TOYS R US INC
Form 10-Q
September 04, 2009
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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, 2009

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 x No ¨

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

Indicate by checkmark 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 4, 2009 there were outstanding 48,983,743 shares of common stock of Toys R Us, Inc.

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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, 2009	January 31, 2009	August 2, 2008
ASSETS			
Current Assets:			
Cash and cash equivalents	**$ 149**	$ 783	$ 387
Accounts and other receivables	**249**	251	155
Merchandise inventories	**2,164**	1,781	2,193
Current deferred tax assets	**82**	84	80
Prepaid expenses and other current assets	**160**	124	162
Total current assets	**2,804**	3,023	2,977
Property and equipment, net	**4,181**	4,187	4,346
Goodwill, net	**379**	380	366
Deferred tax assets	**236**	180	193
Restricted cash	**76**	193	132
Other assets	**496**	448	459
	$ 8,172	$ 8,411	$ 8,473
LIABILITIES AND STOCKHOLDERS DEFICIT			
Current Liabilities:			
Short-term borrowings	**$ 36**	$	$ 82
Accounts payable	**1,208**	1,412	1,301
Accrued expenses and other current liabilities	**780**	847	836
Income taxes payable	**28**	49	34
Current portion of long-term debt	**33**	98	26
Total current liabilities	**2,085**	2,406	2,279
Long-term debt	**5,496**	5,447	5,905
Deferred tax liabilities	**55**	78	21
Deferred rent liabilities	**269**	260	265
Other non-current liabilities	**372**	372	337
Toys R Us, Inc. stockholders deficit	**(214)**	(274)	(432)
Noncontrolling interest	**109**	122	98
Total stockholders deficit	**(105)**	(152)	(334)
	$ 8,172	$ 8,411	$ 8,473

See accompanying notes to the Condensed Consolidated Financial Statements.

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TOYS R US, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	13 Weeks Ended		26 Weeks Ended	
(In millions)	**August 1, 2009**	**August 2, 2008**	**August 1, 2009**	**August 2, 2008**
Net sales	**$ 2,567**	$ 2,771	**$ 5,044**	$ 5,490
Cost of sales	**1,616**	1,757	**3,203**	3,499
Gross margin	**951**	1,014	**1,841**	1,991
Selling, general and administrative expenses	**828**	885	**1,616**	1,780
Depreciation and amortization	**101**	103	**194**	203
Other income, net	**(64)**	(53)	**(76)**	(73)
Total operating expenses	**865**	935	**1,734**	1,910
Operating earnings	**86**	79	**107**	81
Interest expense	**(117)**	(100)	**(211)**	(200)
Interest income	**2**	4	**4**	11
Loss before income taxes	**(29)**	(17)	**(100)**	(108)
Income tax benefit	**54**	26	**85**	70
Net earnings (loss)	**25**	9	**(15)**	(38)
Less: Net loss attributable to noncontrolling interest	**2**	4	**7**	15
Net earnings (loss) attributable to Toys R Us, Inc.	**$ 27**	$ 13	**$ (8)**	$ (23)

See accompanying notes to the Condensed Consolidated Financial Statements.

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TOYS R US, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)	26 Weeks Ended August 1, 2009	26 Weeks Ended August 2, 2008
Cash Flows from Operating Activities:		
Net loss	**$ (15)**	$ (38)
Adjustments to reconcile Net loss to net cash used in operating activities:		
Depreciation and amortization	**194**	203
Amortization of debt issuance costs	**27**	17
Deferred income taxes	**(7)**	46
Gain on liquidation of foreign subsidiary		(39)
Other	**17**	(5)
Changes in operating assets and liabilities:		
Accounts and other receivables	**81**	105
Merchandise inventories	**(313)**	(185)
Prepaid expenses and other operating assets	**(12)**	(3)
Accounts payable	**(223)**	(246)
Accrued expenses and other liabilities	**(146)**	(252)
Income taxes payable and receivable	**(96)**	(88)
Net cash used in operating activities	**(493)**	(485)
Cash Flows from Investing Activities:		
Capital expenditures	**(93)**	(175)
Decrease (increase) in restricted cash	**118**	(1)
Proceeds from sales of fixed assets	**3**	29
Sale of short-term investments		167
Acquisitions	**(11)**	
Net cash provided by investing activities	**17**	20
Cash Flows from Financing Activities:		
Long-term debt borrowings	**1,767**	278
Short-term debt borrowings	**61**	100
Long-term debt repayment	**(1,902)**	(235)
Short-term debt repayment	**(26)**	(17)
Capitalized debt issuance costs	**(73)**	(3)
Purchase of Toys-Japan shares		(34)
Other		(2)
Net cash (used in) provided by financing activities	**(173)**	87
Effect of exchange rate changes on cash and cash equivalents	**15**	14
Cash and cash equivalents:		
Net decrease during period	**(634)**	(364)
Cash and cash equivalents at beginning of period	**783**	751
Cash and cash equivalents at end of period	**$ 149**	$ 387

See accompanying 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						
(In millions)	Issued Shares	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Toys R Us, Inc. Stockholders Deficit	Noncontrolling Interest	Total Deficit
Balance, February 2, 2008		$ 10	$ 20	$ (419)	$ (389)	$ 153	$ (236)
Cumulative effect of change in accounting principle, net of tax				1	1		1
Net loss				(23)	(23)	(15)	(38)
Unrealized gain on hedged transactions, net of tax			10		10		10
Foreign currency effect on liquidation of foreign subsidiary			(39)		(39)		(39)
Foreign currency translation adjustments, net of tax			3		3	(1)	2
Total comprehensive loss					(48)	(16)	(64)
Acquisition of 14.35% of Toys-Japan shares						(37)	(37)
Toys R Us Holdings, Inc. reorganization (1)	49	1			1		1
Dividends paid						(2)	(2)
Stock compensation expense		4			4		4
Balance, August 2, 2008	49	$ 15	$ (6)	$ (441)	$ (432)	$ 98	$ (334)
Balance, January 31, 2009	49	$ 19	$ (93)	$ (200)	$ (274)	$ 122	$ (152)
Net loss				(8)	(8)	(7)	(15)
Unrealized gain on hedged transactions, net of tax			5		5		5
Foreign currency translation adjustments, net of tax			60		60	(6)	54
Total comprehensive income (loss)					57	(13)	44
Stock compensation expense		3			3		3
Balance, August 1, 2009	49	$ 22	$ (28)	$ (208)	$ (214)	$ 109	$ (105)

(1) $0.01 par value; authorized 3,000 shares, outstanding 1,000 shares. Pursuant to the reorganization on June 10, 2008, our shares were exchanged for 48,955,808 shares, $0.001 par value.

See accompanying 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 subsidiaries, except as expressly indicated or unless the context otherwise requires. The Condensed Consolidated Balance Sheets as of August 1, 2009, January 31, 2009, and August 2, 2008, the Condensed Consolidated Statements of Operations for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008, the Condensed Consolidated Statements of Cash Flows and the Condensed Consolidated Statements of Stockholders Deficit for the twenty-six weeks ended August 1, 2009 and August 2, 2008, 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, 2009, 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, 2009, 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, 2009. The results of operations for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008 are not necessarily indicative of operating results of the full year.

On February 1, 2009, we adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 (SFAS 160). SFAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company s equity. SFAS 160 also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; changes in ownership interest be accounted for similarly, as equity transactions; and when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary and the gain or loss on the deconsolidation of the subsidiary be measured at fair value. The presentation and disclosure requirements of SFAS 160 were applied retrospectively. Other than the change in presentation of noncontrolling interest, the adoption of SFAS 160 had no impact on the Condensed Consolidated Financial Statements.

Subsequent events

We have performed an evaluation of subsequent events through September 4, 2009, the date these financial statements were issued. Subsequent events have been disclosed in the related footnotes.

Reclassifications and Corrections of Previously Issued Financial Statements

We have increased Net cash provided by investing activities and decreased Net cash provided by financing activities by $34 million for the period ended August 2, 2008 to restate the purchase of additional shares in Toys R Us-Japan, Ltd. (Toys-Japan) that were previously presented as an investing activity rather than as a financing activity. These changes were made pursuant to our adoption of and retrospective application of SFAS 160 and had no effect on our previously reported Condensed Consolidated Statement of Operations, Condensed Consolidated Balance Sheet and Condensed Consolidated Statement of Stockholders Deficit.

For the thirteen and twenty-six weeks ended August 1, 2009, we have included certain other income and expense items as Other income, net on our Condensed Consolidated Statements of Operations, which have historically been presented as a net reduction in Selling, general and administrative expenses (SG&A). As such, we have restated Other income, net of $53 million and $73 million for the thirteen and twenty-six weeks ended August 2, 2008, respectively, to correctly present these immaterial items separately from SG&A and have corrected this presentation throughout the financial statements. The items included in this restatement primarily relate to gift card breakage, credit card program, foreign exchange gains and losses and other immaterial items. These changes had no effect on our previously reported Net earnings (loss) for the thirteen and twenty-six weeks ended August 2, 2008.

Gift card breakage

Prior to the fourth quarter of fiscal 2008, we recognized breakage income when gift card redemptions were deemed remote and we determined that there was no legal obligation to remit the unredeemed gift cards to the relevant tax jurisdiction (Cliff Method). At the end of the fourth quarter of fiscal 2008, we concluded that we had accumulated a sufficient level of historical data from a large pool of homogeneous transactions to allow management to reasonably and objectively determine an estimated gift card breakage rate and the pattern of actual gift card redemptions. Accordingly, we changed our method for recording gift card breakage income to recognize breakage income and derecognize the gift card liability for unredeemed gift cards in proportion to actual redemptions of gift cards (Redemption Method).

In accordance with SFAS No. 154, Accounting Changes and Error Corrections a replacement of Accounting Principles Board (APB) Opinion No. 20 and Financial Accounting Standards Board (FASB) Statement No. 3 (SFAS 154), we concluded that this accounting change represented a change in accounting estimate effected by a change in accounting principle and accordingly, accounted for the change as a change in estimate. For the thirteen and twenty-six weeks ended August 2, 2008, the effect of the change in method of accounting did not have a material impact on our Condensed Consolidated Financial Statements.

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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, 2009, January 31, 2009 and August 2, 2008 is outlined in the table below:

(In millions)	August 1, 2009	January 31, 2009	August 2, 2008
Short-term borrowings			
Multi-currency revolving credit facility, expires July 21, 2010	**$**	$	$
Toys-Japan short-term bank loans	**36**		82
Total short-term debt	**$ 36**	$	$ 82
Long-term debt			
Unsecured credit agreement, due December 8, 2009 [(1)]	**$**	$ 1,300	$ 1,300
Toys-Japan committed credit line due fiscal 2011	**212**	18	186
Secured real estate loan, due August 9, 2010 [(2)]	**800**	800	800
$2.0 billion secured revolving credit facility, expires fiscals 2010-2012	**23**		
Toys-Japan 1.20%-2.80% loans due fiscals 2010-2014	**158**	171	147
7.625% notes, due fiscal 2011 [(3)]	**510**	512	515
Secured term loan facility, due fiscal 2012	**798**	797	797
Unsecured credit facility, due fiscal 2012	**180**	180	180
French real estate credit facility, due fiscal 2012	**90**	81	99
Spanish real estate credit facility, due fiscal 2012	**186**	168	205
U.K. real estate senior credit facility, due fiscal 2013	**589**	514	699
U.K. real estate junior credit facility, due fiscal 2013	**104**	91	124
7.875% senior notes, due fiscal 2013 [(3)]	**394**	393	393
10.750% senior notes, due fiscal 2017 [(4)]	**925**		
7.375% senior notes, due fiscal 2018 [(3)]	**406**	406	407
8.750% debentures, due fiscal 2021 [(5)]	**22**	22	22
Finance obligations associated with capital projects	**83**	37	29
Capital lease obligations	**49**	55	28
	5,529	5,545	5,931
Less current portion	**33**	98	26
Total long-term debt	**$ 5,496**	$ 5,447	$ 5,905

(1) On July 9, 2009, we repaid the outstanding loan balance of $1,267 million plus accrued interest and fees.
(2) We have exercised our third maturity date extension option, which extended the maturity date of the loan to August 9, 2010.
(3) Represents obligations of Toys R Us, Inc. legal entity.
(4) Represents obligations of Toys R Us Property Company I, LLC (Toys Propco), and subsidiaries.
(5) Represents obligations of Toys R Us, Inc. and Toys R Us-Delaware, Inc. (Toys Delaware).

Our credit facilities, loan agreements and indentures contain customary covenants, including, among other things, covenants that restrict our ability to incur certain additional indebtedness, create or permit liens on assets, or engage in mergers or consolidations. Certain of our agreements also contain various and customary events of default with respect to the loans, including, without limitation, the failure to pay interest or principal when the same is due under the agreements, cross default provisions, the failure of representations and warranties contained in the agreements to be true and certain insolvency events. If an event of default occurs and is continuing, the principal amounts outstanding thereunder, together with all accrued unpaid interest and other amounts owed thereunder, may be declared immediately due and payable by the lenders.

Due to the deterioration in the credit markets, some financial institutions have reduced and, in certain cases, ceased to provide funding to borrowers. We are dependent on the borrowings provided by the lenders to support our working capital needs and capital expenditures. Currently we have funds available to finance our operations under our secured revolving credit facility through May 2012 and our multi-currency revolving credit facility through July 2010. Our lenders may be unable to fund borrowings under their credit commitments to us if these lenders face bankruptcy, failure, collapse or sale. As of August 1, 2009, a lender who provides availability of $57 million under our multi-currency revolving credit facility is unable to provide funding. This credit facility provides

that the failure of one lender to fund its commitment does not relieve any other lenders of their obligations to fund their commitments. 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.

The total fair values of our Short-term borrowings and Long-term debt, with carrying values of $5.6 billion, $5.5 billion and $6.0 billion at August 1, 2009, January 31, 2009 and August 2, 2008, were $4.4 billion, $2.9 billion and $5.4 billion, respectively. The fair values of our Short-term borrowings and Long-term debt are estimated using the quoted market prices for the same or similar issues and other pertinent information available to management at the end of the respective periods.

$2.0 billion secured revolving credit facility ($23 million at August 1, 2009)

On June 24, 2009, Toys Delaware and certain of its subsidiaries amended and restated the credit agreement for their $2.0 billion secured revolving credit facility, which extended the maturity date on a portion of the facility and amended certain other provisions. As amended, the facility was bifurcated into a $1,526 million tranche maturing on May 21, 2012 that bears a tiered floating interest rate of LIBOR plus 3.75%-4.25% per annum depending on usage, and a $517 million tranche maturing on July 21, 2010 that continues to bear a tiered floating interest rate of LIBOR plus 1.00%-2.00% depending on excess availability. We capitalized approximately $49 million in additional deferred financing fees associated with the amended and restated credit agreement.

This secured revolving credit facility is available for general corporate purposes and the issuance of letters of credit. Borrowings under this credit facility are secured by tangible and intangible assets of Toys Delaware, subject to specific exclusions stated in the credit agreement. The credit agreement contains covenants, including, among other things, covenants that restrict Toys Delaware s ability to incur certain additional indebtedness, create or permit liens on assets, engage in mergers or consolidations, pay dividends, repurchase capital stock, make other restricted payments, make loans or advances, engage in transactions with affiliates, or amend material documents. The secured revolving credit facility, as amended pursuant to the amended and restated credit agreement, requires Toys Delaware to maintain capped availability at all times (except during the holiday period discussed below) of no less than the greater of $125 million or 12.5% of the line cap (which is the lesser of the total commitments at any time and the aggregate combined borrowing base). During the holiday period , which runs from October 15 to December 15 each year starting in 2010, Toys Delaware must maintain capped availability of no less than $100 million and uncapped availability of no less than 15% of the aggregate combined borrowing base, unless Toys Delaware has otherwise elected for the non-holiday thresholds to apply for such holiday period. Availability continues to be determined pursuant to a borrowing base, consisting of specified percentages of eligible inventory, credit card receivables and certain real estate less any applicable availability reserves. At August 1, 2009, we had $23 million of outstanding borrowings, a total of $98 million of outstanding letters under this credit facility and capped availability of $988 million. This amount is also subject to a minimum availability covenant, which was $139 million at August 1, 2009. Outstanding borrowings under this facility are considered to be long-term since they may be refinanced under the tranche maturing on May 21, 2012.

Multi-currency revolving credit facility ($0 at August 1, 2009)

At August 1, 2009, we had no outstanding borrowings and we had $308 million of availability, which excludes a lender who is unable to provide funding of $57 million, under our multi-currency revolving credit facility (£95 million and 145 million) which expires on July 21, 2010. We believe that we have the ability to refinance this facility prior to expiration and we are currently evaluating available options.

Toys-Japan Unsecured Credit Lines ($212 million and $36 million at August 1, 2009)

On March 31, 2008, Toys-Japan entered into an agreement with a syndicate of financial institutions, which established two unsecured loan commitment lines of credit (Tranche 1 and Tranche 2). Under the agreement, Tranche 1 is available in amounts of up to ¥20 billion ($212 million at August 1, 2009), which expires on March 30, 2011, and bears an interest rate of TOKYO INTER BANK OFFERED RATE (TIBOR) plus 0.63% per annum. At August 1, 2009, we had outstanding Long-term debt of $212 million under Tranche 1 with no remaining availability.

On March 30, 2009, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 2. As a result, Tranche 2 is available in amounts of up to ¥12.6 billion ($134 million at August 1, 2009), expiring on March 30, 2010, and bears an interest rate of TIBOR plus 0.63% per annum. At August 1, 2009, we had outstanding Short-term debt of $36 million under Tranche 2 with $98 million remaining availability. We paid fees of $1 million to refinance Tranche 2, which were capitalized as deferred debt issuance costs and are amortized over the term of the agreement.

These agreements contain covenants, including, among other things, covenants that require Toys-Japan to maintain a certain minimum level of net assets and profitability during the agreement terms. The agreement also restricts us from reducing our ownership percentage in Toys-Japan.

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Senior Notes, due 2017 ($925 million at August 1, 2009)

On July 9, 2009, Toys Propco, one of our wholly-owned subsidiaries, completed the offering of $950 million aggregate principal amount of senior unsecured 10.75% notes due 2017 (the Notes). The Notes were issued at a discount of $25 million which resulted in the receipt of proceeds of $925 million. Toys Propco used the proceeds of $925 million from the offering of the Notes, together with $138 million of cash contributions from Toys R Us, Inc., proceeds of $124 million from the sale of 11 owned properties and transfer of the underlying leases on 14 properties to Toys Delaware, $99 million of restricted cash released from restrictions, and $1 million of cash on hand to repay the outstanding loan balance under Toys Propco s unsecured credit agreement of $1,267 million plus accrued interest of approximately $1 million and fees at closing of approximately $19 million. Total fees paid in connection with the sale of the Notes totaled approximately $23 million and will be deferred and expensed over the life of the Notes. As a result of the repayment of our unsecured credit agreement, we expensed approximately $8 million of deferred financing costs. The Notes are solely the obligation of Toys Propco and its subsidiaries (the Guarantors) and are not guaranteed by Toys R Us, Inc. or Toys Delaware. All intercompany gains realized on the sale of the properties have been eliminated in consolidation.

The Notes are guaranteed by the Guarantors, jointly and severally, and the indenture governing the Notes contain covenants, including, among other things, covenants that restrict the ability of Toys Propco and the Guarantors to incur additional indebtedness, pay dividends or make other distributions, make other restricted payments and investments, create liens, and impose restrictions on the ability of the Guarantors to pay dividends or make other payments. The indenture governing the Notes also contains covenants that limit the ability of Toys R Us, Inc. to cause or permit Toys Delaware to incur indebtedness or make restricted payments. These covenants are subject to a number of important qualifications and limitations. The Notes may be redeemed, in whole or in part, at any time prior to July 15, 2013 at a price equal to 100% of the principal amount plus a make-whole premium, plus accrued and unpaid interest to the date of redemption. The Notes will be redeemable, in whole or in part, at any time on or after July 15, 2013, at the specified redemption prices, plus accrued and unpaid interest, if any. In addition, Toys Propco may redeem up to 35% of the Notes before July 15, 2012 with the net cash proceeds from certain equity offerings. Following specified kinds of changes of control with respect to Toys R Us, Inc. or Toys Propco, Toys Propco will be required to offer to purchase the Notes at a purchase price of 101% of their principal amount, plus accrued and unpaid interest, if any. Interest on the Notes is payable in cash semi-annually in arrears through maturity on January 15 and July 15 of each year, commencing on January 15, 2010.

Pursuant to a registration rights agreement that Toys Propco entered into in connection with the offering of the Notes, Toys Propco is required to use our reasonable efforts to file a registration statement with the Securities and Exchange Commission (the SEC) to register notes that would have substantially identical terms as the Notes, and consummate an exchange offer for such notes within 365 days after July 9, 2009. In the event Toys Propco fails to meet the 365-day target or certain other conditions set forth in the registration rights agreement, the annual interest rate on the Notes will increase by 0.25%. The annual interest rate on the Notes will increase by an additional 0.25% for each subsequent 90-day period such target or conditions are not met, up to a maximum increase of 0.50%.

Secured real estate loans, due August 9, 2010 ($800 million at August 1, 2009)

We have exercised our third maturity date extension option, which extended the maturity date of the loans from August 9, 2009 to August 9, 2010. No other terms of the loans were changed as a result of the extension. Pursuant to the extension option, we were also required to extend our current interest rate cap through the end of the third maturity extension. Refer to Note 3 entitled Derivative instruments and hedging activities for further details. We believe that we have the ability to repay or refinance these borrowings prior to maturity and we are currently evaluating available options.

Guarantees

We currently guarantee 80% of Toys-Japan s three installment loans from a third party in Japan, totaling ¥3.4 billion ($36 million). These loans have annual interest rates of 2.6% 2.8% and mature from 2012 to 2014 and are reported as part of the Toys-Japan bank loans of $158 million at August 1, 2009. In addition, we have an agreement with McDonald s Holding Company (Japan), Ltd. (McDonald s Japan), in which we promise to promptly reimburse McDonald s Japan for any amounts it may be required to pay in connection with its guarantee of the remaining 20% of Toys-Japan s three installment loans.

3. Derivative instruments and hedging activities

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended (SFAS 133) establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires the recording of all derivatives as either assets or liabilities on the balance sheet measured at estimated fair value and the recognition of the unrealized gains and losses. The accounting for derivatives depends on the intended use of the derivatives and the resulting designation. In

certain defined conditions, a derivative may be specifically designated as a hedge for a particular exposure.

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Cash Flow Hedges

Certain of our derivative contracts qualify as variable cash flow hedges under SFAS 133. The effective portion of a cash flow hedge is recorded to Accumulated other comprehensive loss; the ineffective portion of a cash flow hedge is recorded to Interest expense. We evaluate the effectiveness of the hedging relationships on an ongoing basis and recalculate changes in fair values of the derivatives and the underlying hedged items separately. For our derivatives that are designated under SFAS 133 as cash flow hedges, we recognized a gain of $1 million and less than $1 million of hedge ineffectiveness for the thirteen and twenty-six weeks ended August 1, 2009, respectively. No material ineffectiveness was recorded for the thirteen and twenty-six weeks ended August 2, 2008, respectively. Reclassifications from Accumulated other comprehensive loss to Interest expense primarily relate to realized Interest expense on interest rate swaps and the amortization of gains (losses) recorded on previously terminated swaps. We expect to reclassify a net loss of approximately $33 million over the next 12 months to Interest expense from Accumulated other comprehensive loss.

Interest Rate Contracts

We have a variety of fixed and variable rate debt instruments and are exposed to market risks resulting from interest rate fluctuations. In an effort to manage interest rate exposures, we strive to achieve an acceptable balance between fixed and variable rate debt. We enter into interest rate contracts such as interest rate swaps and/or caps to manage interest rate risk in order to reduce our exposure to variability in expected future cash outflows attributable to the changes in LIBOR and EURIBOR rates. Our interest rate contracts contain credit-risk related contingent features and are subject to master netting arrangements. Our interest rate contracts have various maturity dates through April 2015. A portion of these derivative contracts qualify for hedge accounting as variable cash flow hedges under SFAS 133.

The Company has agreements with some of its derivative counterparties that contain credit-risk related features. These agreements contain provisions where the Company could be declared in default on its derivative obligations if the Company defaults on certain specified indebtedness. Additionally, the Company has one agreement with a provision requiring the Company to maintain an investment grade credit rating from each of the major credit rating agencies. As the Company s ratings are currently below investment grade, we are required to post collateral for this contract. At August 1, 2009, derivative liabilities related to agreements that contain credit-risk related features had a fair value of $49 million. The Company has a minimum collateral posting threshold with certain derivative counterparties and has posted collateral of $43 million as of August 1, 2009.

Pursuant to our interest rate risk management strategies, on April 3, 2009, we entered into five new forward-starting interest rate cap agreements to manage our future interest rate exposure. The total amount paid for the caps was $15 million. The five interest rate caps have a combined notional amount of $2.3 billion. Two of these interest rate caps are effective on January 4, 2011, two on January 3, 2012 and one on January 2, 2014. All of the interest rate caps mature on April 1, 2015. Four of these interest rate caps (including 60% of one of these four) have been designated as cash flow hedges under SFAS 133, hedging the variability of LIBOR based cash flows above the strike price for each cap.

On May 11, 2009, we extended the interest rate caps on the $800 million notional amount related to the secured real estate loan through the end of the third maturity date extension as required under the terms of the loan agreement. The amount paid to extend the caps was nominal. The interest rate caps manage the variable cash flows associated with changes in the one month LIBOR above 7.00% and do not qualify for hedge accounting under SFAS 133.

Foreign Exchange Contracts

We occasionally enter into foreign currency forward contracts to economically hedge the U.S. dollar merchandise purchases of our foreign subsidiaries. In addition, we enter into short-term, cross-currency intercompany loans with our foreign subsidiaries as part of our global cash management strategy. We economically hedge these short-term, cross-currency intercompany loans with foreign currency forward contracts. As a result, changes in the value of these derivatives are recorded on the Condensed Consolidated Statements of Operations in Interest expense.

Our foreign exchange contracts contain some credit-risk related contingent features and are subject to master netting arrangements. These derivative contracts are not designated as hedges under SFAS 133 and typically mature within 12 months. These agreements contain provisions where the Company could be declared in default on its derivative obligations if the Company defaults on certain specified indebtedness. We are not required to post collateral for these contracts.

The following table sets forth the net impact of the effective portion of derivatives on Accumulated other comprehensive loss on our Condensed Consolidated Statements of Stockholders Deficit for the twenty-six weeks ended August 1, 2009 and August 2, 2008:

(In millions)	26 Weeks Ended August 1, 2009	26 Weeks Ended August 2, 2008
Derivatives qualified as cash flow hedges under SFAS 133:		
Interest Rate Contracts	**$ 5**	$ 10

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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, 2009 and August 2, 2008:

	13 Weeks Ended		26 Weeks Ended	
(In millions)	**August 1, 2009**	**August 2, 2008**	**August 1, 2009**	**August 2, 2008**
Derivatives not qualified for hedge accounting under SFAS 133:				
Gain on the change in fair value - Interest Rate Contracts	**$ 3**	$ 4	**$**	$ 9
Loss on the change in fair value - Foreign Exchange Contracts	**(34)**	(2)	**(44)**	(5)
	(31)	2	**(44)**	4
Derivatives qualified as variable cash flow hedges under SFAS 133:				
Loss reclassified from Accumulated other comprehensive loss (effective portion) - Interest Rate Contracts	**(9)**	(6)	**(18)**	(10)
Gain amortized from terminated cash flow hedges - Interest Rate Contracts			**1**	1
Gain on cash flow hedges (ineffective portion and amounts excluded from effectiveness testing) - Interest Rate Contracts	**1**			
	(8)	(6)	**(17)**	(9)
Total interest expense	**$ (39)**	$ (4)	**$ (61)**	$ (5)

The following table illustrates the notional amounts and the related fair values of our derivatives included within our Condensed Consolidated Balance Sheets:

	August 1, 2009		January 31, 2009		August 2, 2008	
(In millions)	**Notional Amount**	**Fair Value Assets/ (Liabilities)**	**Notional Amount**	**Fair Value Assets/ (Liabilities)**	**Notional Amount**	**Fair Value Assets/ (Liabilities)**
Interest Rate Contracts that qualify as cash flow hedges under SFAS 133:						
Other assets	**$ 1,800**	**$ 18**	$	$	$ 1,900	$ 6
Accrued expenses and other current liabilities					600	(1)
Other non-current liabilities	**1,303**	**(41)**	1,303	(44)	4	
Interest Rate Contracts not qualified for hedge accounting under SFAS 133:						
Prepaid expenses and other current assets	**$ 2,100**	**$**	$ 2,191	$	$ 4,291	$
Other assets	**1,911**	**3**	600		1,224	24
Other non-current liabilities	**376**	**(8)**	337	(6)		
Foreign Currency Contracts not qualified for hedge accounting under SFAS 133:						
Prepaid expenses and other current assets	**$ 6**	**$**	$	$	$ 206	$ 1
Accrued expenses and other current liabilities	**390**	**(21)**	74	(2)	30	
Total derivative contracts outstanding						

Prepaid expenses and other current assets	**$ 2,106**	**$**	$ 2,191	$	$ 4,497	$ 1
Other assets	**3,711**	**21**	600		3,124	30
Total derivative assets(1)	**$ 5,817**	**$ 21**	$ 2,791	$	$ 7,621	$ 31
Accrued expenses and other current liabilities	**$ 390**	**$ (21)**	$ 74	$ (2)	$ 630	$ (1)
Other non-current liabilities	**1,679**	**(49)**	1,640	(50)	4	
Total derivative liabilities(1)	**$ 2,069**	**$ (70)**	$ 1,714	$ (52)	$ 634	$ (1)

(1) Refer to Note 4 entitled Fair value measurements for the fair value of our derivative instruments classified within the fair value hierarchy.

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4. Fair value measurements

On February 1, 2009 and February 3, 2008, we adopted SFAS No. 157, Fair Value Measurements (SFAS 157) for nonfinancial assets and liabilities and financial assets and liabilities, respectively. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 establishes a 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). SFAS 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

Derivative Financial Instruments

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

To comply with the provisions of SFAS 157, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we have considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

Although certain inputs used to value our derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with our derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default. Changes in the fair value of our derivative financial instruments are recorded in Interest expense within the Condensed Consolidated Statements of Operations.

Cash Equivalents

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

The table below presents our assets and liabilities measured at fair value on a recurring basis as of August 1, 2009, January 31, 2009 and August 2, 2008, 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)	Total
Cash equivalents	**$ 24**	**$**	**$**	**$ 24**
Derivative financial instruments		**(52)**	**3**	**(49)**
Balance at August 1, 2009	**$ 24**	**$ (52)**	**$ 3**	**$ (25)**
Cash equivalents	$ 183	$	$	$ 183
Derivative financial instruments		(46)	(6)	(52)
Balance at January 31, 2009	$ 183	$ (46)	$ (6)	$ 131
Derivative financial instruments	$	$ 30	$	$ 30

Balance at August 2, 2008	$	$ 30	$	$ 30

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The table below presents the changes in the fair value of our derivative financial instruments and short-term investments within Level 3 of the fair value hierarchy for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008.

(In millions)	Level 3 - Derivative Financial Instruments	
Balance, January 31, 2009	$	(6)
Total unrealized loss		(3)
Transfers in to Level 3		5
Balance, May 2, 2009		(4)
Total unrealized gain		7
Balance, August 1, 2009	$	3

(In millions)	Level 3 -Short-term Investments	
Balance, February 3, 2008	$	168
Settlements		(148)
Balance, May 3, 2008		20
Settlements		(19)
Total realized loss		(1)
Balance, August 2, 2008	$	

5. Income taxes

The following table summarizes our income tax benefit and effective tax rates for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008:

($ In millions)	13 Weeks Ended		26 Weeks Ended	
	August 1, 2009	**August 2, 2008**	**August 1, 2009**	**August 2, 2008**
Loss before income taxes	**$ (29)**	$ (17)	**$ (100)**	$ (108)
Income tax benefit	**54**	26	**85**	70
Effective tax rate	**(186.2)%**	(152.9)%	**(85.0)%**	(64.8)%

The effective tax rates for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008 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 45.1% for the twenty-six weeks ended August 1, 2009 compared to 40.6% in the same period last year. The difference between our forecasted annualized effective tax rates was primarily due to an increase in taxable permanent adjustments, an increase in state tax expense, and a change in the mix of earnings between jurisdictions.

For the thirteen weeks ended August 1, 2009, our effective tax rate was impacted by a tax benefit of $41 million attributable to the reversal of deferred tax liabilities associated with the undistributed earnings of one of our non-U.S. subsidiaries, as it is management s intention to reinvest those earnings indefinitely. This was partially offset by tax expense of $1 million related to changes to our liability for uncertain tax positions. For the thirteen weeks ended August 2, 2008, our effective tax rate was impacted by income tax benefits of $20 million related to the establishment of foreign tax credits resulting from Toys-Japan becoming a controlled foreign corporation for tax purposes, $8 million related to a reduction in valuation allowance, $5 million related to state tax refunds due to settlements of tax examinations and $2 million related to adjustments to other deferred taxes. These tax benefits were partially offset by tax expense of $7 million related to our liability for uncertain tax positions and tax expense of $4 million related to adjustments to income taxes payable.

For the twenty-six weeks ended August 1, 2009, our effective tax rate was impacted by a tax benefit of $41 million attributable to the reversal of deferred tax liabilities associated with the undistributed earnings of one of our non-U.S. subsidiaries, as it is management s intention to reinvest those earnings indefinitely, and a tax benefit of $1 million related to state income taxes and changes to our liability for uncertain tax positions. For the twenty-six weeks ended August 2, 2008, our effective tax rate was impacted by tax benefits of $20 million related to establishment of foreign tax credits resulting from Toys-Japan becoming a controlled foreign

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corporation for tax purposes, $5 million related to adjustments to other deferred taxes, $8 million related to a reduction in valuation allowance, and $5 million related to state tax refunds due to settlements of tax examinations. These tax benefits were partially offset by tax expense of $6 million related to our liability for uncertain tax positions, and tax expense of $3 million related to adjustments to income taxes payable.

6. Segments

In the third quarter of fiscal 2008, we commenced operating our domestic business as a single Toys R Us-Domestic (Domestic) operating segment in accordance with SFAS 131, Disclosures about Segments of an Enterprise and Related Information. Pursuant to this change, our reportable segments are: Domestic, which provides toy and juvenile product offerings in 49 states and Puerto Rico; and Toys R Us-International (International), which operates, licenses or franchises R Us branded retail stores in 33 foreign countries with wholly-owned operations in Australia, Austria, Canada, France, Germany, Portugal, Spain, Switzerland, and the United Kingdom, and consolidates the results of Toys-Japan. Domestic and International segments are also responsible for their respective internet operations. All intercompany transactions between 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.

Our percentages of Consolidated Net sales by product category for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008 were as follows:

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2009	**August 2, 2008**	**August 1, 2009**	**August 2, 2008**
Juvenile	**40.2%**	38.9%	**41.3%**	39.8%
Learning	**16.7%**	15.3%	**16.2%**	15.3%
Entertainment	**10.7%**	14.1%	**11.7%**	15.0%
Core Toy	**12.7%**	12.2%	**12.4%**	12.0%
Seasonal	**18.3%**	18.1%	**17.1%**	16.6%
Other	**1.4%**	1.4%	**1.3%**	1.3%
Total	**100%**	100%	**100%**	100%

A summary of operations by reportable segment is as follows:

	13 Weeks Ended		26 Weeks Ended	
(In millions)	**August 1, 2009**	**August 2, 2008**	**August 1, 2009**	**August 2, 2008**
Net sales				
Domestic	**$ 1,576**	$ 1,686	**$ 3,199**	$ 3,397
International	**991**	1,085	**1,845**	2,093
Total Net sales	**$ 2,567**	$ 2,771	**$ 5,044**	$ 5,490
Operating earnings (loss)				
Domestic	**$ 79**	$ 93	**$ 185**	$ 195
International	**17**	14	**(4)**	(24)
Corporate and other charges [1]	**(10)**	(28)	**(74)**	(90)
Operating earnings	**86**	79	**107**	81
Interest expense	**(117)**	(100)	**(211)**	(200)
Interest income	**2**	4	**4**	11
Loss before income taxes	**$ (29)**	$ (17)	**$ (100)**	$ (108)

(1) For the thirteen and twenty-six weeks ended August 1, 2009, Corporate and other charges includes a $51 million gain related to the settlement of litigation with Amazon.com (Amazon). For the thirteen and twenty-six weeks ended August 2, 2008, amount includes $39 million gain related to the substantial liquidation of the operations of TRU (HK) Limited, our wholly-owned subsidiary.

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(In millions)	August 1, 2009	January 31, 2009	August 2, 2008
Merchandise inventories			
Domestic	**$ 1,299**	$ 1,165	$ 1,181
International	**865**	616	1,012
Total Merchandise inventories	**$ 2,164**	$ 1,781	$ 2,193

7. Litigation and legal proceedings

Toysrus.com previously operated three co-branded on-line stores under a strategic alliance agreement (Agreement) with Amazon. On May 21, 2004, we filed a lawsuit against Amazon and its affiliated companies in the Superior Court of New Jersey, Chancery Division, Passaic County (the New Jersey Trial Court) to terminate the Agreement. Amazon filed a counterclaim against us and our affiliated companies. On March 31, 2006, the New Jersey Trial Court entered an order (Order) terminating the Agreement and denying Amazon s counterclaim. The parties each filed Notices of Appeal with the Appellate Division. On June 2, 2006, Amazon filed a lawsuit against us in the Superior Court of Washington, King County (the Washington Court) for money damages allegedly arising from services it was required to provide to us during the wind-down period pursuant to the Order. The Washington Court stayed the matter before it in favor of the New Jersey proceedings. On March 24, 2009, the Appellate Division affirmed the New Jersey Trial Court s Order with respect to the termination of the Agreement and denial of Amazon s counterclaim, but remanded to the New Jersey Trial Court for further proceedings on our claim that we are entitled to monetary damages arising from Amazon s breach of the Agreement. On April 23, 2009, Amazon petitioned the New Jersey Supreme Court for certification of the Appellate Division s decision for a discretionary appeal to the New Jersey Supreme Court, and that petition was denied on June 1, 2009. On June 11, 2009, we entered into a settlement agreement (the Settlement Agreement) with Amazon to settle all disputes related to the New Jersey Trial Court and the Washington Court actions. Both lawsuits were dismissed with prejudice and, pursuant to the terms of the Settlement Agreement, on July 21, 2009, Amazon paid the Company $51 million which was recorded in Other income, net.

On July 15, 2009, the United States District Court for the Eastern District of Pennsylvania (the District Court) granted the class plaintiffs motion for class certification in a consumer class action commenced in January 2006, which was consolidated with an action brought by two internet retailers that was commenced in December 2005. Both actions allege that Babies R Us agreed with certain baby product manufacturers (collectively, with the Company, the Defendants) to impose, maintain and/or enforce minimum price agreements with retailers in violation of antitrust laws. On July 29, 2009, Defendants filed a petition with the Third Circuit Court of Appeals seeking permission to immediately appeal the District Court s class certification order. We intend to vigorously defend both cases.

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

8. Related party transactions

Transactions with the Sponsors We are owned by an investment group consisting of entities advised by or affiliated with Bain Capital Partners LLC, Kohlberg Kravis Roberts & Co. L.P., and Vornado Realty Trust (collectively, the Sponsors). The Sponsors provide management and advisory services to us pursuant to an advisory agreement executed at the closing of the July 21, 2005 merger and recapitalization transaction. We recorded management and advisory fees of $4 million and $8 million for the thirteen and twenty-six weeks ended August 1, 2009, respectively. We recorded management and advisory fees of $4 million and $9 million for the thirteen and twenty-six weeks ended August 2, 2008, respectively.

From time to time the Sponsors or their affiliates may acquire debt or debt securities issued by the Company or its subsidiaries in open market transactions or through loan syndications. These syndicates include affiliates of Vornado Realty Trust and Kohlberg Kravis Roberts & Co. L.P., all equity owners of the Company. During the thirteen and twenty-six weeks ended August 1, 2009, the interest amounts paid on such debt and debt securities held by related parties were $2 million and $10 million, respectively. During the thirteen and twenty-six weeks ended August 2, 2008, the interest amounts paid on such debt and debt securities held by related parties were $4 million and $12 million, respectively. Refer to Note 2 entitled Short-term borrowings and long-term debt for further details.

Management Equity Plan Amendment On June 8, 2009, we adopted amendment No. 2 (the Amendment) to the Amended and Restated Toys R Us, Inc. Management Equity Plan (the MEP) in order to modify the vesting provisions for certain tranches of stock options issued under the

MEP. The Amendment did not have a material impact on our Condensed Consolidated Financial Statements.

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9. Acquisitions and dispositions

In February 2009, the Company acquired the e-commerce websites eToys.com and BabyUniverse.com as well as the parenting web site ePregnancy.com. Also, in February we acquired the Internet domain Toys.com through a separate bankruptcy auction. The acquisitions did not have a material impact on our Condensed Consolidated Financial Statements.

On May 28, 2009, the Company acquired certain business assets of FAO Schwarz, a children s retailer. As part of the acquisition, the Company will continue to operate the two FAO Schwarz retail stores in New York City and Las Vegas along with the FAO Schwarz e-commerce and catalog businesses. The acquisition did not have a material impact on our Condensed Consolidated Financial Statements.

Subsequent events

On August 26, 2009, we sold an idle distribution center for $14 million which resulted in a gain of approximately $5 million.

On September 3, 2009, the Company acquired the brand and other intellectual property assets of KB Toys, a toy retailer. We do not expect the acquisition to have a material impact on our Condensed Consolidated Financial Statements.

10. Recent accounting pronouncements

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles A Replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 establishes the FASB Accounting Standards Codification (Codification), which officially launched July 1, 2009, as the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The subsequent issuances of new standards will be in the form of Accounting Standards Updates that will be included in the Codification. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. Although the Codification is not expected to change U.S. GAAP, we are currently evaluating the impact SFAS 168 will have on our Condensed Consolidated Financial Statement disclosures as all future references to authoritative accounting literature will be in accordance with the Codification.

In June 2009, the FASB issued SFAS No. 167, Amendments to FIN 46(R) (SFAS 167). SFAS 167 modifies how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. In addition, a reporting entity will be required to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective at the start of the first fiscal year beginning after November 15, 2009. We are currently assessing the impact that SFAS 167 will have on our Condensed Consolidated Financial Statements.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, (SFAS 166). SFAS 166 will require more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. It eliminates the concept of a qualifying special purpose entity , changes the requirements for derecognizing financial assets and requires additional disclosures. SFAS 166 is effective at the start of the first fiscal year beginning after November 15, 2009. We are currently assessing the impact that SFAS 166 will have on our Condensed Consolidated Financial Statements.

On May 3, 2009, we adopted SFAS No. 165, Subsequent Events, (SFAS 165), SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The adoption of SFAS 165 did not have a material impact on our Condensed Consolidated Financial Statements.

In December 2008, SFAS No. 132 (Revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits was amended by FSP SFAS 132 (R)-1, Employer s Disclosures about Postretirement Benefit Plan Assets. This FSP provides guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan and is effective for financial statements issued for fiscal years ending after December 15, 2009. We do not expect its adoption will have a material impact on the Condensed Consolidated Financial Statements.

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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 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 financial condition and our historical results of operations for the periods presented. This MD&A should be read in conjunction with our 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 juvenile, learning, entertainment, core toy and seasonal product categories worldwide. Our reportable segments are: Toys R Us Domestic (Domestic), which provides toy and juvenile product offerings in 49 states and Puerto Rico; and Toys R Us International (International), which operates, licenses or franchises stores in 33 foreign countries. As of August 1, 2009, there were 1,553 wholly-owned and franchised R Us branded retail stores worldwide. Domestic and International segments are also responsible for their respective internet operations.

Financial Performance

As discussed in more detail in this MD&A, the following financial data presents an overview of our financial performance for the thirteen and twenty-six weeks ended August 1, 2009 compared to the thirteen and twenty-six weeks ended August 2, 2008:

	13 Weeks Ended		26 Weeks Ended	
($ In millions)	**August 1, 2009**	**August 2, 2008**	**August 1, 2009**	**August 2, 2008**
Net sales (decline) growth (versus prior year)	**(7.4)%**	6.4%	**(8.1)%**	5.9%
Gross margin as a percentage of Net sales	**37.0%**	36.6%	**36.5%**	36.3%
Selling, general and administrative expenses as a percentage of Net sales	**32.3%**	31.9%	**32.0%**	32.4%
Net earnings (loss) attributable to Toys R Us, Inc	**$ 27**	$ 13	**$ (8)**	$ (23)

Net sales for the thirteen and twenty-six weeks ended August 1, 2009 decreased due to decreased comparable store net sales across our segments driven largely by reduced demand for gaming systems and accessories, the overall slowdown in the global economy and unfavorable changes in foreign currency exchange rates.

Gross margin as a percentage of Net sales for the thirteen and twenty-six weeks ended August 1, 2009 increased primarily due to improvements in sales mix away from lower margin products partially offset by price reductions taken in light of the slowdown in the global economy.

Selling, general and administrative expenses (SG&A) as a percentage of Net sales for the thirteen weeks ended August 1, 2009 increased primarily due to the fact that Net sales decreased at a greater rate than the decrease in SG&A. SG&A as a percentage of Net sales for the twenty-six weeks ended August 1, 2009 decreased primarily due to initiatives to reduce overall operating expenses. Additionally, SG&A decreased by $14 million for the twenty-six weeks ended August 1, 2009 due to the contract termination payment related to the prior year settlement between Toys R Us Japan, Ltd. (Toys-Japan) and McDonald s Japan in the first quarter of fiscal 2008.

Net earnings (loss) attributable to Toys R Us, Inc. for the thirteen and twenty-six weeks ended August 1, 2009 improved primarily due to a decrease in SG&A, a $51 million litigation settlement with Amazon.com (Amazon), and an increase in Income tax benefit, partially offset by a decrease in Gross margin, an increase in Interest expense and a gain of $39 million in the prior year which resulted from the liquidation of our Hong Kong subsidiary.

Comparable Store Net Sales

We include, in computing comparable store net sales, 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. At the end of fiscal 2008, we changed our definition of comparable store net sales to include sales from our online business because we believe this combined measure represents a more useful disclosure in light of our fully integrated business. For comparability purposes, we have restated our comparable store net sales for our fiscal 2008 quarters.

Comparable stores generally include:

stores that have been remodeled 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; and

stores that have expanded within their current locations.

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

Various factors affect comparable store net sales, including the number of stores we open or close, 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 our releases of new merchandise and 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 an annual, quarterly and monthly basis and, as a result, we expect that comparable store net sales will continue to fluctuate in the future.

The following table discloses our comparable store net sales performance for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008:

	13 Weeks Ended		26 Weeks Ended	
	August 1, 2009 vs. 2008	**August 2, 2008 vs. 2007**	**August 1, 2009 vs. 2008**	**August 2, 2008 vs. 2007**
Domestic	**(7.2)%**	4.2%	**(6.3)%**	2.7%
International	**(3.9)%**	(0.8)%	**(4.6)%**	(2.5)%

Store Count by Segment

	Segment Store Count		
	August 1, 2009	**August 2, 2008**	**Change**
Domestic [1]	**848**	846	2
International - Wholly-Owned [2]	**510**	504	6
International - Licensed and Franchised	**195**	186	9
Total	**1,553**	1,536	17

(1) Store count as of August 1, 2009 includes 62 side-by-side stores, 22 R Superstores, 12 BRU Express stores and 63 Juvenile Expansions. As of August 2, 2008, there were 40 side-by-side stores, 6 R Superstores and 6 BRU Express stores.

(2) Store count as of August 1, 2009 includes 72 side-by-side stores and 2 BRU Express stores. As of August 2, 2008 there were 49 side-by-side stores.

Net Earnings (Loss) Attributable to Toys R Us, Inc.

	13 Weeks Ended			26 Weeks Ended		
(In millions)	**August 1, 2009**	**August 2, 2008**	**Change**	**August 1, 2009**	**August 2, 2008**	**Change**
Net earnings (loss) attributable to Toys R Us, Inc	**$ 27**	$ 13	$ 14	**$ (8)**	$ (23)	$ 15

The increase in Net earnings attributable to Toys R Us, Inc. for the thirteen weeks ended August 1, 2009 was primarily due to a reduction in SG&A of $57 million, resulting primarily from initiatives to reduce our operating expenses and an increase in Income tax benefit of $28 million, both of which were partially offset by a decrease in Gross margin of $63 million and an increase in Interest expense of $17 million.

The decrease in Net loss attributable to Toys R Us, Inc. for the twenty-six weeks ended August 1, 2009 was primarily due to a reduction in SG&A of $164 million, resulting primarily from initiatives to reduce our operating expenses and an increase in Income tax benefit of $15 million, both of which were partially offset by a decrease in Gross margin of $150 million and an increase in Interest expense of $11 million.

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Net Sales

	13 Weeks Ended					
					Percentage of Total Net Sales	
($ In millions)	August 1, 2009	August 2, 2008	$ Change	% Change	August 1, 2009	August 2, 2008
Domestic	**$ 1,576**	$ 1,686	$ (110)	(6.5)%	**61.4%**	60.8%
International	**991**	1,085	(94)	(8.7)%	**38.6%**	39.2%
Total Net sales	**$ 2,567**	$ 2,771	$ (204)	(7.4)%	**100.0%**	100.0%

For the thirteen weeks ended August 1, 2009, Net sales decreased by $204 million, or 7.4% to $2,567 million from $2,771 million for the same period last year. Net sales for the thirteen weeks ended August 1, 2009 included the impact of foreign currency translation that decreased Net sales by approximately $59 million.

Excluding the impact of foreign currency translation, Net sales for the thirteen weeks ended August 1, 2009 decreased primarily due to decreased comparable store net sales across both our segments. Comparable store net sales have been impacted by the overall slowdown in the global economy, which contributed to a decrease in the number of transactions and a lower average transaction amount at both of our segments.

	26 Weeks Ended					
					Percentage of Total Net Sales	
($ In millions)	August 1, 2009	August 2, 2008	$ Change	% Change	August 1, 2009	August 2, 2008
Domestic	**$ 3,199**	$ 3,397	$ (198)	(5.8)%	**63.4%**	61.9%
International	**1,845**	2,093	(248)	(11.8)%	**36.6%**	38.1%
Total Net sales	**$ 5,044**	$ 5,490	$ (446)	(8.1)%	**100.0%**	100.0%

For the twenty-six weeks ended August 1, 2009, Net sales decreased by $446 million, or 8.1% to $5,044 million from $5,490 million for the same period last year. Net sales for the twenty-six weeks ended August 1, 2009 included the impact of foreign currency translation that decreased Net sales by approximately $163 million.

Excluding the impact of foreign currency translation, Net sales for the twenty-six weeks ended August 1, 2009 decreased primarily due to decreased comparable store net sales across both our segments. Comparable store net sales have been impacted by the overall slowdown in the global economy, which contributed to a decrease in the number of transactions and a lower average transaction amount at both of our segments.

Domestic

Net sales for the Domestic segment decreased by $110 million, or 6.5% to $1,576 million for the thirteen weeks ended August 1, 2009, compared with $1,686 million in the same period last year. The decrease in Net sales was primarily a result of a decrease in comparable store net sales of 7.2%.

The decrease in comparable store net sales resulted primarily from decreases in our entertainment, apparel, seasonal and juvenile categories, which were all affected by the overall slowdown in the economy. The decrease in our entertainment category was driven by a slowdown in demand for certain game systems and related accessories as well as fewer new software releases. The apparel category decreased as we have phased out certain size offerings. Sales of seasonal products, such as outdoor play equipment decreased primarily due to cooler weather. The juvenile category decreased primarily due to declines in sales of higher priced items such as baby gear, furniture and bedding. Partially offsetting these decreases were increases in sales from our stores that were recently converted to our side-by-side and R superstore formats, and increased sales of consumables from expanded product offerings, such as Health and Beauty Aids.

Net sales for the Domestic segment decreased by $198 million, or 5.8% to $3,199 million for the twenty-six weeks ended August 1, 2009, compared with $3,397 million in the same period last year. The decrease in Net sales was primarily a result of a decrease in comparable store net sales of 6.3%.

The decrease in comparable store net sales resulted primarily from decreases in our entertainment, apparel and juvenile categories, which were all affected by the overall slowdown in the economy. The decrease in our entertainment category was driven by a slowdown in demand for certain game systems and related accessories as well as well as fewer new software releases. The apparel category decreased as we have phased out certain size offerings. The juvenile category decreased primarily from declines in sales of higher priced items such as baby gear, furniture and bedding. Partially offsetting these decreases were increases in sales from our stores that were recently converted to our side-by-side and R superstore formats, and increased sales of consumables from expanded product offerings, such as Health and Beauty Aids.

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International

Net sales for the International segment decreased by $94 million, or 8.7%, to $991 million for the thirteen weeks ended August 1, 2009, compared with $1,085 million in the same period last year. Excluding a $59 million decrease in Net sales due to foreign currency translation, International Net sales decreased primarily due to a decrease in comparable store net sales of 3.9%.

The decrease in comparable store net sales resulted primarily from decreases in our entertainment and juvenile categories, which were affected by the slowdown in the global economy. Entertainment decreases were primarily attributable to a slowdown in demand for video game hardware and related accessories as well as fewer new software releases. The juvenile category decreased primarily from declines in sales of furniture, apparel and consumables. These decreases were partially offset by increases in our learning and core toy categories driven by increased sales of educational and licensed products.

Net sales for the International segment decreased by $248 million, or 11.8%, to $1,845 million for the twenty-six weeks ended August 1, 2009, compared to $2,093 million in the same period last year. Excluding a $163 million decrease in Net sales due to foreign currency translation, International Net sales decreased primarily due to a decrease in comparable store net sales of 4.6%.

The decrease in comparable store net sales resulted primarily from decreases in our entertainment and juvenile categories, which were affected by the slowdown in the global economy. Entertainment decreases were primarily attributable to a slowdown in demand for video game hardware and related accessories as well as fewer new software releases. The juvenile category decreased primarily from declines in sales of furniture, bulk products and consumables. These decreases were partially offset by increases in our seasonal and learning categories. Sales of seasonal products, such as bicycles, sporting goods and outdoor play equipment, increased primarily due to warmer spring weather in fiscal 2009 compared with the same period in the prior year. The increase in our learning category was primarily due to increased sales of educational products.

Cost of Sales and Gross Margin

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

The following costs are included in Cost of sales :

- the cost of merchandise acquired from vendors;
- freight in;
- provision for excess and obsolete inventory;
- shipping costs;
- provision for inventory shortages; and
- credits and allowances from our merchandise vendors.

13 Weeks Ended

($ In millions)	August 1, 2009	August 2, 2008	$ Change	Percentage of Net Sales August 1, 2009	August 2, 2008	Percentage of Net Sales Change
Domestic	**$ 579**	$ 606	$ (27)	**36.7%**	35.9%	0.8%
International	**372**	408	(36)	**37.5%**	37.6%	(0.1)%
Total Gross margin	**$ 951**	$ 1,014	$ (63)	**37.0%**	36.6%	0.4%

Gross margin, as a percentage of Net sales, increased by 0.4% and decreased $63 million for the thirteen weeks ended August 1, 2009, compared with the same period last year. Foreign currency translation accounted for approximately $27 million of the decrease. Gross margin, as a percentage of Net sales, was impacted by improvements in sales mix away from lower margin products partially offset by price reductions taken in light of the slowdown in the global economy.

($ In millions)	26 Weeks Ended August 1, 2009	August 2, 2008	$ Change	Percentage of Net Sales August 1, 2009	August 2, 2008	Percentage of Net Sales Change
Domestic	**$ 1,160**	$ 1,221	$ (61)	**36.3%**	35.9%	0.4%
International	**681**	770	(89)	**36.9%**	36.8%	0.1%
Total Gross margin	**$ 1,841**	$ 1,991	$ (150)	**36.5%**	36.3%	0.2%

Gross margin, as a percentage of Net sales, increased by 0.2% and decreased $150 million for the twenty-six weeks ended August 1, 2009, compared with the same period last year. Foreign currency translation accounted for approximately $70 million of the decrease. Gross margin, as a percentage of Net sales, was impacted by improvements in sales mix away from lower margin products partially offset by price reductions taken in light of the slowdown in the global economy.

Domestic

Gross margin decreased by $27 million to $579 million for the thirteen weeks ended August 1, 2009, compared with $606 million in the same period last year. Gross margin, as a percentage of Net sales, for the thirteen weeks ended August 1, 2009 increased 0.8%.

The increase in Gross margin, as a percentage of Net sales, resulted primarily from improvements in sales mix away from lower margin products such as video game hardware and improvements in margin, most notably in apparel due to a reduction in the use of clearance pricing. These increases were partially offset by increased sales of lower margin consumables, along with increases in promotional events and clearance pricing in light of the slowdown in the global economy.

Gross margin decreased by $61 million to $1,160 million for the twenty-six weeks ended August 1, 2009, compared with $1,221 million in the same period last year. Gross margin, as a percentage of Net sales, for the twenty-six weeks ended August 1, 2009 increased 0.4%.

The increase in Gross margin, as a percentage of Net sales, resulted primarily from improvements in sales mix away from lower margin products such as video game hardware and improvements in margin, most notably in apparel due to a reduction in the use of clearance pricing. These increases were partially offset by increased sales of lower margin consumables, along with increases in promotional events and clearance pricing in light of the slowdown in the global economy.

International

Gross margin decreased by $36 million to $372 million for the thirteen weeks ended August 1, 2009, compared to $408 million in the same period last year. Foreign currency translation accounted for approximately $27 million of the decrease. Gross margin, as a percentage of Net sales, for the thirteen weeks ended August 1, 2009 decreased 0.1%.

The decrease in Gross margin, as a percentage of Net sales, resulted primarily from price reductions taken in light of the slowdown in the global economy. This decrease was primarily offset by a change in sales mix toward sales of higher margin learning, core toy and juvenile products as well as decreased sales of lower margin video game hardware compared to the same period last year.

Gross margin decreased by $89 million to $681 million for the twenty-six weeks ended August 1, 2009, compared to $770 million in the same period last year. Foreign currency translation accounted for approximately $70 million of the decrease. Gross margin, as a percentage of Net sales, for the twenty-six weeks ended August 1, 2009 increased 0.1%.

The increase in Gross margin, as a percentage of Net sales, resulted primarily from a change in sales mix toward sales of higher margin juvenile, seasonal and learning products as well as decreased sales of lower margin video game hardware compared with the same period last year. Primarily offsetting these increases were price reductions taken in light of the slowdown in the global economy.

Selling, General and Administrative Expenses (SG&A)

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

store payroll and related payroll benefits;

rent and other store operating expenses,

advertising expenses;

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

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other corporate-related expenses.

	13 Weeks Ended					
				Percentage of Net Sales		
($ In millions)	August 1, 2009	August 2, 2008	$ Change	August 1, 2009	August 2, 2008	Percentage of Net Sales Change
Toys R Us - Consolidated	**$ 828**	$ 885	$ (57)	**32.3%**	31.9%	0.4%

SG&A decreased $57 million to $828 million for the thirteen weeks ended August 1, 2009, compared with $885 million for the same period last year. As a percentage of Net sales, SG&A increased 0.4%. Foreign currency translation accounted for approximately $22 million of the decrease.

Excluding the impact of foreign currency translation, the decrease in SG&A resulted primarily from initiatives to reduce overall operating expenses, including compensation, professional fees and transportation costs.

	26 Weeks Ended					
				Percentage of Net Sales		
($ In millions)	August 1, 2009	August 2, 2008	$ Change	August 1, 2009	August 2, 2008	Percentage of Net Sales Change
Toys R Us - Consolidated	**$ 1,616**	$ 1,780	$ (164)	**32.0%**	32.4%	(0.4)%

SG&A decreased $164 million to $1,616 million for the twenty-six weeks ended August 1, 2009, compared with $1,780 million for the same period last year. As a percentage of Net sales, SG&A decreased 0.4%. Foreign currency translation accounted for approximately $62 million of the decrease.

Excluding the impact of foreign currency translation, the decrease in SG&A resulted primarily from initiatives to reduce overall operating expenses, including compensation, transportation costs, advertising and professional fees. Additionally, SG&A decreased at our International segment due to the contract termination payment related to the prior year settlement between Toys-Japan and McDonald s Japan, which increased SG&A by $14 million in the first quarter of fiscal 2008.

Depreciation and Amortization

	13 Weeks Ended			26 Weeks Ended		
(In millions)	August 1, 2009	August 2, 2008	Change	August 1, 2009	August 2, 2008	Change
Toys R Us - Consolidated	**$ 101**	$ 103	$ (2)	**$ 194**	$ 203	$ (9)

Depreciation and amortization decreased by $2 million to $101 million for the thirteen weeks ended August 1, 2009, compared with $103 million for the same period last year. Foreign currency translation accounted for the $2 million decrease.

Depreciation and amortization decreased by $9 million to $194 million for the twenty-six weeks ended August 1, 2009, compared with $203 million for the same period last year. Foreign currency translation accounted for approximately $5 million of the decrease along with the addition of fewer new wholly-owned stores due to the curtailment of capital spending during the year.

Other Income, Net

In fiscal 2009, we have included certain other income and expense items in Other income, net in our Condensed Consolidated Statements of Operations. For the thirteen and twenty-six weeks ended August 2, 2008, such income and expense items were not material and reported as a component of SG&A. Accordingly, prior period amounts have been corrected or reclassified to conform with our current year presentation. The change had no effect on the Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Cash Flows and Condensed Consolidated Statements of Stockholders Deficit as previously presented.

Other income, net includes the following:

gift card breakage;

credit card program income;

impairment losses on long-lived assets;

foreign exchange gains and losses;

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gains on sales of properties; and

other operating income and expenses.

(In millions)	13 Weeks Ended August 1, 2009	13 Weeks Ended August 2, 2008	Change	26 Weeks Ended August 1, 2009	26 Weeks Ended August 2, 2008	Change
Toys R Us - Consolidated	**$ 64**	$ 53	$ 11	**$ 76**	$ 73	$ 3

Other income, net increased by $11 million to $64 million for the thirteen weeks ended August 1, 2009, compared with $53 million for the same period last year. The increase resulted primarily from a $51 million litigation settlement with Amazon.com (Amazon), partially offset by a prior year $39 million gain on the liquidation of our Hong Kong subsidiary.

Other income, net increased by $3 million to $76 million for the twenty-six weeks ended August 1, 2009, compared with $73 million for the same period last year. The increase resulted primarily from a $51 million litigation settlement with Amazon, partially offset by a prior year $39 million gain on the liquidation of our Hong Kong subsidiary and lower foreign exchange gains on foreign currency transactions compared with the same period last year.

Interest Expense

(In millions)	13 Weeks Ended August 1, 2009	13 Weeks Ended August 2, 2008	Change	26 Weeks Ended August 1, 2009	26 Weeks Ended August 2, 2008	Change
Toys R Us - Consolidated	**$ 117**	$ 100	$ 17	**$ 211**	$ 200	$ 11

Interest expense increased by $17 million to $117 million for the thirteen weeks ended August 1, 2009 compared with $100 million for the same period last year. The increase was primarily driven by an increase of $21 million in charges related to the changes in the fair value of our interest rate contracts and forward contracts associated with our import merchandise purchases which do not qualify for hedge accounting, as well as a $10 million increase from the write off of deferred financing charges resulting from the repayment of our $1.3 billion unsecured credit agreement. These increases were partially offset by a decrease of $10 million in interest expense related to our debt due primarily to lower average interest rates.

Interest expense increased by $11 million to $211 million for the twenty-six weeks ended August 1, 2009 compared with $200 million for the same period last year. The increase was primarily driven by an increase of $35 million in charges related to the changes in the fair value of our interest rate contracts and forward contracts associated with our import merchandise purchases which do not qualify for hedge accounting, as well as a $10 million increase from the write off of deferred financing charges resulting from the repayment of our $1.3 billion unsecured credit agreement. These increases were partially offset by a decrease of $27 million in interest expense related to our debt due primarily to lower average interest rates.

Interest Income

(In millions)	13 Weeks Ended August 1, 2009	13 Weeks Ended August 2, 2008	Change	26 Weeks Ended August 1, 2009	26 Weeks Ended August 2, 2008	Change
Toys R Us - Consolidated	**$ 2**	$ 4	$ (2)	**$ 4**	$ 11	$ (7)

Interest income decreased by $2 million and $7 million for the thirteen and twenty-six weeks ended August 1, 2009, respectively, compared with the same periods last year primarily due to lower effective interest rates.

Income Tax Benefit

The following table summarizes our income tax benefit and effective tax rates for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008:

	13 Weeks Ended		26 Weeks Ended	
($ In millions)	**August 1, 2009**	**August 2, 2008**	**August 1, 2009**	**August 2, 2008**
Loss before income taxes	**$ (29)**	$ (17)	**$ (100)**	$ (108)
Income tax benefit	**54**	26	**85**	70
Effective tax rate	**(186.2)%**	(152.9)%	**(85.0)%**	(64.8)%

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The effective tax rates for the thirteen and twenty-six weeks ended August 1, 2009 and August 2, 2008 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 45.1% for the twenty-six weeks ended August 1, 2009 compared to 40.6% for the same period last year. The difference between our forecasted annualized effective tax rates was primarily due to an increase in taxable permanent adjustments, an increase in state tax expense, and a change in the mix of earnings between jurisdictions.

For the thirteen weeks ended August 1, 2009, our effective tax rate was impacted by a tax benefit of $41 million attributable to the reversal of deferred tax liabilities associated with the undistributed earnings of one of our non-U.S. subsidiaries, as it is management s intention to reinvest those earnings indefinitely. This was partially offset by tax expense of $1 million related to changes to our liability for uncertain tax positions. For the thirteen weeks ended August 2, 2008, our effective tax rate was impacted by income tax benefits of $20 million related to the establishment of foreign tax credits resulting from Toys-Japan becoming a controlled foreign corporation for tax purposes, $8 million related to a reduction in valuation allowance, $5 million related to state tax refunds due to settlements of tax examinations and $2 million related to adjustments to other deferred taxes. These tax benefits were partially offset by tax expense of $7 million related to our liability for uncertain tax positions and tax expense of $4 million related to adjustments to income taxes payable.

For the twenty-six weeks ended August 1, 2009, our effective tax rate was impacted by a tax benefit of $41 million attributable to the reversal of deferred tax liabilities associated with the undistributed earnings of one of our non-U.S. subsidiaries, as it is management s intention to reinvest those earnings indefinitely, and a tax benefit of $1 million related to state income taxes and changes to our liability for uncertain tax positions. For the twenty-six weeks ended August 2, 2008, our effective tax rate was impacted by tax benefits of $20 million related to establishment of foreign tax credits resulting from Toys-Japan becoming a controlled foreign corporation for tax purposes, $5 million related to adjustments to other deferred taxes, $8 million related to a reduction in valuation allowance, and $5 million related to state tax refunds due to settlements of tax examinations. These tax benefits were partially offset by tax expense of $6 million related to our liability for uncertain tax positions, and tax expense of $3 million related to adjustments to income taxes payable.

Liquidity and Capital Resources

Overview

As of August 1, 2009, we were in compliance with all of our covenants related to our outstanding debt. On June 24, 2009, we amended and restated the credit agreement for our $2.0 billion secured revolving credit facility, which extended the maturity date on a portion of the facility and amended certain other provisions. As amended, the facility was bifurcated into a $1,526 million tranche maturing on May 21, 2012 and a $517 million tranche maturing July 21, 2010. At August 1, 2009, we had $23 million of outstanding borrowings, a total of $98 million of outstanding letters of credit and had capped availability of $988 million. This amount is also subject to a minimum availability covenant, which was $139 million at August 1, 2009. Additionally, under our multi-currency revolving credit facility (£95 million and 145 million) which expires on July 21, 2010, we had no outstanding borrowings and we had $308 million of availability, which excludes a lender who is unable to provide funding of $57 million.

On March 31, 2008, Toys-Japan entered into an agreement with a syndicate of financial institutions, which established two unsecured loan commitment lines of credit (Tranche 1 and Tranche 2). Under the agreement, Tranche 1 is available in amounts of up to ¥20 billion ($212 million at August 1, 2009), and expires in fiscal 2011. At August 1, 2009, we had outstanding Long-term debt of $212 million under Tranche 1 with no remaining availability.

On March 30, 2009, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 2. As a result, Tranche 2 is available in amounts of up to ¥12.6 billion ($134 million at August 1, 2009), and expires in fiscal 2010. At August 1, 2009, we had outstanding Short-term debt of $36 million under Tranche 2 with $98 million remaining availability. We paid fees of $1 million to refinance Tranche 2, which were capitalized as deferred debt issuance costs and are amortized over the term of the agreement.

Due to the deterioration in the credit markets, some financial institutions have reduced and, in certain cases, ceased to provide funding to borrowers. We are dependent on the loans provided by our lenders to support our working capital needs and capital expenditures. Currently we have funds available to finance our operations under our multi-currency revolving credit facility and our secured revolving credit facility, which expire in July 2010 and May 2012, respectively. Our lenders may be unable to fund borrowings under

their credit commitments to us if these lenders face bankruptcy, failure, collapse or sale. As of August 1, 2009, a lender who provides availability of $57 million under our multi-currency revolving credit facility is unable to provide funding. This credit facility provides that the failure of one lender to fund its commitment does not relieve any other lenders of their obligations to fund their commitments. If our cash flow and capital resources do not provide the necessary liquidity, it could have a significant negative impact on our results of operations.

In general, we primarily use cash for working capital purposes, including purchasing inventory, servicing debt, financing construction of new stores, remodeling existing stores, and paying expenses to operate our stores. We will consider additional sources of financing to fund our long-term growth. Our working capital needs follow a seasonal pattern, peaking in the third quarter of the year when inventory is purchased for the 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 our revolving credit facilities.

Although we believe that cash generated from operations, along with our existing cash and revolving credit facilities, will be sufficient to fund our expected cash flow requirements and planned capital expenditures for at least the next 12 months, continued world-wide financial market disruption may have a negative impact on our financial performance and position in the future. We believe that we have the ability to repay or refinance our current outstanding borrowings maturing within the next 12 months and are evaluating available options.

	26 Weeks Ended			
($ In millions)	**August 1, 2009**	**August 2, 2008**	**$ Change**	**% Change**
Net cash used in operating activities	**$ (493)**	$ (485)	$ (8)	(1.6)%
Net cash provided by investing activities	**17**	20	(3)	15.0%
Net cash (used in) provided by financing activities	**(173)**	87	(260)	(298.9)%
Effect of exchange rate changes on cash and cash equivalents	**15**	14	1	7.1%
Net decrease during period in cash and cash equivalents	**$ (634)**	$ (364)	$ (270)	(74.2)%

Cash Flows Used in Operating Activities

During the twenty-six weeks ended August 1, 2009, net cash used in operating activities was $493 million compared with $485 million used in operating activities during the twenty-six weeks ended August 2, 2008. The $8 million increase in cash used in operating activities was primarily due to increased purchases of merchandise inventories and a reduction in gross margins from operations, both of which were partially offset by a decrease in operating expenses and decreased payments of accrued expenses and other liabilities.

Cash Flows Provided by Investing Activities

During the twenty-six weeks ended August 1, 2009, net cash provided by investing activities was $17 million compared with $20 million for the twenty-six weeks ended August 2, 2008. The decrease in net cash provided by investing activities resulted from a decrease of $167 million in net proceeds from the sale of Short-term investments, a decrease of $26 million in proceeds from the sale of fixed assets and $11 million paid to acquire e-commerce websites and other business assets, primarily offset by the release of $118 million in restricted cash principally due to the repayment of our other unsecured credit agreement and a reduction in capital expenditures of $82 million.

Our capital expenditures are primarily for financing construction of new stores, remodeling existing stores, as well as to improve and enhance our information technology systems. In addition, we have executed several small e-commerce acquisitions and have acquired other strategic assets. Due to deterioration in the global financial markets and economic environment, we have taken steps to prudently curtail our capital spending for the foreseeable future, including a reduction in budgeted capital spending in fiscal 2009 of approximately 50% over fiscal 2008 amounts.

On August 26, 2009, we sold an idle distribution center for $14 million.

Cash Flows (Used in) Provided by Financing Activities

During the twenty-six weeks ended August 1, 2009, net cash used in financing activities was $173 million compared with net cash provided by financing activities of $87 million for the twenty-six weeks ended August 2, 2008. The increase in net cash used in financing activities was

primarily due to the repayment of $1.3 billion under our unsecured credit agreement and $73 million in debt refinancing costs. These increases were partially offset by the proceeds of $925 million received from the offering of senior unsecured 10.75% notes due 2017 (the Notes), $94 million of increased borrowings at Toys-Japan primarily due to the timing of merchandise payments in fiscal 2009, a decrease of $34 million paid to purchase additional shares of Toys-Japan in the second quarter of fiscal 2008 and additional borrowings of $23 million on our secured revolving credit facility as compared with the same period last year. Refer to the description of changes to our debt structure below, as well as Note 2 to the Condensed Consolidated Financial Statements entitled Short-term borrowings and Long-term debt for more information.

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Debt

During the twenty-six weeks ended August 1, 2009, we made the following changes to our debt structure:

Toys-Japan made additional net borrowings on its Tranche 1 unsecured loan of $194 million. In addition, on March 30, 2009, Toys-Japan entered into an agreement with a syndicate of financial institutions to refinance Tranche 2. As a result, Tranche 2 is now available in amounts of up to ¥12.6 billion ($134 million at August 1, 2009), and expires in fiscal 2010. At August 1, 2009, Toys-Japan borrowed $36 million under Tranche 2.

We exercised the third maturity date extension option on the $800 million secured real estate loans which extended the maturity date of the loans from August 9, 2009 to August 9, 2010.

On June 24, 2009, we amended and restated the credit agreement for our $2.0 billion secured revolving credit facility, which extended the maturity date on a portion of the facility and amended certain other provisions. As amended, the facility was bifurcated into a $1,526 million tranche maturing on May 21, 2012 and a $517 million tranche maturing July 21, 2010. At August 1, 2009, we had $23 million of outstanding borrowings, a total of $98 million of outstanding letters under this credit facility and capped availability of $988 million. This amount is also subject to a minimum availability covenant, which was $139 million at August 1, 2009.

On July 9, 2009, Toys R Us Property Company I, LLC (Toys Propco), one of our wholly-owned subsidiaries, completed the offering of the Notes. The Notes were issued at a discount of $25 million which resulted in the receipt of proceeds of $925 million. Toys Propco used the proceeds of $925 million from the offering of the Notes, together with $138 million of cash contributions from Toys R Us, Inc., proceeds of $124 million from the sale of 11 owned properties and transfer of the underlying leases on 14 properties to Toys R Us Delaware (Toys-Delaware), $99 million of restricted cash released from restrictions, and $1 million of cash on hand to repay the outstanding loan balance under Toys Propco s unsecured credit agreement of $1,267 million plus accrued interest of approximately $1 million and fees at closing of approximately $19 million. Total fees paid in connection with the sale of the Notes totaled approximately $23 million and will be deferred and expensed over the life of the Notes. As a result of the repayment of our unsecured credit agreement, we expensed approximately $8 million of deferred financing costs. The Notes are solely the obligation of the Toys Propco and its subsidiaries (the Guarantors) and are not guaranteed by Toys R Us, Inc. or Toys-Delaware.

The Notes are guaranteed by the Guarantors, jointly and severally, and the indenture governing the Notes contain covenants, including, among other things, covenants that restrict the ability of Toys Propco and the Guarantors to incur additional indebtedness, pay dividends or make other distributions, make other restricted payments and investments, create liens, and impose restrictions on the ability of the Guarantors to pay dividends or make other payments. The indenture governing the Notes also contains covenants that limit the ability of Toys R Us, Inc. to cause or permit Toys-Delaware to incur indebtedness or make restricted payments. These covenants are subject to a number of important qualifications and limitations. The Notes may be redeemed, in whole or in part, at any time prior to July 15, 2013 at a price equal to 100% of the principal amount plus a make-whole premium, plus accrued and unpaid interest to the date of redemption. The Notes will be redeemable, in whole or in part, at any time on or after July 15, 2013, at the specified redemption prices, plus accrued and unpaid interest, if any. In addition, we may redeem up to 35% of the Notes before July 15, 2012 with the net cash proceeds from certain equity offerings. Following specified kinds of changes of control with respect to Toys R Us, Inc. or the Company, we will be required to offer to purchase the Notes at a purchase price of 101% of their principal amount, plus accrued and unpaid interest, if any. Interest on the Notes is payable in cash semi-annually in arrears through maturity on January 15 and July 15 of each year, commencing on January 15, 2010.

Pursuant to a registration rights agreement that we entered into in connection with the offering of the Notes, we are required to use our reasonable efforts to file a registration statement with the Securities and Exchange Commission (the SEC) to register notes that would have substantially identical terms as the Notes, and consummate an exchange offer for such notes within 365 days after July 9, 2009. In the event we fail to meet the 365-day target or certain other conditions set forth in the registration rights agreement, the annual interest rate on the Notes will increase by 0.25%. The annual interest rate on the Notes will increase by an additional 0.25% for each subsequent 90-day period such target or conditions are not met, up to a maximum increase of 0.50%.

Contractual Obligations and Commitments

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 the Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended January 31, 2009, for details on our contractual obligations and commitments.

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Credit Ratings

As of September 4, 2009, our current credit ratings, which are considered non-investment grade, were as follows:

	Moody s	Standard and Poor s
Long-term debt	B2	B
Outlook	Stable	Negative

Other credit ratings for our debt are available; however, we have disclosed only the ratings of the two largest nationally recognized statistical rating organizations.

Our current credit ratings, as well as any adverse future actions taken by the rating agencies with respect to our debt ratings, could negatively impact our ability to finance our operations on satisfactory terms and have the effect of increasing our financing costs. Our debt instruments do not contain provisions requiring acceleration of payment upon a debt rating downgrade.

The rating agencies may, in the future, revise the ratings on our outstanding debt.

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Critical Accounting Policies

Our Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States. 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.

Fair Value Measurements

On February 1, 2009, we adopted the fair value guidance related to nonfinancial assets and liabilities, as prescribed by SFAS No. 157, Fair Value Measurements (SFAS 157), as amended by FASB Staff Position (FSP SFAS) 157-1, Application of FASB Statement No. 157 to FASB Statement No. 13 and Its Related Interpretive Accounting Pronouncements That Address Leasing Transactions, FSP SFAS 157-2, Effective Date of FASB Statement No. 157: Fair Value Measurements, FSP SFAS 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active and FSP SFAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. Assumptions made regarding the adoption of SFAS 157 will impact any accounting standards that include fair value measurements. Refer to Note 4 to the Condensed Consolidated Financial Statements entitled Fair value measurements for further details.

A summary of other significant accounting policies and a description of accounting policies that we believe critical may be found in our Annual Report on Form 10-K for the fiscal year ended January 31, 2009, in the CRITICAL ACCOUNTING POLICIES section of the Management s Discussion and Analysis of Financial Condition and Results of Operations.

Recent Accounting Pronouncements

Refer to Note 10 entitled Recent accounting pronouncements to the Condensed Consolidated Financial Statements for a discussion of recent accounting pronouncements and their impact on our Condensed Consolidated Financial Statements.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created thereby. All statements herein 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, expect, believe, intend, foresee, will, may, and similar words o
These statements discuss, among other things, our strategy, store openings and renovations, future financial or operational performance, anticipated cost savings, results of store closings and restructurings, anticipated domestic or international developments, future financings, targets and future occurrences and trends.

These statements are subject to risks, uncertainties, and other factors, including, among others, competition in the retail industry, seasonality of our business, changes in consumer preferences and consumer spending patterns, general economic conditions in the United States and other countries in which we conduct our business, our ability to implement our strategy, our substantial level of indebtedness and related debt service obligations and the covenants in our debt agreements, availability of adequate financing, our dependence on key vendors of our merchandise, international events affecting the delivery of toys and other products to our stores, economic, political and other developments associated with our international operations, and risks, uncertainties and factors set forth in our reports and documents filed with the United States Securities and Exchange Commission (which reports and documents should be read in conjunction with this Quarterly Report on Form 10-Q). 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. 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 twenty-six weeks ended August 1, 2009 except as noted below.

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Foreign Exchange Exposure

Our foreign currency exposure is primarily concentrated in the United Kingdom, Continental Europe, Canada, Australia and Japan. Our foreign subsidiaries make U.S. dollar denominated merchandise purchases through the normal course of business which expose us to foreign currency exchange transaction risk. During the twenty-six weeks ended August 1, 2009, we entered into foreign currency exchange forward contracts to economically hedge a portion of these U.S. dollar denominated merchandise purchases for the remainder of fiscal 2009. As of August 1, 2009, we had a net $184 million notional amount of these outstanding contracts. A 10% change in foreign exchange rates against the U.S. dollar would result in a $20 million change in pre-tax earnings.

Interest Rate Exposure

We have a variety of fixed and variable rate debt instruments and are exposed to market risks resulting from interest rate fluctuations. In an effort to manage interest rate exposures, we strive to achieve an acceptable balance between fixed and variable rate debt and have entered into interest rate swaps and interest rate caps to maintain that balance. A change in interest rates on variable rate debt impacts our pre-tax earnings and cash flows, whereas a change in interest rates on fixed rate debt impacts the fair value of debt on our Condensed Consolidated Balance Sheet. As of August 1, 2009, a 1% change in interest rates would have no material effect on our pre-tax earnings.

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, 2009.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(c) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) that are designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with U.S. Generally Accepted Accounting Principles, and to ensure that information required to be disclosed in our reports under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as required by Rule 13a-15(b) of the Exchange Act as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that as of August 1, 2009 these disclosure controls and procedures are effective.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the second quarter of fiscal 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

Toysrus.com previously operated three co-branded on-line stores under a strategic alliance agreement (Agreement) with Amazon.com (Amazon). On May 21, 2004, we filed a lawsuit against Amazon and its affiliated companies in the Superior Court of New Jersey, Chancery Division, Passaic County (the New Jersey Trial Court) to terminate the Agreement. Amazon filed a counterclaim against us and our affiliated companies. On March 31, 2006, the New Jersey Trial Court entered an order (Order) terminating the Agreement and denying Amazon s counterclaim. The parties each filed Notices of Appeal with the Appellate Division. On June 2, 2006, Amazon filed a lawsuit against us in the Superior Court of Washington, King County (the Washington Court) for money damages allegedly arising from services it was required to provide to us during the wind-down period pursuant to the Order. The Washington Court stayed the matter before it in favor of the New Jersey proceedings. On March 24, 2009, the Appellate Division affirmed the New Jersey Trial Court s Order with respect to the termination of the Agreement and denial of Amazon s counterclaim, but remanded to the New Jersey Trial Court for further proceedings on our claim that we are entitled to monetary damages arising from Amazon s breach of the Agreement. On April 23, 2009, Amazon petitioned the New Jersey Supreme Court for certification of the Appellate Division s decision for a discretionary appeal to the New Jersey Supreme Court, and that petition was denied on June 1, 2009. On June 11, 2009, we entered into a settlement agreement (the Settlement Agreement) with Amazon to settle all disputes related to the New Jersey Trial Court and the Washington Court actions. Both lawsuits were dismissed with prejudice and, pursuant to the terms of the Settlement Agreement, Amazon paid the Company $51 million on July 21, 2009.

On July 15, 2009, the United States District Court for the Eastern District of Pennsylvania (the District Court) granted the class plaintiffs motion for class certification in a consumer class action commenced in January 2006, which was consolidated with an action brought by two internet retailers that was commenced in December 2005. Both actions allege that Babies R Us agreed with certain baby product manufacturers (collectively, with the Company, the Defendants) to impose, maintain and/or enforce minimum price agreements with retailers in violation of antitrust laws. On July 29, 2009, Defendants filed a petition with the Third Circuit Court of Appeals seeking permission to immediately appeal the District Court s class certification order. We intend to vigorously defend both cases.

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

Item 1A. Risk Factors

At August 1, 2009, there had not been any material changes to the information related to the ITEM 1A. RISK FACTORS disclosed in the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2009.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Required exhibits are listed in the Index to Exhibits and are incorporated by reference.

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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 4, 2009

/s/ F. Clay Creasey, Jr.
F. Clay Creasey, Jr.
Executive Vice President Chief Financial Officer

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INDEX TO EXHIBITS

The following is a list of all exhibits filed or furnished as part of this report:

Exhibit No.	Description
3.1	Amendment No. 1 to the 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 3.1 to the Registrant s Quarterly Report on Form 10-Q, filed on June 10, 2008 and incorporated herein by reference).
3.2	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).
3.3	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).
4.1	Indenture for the 10.75% Senior Notes due 2017, dated July 9, 2009, among Toys R Us Property Company I, LLC, the Registrant and Guarantors named therein and The Bank of New York Mellon, as trustee.
4.2	Form of the 10.75% Senior Notes due 2017 (included in Exhibit 4.1).
10.1	Form of Advancement and Indemnification Rights Agreement.
10.2	Amended and Restated Credit Agreement, dated as of June 24, 2009, by and between, among others, Toys R Us Delaware, Inc., as Lead Borrower, Toys R Us (Canada) Ltd., Toys R Us (Canada) Ltee, as Canadian Borrower, certain other subsidiaries of Toys R Us Delaware, Inc., as Facility Guarantors, Bank of America N.A., as Administrative Agent, Canadian Agent and Co-Collateral Agent, Wells Fargo Retail Finance, LLC, as Co-Collateral Agent, and the lenders party thereto (filed as Exhibit 10.1 to the Registrant s current Report on Form 8-K, filed on June 24, 2009 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.