party offers exist, we use asset appraisals conducted by external specialists with experience in real estate valuations. These require a significant amount of judgment regarding appropriate comparable properties and their assessment of current market conditions.

For the twenty-six weeks ended August 1, 2015 and August 2, 2014, we had no impairments to long-lived assets held for sale. There have been no changes in valuation technique or related inputs for long-lived assets for the twenty-six weeks ended August 1, 2015 and August 2, 2014.

The table below presents our long-lived assets evaluated for impairment and measured at fair value on a nonrecurring basis for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014, 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 August 1, 2015 and August 2, 2014. As of August 1, 2015 and August 2, 2014, we did not have any long-lived assets classified as Level 1 or 2 within the fair value hierarchy.

(In millions)	Carrying Value Prior to Impairment	Significant Unobservable Inputs (Level 3)	Impairment Losses
Long-lived assets held and used	$4	$2	$2
Balance, May 2, 2015	4	2	2
Long-lived assets held and used	4	2	2
Balance, August 1, 2015	$8	$4	$4

(In millions)	Carrying Value Prior to Impairment	Significant Unobservable Inputs (Level 3) (1)	Impairment Losses
Long-lived assets held and used	$4	$1	$3
Balance, May 3, 2014	4	1	3
Long-lived assets held and used	8	4	4
Balance, August 2, 2014	$12	$5	$7

(1) Includes fair values based on offers received, which were previously classified as Level 2 and should have been Level 3, of $4 million as of August 2, 2014.

Other Financial Instruments

The fair values of our Long-term debt including current portion are estimated using 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 fair values of debt instruments classified as Level 1 are based on quoted prices in reasonably active markets and Level 2 instruments are valued using market prices we obtain from external third parties. Debt instruments classified as Level 3 are not publicly traded, and therefore we are unable to obtain quoted market prices, and are generally valued using estimated spreads, a present value calculation or a cash flow analysis, as appropriate. There have been no significant changes in valuation technique or related inputs for Long-term debt for the twenty-six weeks ended August 1, 2015 and August 2, 2014. The table below presents the carrying values and fair values of our Long-term debt including current portion as of August 1, 2015, January 31, 2015 and August 2, 2014, aggregated by level in the fair value hierarchy within which those measurements fall.

	Long-term Debt				
(In millions)	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 1, 2015	$5,282	$4,922	$ 1,364	$2,283	$1,275
January 31, 2015	4,788	4,416	1,346	2,315	755
August 2, 2014	5,412	5,048	1,438	2,349	1,261

Other financial instruments that are not measured at fair value on our Condensed Consolidated Balance Sheets include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and short-term borrowings. Due to the short-term nature of these assets and liabilities, their carrying amounts approximate fair value.

5. Income taxes

The following table summarizes our Income tax expense and effective tax rates for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014:

($ In millions)	13 Weeks Ended		26 Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Loss before income taxes	$(91)	$(143)	$(234)	$(341)
Income tax expense	6	4	2	2
Effective tax rate	(6.6)%	(2.8)%	(0.9)%	(0.6)%

The effective tax rates for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014 were based on our forecasted annualized effective tax rates, adjusted for discrete items that occurred within the periods presented. Our forecasted annualized effective tax rate was (0.6)% for the twenty-six weeks ended August 1, 2015 compared to (0.5)% for the same period last year.

There were no significant discrete items that impacted our effective tax rate for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014, respectively.

6. Segments

Our reportable segments are Toys “R” Us – Domestic (“Domestic”), which provides toy and baby product offerings in 49 states, Puerto Rico and Guam, and Toys “R” Us – International (“International”), which operates or licenses “R” Us branded retail stores in 37 foreign countries and jurisdictions with operated stores in Australia, Austria, Brunei, Canada, China, France, Germany, Hong Kong, Japan, Malaysia, Poland, Portugal, Singapore, Spain, Switzerland, Taiwan, Thailand and the United Kingdom. Domestic and International segments also include their respective Internet operations. Segment operating earnings 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 generate material sales from any single customer.

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

Domestic:	13 Weeks Ended		26 Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Baby	46.4 %	47.2 %	48.1 %	48.5 %
Core Toy	14.0 %	13.1 %	13.5 %	12.5 %
Entertainment	5.7 %	6.4 %	6.5 %	7.2 %
Learning	18.2 %	17.7 %	17.9 %	17.5 %
Seasonal	14.9 %	15.0 %	13.4 %	13.7 %
Other (1)	0.8 %	0.6 %	0.6 %	0.6 %
Total	100 %	100 %	100 %	100 %

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

International:	13 Weeks Ended		26 Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Baby	25.4 %	25.0 %	26.0 %	26.0 %
Core Toy	20.1 %	19.7 %	20.3 %	19.6 %
Entertainment	5.8 %	7.1 %	6.0 %	7.3 %
Learning	26.9 %	25.8 %	27.3 %	26.1 %
Seasonal	20.9 %	21.5 %	19.5 %	20.1 %
Other (1)	0.9 %	0.9 %	0.9 %	0.9 %
Total	100 %	100 %	100 %	100 %

(1) Consists primarily of non-product related revenues, including licensing fees from unaffiliated third parties.

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From time to time, we may make revisions to our prior period Net sales by product category to conform to the current period allocation. These revisions did not have a significant impact to our prior year disclosure.
A summary of financial results by reportable segment is as follows:

(In millions)	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014	26 Weeks Ended August 1, 2015	26 Weeks Ended August 2, 2014
Net sales				
Domestic	$1,410	$1,460	$2,900	$2,999
International	883	980	1,718	1,920
Total Net sales	$2,293	$2,440	$4,618	$4,919
Operating earnings (loss)				
Domestic (1)	$78	$21	$139	$42
International	28	28	25	9
Corporate and other (1)	(91)	(91)	(179)	(184)
Operating earnings (loss)	15	(42)	(15)	(133)
Interest expense	(106)	(102)	(220)	(210)
Interest income	—	1	1	2
Loss before income taxes	$(91)	$(143)	$(234)	$(341)

(1) Certain professional fees of $1 million and $6 million for the thirteen and twenty-six weeks ended August 2, 2014, respectively, that were previously recorded to our Domestic segment have been reclassified to our Corporate and other division.

(In millions)	August 1, 2015	January 31, 2015	August 2, 2014
Merchandise inventories			
Domestic	$1,410	$1,353	$1,442
International	801	711	902
Total Merchandise inventories	$2,211	$2,064	$2,344

7. Litigation and legal proceedings

We are, and in the future may be, involved in various 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. We are not able to estimate an aggregate amount or range of reasonably possible losses for those legal matters for which losses are not probable and estimable, primarily for the following reasons: (i) many of the relevant legal proceedings are in preliminary stages, and until such proceedings develop further, there is often uncertainty regarding the relevant facts and circumstances at issue and potential liability; and (ii) many of these proceedings involve matters of which the outcomes are inherently difficult to predict. However, based upon our historical experience with similar matters, we do not expect that any such additional losses would be material to our consolidated financial position, results of operations or cash flows.

8. Related party transactions

We are owned by an investment group led by entities advised by or affiliated with Bain Capital Partners, LLC, Kohlberg Kravis Roberts & Co. L.P. (together with its affiliates, “KKR”) and Vornado Realty Trust (“Vornado”) (collectively, the “Sponsors”). 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, February 1, 2009, August 29, 2014 and June 1, 2015 (“Advisory Agreement”). The initial term of the Advisory Agreement was ten years, with the ability to extend annually for one year unless we or the Sponsors provide notice of termination to the other.

In August 2014, the Advisory Agreement was amended in order to reduce the management and advisory fees paid to the Sponsors (the "Advisory Fees") to $17 million. The amendment provides that if in the future we successfully complete an initial public offering ("IPO"), the Sponsors may elect to receive from the proceeds of such IPO, an amount equal to the aggregate difference between: (x) the Advisory Fees that we would have paid in fiscal year 2014 and each fiscal year thereafter had such amounts not been fixed and (y) the Advisory Fees that were actually paid by us for fiscal year 2014 and each fiscal year thereafter.

In June 2015, the Advisory Agreement was further amended in order to reduce the Advisory Fees payable in fiscal 2015 and thereafter from $17 million to $6 million annually with no further adjustment upon an IPO for such reductions.

We recorded Advisory Fees of less than $1 million and $5 million for the thirteen and twenty-six weeks ended August 1, 2015, respectively. We recorded Advisory Fees of $6 million and $12 million for the thirteen and twenty-six weeks ended August 2, 2014, respectively. During the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014, we also paid the Sponsors fees of less than $1 million, respectively, for out-of-pocket expenses.

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 (“Transaction Fees”). The Advisory Agreement includes customary exculpation and indemnification provisions in favor of the Sponsors and their affiliates. 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. Transaction fees are capitalized as deferred debt issuance costs and are amortized over the term of the related debt agreement and included in Other assets on our Condensed Consolidated Balance Sheets.

From time to time, we and our subsidiaries, as well as the Sponsors or their affiliates, may acquire debt or debt securities issued by us or our subsidiaries in open market transactions, tender offers, exchange offers, privately negotiated transactions or otherwise. During the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014, affiliates of KKR held debt and debt securities issued by the Company and its subsidiaries. The interest amounts on such debt and debt securities held by related parties were $2 million and $5 million during each of the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014.

Additionally, under lease agreements with affiliates of Vornado, we paid an aggregate amount of $2 million and $4 million for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014, respectively, with respect to 0.6% and 0.7%, respectively, of our operated stores, which include Toys “R” Us Express stores. Of the aggregate amount paid, less than $1 million and $1 million for each of the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014, respectively, was allocable to joint-venture parties not otherwise affiliated with Vornado.

Each of the Sponsors, either directly or through affiliates, has ownership interests in a broad range of companies (“Portfolio Companies”) with whom we may from time to time enter into commercial transactions in the ordinary course of business, primarily for the purchase of goods and services. We believe that none of our transactions or arrangements with Portfolio Companies are significant enough to be considered material to the Sponsors or to our business.

9. Dispositions

During the thirteen and twenty-six weeks ended August 1, 2015, we sold certain properties and assets for proceeds of $10 million and $12 million, respectively, resulting in net gains of $6 million and $7 million, respectively. Net gains on sales of properties are included in Other income, net on our Condensed Consolidated Statements of Operations.

10. Stock-based compensation

Amendments to the 2010 Incentive Plan and Amended and Restated Certificate of Incorporation

On May 31, 2015, the Board of Directors adopted amendments to the Toys “R” Us, Inc. 2010 Incentive Plan, as amended (the “2010 Incentive Plan”) and Amended and Restated Certificate of Incorporation, which were adopted by the stockholders of the Company on June 1, 2015. Amendment No. 3 to the 2010 Incentive Plan increased the number of shares available thereunder by 3,000,000 shares and Amendment No. 1 to the Amended and Restated Certificate of Incorporation increased the number of authorized shares of Common Stock by 5,000,000 shares.

One-time award

On June 1, 2015, the Company entered into an employment agreement with David A. Brandon to serve as Chairman of the Board and Chief Executive Officer. The employment agreement provided a one-time award of stock options under the 2010 Incentive Plan subject to time and performance based vesting conditions, which had a grant date of July 1, 2015. The award will vest ratably over forty-eight months commencing on the first month anniversary of the grant date and will only be deemed fully vested when the performance based obligations pursuant to Mr. Brandon's employment agreement are satisfied. The one-time award has a grant date fair value of $9 million, at $8.00 per share.

2015 Award exchange

In June 2015, certain participants under the 2010 Incentive Plan were offered an opportunity to exchange their unvested outstanding restricted stock units granted May 24, 2013 (“RSUs”) for a grant of two new stock options (“New Options”) for every one RSU canceled. The New Options have an exercise price of $8.00. On July 31, 2015, the Company closed its offer with a total of 64,381 RSUs canceled and a total of 128,762 New Options issued under the 2010 Incentive Plan. The New Options have a grant date of August 3, 2015 and vest 50% on each of May 24, 2016 and May 24, 2017, subject to the participant’s continued employment with the Company, and will vest automatically upon change of control of the Company. These options expire ten years from the date of grant, subject to the earlier expiration in accordance with the New Option award agreement. We accounted for the modification in accordance with ASC Topic 718, “Compensation – Stock Compensation”. Management has concluded that the modification had no impact on compensation costs.

11. Accumulated other comprehensive loss

Total other comprehensive (loss) income, net of tax is included in the Condensed Consolidated Statements of Comprehensive Loss and Condensed Consolidated Statements of Stockholders’ Deficit. Accumulated other comprehensive loss is reflected in Total stockholders’ deficit on the Condensed Consolidated Balance Sheets, as follows:

(In millions)	Foreign currency translation adjustments, net of tax	Unrealized loss on hedged transactions, net of tax	Unrecognized actuarial losses, net of tax	Accumulated other comprehensive loss
Balance, February 1, 2014	$(74)	$(1)	$(9)	$(84)
Change	22	—	—	22
Balance, May 3, 2014	(52)	(1)	(9)	(62)
Change	(21)	—	—	(21)
Balance, August 2, 2014	$(73)	$(1)	$(9)	$(83)

(In millions)	Foreign currency translation adjustments, net of tax	Unrealized loss on hedged transactions, net of tax	Unrecognized actuarial losses, net of tax	Accumulated other comprehensive loss
Balance, January 31, 2015	$(202)	$—	$(42)	$(244)
Change	(13)	—	—	(13)
Balance, May 2, 2015	(215)	—	(42)	(257)
Change	(32)	—	(1)	(33)
Balance, August 1, 2015	$(247)	$—	$(43)	$(290)

12. Recent accounting pronouncements

In July 2015, the FASB issued Accounting Standards Update (“ASU”) 2015-12 “Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Plans (Topic 962), Health and Welfare Benefit Plans (Topic 965)” (“ASU 2015-12”). The amendments in Part I of ASU 2015-12 eliminated the requirements that employee benefit plans measure the fair value of fully benefit-responsive investment contracts and provide the related fair value disclosures, rather these contracts will be measured and disclosed only at contract value. The amendments in Part II of this ASU will require plans to disaggregate their investments measured using fair value only by general type, either on the financial statements or in the notes. Part II of this ASU also eliminated the requirement to disclose the net appreciation/depreciation in fair value of investments by general type and the requirement to disclose individual investments that represent 5% or more of net assets available for benefits. The amendments in Part III of ASU

2015-12 provides a practical expedient to permit plans to measure its investments and investment related accounts as of a month-end date closest to its fiscal year for a plan with a fiscal year end that does not coincide with the end of a calendar month. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. Management is currently assessing the impact the adoption of ASU 2015-12 will have on the Condensed Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement (“ASU 2015-05”). Existing GAAP does not include explicit guidance about a customer’s accounting for fees paid in a cloud computing arrangement. The amendments in this ASU provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software licenses element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date; or (2) retrospectively. For prospective transition, the only disclosure requirements at transition are the nature of and reason for the change in accounting principle, the transition method, and a qualitative description of the financial statement line items affected by the change. For retrospective transition, the disclosure requirements at transition include the requirements for prospective transition and quantitative information about the effects of the accounting change. The adoption of ASU 2015-05 is not expected to have an impact on our Condensed Consolidated Financial Statements.

In April 2015, the FASB issued ASU 2015-04, "Compensation - Retirement Benefits (Topic 715): Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets" ("ASU 2015-04"). For entities with a fiscal year-end that does not coincide with a month-end, ASU 2015-04 provides a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year-to-year. Under the previous practice, entities with fiscal year-ends that did not coincide with a month-end, had to adjust the fair value of the plan assets reported by the third-party service provider to reflect the fair value of plan assets as of their fiscal year. The practical expedient should be applied consistently to all plans if an entity has more than one plan. An entity is required to disclose the accounting policy election and the date used to measure defined benefit plan assets and obligations in accordance with the amendments in this ASU. Additional disclosures are required if a contribution or significant event caused by the entity occurs between the month-end date used to measure the defined benefit plan assets and obligations and an entity's fiscal year-end. The amendments in this ASU are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. Entities should apply the amendments in this update prospectively. Management is currently assessing the impact the adoption of ASU 2015-04 will have on our Condensed Consolidated Financial Statements.

In April 2015, the FASB issued ASU No. 2015-03, "Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 simplifies the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Under the previous practice, debt issuance costs were recognized as a deferred charge (that is, an asset). This ASU will create consistencies with the guidance in International Financial Reporting Standards as well as the guidance in FASB Concepts Statement No. 6, "Elements of Financial Statements", which states that debt issuance costs are similar to debt discounts and in effect reduce the proceeds of borrowing, thereby increasing the effective interest rate. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. In August 2015, the FASB issued ASU 2015-15 "Interest - Imputed Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" ("ASU 2015-15"), which clarifies that the guidance in ASU 2015-03 does not apply to line-of-credit arrangements. According to ASU 2015-15, line-of-credit arrangements will continue to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt costs ratably over the term of the arrangement. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. The amendments in ASU 2015-03 are effective for reporting periods beginning after December 15, 2015, with early adoption permitted. A reporting entity should apply the amendments on a retrospective basis to all prior periods presented in the financial statements. Other than the revised balance sheet presentation of debt issuance costs from an asset to a deduction from the carrying amount of the debt liability and related disclosures, the adoption of ASU 2015-03 is not expected to have an impact on our Condensed Consolidated Financial Statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). ASU 2014-09 amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. The ASU implements a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Other major provisions include the capitalization and amortization of certain contract costs, ensuring the time value of money is considered in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. As a result of the FASB issuing ASU 2015-14 “Revenue from Contracts with Customers (Topic 606) - Deferral of the Effective Date” in August 2015, the amendments in this ASU are effective for reporting periods beginning after December 15, 2017, and early adoption is prohibited. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the adoption methodology and the impact the adoption of ASU 2014-09 will have on our Condensed Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
As used herein, the "Company," "we," "us," or "our" means Toys "R" Us, Inc. and its consolidated subsidiaries, except as expressly indicated or unless the context otherwise requires. 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 Annual Report on Form 10-K for the fiscal year ended January 31, 2015 and the Condensed Consolidated Financial Statements and the accompanying notes thereto, and contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements" below.

Our Business
We generate sales, earnings and cash flows by retailing merchandise in our baby, core toy, entertainment, learning and seasonal product categories worldwide. Our reportable segments are Toys "R" Us – Domestic ("Domestic"), which provides toy and baby product offerings in 49 states, Puerto Rico and Guam, and Toys "R" Us – International ("International"), which operates or licenses stores in 37 foreign countries and jurisdictions. As of August 1, 2015, there were 1,598 operated and 243 licensed "R" Us branded retail stores worldwide. In addition, as of August 1, 2015, we operated 121 Toys "R" Us Express stores ("Express stores"), including 64 Express stores with a cumulative lease term of at least two years ("Permanent Express"). Domestic and International segments also include their respective Internet operations.

Financial Performance
As discussed in more detail in this MD&A, the following financial data represents an overview of our financial performance for the thirteen and twenty-six weeks ended August 1, 2015 compared to the thirteen and twenty-six weeks ended August 2, 2014:

($ In millions)	13 Weeks Ended				26 Weeks Ended			
	August 1, 2015		August 2, 2014		August 1, 2015		August 2, 2014	
Net sales	$2,293		$2,440		$4,618		$4,919	
Gross margin	875		916		1,737		1,834	
Gross margin as a percentage of Net sales	38.2	%	37.5	%	37.6	%	37.3	%
Selling, general and administrative expenses	$796		$878		$1,623		$1,795	
Selling, general and administrative expenses as a percentage of Net sales	34.7	%	36.0	%	35.1	%	36.5	%
Net loss attributable to Toys "R" Us, Inc.	$(99	)	$(148	)	$(239	)	$(344	)
Non-GAAP Financial Measure:								
Adjusted EBITDA (1)	$122		$83		$192		$110	

(1) For an explanation of Adjusted EBITDA as a measure of the Company's operating performance and a reconciliation to Net loss attributable to Toys "R" Us, Inc., see "Non-GAAP Financial Measure - Adjusted EBITDA".

Net sales decreased by $147 million and $301 million for the thirteen and twenty-six weeks ended August 1, 2015, respectively, compared to the same periods last year. Foreign currency translation decreased Net sales by $144 million and $275 million for the thirteen and twenty-six weeks ended August 1, 2015, respectively. Excluding the impact of foreign currency translation, Net sales for the thirteen weeks ended August 1, 2015 were essentially flat compared to the same period last year. Net sales for the twenty-six weeks ended August 1, 2015 decreased due to a decline in Domestic comparable store net sales and store closures within our Domestic segment, partially offset by an increase in International comparable store net sales and an increase in net sales from new locations in our International segment.
Gross margin, as a percentage of Net sales, increased by 0.7% and 0.3% percentage points for the thirteen and twenty-six weeks ended August 1, 2015, respectively, compared to the same periods last year. The prior year Domestic margin rate for both periods was negatively impacted by previously identified clearance inventory. Additionally contributing to the increase in Gross margin for the twenty-six weeks ended August 1, 2015 was a margin rate improvement within our Domestic segment mainly attributable to continued promotional discipline in the

current year. Partially offsetting the increase for both periods was a margin rate decline within our International segment, primarily from increased cost of merchandise due to an adverse impact from foreign currency translation. Selling, general and administrative expenses (“SG&A”) decreased by $82 million and $172 million for the thirteen and twenty-six weeks ended August 1, 2015, respectively, compared to the same periods last year. Foreign currency translation decreased SG&A by $50 million and $99 million for the thirteen and twenty-six weeks ended August 1, 2015, respectively. Excluding the

impact of foreign currency translation, the decrease in SG&A for both periods was primarily due to a reduction in payroll expenses and advertising and promotional expenses. Additionally contributing to the decrease was a reduction in advisory fees as a result of an amendment to the advisory agreement we have with Bain Capital Partners LLC, Kohlberg Kravis Roberts & Co. L.P., and Vornado Realty Trust (collectively, the "Sponsors").
Net loss attributable to Toys "R" Us, Inc. decreased by $49 million and $105 million for the thirteen and twenty-six weeks ended August 1, 2015, respectively, compared to the same periods last year. The decrease for both periods was primarily due to a reduction in SG&A and a decrease in Depreciation and amortization, partially offset by a decline in Gross margin dollars.

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. Permanent Express stores 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;
- 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 and on-line, we can better gauge how the core store base and e-commerce businesses are performing since comparable store net sales 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 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 thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014:

	13 Weeks Ended				26 Weeks Ended			
	August 1, 2015 vs. 2014		August 2, 2014 vs. 2013		August 1, 2015 vs. 2014		August 2, 2014 vs. 2013	
Domestic	(2.5	)%	1.5	%	(2.4	)%	2.7	%
International	3.3	%	2.5	%	2.3	%	1.7	%
Toys "R" Us - Consolidated	(0.2	)%	1.9	%	(0.6	)%	2.3	%

Percentage of Net Sales by Product Category

Domestic:	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014	26 Weeks Ended August 1, 2015	26 Weeks Ended August 2, 2014
Baby	46.4 %	47.2 %	48.1 %	48.5 %
Core Toy	14.0 %	13.1 %	13.5 %	12.5 %
Entertainment	5.7 %	6.4 %	6.5 %	7.2 %
Learning	18.2 %	17.7 %	17.9 %	17.5 %
Seasonal	14.9 %	15.0 %	13.4 %	13.7 %
Other (1)	0.8 %	0.6 %	0.6 %	0.6 %
Total	100 %	100 %	100 %	100 %

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

International:	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014	26 Weeks Ended August 1, 2015	26 Weeks Ended August 2, 2014
Baby	25.4 %	25.0 %	26.0 %	26.0 %
Core Toy	20.1 %	19.7 %	20.3 %	19.6 %
Entertainment	5.8 %	7.1 %	6.0 %	7.3 %
Learning	26.9 %	25.8 %	27.3 %	26.1 %
Seasonal	20.9 %	21.5 %	19.5 %	20.1 %
Other (1)	0.9 %	0.9 %	0.9 %	0.9 %
Total	100 %	100 %	100 %	100 %

(1) Consists primarily of non-product related revenues, including licensing fees from unaffiliated third parties.

From time to time, we may make revisions to our prior period Net sales by product category to conform to the current period allocation. These revisions did not have a significant impact to our prior year disclosure.

Store Count by Segment

	August 1, 2015	August 2, 2014	Change
Domestic (1)	864	878	(14)
International - Operated (2)	734	713	21
International - Licensed (3)	243	196	47
Total (4)	1,841	1,787	54

(1) Store count as of August 1, 2015 includes 290 Toys “R” Us (“TRU”) stores, 224 Babies “R” Us (“BRU”) stores, 213 side-by-side (“SBS”) stores, 58 Juvenile Expansions, 20 Babies “R” Us Express (“BRU Express”) stores and 59 Permanent Express stores. Store count as of August 2, 2014 included 302 TRU stores, 230 BRU stores, 214 SBS stores, 59 Juvenile Expansions, 20 BRU Express stores and 53 Permanent Express stores.

(2) Store count as of August 1, 2015 includes 496 TRU stores, 199 SBS stores, 19 BRU Express stores, 15 BRU stores and five Permanent Express stores. Store count as of August 2, 2014 included 475 TRU stores, 193 SBS stores, 18 BRU Express stores, 15 BRU stores and 12 Permanent Express stores. The net increase in store count from prior year is predominantly due to 26 stores in China and Southeast Asia.

(3) The net increase in store count from prior year is predominantly due to 28 stores in South Africa, six stores in the Philippines and five stores in South Korea.

(4) There were 46 Domestic and 11 International Express stores open as of August 1, 2015 and 57 Domestic and 10 International Express stores open as of August 2, 2014. These stores were not included in our overall store count within our Domestic and International segments and are considered temporary as they have a cumulative lease term of less than two years.

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Net Loss Attributable to Toys "R" Us, Inc.

(In millions)	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014	Change	26 Weeks Ended August 1, 2015	26 Weeks Ended August 2, 2014	Change
Toys "R" Us - Consolidated	$(99)	$(148)	$49	$(239)	$(344)	$105

Net loss attributable to Toys "R" Us, Inc. decreased by $49 million to $99 million for the thirteen weeks ended August 1, 2015, compared to $148 million for the same period last year. The decrease in Net loss attributable to Toys "R" Us, Inc. was primarily due to a reduction in SG&A of $82 million and a decrease in Depreciation and amortization of $9 million, partially offset by a decline in Gross margin of $41 million.

Net loss attributable to Toys "R" Us, Inc. decreased by $105 million to $239 million for the twenty-six weeks ended August 1, 2015, compared to $344 million for the same period last year. The decrease in Net loss attributable to Toys "R" Us, Inc. was primarily due to a reduction in SG&A of $172 million and a decrease in Depreciation and amortization of $26 million, partially offset by a decline in Gross margin of $97 million.

Net Sales

($ In millions)	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014	$ Change	% Change	Percentage of Net Sales August 1, 2015	Percentage of Net Sales August 2, 2014
Domestic	$1,410	$1,460	$(50)	(3.4)%	61.5%	59.8%
International	883	980	(97)	(9.9)%	38.5%	40.2%
Toys "R" Us - Consolidated	$2,293	$2,440	$(147)	(6.0)%	100.0%	100.0%

Net sales decreased by $147 million or 6.0%, to $2,293 million for the thirteen weeks ended August 1, 2015, compared to $2,440 million for the same period last year. The impact of foreign currency translation decreased Net sales by $144 million for the thirteen weeks ended August 1, 2015.

Excluding the impact of foreign currency translation, Net sales were essentially flat for the thirteen weeks ended August 1, 2015, compared to the same period last year, with a decline in Domestic comparable store net sales and store closures within our Domestic segment offset by an increase in International comparable store net sales and an increase in net sales from new locations within our International segment.

($ In millions)	26 Weeks Ended August 1, 2015	26 Weeks Ended August 2, 2014	$ Change	% Change	Percentage of Net Sales August 1, 2015	Percentage of Net Sales August 2, 2014
Domestic	$2,900	$2,999	$(99)	(3.3)%	62.8%	61.0%
International	1,718	1,920	(202)	(10.5)%	37.2%	39.0%
Toys "R" Us - Consolidated	$4,618	$4,919	$(301)	(6.1)%	100.0%	100.0%

Net sales decreased by $301 million or 6.1%, to $4,618 million for the twenty-six weeks ended August 1, 2015, compared to $4,919 million for the same period last year. The impact of foreign currency translation decreased Net sales by $275 million for the twenty-six weeks ended August 1, 2015.

Excluding the impact of foreign currency translation, the decrease in Net sales for the twenty-six weeks ended August 1, 2015 was predominantly due to a decrease in Domestic comparable store net sales primarily driven by a decrease in the number of transactions, and store closures within our Domestic segment. Partially offsetting the decrease in Net sales was an increase in International comparable store net sales primarily driven by higher average transaction amounts, and an increase in net sales from new locations within our International segment.

Domestic

Net sales for the Domestic segment decreased by $50 million or 3.4%, to $1,410 million for the thirteen weeks ended August 1, 2015, compared to $1,460 million for the same period last year. The decrease in Net sales was primarily a

result of a decline in comparable store net sales of 2.5% and store closures.
The decrease in comparable store net sales resulted primarily from decreases in our baby, entertainment and seasonal categories. The decrease in our baby category was mainly due to decreased sales of consumables. The decrease in our

entertainment category was predominantly due to decreased sales of portable electronics and video game software. The decrease in our seasonal category was primarily due to decreased sales of outdoor products. Partially offsetting these decreases was an increase in our core toy category primarily as a result of increased sales of collectibles.
Net sales for the Domestic segment decreased by $99 million or 3.3%, to $2,900 million for the twenty-six weeks ended August 1, 2015, compared to $2,999 million for the same period last year. The decrease in Net sales was primarily a result of a decline in comparable store net sales of 2.4% and store closures.
The decrease in comparable store net sales resulted primarily from decreases in our baby, entertainment and seasonal categories. The decrease in our baby category was mainly due to decreased sales of consumables. The decrease in our entertainment category was primarily due to decreased sales of portable electronics and video game software. The decrease in our seasonal category was predominantly due to decreased sales of outdoor products. Partially offsetting these decreases was an increase in our core toy category primarily as a result of increased sales of collectibles.
International
Net sales for the International segment decreased by $97 million or 9.9%, to $883 million for the thirteen weeks ended August 1, 2015, compared to $980 million for the same period last year. Excluding a $144 million decrease in Net sales due to foreign currency translation, International Net sales improved primarily as a result of an increase in comparable store net sales of 3.3% and an increase in net sales from new locations.
The increase in comparable store net sales resulted primarily from increases in our learning, baby and core toy categories. The increase in our learning category was mainly due to increased sales of construction toys. The increase in our baby category was primarily due to increased sales of baby gear and consumables. The increase in our core toy category was predominantly due to increased sales of collectibles. Partially offsetting these increases was a decline in our entertainment category primarily as a result of decreased sales of video game software and systems and home entertainment media products.
Net sales for the International segment decreased by $202 million or 10.5%, to $1,718 million for the twenty-six weeks ended August 1, 2015, compared to $1,920 million for the same period last year. Excluding a $275 million decrease in Net sales due to foreign currency translation, International Net sales improved primarily as a result of an increase in comparable store net sales of 2.3% and an increase in net sales from new locations.
The increase in comparable store net sales resulted primarily from increases in our learning, core toy and baby categories. The increase in our learning category was mainly due to increased sales of construction toys. The increase in our core toy category was primarily due to increased sales of collectibles and action figures. The increase in our baby category was predominantly due to increased sales of baby gear and apparel. Partially offsetting these increases was a decline in our entertainment category primarily as a result of decreased sales of video game software and systems.

Gross Margin
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.

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.

	13 Weeks Ended								
				Percentage of Net Sales					
($ In millions)	August 1, 2015	August 2, 2014	$ Change	August 1, 2015		August 2, 2014		Change	
Domestic	$511	$506	$5	36.2	%	34.7	%	1.5	%

International	364	410	(46)	41.2 %	41.8 %	(0.6)%
Toys “R” Us - Consolidated	$875	$916	$(41)	38.2 %	37.5 %	0.7 %

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Gross margin decreased by $41 million to $875 million for the thirteen weeks ended August 1, 2015, compared to $916 million for the same period last year. Foreign currency translation decreased Gross margin by $58 million. Gross margin, as a percentage of Net sales, increased by 0.7 percentage points for the thirteen weeks ended August 1, 2015, compared to the same period last year. The increase in Gross margin, as a percentage of Net sales, was attributable to a prior year $19 million loss on previously identified clearance inventory within our Domestic segment. Partially offsetting the increase was a margin rate decline within our International segment, primarily from increased cost of merchandise due to an adverse impact from foreign currency translation.

	26 Weeks Ended			Percentage of Net Sales		
($ In millions)	August 1, 2015	August 2, 2014	$ Change	August 1, 2015	August 2, 2014	Change
Domestic	$1,046	$1,055	$(9)	36.1 %	35.2 %	0.9 %
International	691	779	(88)	40.2 %	40.6 %	(0.4)%
Toys “R” Us - Consolidated	$1,737	$1,834	$(97)	37.6 %	37.3 %	0.3 %

Gross margin decreased by $97 million to $1,737 million for the twenty-six weeks ended August 1, 2015, compared to $1,834 million for the same period last year. Foreign currency translation decreased Gross margin by $108 million. Gross margin, as a percentage of Net sales, increased by 0.3 percentage points for the twenty-six weeks ended August 1, 2015, compared to the same period last year. The increase in Gross margin, as a percentage of Net sales, was primarily the result of a margin rate improvement within our Domestic segment mainly attributable to continued promotional discipline in the current year. The prior year Domestic rate was negatively impacted by previously identified clearance inventory. Partially offsetting these increases was a margin rate decline within our International segment, primarily from increased cost of merchandise due to an adverse impact from foreign currency translation.

Domestic

Gross margin increased by $5 million to $511 million for the thirteen weeks ended August 1, 2015, compared to $506 million for the same period last year. Gross margin, as a percentage of Net sales, increased by 1.5 percentage points for the thirteen weeks ended August 1, 2015 compared to the same period last year.

The increase in Gross margin, as a percentage of Net sales, resulted from margin improvements predominantly in our learning, entertainment and baby categories. The current year margin rate improvement is due to a prior year $19 million loss on previously identified clearance inventory.

Gross margin decreased by $9 million to $1,046 million for the twenty-six weeks ended August 1, 2015, compared to $1,055 million for the same period last year. Gross margin, as a percentage of Net sales, increased by 0.9 percentage points for the twenty-six weeks ended August 1, 2015 compared to the same period last year.

The increase in Gross margin, as a percentage of Net sales, resulted from margin improvements predominantly in our baby, entertainment and learning categories. The current year margin rate improvement is largely due to a prior year $8 million loss on previously identified clearance inventory.

International

Gross margin decreased by $46 million to $364 million for the thirteen weeks ended August 1, 2015, compared to $410 million for the same period last year. Foreign currency translation decreased Gross margin by $58 million. Gross margin, as a percentage of Net sales, decreased by 0.6 percentage points for the thirteen weeks ended August 1, 2015, compared to the same period last year.

The decrease in Gross margin, as a percentage of Net sales, resulted primarily from increased cost of merchandise due to an adverse impact from foreign currency translation, most notably in our learning and core toy categories.

Gross margin decreased by $88 million to $691 million for the twenty-six weeks ended August 1, 2015, compared to $779 million for the same period last year. Foreign currency translation decreased Gross margin by $108 million. Gross margin, as a percentage of Net sales, decreased by 0.4 percentage points for the twenty-six weeks ended August 1, 2015, compared to the same period last year.

The decrease in Gross margin, as a percentage of Net sales, resulted primarily from increased cost of merchandise due to an adverse impact from foreign currency translation, most notably in our learning and core toy categories.

Selling, General and Administrative Expenses

The following table presents expenses as a percentage of consolidated SG&A:

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2015	August 2, 2014	August 1, 2015	August 2, 2014
Payroll and related benefits	46.1 %	45.8 %	45.2 %	45.1 %
Occupancy costs	34.4 %	33.0 %	34.0 %	33.0 %
Advertising and promotional expenses	5.4 %	6.2 %	6.0 %	7.0 %
Professional fees	3.0 %	3.6 %	3.5 %	3.5 %
Transaction fees (1)	3.1 %	3.0 %	3.1 %	2.9 %
Other (2)	8.0 %	8.4 %	8.2 %	8.5 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

(1) Primarily consists of credit card fees.

(2) Includes costs related to transporting merchandise from distribution centers to stores, website hosting, store related supplies and signage and other corporate-related expenses.

	13 Weeks Ended			Percentage of Net Sales		
($ In millions)	August 1, 2015	August 2, 2014	$ Change	August 1, 2015	August 2, 2014	Change
Toys “R” Us - Consolidated	$796	$878	$(82)	34.7 %	36.0 %	(1.3)%

SG&A decreased by $82 million to $796 million for the thirteen weeks ended August 1, 2015, compared to $878 million for the same period last year. Foreign currency translation decreased SG&A by $50 million. As a percentage of Net sales, SG&A decreased by 1.3 percentage points.

Excluding the impact of foreign currency translation, SG&A decreased by $32 million primarily due to a $15 million decline in store payroll expenses and a $9 million decrease in advertising and promotional expenses. Additionally contributing to the decrease was a $6 million reduction in advisory fees as a result of an amendment to the advisory agreement we have with the Sponsors. Refer to Note 8 within our Condensed Consolidated Financial Statements entitled “Related Party Transactions” for further details.

	26 Weeks Ended			Percentage of Net Sales		
($ In millions)	August 1, 2015	August 2, 2014	$ Change	August 1, 2015	August 2, 2014	Change
Toys “R” Us - Consolidated	$1,623	$1,795	$(172)	35.1 %	36.5 %	(1.4)%

SG&A decreased by $172 million to $1,623 million for the twenty-six weeks ended August 1, 2015, compared to $1,795 million for the same period last year. Foreign currency translation decreased SG&A by $99 million. As a percentage of Net sales, SG&A decreased by 1.4 percentage points.

Excluding the impact of foreign currency translation, SG&A decreased by $73 million primarily due to a $36 million decrease in payroll expenses, which included a $29 million decline in store payroll expenses. Additionally contributing to the decrease was a $22 million decrease in advertising and promotional expenses and a $7 million reduction in advisory fees as a result of an amendment to the advisory agreement we have with the Sponsors.

Depreciation and Amortization

	13 Weeks Ended			26 Weeks Ended		
(In millions)	August 1, 2015	August 2, 2014	Change	August 1, 2015	August 2, 2014	Change
Toys “R” Us - Consolidated	$86	$95	$(9)	$173	$199	$(26)

Depreciation and amortization decreased by $9 million for the thirteen weeks ended August 1, 2015, compared to the same period last year. Foreign currency translation decreased Depreciation and amortization by $4 million. Excluding the impact of foreign currency translation, the decrease in Depreciation and amortization was primarily due to fully depreciated assets.

Depreciation and amortization decreased by $26 million for the twenty-six weeks ended August 1, 2015, compared to the same period last year. Foreign currency translation decreased Depreciation and amortization by $8 million. Excluding the impact of foreign currency translation, the decrease in Depreciation and amortization was primarily due to the prior year accelerated depreciation of certain assets, which we committed to dispose of prior to the end of their useful lives, and fully depreciated assets.

Other Income, Net

Other income, net includes the following:

- credit card program income;
- foreign exchange gains and losses;
- net gains on sales of properties;
- gift card breakage income;
- impairment of long-lived assets; and
- other operating income and expenses.

	13 Weeks Ended			26 Weeks Ended		
(In millions)	August 1, 2015	August 2, 2014	Change	August 1, 2015	August 2, 2014	Change
Toys “R” Us - Consolidated	$22	$15	$7	$44	$27	$17

Other income, net increased by $7 million to $22 million for the thirteen weeks ended August 1, 2015, compared to $15 million for the same period last year. The increase was primarily due to an $8 million increase in credit card program income, a $3 million increase in net gains on sales of properties and a $2 million decrease in impairment of long-lived assets. Partially offsetting the increase in Other income, net was $9 million in unrealized loss on foreign exchange related to the re-measurement of the Tranche A-1 loan facility due fiscal 2019 attributed to Toys “R” Us (Canada) Ltd. Toys “R” Us (Canada) Ltee (“Toys-Canada”).

Other income, net increased by $17 million to $44 million for the twenty-six weeks ended August 1, 2015, compared to $27 million for the same period last year. The increase was primarily due to an $8 million increase in credit card program income, a $4 million increase in net gains on sale of properties, a $3 million decrease in impairment of long-lived assets and a $2 million decrease in fixed asset write-offs. Partially offsetting the increase in Other income, net was $3 million in unrealized loss on foreign exchange related to the re-measurement of the Tranche A-1 loan attributed to Toys-Canada.

Interest Expense

	13 Weeks Ended			26 Weeks Ended		
(In millions)	August 1, 2015	August 2, 2014	Change	August 1, 2015	August 2, 2014	Change
Toys “R” Us - Consolidated	$106	$102	$4	$220	$210	$10

Interest expense increased by $4 million to $106 million for the thirteen weeks ended August 1, 2015, compared to $102 million for the same period last year. Interest expense increased by $10 million to $220 million for the twenty-six weeks ended August 1, 2015, compared to $210 million for the same period last year. The increase in Interest expense for both periods was primarily due to a higher rate of interest on the Secured term B-4 loan facility due fiscal 2020 and the Tranche A-1 loan facility due fiscal 2019 as a result of the fiscal 2014 refinancing.

Interest Income

	13 Weeks Ended			26 Weeks Ended		
(In millions)	August 1, 2015	August 2, 2014	Change	August 1, 2015	August 2, 2014	Change
Toys “R” Us - Consolidated	$—	$1	$(1)	$1	$2	$(1)

Interest income decreased by $1 million to a nominal amount for the thirteen weeks ended August 1, 2015, compared to $1 million for the same period last year. Interest income decreased by $1 million to $1 million for the twenty-six weeks ended August 1, 2015, compared to $2 million for the same period last year.

Income Tax Expense

The following table summarizes our Income tax expense and effective tax rates for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014:

($ In millions)	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014	26 Weeks Ended August 1, 2015	26 Weeks Ended August 2, 2014
Loss before income taxes	$(91)	$(143)	$(234)	$(341)
Income tax expense	6	4	2	2
Effective tax rate	(6.6)%	(2.8)%	(0.9)%	(0.6)%

The effective tax rates for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014 were based on our forecasted annualized effective tax rates, adjusted for discrete items that occurred within the periods presented. Our forecasted annualized effective tax rate was (0.6)% for the twenty-six weeks ended August 1, 2015 compared to (0.5)% for the same period last year.

There were no significant discrete items that impacted our effective tax rate for the thirteen and twenty-six weeks ended August 1, 2015 and August 2, 2014, respectively.

Non-GAAP Financial Measure - Adjusted EBITDA

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 in the Company regularly request Adjusted EBITDA as a supplemental analytical measure to, and in conjunction with, the Company’s financial data prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). We understand that 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 the 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 against our competitors.

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 loss attributable to Toys “R” Us, Inc. to EBITDA and Adjusted EBITDA is as follows:

(In millions)	13 Weeks Ended August 1, 2015	13 Weeks Ended August 2, 2014	26 Weeks Ended August 1, 2015	26 Weeks Ended August 2, 2014
Net loss attributable to Toys “R” Us, Inc.	$(99)	$(148)	$(239)	$(344)
Add:				
Income tax expense	6	4	2	2
Interest expense, net	106	101	219	208
Depreciation and amortization	86	95	173	199
EBITDA	99	52	155	65
Adjustments:				
Foreign currency re-measurement (a)	9	—	3	—
Compensation expense (b)	8	5	11	5
Severance (c)	8	4	13	15
Impairment of long-lived assets	2	4	4	7
Net earnings attributable to noncontrolling interest	2	1	3	1
Certain transaction costs	1	1	2	1
Net gains on sales of properties	(6)	(3)	(7)	(3)
Litigation (d)	(1)	—	(1)	—
Sponsors’ management and advisory fees (e)	—	6	5	12
Store closure costs (f)	—	—	4	5
Property losses, net of insurance recoveries (g)	—	(7)	—	(7)
Obsolete inventory clearance (h)	—	20	—	9
Adjusted EBITDA (i)	$122	$83	$192	$110

(a) Represents the unrealized loss on foreign exchange related to the re-measurement of the portion of the Tranche A-1 loan facility due fiscal 2019 attributed to Toys-Canada.

(b) Represents the incremental compensation expense related to certain one-time awards and modifications, net of forfeitures of certain officers’ awards. In fiscal 2014, we revised our definition of Adjusted EBITDA to include the impact of forfeitures of certain officers’ awards and have therefore revised our prior periods’ Adjusted EBITDA.

(c) In fiscal 2014, we revised our definition of Adjusted EBITDA to include non-officers’ severance. We have therefore revised our prior periods’ Adjusted EBITDA.

(d) Represents certain litigation expenses and settlements recorded for legal matters.

(e) Represents the fees expensed to our Sponsors in accordance with the advisory agreement. In June 2015, the advisory agreement was amended in order to reduce the advisory fees payable in fiscal 2015 and thereafter from $17 million to $6 million annually.

(f) Represents store closure costs, net of lease surrender income. In fiscal 2014, we revised our definition of Adjusted EBITDA to include lease surrender income. We have therefore revised our prior periods’ Adjusted EBITDA.

(g) Represents property losses and insurance claims recognized.

(h) Represents an incremental loss on previously identified clearance inventory. In fiscal 2014, we also revised our definition of Adjusted EBITDA to include third party fees associated with our clearance efforts. We have therefore revised our prior periods’ Adjusted EBITDA.

(i) Adjusted EBITDA is defined as EBITDA (earnings (loss) before net interest income (expense), income tax expense (benefit), 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 including certain items which are generally non-recurring. We have excluded the impact of such items from internal performance assessments. We believe that excluding items such as Sponsors’ management and advisory fees, asset impairment charges, restructuring charges, severance, impact of litigation, store closure costs, noncontrolling interest, net gains on sales of properties and other charges, 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.

Liquidity and Capital Resources

Overview

As of August 1, 2015, we were in compliance with all of the covenants related to our outstanding debt. Under the $1.85 billion secured revolving credit facility ("ABL Facility"), we had outstanding borrowings of $377 million, a total of $96 million of outstanding letters of credit and excess availability of $622 million as of August 1, 2015. We are also subject to a minimum excess availability covenant of $125 million, with remaining availability of $497 million in excess of the covenant at August 1, 2015.

Toys "R" Us - Japan, Ltd. ("Toys-Japan") has an agreement with a syndicate of financial institutions, which includes three unsecured loan commitment lines of credit ("Tranche 1A," "Tranche 1B" and "Tranche 2"). On June 30, 2015, Toys-Japan entered into an agreement to refinance an unsecured loan commitment line of credit ("Tranche 1" due fiscal 2015) into Tranche 1A and Tranche 1B. Tranche 1A is available in amounts of up to ¥9.45 billion ($76 million at August 1, 2015). As of August 1, 2015, we had outstanding borrowings of $46 million under Tranche 1A, with $30 million of remaining availability. Tranche 1B is available in amounts of up to ¥2.0 billion ($16 million at August 1, 2015). As of August 1, 2015 we had no outstanding borrowings under Tranche 1B, with $16 million of remaining availability. Tranche 2 is available in amounts of up to ¥3.5 billion ($28 million at August 1, 2015). As of August 1, 2015, we had outstanding borrowings of $15 million under Tranche 2, with $13 million of remaining availability.

Additionally, on June 30, 2015, Toys-Japan amended an uncommitted line of credit reducing its availability from ¥1.5 billion to ¥1.0 billion. Toys-Japan has an additional uncommitted line of credit with total availability of ¥0.5 billion. At August 1, 2015, Toys-Japan had no outstanding borrowings under its uncommitted lines of credit, with a total of ¥1.5 billion ($12 million at August 1, 2015) of incremental availability.

Our European and Australian asset-based revolving credit facility as amended (the "European ABL Facility") provides for a five-year £138 million ($216 million at August 1, 2015) asset-based senior secured revolving credit facility which will expire on March 8, 2016. As of August 1, 2015, we had outstanding borrowings of $70 million, with $40 million of remaining availability under the European ABL Facility.

We are in the process of updating the European ABL Facility security documents to allow us to include inventory located in a new French distribution center in our borrowing base. We expect this process to be completed in the third fiscal quarter. The inclusion of this inventory in our borrowing base would have increased our remaining availability by an additional $9 million as of August 1, 2015.

Toys (Labuan) Holding Limited ("Labuan") has several uncommitted unsecured lines of credit with various financial institutions with total availability of HK$273 million ($35 million at August 1, 2015). As of August 1, 2015, we had $8 million of borrowings and $4 million of bank guarantees issued under these facilities. The remaining availability under these facilities was $23 million.

We are dependent on the borrowings provided by our lenders to support our working capital needs, capital expenditures and to service debt. As of August 1, 2015, we have funds available to finance our operations under our ABL Facility through March 2019, subject to an earlier springing maturity, our Toys-Japan unsecured credit lines with two tranches maturing June 2016 and a tranche maturing June 2017 and our European ABL Facility through March 2016. In addition, Labuan and Toys-Japan have uncommitted lines of credit, which are due on demand. 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 represents the purchase of inventory), servicing debt, remodeling existing stores, financing construction of new stores and paying expenses, such as payroll costs and rental expense, 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. 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 ability to refinance our maturing debt and available resources in the future.

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 and maintaining existing stores, as well as improving and enhancing our e-commerce and other information technology and logistics systems. Capital expenditures are funded primarily through cash provided by operating activities, as well as available cash.

The following table presents our capital expenditures for the twenty-six weeks ended August 1, 2015 and August 2, 2014:

	26 Weeks Ended	
(In millions)	August 1, 2015	August 2, 2014
Information technology	$31	$30
Maintenance (1)	22	19
Distribution centers	12	17
New stores	6	17
Other store-related projects	11	3
Total capital expenditures	$82	$86

(1) Includes maintenance for existing stores, including expenditures related to the “Clean and Bright” initiative.

Cash Flows

	26 Weeks Ended		
(In millions)	August 1, 2015	August 2, 2014	Change
Net cash used in operating activities	$(675)	$(597)	$(78)
Net cash used in investing activities	(71)	(78)	7
Net cash provided by financing activities	470	381	89
Effect of exchange rate changes on Cash and cash equivalents	(5)	3	(8)
Net decrease during period in Cash and cash equivalents	$(281)	$(291)	$10

Cash Flows Used in Operating Activities

Net cash used in operating activities increased $78 million to $675 million for the twenty-six weeks ended August 1, 2015, compared to $597 million for the twenty-six weeks ended August 2, 2014. The increase in Net cash used in operating activities was primarily due to an increase in vendor payments within our International segment in the first quarter of fiscal 2015 due to the timing of vendor payments at year-end and annual bonus payout, partially offset by improved operating performance.

Cash Flows Used in Investing Activities

Net cash used in investing activities decreased $7 million to $71 million for the twenty-six weeks ended August 1, 2015, compared to $78 million for the twenty-six weeks ended August 2, 2014. The decrease in Net cash used in investing activities was primarily due to a $4 million reduction in capital expenditures and a $3 million increase in proceeds received from sales of fixed assets compared to the prior year.

Cash Flows Provided by Financing Activities

Net cash provided by financing activities increased $89 million to $470 million for the twenty-six weeks ended August 1, 2015, compared to $381 million for the twenty-six weeks ended August 2, 2014. The increase in Net cash provided by financing activities was primarily attributable to a $70 million increase in net long-term debt borrowings and an $11 million reduction in capitalized debt issuance costs. Refer to Note 2 to the Condensed Consolidated Financial Statements entitled “Short-term borrowings and long-term debt” for further details regarding our debt.

Debt

As of August 1, 2015, we had total indebtedness of $5.3 billion, of which $3.1 billion was secured indebtedness. During the twenty-six weeks ended August 1, 2015, the following events occurred with respect to our debt structure:

•

On June 30, 2015, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance its Tranche 1 unsecured loan commitment line of credit into Tranche 1A and Tranche 1B. Tranche 1A is available in

amounts up to ¥9.45 billion ($76 million at August 1, 2015) and expires on June 30, 2017. Tranche 1B is available in amounts up to ¥2.0 billion ($16 million at August 1, 2015) and expires on June 30, 2016.
Refer to Note 2 to the Condensed Consolidated Financial Statements entitled “Short-term borrowings and long-term debt” for further details regarding our debt.
We and our subsidiaries, as well as the 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, exchange 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 8 to our Condensed Consolidated Financial Statements entitled “Related party transactions” and Note 16 to our Consolidated Financial Statements entitled “RELATED PARTY TRANSACTIONS” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

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. Refer to the “Contractual Obligations” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report for the fiscal year ended January 31, 2015 included in our Form 10-K filed on March 26, 2015, for details on our contractual obligations.

Critical Accounting Policies
Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America. 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 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 Condensed Consolidated Financial Statements. Refer to the Annual Report on Form 10-K for the fiscal year ended January 31, 2015 for a discussion of critical accounting policies.

Recently Adopted Accounting Pronouncements
In August 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2015-13 “Derivative and Hedging (Topic 815): Application of the Normal Purchase and Normal Sales Scope Exception to Certain Electricity Contracts within Nodal Energy Markets” (“ASU 2015-13). Current GAAP does not contain specific guidance about whether the use of locational marginal pricing by an independent system operator results in net settlement of a contract for the purchase or sale of electricity on a forward basis that necessitates transmission through, or delivery to a location within, a nodal energy market. ASU 2015-13 specifies that entities would not be precluded from applying the normal purchase and normal sales exception to derivative accounting to forward contracts for the physical delivery of electricity in nodal energy markets that result in parties incurring locational margin pricing charges or credits. The new guidance in ASU 2015-13 states that the use of locational marginal pricing by an independent system operator to determine a transmission charge or credit in a nodal energy market would not constitute a net settlement of a forward contract for the purchase or sale of electricity, even when legal title to the electricity is conveyed to the independent system operator during transmission. The Company has adopted the amendments in ASU 2015-13, effective August 10, 2015, as the amendments in the update are effective upon issuance. The adoption did not have an impact on our Condensed Consolidated Financial Statements.
In July 2015, the FASB issued ASU 2015-11, “Inventory (Topic 330): Simplifying the Measurement of Inventory” (“ASU 2015-11”). ASU 2015-11 simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. The FASB defines net realizable value as the “estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.”

Under current guidance, an entity subsequently measures inventory at the lower of cost or market, with market defined as the replacement cost, net realizable value or net realizable value less a normal profit margin. An entity uses current replacement cost provided that it is not above net realizable value (i.e. the ceiling) or below net realizable value less an "approximately normal profit margin" (i.e. the floor). ASU 2015-11 eliminates this analysis for entities within the scope of the guidance. ASU 2015-11 applies to entities that recognize inventory within the scope of ASC 330, except for inventory measured under the LIFO method or the retail inventory method. The Company has early adopted the amendments in ASU 2015-11, effective May 3, 2015. The adoption did not have an impact on our Condensed Consolidated Financial Statements.

In May 2015, the FASB issued ASU 2015-08, “'Business Combinations (Topic 805): Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115” (“ASU 2015-08”). The amendments in ASU 2015-08 amend various SEC paragraphs included in the FASB’s Accounting Standards Codification to reflect the issuance of Staff Accounting Bulletin No. 115 (“SAB 115”). SAB 115 rescinds portions of the interpretive guidance included in the SEC’s Staff Accounting Bulletins series and brings existing guidance into conformity with ASU No. 2014-17, “Business Combinations (Topic 805): Pushdown Accounting,” which provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The Company has adopted the amendments in ASU 2015-08, effective May 8, 2015, as the amendments in the update are effective upon issuance. The adoption did not have an impact on our Condensed Consolidated Financial Statements.

In May 2015, the FASB issued ASU 2015-07, “Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)” (“ASU 2015-07”). The amendments apply to reporting entities that elect to measure the fair value of an investment using the net asset value (“NAV”) per share (or its equivalent) practical expedient. The amendments remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the NAV per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. Entities should apply the amendments in this update retrospectively to all periods presented. The Company has early adopted ASU 2015-07, effective February 2, 2015. As the Company measures certain defined benefit plan assets using the NAV practicable expedient, upon adoption of ASU 2015-07, the fair value of these plan assets will be removed from the fair value hierarchy in all periods presented in the Company’s Consolidated Financial Statements. The Company will continue to disclose information on these investments for which fair value is measured at NAV as a practical expedient.

Forward-Looking Statements

This Quarterly Report on Form 10-Q, the other reports and documents that we have filed or may in the future file with the Securities and Exchange Commission and other publicly released materials and statements, 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,” “outlook” or the negative version of these 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 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, amount and allocation of future capital expenditures, growth initiatives, inventory levels, cost of goods, selection and type of merchandise, marketing positions, implementation of safety standards, future financings, estimates regarding future effective tax rates, 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, changes in our product distribution mix and distribution channels, general economic factors in the United States and other countries in which we conduct our business, consumer spending patterns, birth rates, our ability to implement our strategy including implementing initiatives for season, our ability to recognize cost savings, marketing strategies, the availability of adequate financing, access to trade credit, changes in consumer preferences, changes in employment legislation, our dependence on key vendors for our merchandise, political and other developments associated with our international operations, costs of goods that we sell, labor costs, transportation costs, 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 our Annual Report on Form 10-K filed on March 26, 2015, 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 and outcomes may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no significant change in our exposure to market risk during the thirteen and twenty-six weeks ended August 1, 2015. For a discussion of our exposure to market risk, refer to Item 7A entitled “QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including the principal executive and principal financial officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

We have evaluated, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act as of the end of the period covered by this report.

Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during our second quarter of fiscal 2015 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

We are, and in the future may be, involved in various 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. We are not able to estimate an aggregate amount or range of reasonably possible losses for those legal matters for which losses are not probable and estimable, primarily for the following reasons: (i) many of the relevant legal proceedings are in preliminary stages, and until such proceedings develop further, there is often uncertainty regarding the relevant facts and circumstances at issue and potential liability; and (ii) many of these proceedings involve matters of which the outcomes are inherently difficult to predict. However, based upon our historical experience with similar matters, we do not expect that any such additional losses would be material to our consolidated financial position, results of operations or cash flows.

Item 1A. Risk Factors

As of the date of this report, there have been no material changes to the information related to Item 1A entitled "RISK FACTORS" disclosed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 26, 2015, we commenced a private offer (the "2015 Award Exchange"), to certain participants under the Toys "R" Us, Inc. 2010 Incentive Plan (the "2010 Incentive Plan"), including certain of our named executive officers, to exchange certain of their outstanding restricted stock units granted May 24, 2013 ("RSUs") for a grant of two new stock options ("New Options") for every one RSU canceled. In order for an eligible employee to participate in the 2015 Award Exchange, the employee was required to tender all but not less than all of the employee's RSUs. On July 31, 2015, the Company closed its offer with a total of 64,381 RSUs canceled and a total of 128,762 New Options issued on August 3, 2015 under the 2010 Incentive Plan. The private offers to exchange outstanding RSUs for newly granted stock options were made pursuant to Section 4(a)(2) or Rule 701 under the Securities Act of 1933, as amended. The New Options are subject to the following key terms:

The New Options granted under the 2010 Incentive Plan on August 3, 2015 have an exercise price of $8.00, equal to the most recent determination of fair market value of a share of our common stock at the time of the commencement of the exchange offer as determined by our Board of Directors of the Company (the "Board") and will vest 50% on each of May 24, 2016 and May 24, 2017 (subject to the earlier expiration in accordance with the New Option award agreement), subject to the participant's continued employment with us, and will vest automatically upon change of control of the Company.

The New Options, to the extent vested, will be exercisable at any time prior to the earliest to occur of: (i) the tenth anniversary of the grant date, (ii) if, following both the occurrence of either a public offering or a change in control of the Company and the termination of the employee's employment for any reason other than cause, the Company provides the employee with written notice that the employee may sell any shares acquired upon exercise of the vested portion of the New Options without any restrictions, the date that is 30 days following the date of such notice, or (iii) immediately prior to the effective time of the employee's termination of employment by the Company for cause, provided, in each case, any unvested portion will be unexercisable and immediately forfeited.

Shares of common stock issuable upon exercise of the New Options will be subject to a Company call right, but will not be subject to any put rights by the holder. In addition, prior written approval of the executive committee of the Board is required for any cashless exercise of the New Options or any right of the employee to cover taxes due upon the vesting of certain awards granted under the 2010 Incentive Plan through net settlement.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

The Board of Directors of the Company (the “Board”) has decided to reduce the Board to eight members. In connection with the reduction in the size of the Board, effective as of September 15, 2015, Daniel Guglielmone, Richard L. Markee, Wayne C. Sales and Gregory R. Why each resigned as a member of the Board. Their resignations did not involve any disagreements with the Company. The Board now consists of David Brandon, Chairman and Chief Executive Officer, two directors nominated by each of the Sponsors, and Richard Goodman.

Item 6. Exhibits

See the Index to Exhibits immediately following the signature page hereto, which Index to Exhibits is incorporated herein by reference.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	TOYS “R” US, INC.
	(Registrant)
Date: September 15, 2015	/s/ Michael J. Short
	Michael J. Short
	Executive Vice President – Chief Financial Officer

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of the State of Delaware on June 10, 2008 (filed as Exhibit 3.2 to the Registrant's Quarterly Report on Form 10-Q, filed on June 10, 2008 and incorporated herein by reference).
3.2	Amendment No. 1 to the Amended and Restated Certificate of Incorporation of the Registrant filed with the Secretary of State of the State of Delaware on June 3, 2015 (filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q, filed on June 12, 2015 and incorporated herein by reference).
3.3	Amended and Restated By-Laws of the Registrant, dated June 10, 2008 (filed as Exhibit 3.3 to the Registrant's Quarterly Report on Form 10-Q, filed on June 10, 2008 and incorporated herein by reference).
10.1	Form of Toys "R" Us, Inc. Incentive Award Agreement for David Brandon (filed as Exhibit A to Mr. Brandon's employment agreement which was filed as Exhibit 10.1 to Form 8-K, filed on June 4, 2015, and incorporated herein by reference).
10.2	Form of Toys "R" Us, Inc. Performance based Nonqualified Stock Option Agreement for David Brandon (filed as Exhibit B to Mr. Brandon's employment agreement which was filed as Exhibit 10.1 to Form 8-K, filed on June 4, 2015, and incorporated herein by reference).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a - 14(a) and Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a - 14(a) and Rule 15d - 14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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