TOYS R US INC
Form 10-K
April 12, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM
10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 28, 2017
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)
Securities registered pursuant to Section 12(b) or 12(g) of the Act:
None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x
Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes x No ¨
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ¨ No ¨
(Note: As a voluntary filer not subject to the filing requirements of Section 13(a) or 15(d) of the Exchange Act, the registrant has filed all reports pursuant to Section 13(a) or 15(d) of the Exchange Act during the preceding 12 months as if the registrant were subject to such filing requirements.)

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

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x (Do not check if a smaller reporting company)	Smaller reporting company	¨
Emerging growth company ¨			

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 March 17, 2017, there were 49,353,943 outstanding shares of common stock, $0.001 par value per share, of Toys "R" Us, Inc., none of which were publicly traded.

DOCUMENTS INCORPORATED BY REFERENCE

None

Forward-Looking Statements

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

These statements are subject to risks, uncertainties and other factors, including, among others, the seasonality of our business, competition in the retail industry, changes in our product distribution mix and distribution channels, general economic factors in the United States and other countries in which we conduct our business, consumer spending patterns, birth rates, our ability to implement our strategy including implementing initiatives for season, our ability to recognize cost savings, implementation and operation of our new e-commerce platform, marketing strategies, the availability of adequate financing, ability to repatriate cash from our foreign operations, ability to distribute cash from our operating subsidiaries to their parent entities, access to trade credit, changes in consumer preferences, changes in employment legislation, our dependence on key vendors for our merchandise, political and other developments associated with our international operations, costs of goods that we sell, labor costs, transportation costs, domestic and international events affecting the delivery of toys and other products to our stores, product safety issues including product recalls, the existence of adverse litigation, changes in laws including tax that impact our business, our substantial level of indebtedness and related debt-service obligations, restrictions imposed by covenants in our debt agreements and other risks, uncertainties and factors set forth under Item 1A entitled “RISK FACTORS” of this Annual Report on Form 10-K and in our other reports and documents filed with the Securities and Exchange Commission. In addition, we earn a disproportionate part of our annual operating earnings in the fourth quarter as a result of seasonal buying patterns and these buying patterns are difficult to forecast with certainty. These factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements that are included in this report.

We believe that all forward-looking statements are based on reasonable assumptions when made; however, we caution that it is impossible to predict actual results or outcomes or the effects of risks, uncertainties or other factors on anticipated results or outcomes and that, accordingly, one should not place undue reliance on these statements. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update these statements in light of subsequent events or developments unless required by the Securities and Exchange Commission’s rules and regulations. Actual results and outcomes may differ materially from anticipated results or outcomes discussed in any forward-looking statement.

INDEX

PART I

ITEM 1. BUSINESS

As used herein, the “Company,” “we,” “us,” or “our” means Toys “R” Us, Inc., and its consolidated subsidiaries, except as expressly indicated or unless the context otherwise requires. Our fiscal year ends on the Saturday nearest to January 31 of each calendar year. This Annual Report on Form 10-K focuses on our last three fiscal years ended as follows: fiscal 2016 ended January 28, 2017; fiscal 2015 ended January 30, 2016; and fiscal 2014 ended January 31, 2015. References to 2016, 2015 and 2014 are to our fiscal years unless otherwise specified.

Overview

We are relentlessly striving to be the best toy and baby products retail company for the world! Our purpose is to put huge smiles on the faces of children of all ages by being the world’s greatest toy store and to make it easier for parents to make the best possible choices as they care for their babies.

We are the leading global specialty retailer of toys and baby products as measured by Net sales. We believe our Toys “R” Us and Babies “R” Us brands are recognized as the toy and baby authority. We sell a variety of products in the baby, core toy, entertainment, learning and seasonal categories through our omnichannel offerings that leverage the synergies between our brick-and-mortar stores and e-commerce.

As of January 28, 2017, we operated 1,691 stores and licensed an additional 257 stores, which are located in 38 countries and jurisdictions around the world. We operate our stores under the Toys “R” Us and Babies “R” Us banners and also have smaller format Toys “R” Us Outlet stores (“Outlet”) and Toys “R” Us Express stores (“Express”). Our omnichannel presence includes our Toysrus.com and Babiesrus.com sites, as well as other e-commerce sites in our international markets. For fiscal 2016, we generated Net sales of $11,540 million, resulting in Net loss attributable to Toys “R” Us, Inc. of $36 million and Adjusted EBITDA of $792 million. For the definition of Adjusted EBITDA, an explanation of why we present it and a description of the limitations of this non-GAAP measure, as well as a reconciliation to Net loss attributable to Toys “R” Us, Inc., refer to Item 6 entitled “SELECTED FINANCIAL DATA” of this Annual Report on Form 10-K.

Our History

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

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

Leadership and Strategy

Since joining the Company in 2015, David A. Brandon, CEO and Chairman of the Board, has further strengthened our senior leadership team with a number of key hires across a broad range of disciplines, including communications, information technology, legal, marketing and operations. These hires, along with existing management, provide us with a fresh perspective on the business and bring with them a wealth of relevant experience and knowledge in leading key areas of our business.

Our Company has outlined the following key strategic growth initiatives, which we refer to as our “Strategic Pillars:”

- Make Talent and Culture a Competitive Advantage. Create a culture of high performance, responsiveness and agility.
- Grow and Build the Toys “R” Us and Babies “R” Us Brands Throughout the World. Invest in our existing stores and e-commerce platforms and continue to grow our brands globally.
- Create a World Class Experience for Our Customers - Innovate and Lead. Develop empowered teams that strive for flawless execution in every aspect of the in-store and omnichannel experience.
- Create a Strong Financial Foundation. Continue to drive cost savings while we transition to our growth phase.

Our Strengths

Strong Brand Equity

Our brand names are highly recognized in North America, Europe and Asia, and our expertise in the toy and baby products retail space, substantial scale and geographic footprint and strong vendor relationships account for our market-leading position and distinguish us from the competition. We believe we offer our customers the most comprehensive year-round selection of merchandise in the retail toy and baby categories through our "R" Us branded brick-and-mortar stores and e-commerce business. We seek to further differentiate ourselves from our competitors in several key areas, including our omnichannel presence, broad product assortment, private label and exclusively licensed product offerings and expert service which enables us to command a reputation as the shopping destination for toys and baby products.

Customer Experience

Every day we strive to improve the customer experience in our stores and online. This enables us to bring joy into the lives of our customers by being the toy and baby authority and definitive destination for kid fun, gift-giving solutions and parenting services. Compared with multi-line mass merchandisers, we believe we are able to provide more knowledgeable service to our customers through our highly trained sales force. We train our store team members to deepen their product knowledge and enhance their targeted selling skills in order to improve customer service.

To better leverage our physical presence, we are improving the shopping experience by bringing our stores to life. We have added feature shops in our stores that highlight several of our beacon brands, hot trends and featured movie properties, with larger than life graphic displays. Additionally, we are making our toy stores more interactive to engage kids and families. We are inviting customers to in-store events that offer free build-and-take toys, collect-and-trade days and toy demonstrations. Our Geoffrey's Birthday Club was re-launched with in-store birthday celebrations for families to enjoy story time and meet Geoffrey himself. During the 2016 holidays, Babies "R" Us stores held a "Baby's First Christmas" event and we offered professional Santa photo packages in select U.S. Toys "R" Us stores.

To improve shop-ability, our feature shops at the front of our toy stores are designed to help customers easily find what they're looking for - a "Here's What's Hot Shop" with the hottest and trending toys in one convenient location and our "Gift Express" shop featuring grab-and-go gifts for $30 or less. Select U.S. stores are equipped with navigation, including digital store-specific maps to help customers pinpoint the location of the items they are looking for by using their smartphone on a navigational sign at the entrance to our stores. In addition, some of our Babies "R" Us store employees are equipped with tablets to help customers choose the perfect item from our webstore and order right on the spot. We are continuing to invest in our store appearance as part of our "Clean and Bright" initiative and enhance the customer experience by maintaining stronger in-stock positions in our stores and online for the hottest toys at competitive prices.

For the added convenience of our customers, we offer a layaway program and provide a home delivery service. Our "Price Match Guarantee" program matches competitors' in-store and selected online retailer pricing on identical items.

E-Commerce and Omnichannel

Over the past several years, we have driven growth in our e-commerce business, particularly within our omnichannel programs. For fiscal 2016, our consolidated e-commerce business generated net sales of $1,495 million, 41% of which was contributed by our omnichannel programs. The chart below shows our e-commerce net sales growth with the percentage of omnichannel fulfillment for the past five fiscal years:

($ In millions)

Our omnichannel capabilities through which we integrate our e-commerce and brick-and-mortar stores include the following:

- Buy Online, Pick Up In Store. Available within all stores in the United States, United Kingdom, Canada and Germany. Offers customers the ability to browse and shop online and pick up their purchases in-store in as little as one hour.
- Ship to Store. Allows customers in the United States to purchase items online that may not be currently available in their local store, and have their order delivered to the local store of their choice, free of shipping charges.
- Ship from Store. Leverages inventory from our U.S. stores to improve the speed with which customers receive their online orders, as well as provide an additional option to fulfill these orders. This feature is also available in several of our international markets.
- Pay In Store. Provides customers the flexibility to shop online and pay for their items in any store across the United States.

We are currently working towards the launch of our new Domestic e-commerce platform later in 2017 to transform and modernize our digital space. We aim to significantly improve the customer experience online and better integrate our omnichannel presence. We believe that this will provide us the flexibility needed to grow and allow us to respond to changing customer dynamics in an ever competitive marketplace. Over the past year, we have made improvements to our omnichannel fulfillment capacity, particularly through Ship from Store and improved staffing and training programs at our distribution centers, to meet peak demand during the holidays. In addition, our low everyday free shipping purchase minimum in the U.S. at Toysrus.com and Babiesrus.com is competitive in the marketplace. Internationally, we have an online presence in 19 countries and jurisdictions, which includes Australia, Austria, Belgium, Canada, China, France, Germany, Hong Kong, Japan, Malaysia, Netherlands, Poland, Portugal, Singapore, Spain, Switzerland, Taiwan, Thailand and the United Kingdom, as well as in several of our licensed markets.

International Store Portfolio Expansion

We believe that we have the potential to continue to grow the number of stores internationally, particularly those in the emerging markets which are seeing overall GDP growth. Our first licensed store in China opened in 2006 through our partnership with Fung Retailing. In fiscal 2011, the Company acquired a 70% ownership interest in Toys (Labuan) Holding Limited ("Asia JV") from Fung Retailing, which included locations in Brunei, China, Hong Kong, Malaysia, Singapore, Taiwan and Thailand, consisting of 90 operating stores. Since the acquisition of Asia JV, we have more than doubled our store count and now operate 226 Toys "R" Us retail stores as of January 28, 2017. Our International segment operating store portfolio has grown by 22% since fiscal 2012:

Our licensed store base has also continued to expand as we identify opportunities in markets where we do not already have a physical store presence. As of January 28, 2017, we licensed 257 stores in 19 countries and jurisdictions, generating $18 million in licensing revenue.

Customer Loyalty Programs and Marketing

Domestically, we provide several programs that benefit customers throughout the year including:

Rewards "R" Us. With 19 million current active members, we believe this loyalty program results in an improved customer shopping experience and more frequent visits to our stores and online sites. In fiscal 2016, our valued loyalty members contributed approximately two-thirds of our Domestic Net sales and benefited from the program's rewards and promotions. Members earn $5 for every $125 spent, with "R" Us credit cardholders earning double the rewards for every $1 spent. Through this program we offer a variety of exclusive one-time and ongoing benefits, deals and promotions to our customers, and allow them to earn and redeem points at our stores and online. This includes Bonus Points days, Black Friday previews, credit card promotions and eligibility to our Endless Earnings and Geoffrey's Birthday Club programs.

Babies "R" Us Registry. Our baby business offers a broad range of baby products and delivers a high level of customer service and product knowledge to our customers. We provide a baby product assortment that draws new and repeat customers to our Baby Registry Program, with over 23 million registrants since inception. Our Baby Registry program is important to building our baby business. Establishing first contact with new parents enables us to develop long-lasting customer relationships as their children grow and they transition to our full portfolio of products. We have made several enhancements to our Baby Registry program to improve the shopping experience for expectant and new parents including:

- A Registry mobile app that allows customers to manage their baby registry anytime, from anywhere.
- The Endless Earnings program where domestically, expectant parents receive 5% rewards on the first $300 in purchases and 10% on every purchase thereafter with no limits, encouraging parents to use their registry as their ultimate shopping list that pays them back.
- Innovative programs, classes and expert services for expectant and new parents, which include monthly in store events and exclusive offers for registrants.

Much like our Rewards "R" Us program in the U.S., we have over 12 million active members in similar loyalty programs around the world. In addition, we offer the following to our customers:

- Wish List. Allows parents and kids to create a tailored list of desired toys that gift-givers can utilize to make their purchases.
- Geoffrey's Birthday Club. Parents receive exciting offers to help prepare for their child's birthday and kids are invited to our stores to receive special gifts and meet Geoffrey the Giraffe.
- "R" Us Credit Card. We offer co-branded and private label credit cards which allows customers to finance purchases at our stores, online and at other businesses, and receive loyalty benefits, deals and promotions in exchange.

4

We believe that we have achieved our leading market position largely as a result of, building highly recognized brand names, year-round breadth of product offerings, knowledgeable employees and strong loyalty programs. We use a variety of broad-based and targeted marketing and advertising strategies to reach consumers and to try to connect with our customers on a personal level. These strategies include targeted advertisements and mass marketing programs such as e-mail marketing, digital and social media, direct mail, national television and radio spots, catalogs inserts in national and local newspapers, direct mailings to loyalty program members and in-store marketing. We continue to transition a significant portion of our marketing reach in an effort to optimize our digital versus traditional media mix. Our most significant single piece of advertising in the U.S. is "The Great Big Toys "R" Us Book of Awesome" promotional catalog release, which is distributed through direct mail, newspapers and our stores in advance of the holiday selling season.

Inventory Management

We continue to focus on enhancing the customer experience by improving our in-stock position to ensure we have the hot products that customers are looking for, while at the same time maintaining healthy inventory levels. Additionally, our product life cycle management process continues to help reduce clearance margin risk by instituting greater discipline around product exit dates.

Vendor Relationships

We view our well-established vendor relationships as a core strength of the organization and continue to build these partnerships in the hopes of growing together. We provide our vendors with a year-round platform to showcase their brands and test their new products in our stores. In return, we obtain greater access to products in demand, exclusive products and support for advertising and marketing efforts to drive category leadership and differentiation. We additionally have strategic partnerships with American Girl® and Claire's which are featured as branded shops within select Toys "R" Us stores.

Our Stores

As of January 28, 2017, we operated and licensed retail stores worldwide in the following formats:

Store Type	Store Count	Typical Square Footage
Operated:		
Traditional Toy (1)	932	20,000 - 50,000
Side-By-Side ("SBS") (2)	420	30,000 - 70,000
Baby (3)	237	30,000 - 55,000
Long-Term Express	64	3,000 - 7,000
Outlet	38	3,000 - 5,000
Total Operated Stores	1,691	
Licensed (4)	257	Various

(1) Devote on average 5,000 square feet to boutique areas for baby products.

(2) Devote 20,000 to 40,000 square feet to traditional toy products and 10,000 to 30,000 square feet to baby products.

(3) Devote 3,000 square feet to traditional toy products and includes our Babies "R" Us flagship store in Union Square, New York City.

(4) "R" Us branded retail stores. Licensing revenue did not have a material impact on Net sales.

Globally, our store portfolio includes smaller format Express stores located in malls and shopping centers. During the 2016 holiday season, we operated 126 Express stores, of which 103 were still open as of January 28, 2017. Of the 103 Express stores that remained open, 64 have been included in our overall store count as they each have a cumulative lease term of at least two years ("Long-Term Express"). The remaining 39 Express stores are considered temporary stores ("Temporary Express"). These locations typically range in size from 3,000 to 7,000 square feet each, have a cumulative lease term of less than two years and are not included in our overall store count.

Additionally, we operated 38 Outlets within our Domestic segment, 12 of which opened in fiscal 2016. These permanent stores are located in high traffic shopping and lifestyle centers, have traditional toy product assortments as well as unique discount items and typically have lease terms of at least five years.

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

Our Business Segments

Our business has two reportable segments: Toys “R” Us – Domestic (“Domestic”) and Toys “R” Us – International (“International”). Refer to Note 11 to our Consolidated Financial Statements entitled “SEGMENTS” for our segments’ financial results. The following is a brief description of our segments:

- Domestic — Our Domestic segment sells a variety of products through 879 stores that operate in 49 states in the United States, Puerto Rico and Guam and through e-commerce. As of January 28, 2017, our Domestic stores consisted of 358 traditional toy stores, 223 baby stores, 212 SBS stores, 48 Long-Term Express stores and 38 Outlets, as well as Temporary Express locations. Domestic Net sales were $7,131 million for fiscal 2016, which accounted for 62% of our consolidated Net sales.
- International — Our International segment sells a variety of products through 812 operated and 257 licensed stores in 37 countries and jurisdictions and through e-commerce. As of January 28, 2017, our International stores consisted of 574 traditional toy stores, 208 SBS stores, 16 Long-Term Express stores and 14 baby stores, as well as Temporary Express locations. International Net sales were $4,409 million for fiscal 2016, which accounted for 38% of our consolidated Net sales.

Product Selection and Merchandise

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

- Baby — focused on serving newborns and children up to four years of age by offering a broad array of products, such as baby gear, consumables, infant care products, apparel, furniture, bedding and room décor; many of these items are available in toy and baby stores;
- Core Toy — boys and girls toys, such as action figures, dolls and doll accessories, drones, role play toys and vehicles;
- Entertainment — video game software, systems and accessories, tablets, portable electronics and other related products;
- Learning — educational electronics and developmental toys, such as our Imaginarium products in the United States and World of Imagination products at our International locations, construction toys, games, creative activities and pre-school merchandise which includes learning products, activities and toys; and
- Seasonal — toys and other products geared toward holidays (including Christmas, Hanukkah, Three Kings, Chinese New Year, Carnival, Easter, Children’s Day, Golden Week and Halloween) and summer activities, as well as bikes, sports toys, play sets and other outdoor products.

We offer a wide selection of popular national toy and baby brands including many products that are exclusively offered at, or launched at, our stores. Over the past few years, we have worked with key vendors to obtain exclusive products and expand our private label brands enabling us to earn higher margins and offer products that our customers will not find elsewhere. We offer a broad selection of private label merchandise under names such as BABIES “R” US, IMAGINARIUM, KOALA BABY, AVIGO, FAST LANE, YOU & ME, JUST LIKE HOME, BRUIN, STATS, JOURNEY GIRLS, ANIMAL PLANET, TRUE HEROES, SIZZLIN’ COOL, EDU-SCIENCE, PAVILION, DREAM DAZZLERS and TOTALLY ME! in our stores. We believe these private label brands provide a platform on which we can expand our product offerings in the future and will further differentiate our products and allow us to enhance profitability. Our private label penetration rate was 12% of Net sales in fiscal 2016. We utilize our sourcing office in China to work with our vendors and differentiate our product offerings.

Safety Focus

We believe that we have put in place product safety standards that meet or exceed United States federally mandated and/or global regulatory requirements in the countries in which we operate. In addition, through our dedicated safety website, safety boards in stores, social media and e-mail communications and partnerships with safety organizations including the Consumer Products Safety Commission, we provide resources for customers, parents and others to help ensure they have the most up-to-date information on product safety and recalls.

Corporate Philanthropy and Community Service

We are proud to have a long tradition at Toys “R” Us of supporting numerous children’s charities. Over the past three decades, the Company has given more than $100 million in product donations to children’s charities. In addition, the Toys “R” Us Children’s Fund Inc., a public charity affiliated with the Company, has donated more than $130 million in grants to children’s charities that keep children safe and help them in times of need. We actively support charities such as the Marine Toys for Tots Foundation, Make-A-Wish America, Special Olympics, St. Jude Children’s Research Hospital and Save the Children, among others. We encourage our employees to become active in charitable endeavors by matching contributions they make to qualified charities of their choice, and through Volunteer Match, a program that helps them identify charities to assist in their communities. We also manage the Geoffrey Fund, Inc., a non-profit organization that provides assistance to employees affected by natural and personal disasters. The Geoffrey Fund relies on donations from employees to carry out its mission.

Market and Competition

In the domestic market, we compete with mass merchandisers, such as Walmart, Target and Kmart; consumer electronics retailers, such as Best Buy and GameStop; Internet and catalog businesses, such as Amazon.com; national and regional specialty, department and discount store chains; as well as local retailers in the geographic areas we serve. Our baby registry competes with baby registries of mass merchandisers, other specialty retail formats, such as buybuy BABY, and regional retailers. In the International toy and electronics markets, we compete with mass merchandisers, discounters and specialty retailers. The domestic and international mass merchandisers and discounters aggressively price items in the traditional toy and electronic product categories with larger dedicated selling space during the holiday season in order to build traffic for other store departments.

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

Seasonality

Our global business is highly seasonal with sales and earnings highest in the fourth quarter due to the fourth quarter holiday selling season. During fiscals 2016, 2015 and 2014, 40%, 41% and 40%, respectively, of our total Net sales were generated in the fourth quarter. We typically incur net losses in each of the first three quarters of the year, with a substantial portion of our operating earnings generated in the fourth quarter. We seek to continuously improve our ability to manage the numerous demands of a highly seasonal business, from the areas of product sourcing and distribution, to the challenges of delivering high sales volumes and excellent customer service during peak business periods. For more than 65 years, we have developed substantial experience and expertise in managing the increased demand during the holiday season which we believe favorably differentiates us from our competition.

License Agreements

We have license agreements with unaffiliated third party operators located outside the United States. The agreements are largely structured with royalty income paid as a percentage of sales for the use of our trademarks, trade name and branding. Licensing revenue was $18 million for fiscal 2016 and $17 million for fiscals 2015 and 2014, respectively. While this business format remains a small piece of our overall International business operations, we continue to look for opportunities for market expansion. Our preferred approach is to open stores in our Company-operated format, but we may choose partnerships or licensed arrangements where we believe it is appropriate due to business climate and risks.

Geographic Distribution of Domestic Stores

The following table sets forth the location of our Domestic stores as of January 28, 2017:

Location	Number of Stores
Alabama	9
Alaska	1
Arizona	17
Arkansas	5
California	113
Colorado	10
Connecticut	14
Delaware	3
Florida	60
Georgia	28
Hawaii	5
Idaho	2
Illinois	38
Indiana	19
Iowa	7
Kansas	6
Kentucky	10
Louisiana	9
Maine	3
Maryland	17
Massachusetts	23
Michigan	32
Minnesota	8
Mississippi	6
Missouri	15
Montana	1
Nebraska	3
Nevada	10
New Hampshire	7
New Jersey	45
New Mexico	3
New York	60
North Carolina	22
North Dakota	1
Ohio	37
Oklahoma	7
Oregon	10
Pennsylvania	45
Rhode Island	2
South Carolina	9
South Dakota	2
Tennessee	16
Texas	66
Utah	7
Vermont	1
Virginia	27

Washington	16
West Virginia	4
Wisconsin	12
Guam	1
Puerto Rico	5
Total	879

Geographic Distribution of International Stores

The following table sets forth the location of our International operated stores as of January 28, 2017:

Location	Number of Stores Operated
Australia	38
Austria	15
Brunei	1
Canada	82
China	131
France	47
Germany	67
Hong Kong	15
Japan	163
Malaysia	36
Poland	15
Portugal	10
Singapore	9
Spain	49
Switzerland	10
Taiwan	22
Thailand	12
United Kingdom	90
Total	812

The following table sets forth the location of our International licensed stores as of January 28, 2017:

Location	Number of Stores Licensed
Bahrain	1
Denmark	16
Egypt	3
Finland	7
Iceland	3
Israel	27
Kuwait	2
Macau	2
Namibia	1
Norway	16
Oman	1
Philippines	32
Qatar	1
Saudi Arabia	14
South Africa	61
South Korea	39
Sweden	22
United Arab Emirates	8
Zambia	1
Total	257

Employees

As of January 28, 2017, we employed 64,000 full-time and part-time individuals worldwide, with 36,000 domestically and 28,000 internationally. These numbers do not include the individuals employed by licensees of our stores. Due to the

9

seasonality of our business, we employed 107,000 full-time and part-time employees worldwide during the 2016 holiday season.

Distribution

We operate 18 distribution centers including 8 that support our Domestic operations and 10 that support our International operations (excluding licensed operations). These distribution centers employ warehouse management systems and material handling equipment that help to manage overall inventory levels and distribution costs. In fiscal 2015, we opened a state-of-the-art distribution center in France which integrates our three previous fulfillment centers and serves as the headquarters office for Toys “R” Us, France. We believe that this facility creates greater operational efficiencies for our business, while allowing us to better serve our customers through our growing omnichannel capabilities in Europe.

We have agreements with third party logistics providers JB Hunt Transport, Inc. and Performance Team Freight Systems, Inc. to manage all services related to the delivery of inventory from our distribution centers to our U.S. stores. We believe the flexibility afforded by our warehouse/distribution system and the utilization of third party providers to distribute merchandise provides us with operating efficiencies and the ability to maintain a superior in-stock inventory position at our stores.

We also have an agreement with DHL Supply Chain (formerly Exel, Inc.), a leading North American contract logistics provider, who provides additional warehousing and fulfillment services for our e-commerce operations in the United States. We utilize various third party providers who furnish similar services in our international markets.

We continuously seek to improve our global supply chain management, optimize our inventory assortment and upgrade our automated replenishment system to improve inventory turnover. In line with this strategy, we have a service entity in Rotterdam, Netherlands referred to as the European Import Center (“EIC”) in order to improve supply chain management in the European markets in which we operate. The EIC manages a portion of the purchasing of inventory from third party vendors located in Asia on behalf of our wholly-owned subsidiaries within Europe.

Our Vendors

We procure our merchandise from a wide variety of domestic and international vendors. In fiscal 2016, we had 3,600 active vendor relationships. For fiscal 2016, our top 20 vendors worldwide, based on our purchase volume in U.S. Dollar (“USD”), represented 43% of the total products we purchased.

Financial Information About Our Segments

Financial information about our segments and our operations in different geographical areas for the last three fiscal years is set forth in Note 11 to the Consolidated Financial Statements entitled “SEGMENTS.”

Trademarks and Licensing

“TOYS “R” US®,” “BABIES “R” US®,” “GEOFFREY®,” “KOALA BABY®,” “IMAGINARIUM®,” “YOU & ME®,” “FAST LANE®,” “AVIGO®,” “JOURNEY GIRLS®,” “DREAM DAZZLERS®,” the reverse “R” monogram logo and the Geoffrey character logo, as well as variations of our family of “R” Us marks, among others either have been registered, or have trademark applications pending, with the United States Patent and Trademark Office and with the trademark registries of many other countries. These trademarks are material to our business operations. We believe that our rights to these properties are adequately protected. In addition, we own the United States trademarks (along with certain trademark rights in other countries) associated with eToys.com and KB Toys.

Available Information

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

We are not incorporating by reference in this Annual Report on Form 10-K any information from our websites. The public may read and copy any materials the Company files with the SEC at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

10

ITEM 1A. RISK FACTORS

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

Risks Relating to Our Business

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

Our business is highly seasonal. During fiscals 2016, 2015 and 2014, 40%, 41% and 40%, respectively, of our total Net sales were generated in the fourth quarter. We typically incur net losses in each of the first three quarters of the year, with a substantial portion of our operating earnings generated in the fourth quarter. As a result, we depend significantly upon the fourth quarter holiday selling season. If we achieve less than satisfactory sales, operating earnings or cash flows from operating activities during the fourth quarter, we may not be able to compensate sufficiently for the lower sales, operating earnings or cash flows from operating activities during the first three quarters of the fiscal year. Our results in any given period may be affected by dates on which important holidays fall and the shopping patterns relating to those holidays. Additionally, the concentrated nature of our seasonal sales means that our operating results could be materially adversely affected if we achieve less than satisfactory sales prior to or during the holiday season, including as a result of natural disasters, labor strikes, work stoppages, terrorist acts or disruptive global political events, prior to or during the holiday season, as described below.

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

The retail industry is highly and increasingly competitive and our results of operations are sensitive to, and may be materially adversely affected by competitive pricing, promotional pressures, competitor credit programs, additional competitor store openings, growth of e-commerce competitors and other factors. As a specialty retailer that primarily focuses on toys and baby products, we compete with discount and mass merchandisers, such as Walmart and Target, as well as Internet and catalog businesses, such as Amazon.com, national and regional chains and department stores and local retailers in the markets we serve. We also compete with national and local discount stores, consumer electronics retailers, supermarkets and warehouse clubs. Competition is principally based on product variety, price, quality, availability, advertising and promotion, convenience or store location, safety and customer support and service. We believe that some of our competitors in the toy and baby products markets, as well as in the other markets in which we compete, have a larger market share than our market share. In addition, some of our competitors have greater financial resources, lower merchandise acquisition costs and lower operating expenses than we do.

Much of the merchandise we sell is also available from various retailers at competitive prices. Discount and mass merchandisers use aggressive pricing policies and enlarged toy-selling areas during the holiday season to increase sales and build traffic for other store departments. Our business is vulnerable to shifts in demand and pricing, as well as consumer preferences.

We are vulnerable to competitive pressures from e-commerce activity in the market, both as they impact our own e-commerce business and our stores. The Internet provides greater price transparency of our merchandise that is widely available to customers. Our “Price Match Guarantee” may lead to reduced margins as a result of intense price competition, especially during the holiday selling season. In addition, sales of video games have been impacted by a shift to sales in channels other than traditional retail stores, including direct online distribution to customers through download, subscription or cloud play, which eliminates the need for a retailer. Furthermore, competitors’ subscription models for diapers, formula, and other consumables may eliminate the need for customers to visit our stores or e-commerce websites. We believe that this e-commerce activity has adversely affected our sales and profitability, and any increase in the proportion of our customers’ purchases via the Internet could materially adversely affect our sales and profitability from physical stores.

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

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

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

Many economic and other factors outside our control, including consumer confidence, consumer spending levels, employment levels, consumer debt levels, individual income tax and sales tax rates, inflation and deflation, as well as the availability of consumer credit, affect consumer spending habits. A significant deterioration in the global financial markets and economic environment, recessions or an uncertain economic outlook adversely affects consumer spending habits and results in lower levels of economic activity. The domestic and international political situation, including the economic health of various political jurisdictions, also affects economic conditions and consumer confidence. In addition, changing economic and regulatory conditions and increasing consumer credit delinquencies may cause banks to re-evaluate their lending practices and terms which could have an adverse effect on our credit card program and consequently, an adverse effect on our sales. Any of these events and factors could cause consumers to curtail spending and could have a negative impact on our financial performance and position in future fiscal periods.

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

We have significant liquidity and capital requirements. Among other things, the seasonality of our businesses requires us to purchase merchandise well in advance of the fourth quarter holiday selling season. We depend on our ability to generate cash flows from operating activities, as well as on borrowings under our revolving credit facilities and our credit lines, to finance the carrying costs of this inventory and to pay for capital expenditures and operating expenses. As of January 28, 2017, we had total outstanding borrowings of $465 million under our revolving credit facilities and credit lines. As of January 28, 2017, we had unused availability under committed lines of credit of $905 million. For fiscal 2016, peak borrowings under all of our revolving credit facilities and credit lines were $1,331 million, as we purchased merchandise for the fourth quarter holiday selling season. If our lenders are unable to fund borrowings under their credit commitments or we are unable to borrow, it could have a significant negative effect on our business. In addition, any adverse change to our credit ratings or our business could negatively impact our ability to refinance our debt on satisfactory terms and could have the effect of increasing our financing costs. While we believe we currently have adequate sources of funds to provide for our ongoing operations and capital requirements for at least the next 12 months, any inability on our part to have future access to financing, when needed, would have a negative effect on our business.

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

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

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

We continue to implement a series of customer-oriented strategic programs designed to differentiate and strengthen our core merchandise content and service levels and to expand and enhance our merchandise offerings. As part of our omnichannel strategy to integrate our e-commerce and brick-and-mortar businesses, we aim to satisfy our customers' evolving shopping preferences by utilizing fulfillment channels such as "In-Store Pick Up," "Ship from Store" and "Ship to Store." In an effort to optimize our e-commerce operations and improve the customer experience online, we are currently developing an e-commerce platform which will allow us to manage certain aspects of our e-commerce operations internally rather than through a third-party provider.

We continue to evaluate the effectiveness of our marketing and advertising programs for our “R” Us stores and e-commerce business. The success of these and other initiatives will depend on various factors, including the implementation of our strategy, the appeal of our store and website formats, our ability to offer new products to customers, our financial condition, our ability to respond to changing consumer preferences and competitive and economic conditions. We continuously endeavor to minimize our operating expenses, without adversely affecting the customer experience or the profitability of the business. If we fail to implement successfully some or all of our strategic initiatives, we may be unable to retain or attract customers, which could result in lower sales and a failure to realize the benefit of the expenditures incurred for these initiatives.

If we cannot increase profitability within existing stores or open new stores, our performance may be materially adversely affected.

Our performance is dependent on maintaining and increasing sales in existing stores and the ability to successfully open profitable new stores. Increases in sales in existing stores are dependent on factors such as competition, merchandise selection, store operations (including maintaining and remodeling these stores) and other factors discussed in these Risk Factors. The success of any store depends in substantial part on its location. There can be no assurance that current locations will continue to be attractive as demographic patterns change. Neighborhood or economic conditions where stores are located could decline in the future, potentially resulting in reduced sales in these locations.

Our ability to successfully relocate or open new stores and expand into additional market areas depends in part on the following factors, which are in part beyond our control:

- the availability of sufficient funds for the expansion;
- the availability of attractive store locations and the ability to accurately assess the demographic or retail environment and customer demand at a given location;
- the ability to negotiate favorable lease terms and obtain the necessary permits and zoning approvals;
- the absence of occupancy delays;
- the ability to construct, furnish and supply a store in a timely and cost effective manner;
- the ability to hire and train new personnel, especially store managers, in a cost effective manner; and
- general economic conditions.

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

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

The success and expansion of our e-commerce business depends on our ability to successfully transition to an internally developed Domestic e-commerce platform and to provide quality service to our customers and if we are not able to provide such services, our operating results may be materially adversely affected.

We are currently in the process of developing a new internal e-commerce platform for our Domestic website, which we now expect to launch in fiscal 2017. We may be faced with significant unforeseen transition challenges including additional implementation delays, cost overruns, technology interruptions and disruption of our distribution channels which could adversely affect our e-commerce platform. Any inability to successfully transition to, operate or maintain our internal platform or unforeseen transition operation challenges or disruptions may materially impact our sales, results of operations and financial condition and may materially adversely affect our ability to achieve future sales and profitability growth.

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

- failure of our Internet service providers to perform their services properly and in a timely and efficient manner;
- changes in consumer willingness to purchase goods via the Internet;
- increases in software filters that may inhibit our ability to market our products through e-mail messages to our customers and increases in consumer privacy concerns relating to the Internet;

- changes in applicable federal and state regulation, such as the Federal Trade Commission Act, the Children's Online Privacy Act, the Fair Credit Reporting Act and the Gramm-Leach-Bliley Act and similar types of international laws;
- breaches of Internet security including our new internal e-commerce platform;

- failures in our Internet infrastructure or the failure of systems or third parties, such as telephone or electric power service, resulting in website downtime or other problems;
- failure by us to process online customer orders properly and on time, which may negatively impact future online and in-store purchases by such customers;
- failure by our service provider to provide warehousing and fulfillment services, which may negatively impact future online and in-store purchases by customers; and
- failure to keep up with changes in technology.

As technology continues to advance, customers are increasingly using a variety of devices, such as computers, tablets and smartphones to shop online with us and our competitors. We continue to enhance our customers' shopping experience on each of these devices as well as incorporate social media as another means of communicating with our customers. If we fail to provide attractive, user-friendly online shopping platforms or fail to continually meet the evolving expectations of customers with developments in online merchandising technology and competitor offerings, we could be at a competitive disadvantage and our business and results of operations may be materially adversely affected.

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

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

Sales of video games and video game systems are adversely affected by changing trends in the interactive entertainment industry including the rise in popularity of browser, mobile, tablet and social games distributed through alternative channels.

Sales of video games and video game systems, which have accounted for 4%, 4% and 6% of our annual Net sales for fiscals 2016, 2015 and 2014, respectively, have been impacted by trends in the interactive entertainment industry. Video games are now played on a wide variety of products, including mobile phones, tablets, social networking websites and other devices. The popularity of such non-traditional gaming has increased greatly and this popularity is expected to continue to grow. Browser, mobile, tablet and social gaming is accessed through hardware other than the consoles and traditional hand-held video game devices we sell and its games are available through websites or proprietary app stores via direct online distribution at a fraction of the cost of console games. While we continue to develop and implement various strategies to incorporate these new trends into our offerings, including selling third party tablets and other devices, we can provide no assurances that these strategies will be successful or contribute to profitability. Similarly, a continued rise in the popularity of mobile and tablet gaming could negatively impact sales and profitability of traditional toys.

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

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

Potential changes to trade laws, regulations and policies, related to or restricting global trade, may negatively affect our business.

The result of the November 2016 presidential election in the United States has introduced the potential of a tax reform package which may include tariffs and regulations affecting trade between the United States and other countries. We source a significant portion of our merchandise from manufacturers located outside the United States, primarily in

Asia. Major developments in tax policy or trade relations, such as the disallowance of tax deductions for imported merchandise or the imposition of tariffs on imported products, could have a material adverse effect on our business, results of operations and liquidity.

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

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

In fiscal 2016, we had 3,600 active vendor relationships through which we procure the merchandise that we offer to our customers. For fiscal 2016, our top 20 vendors worldwide, based on our purchase volume in USD, represented 43% of the total products we purchased. An inability to purchase suitable merchandise on acceptable terms or the loss of one or more key vendors could have a negative effect on our business and operating results and could cause us to miss products that we feel are important to our assortment. We may not be able to develop relationships with new vendors, and products from alternative sources, if any, may be of a lesser quality and/or more expensive than those from existing vendors.

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

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

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

Our business operations could be disrupted if we are unable to protect the integrity and security of our customers' information, or if our information technology systems, including our new internal e-commerce platform, fail to perform adequately.

A compromise of our security systems (or a design flaw in our system environment) could result in unauthorized access to certain personal information about our employees or customers (including credit card and gift registry information) which could materially adversely affect our reputation with our customers and others, and thus affect our sales and profitability. Other sophisticated retailers have recently suffered serious security breaches. A serious breach could negatively impact our operations, and could result in litigation against us or the imposition of penalties. In addition, a security breach could require that we expend significant additional resources related to our information security systems. Such risks may be difficult to adequately insure against or insurance may be costly.

We depend largely upon our information technology systems in the conduct of all aspects of our operations. If our information technology systems, including our new internal e-commerce platform, fail to perform as anticipated, or should we experience any delays or difficulties in transitioning to these or other new systems, or integrating these systems with our current systems, we could experience difficulties in virtually any area of our operations, including but not limited to replenishing inventories or in delivering our products to store locations and customers. Any of these or other systems-related problems could, in turn, materially adversely affect our sales and profitability.

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

As of January 28, 2017, we leased 1,383 of our properties from third-parties pursuant to long-term space and ground leases. Total rent expense, net of sublease income, was $524 million, $546 million and $601 million for fiscals 2016, 2015 and 2014, respectively, and is expected to be approximately $495 million for fiscal 2017. Many of our leases provide for scheduled increases in rent. The substantial obligations under our leases could further exacerbate the risks described below under "Our substantial indebtedness could adversely affect our ability to raise additional capital to fund our operations or refinance our maturing debt, limit our ability to react to changes in the economy or our industries, expose us to interest rate risk to the extent of our variable rate debt and prevent us from meeting our obligations under our various debt instruments."

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

We currently have ground leasehold interests in 14% and long-term space leasehold interests in 65% of our domestic and international store locations. Most of our current leases provide for our unilateral option to renew for several additional periods at specific rental rates. Our ability to re-negotiate favorable terms on an expiring lease or to negotiate favorable terms for a suitable alternate location or for additional store locations could depend on conditions in the real estate market, competition for desirable properties and our relationships with current and prospective landlords or may depend on other factors that are not within our control. Any or all of these factors and conditions could negatively impact our growth and profitability.

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

We conduct a significant portion of our business outside the United States. For fiscals 2016, 2015 and 2014, 38%, 38% and 39% of our Net sales, respectively, were generated outside the United States. In addition, as of January 28, 2017 and January 30, 2016, 33% and 32% of our long-lived assets, respectively, were located outside of the United States. Weakened global economic conditions, particularly the weakened and unstable environment in parts of Europe and Asia, could continue to affect us through lower sales as a result of reduced demand and the effects of foreign currency translation. All of our foreign operations are subject to risks inherent in conducting business abroad, including the challenges of different economic conditions in each of the countries, possible nationalization or expropriation, price and currency exchange controls, fluctuations in the relative values of currencies as described below, limited protection of intellectual property in certain jurisdictions, political instability and restrictive governmental actions.

The products we sell are sourced from a variety of international suppliers, with China being a significant source. Additionally, a growing portion of our stores are located in China and as a consequence, our financial results are expected to become increasingly affected by our results in China, and our business is increasingly exposed to risks there. Political or financial instability, trade restrictions, labor unrest, transport capacity and costs, port security or other events that could slow port activities and affect foreign trade are beyond our control and could disrupt our supply of merchandise and/or materially adversely affect our results of operations. In addition, changes in the costs of procuring raw materials used in our merchandise or the costs related to our supply chain, including labor, fuel, tariffs, and currency exchange rates could have a material adverse effect on gross margin, expenses and results of operations. In addition, any significant or prolonged deterioration in US - China relations could adversely affect our China business. Certain risks and uncertainties of doing business in China are solely within the control of the Chinese government, and Chinese law regulates the scope of our foreign investments and business conducted within China. There are also uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China.

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

Exchange rate fluctuations may affect the translated value of our earnings and cash flow associated with our international operations, as well as the translation of net asset or liability positions that are denominated in foreign currencies. In countries outside of the United States where we operate stores, we generate revenues and incur operating expenses and selling, general and administrative expenses denominated in local currencies. In many countries where we do not operate stores, our licensees pay royalties in USD. However, as the royalties are calculated based on local currency sales, our revenues are still impacted by fluctuations in exchange rates. In fiscal years 2016, 2015 and 2014, 38%, 38% and 39% of our Net sales, respectively, were transacted in a currency other than the USD, the majority of which were denominated in yen, Euros, Canadian dollars and pounds. In fiscal 2016, our reported operating earnings would have decreased or increased $32 million if all foreign currencies uniformly weakened or strengthened by an incremental 10% relative to the USD.

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

Because of our extensive international operations, we could be adversely affected by violations of the United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.
The United States Foreign Corrupt Practices Act and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to non-U.S. officials for the purpose of obtaining or retaining business. Our policies mandate compliance with these anti-bribery laws. We cannot provide assurance that our internal control policies and procedures always will protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business, damage our reputation and result in a material adverse effect on our financial condition, results of operations and cash flows.
International events could delay or prevent the delivery of products to our stores, which could negatively affect our sales and profitability.
A significant portion of products we sell are manufactured outside of the United States, primarily in Asia. As a result, any event causing a disruption of imports, including labor strikes, work stoppages, boycotts, safety issues on materials, the imposition of trade restrictions in the form of tariffs, embargoes or export controls, “anti-dumping” duties, port security or other events that could slow port activities, could increase the cost and reduce the supply of products available to us. In addition, port-labor issues, rail congestion and trucking shortages can have an impact on all direct importers. Although we attempt to anticipate and manage such situations, both our sales and profitability could be materially adversely impacted by any such developments in the future.
Our results may be materially adversely affected by fluctuations in raw material and energy costs.
Our results may be affected by the prices of the components and raw materials used in the manufacture of our toys and baby products. These prices may fluctuate based on a number of factors beyond our control, including: oil prices, changes in supply and demand, general economic conditions, labor costs, competition, import duties, tariffs, currency exchange rates and government regulation. In addition, energy costs have fluctuated dramatically in the past. These fluctuations may result in an increase in our transportation costs for distribution, utility costs for our retail stores and overall costs to purchase products from our vendors.
We may not be able to adjust the prices of our products, especially in the short-term, to recover these cost increases in raw materials and energy. A continual rise in raw material and energy costs could adversely affect consumer spending and demand for our products and increase our operating costs, both of which could have a material adverse effect on our financial condition and results of operations.
Labor shortages and increases in hourly wage rates could restrict our ability to operate our stores, grow our business or result in increased labor costs that could reduce our profits.
Our success depends in large part on our ability to attract, retain, train, manage and engage skilled employees. If we are unable to do so, our ability to adequately manage and staff our stores could be impaired, which could reduce customer satisfaction and sales. Staffing shortages also could hinder our ability to grow and expand our businesses. Payroll costs are a major component of the operating expenses at our stores. A shortage of skilled labor could require higher wages that would increase labor costs, which could adversely affect our profits. In addition, our hourly wage may increase as a result of market pressure and the minimum wage has increased or is scheduled to increase in multiple states and local jurisdictions and there is a possibility that Congress will increase the federal minimum wage. Increases in hourly wage rates could have a material adverse effect on our costs and profitability.
A significant disruption to our distribution network or to the timely receipt of inventory could adversely impact sales or increase our transportation costs, which would decrease our profits.
We rely on our ability to replenish depleted inventory in our stores through deliveries to our distribution centers from vendors and then from our distribution centers or direct ship vendors to our stores by various means of transportation, including shipments by sea, rail, air and truck. We rely on various third-party vendors to manage services related to the delivery of inventory from distribution centers to our stores. Unexpected delays in deliveries or increases in transportation costs (including from increased fuel costs) could significantly decrease our ability to generate sales and earn profits. In addition, labor shortages or labor disagreements in the transportation industry or long-term disruptions to the national and international transportation infrastructure that lead to delays or interruptions of deliveries could negatively affect our business.

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

The products we sell in our stores are subject to regulation by the Federal Consumer Product Safety Commission and similar state and international regulatory authorities. As a result, such products have been and could be in the future subject to recalls and other remedial actions. Product safety concerns may require us to voluntarily remove selected products from our stores.

Such recalls and voluntary removal of products can result in, among other things, lost sales, diverted resources, potential harm to our reputation and increased customer service costs, which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

There is great uncertainty regarding the cost of healthcare which could have an impact on our business, financial condition and results of operations.

U.S. healthcare legislation has impacted our healthcare cost structure and it may, over time, increase our employee healthcare related expenses. Further regulatory action is expected as a result of the recent presidential election. Such action could result in changes to healthcare eligibility, design and cost structure that could have an impact on our business and results of operations.

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

We are subject to numerous regulatory and legal requirements. Our policies, procedures and internal controls are designed to comply with all applicable laws and regulations, including those imposed by the Federal Trade Commission, the Sarbanes-Oxley Act of 2002 and the SEC. In addition, our business activities require us to comply with complex regulatory and legal issues on a local, national and worldwide basis (including, in some cases, more stringent local labor laws or regulations). Future legislative and regulatory actions relating to credit cards could also have an adverse impact on our credit card program and our sales. Additionally, we may be subject to new disclosure and reporting requirements, established under existing or new state or federal laws. Failure to comply with such laws and regulations could adversely affect our operations, involve significant expense, and divert management’s attention and resources from other matters, which in turn could materially harm our business and results of operations.

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

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

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

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

We utilize outsourcing arrangements for certain financial and other functions. By relying on third-party service providers we may come across unexpected obstacles that can disrupt our business operations.

We have outsourced certain financial and other functions to third-party service providers to achieve further operating efficiencies. Inadequate management or training of these providers can lead to lack of proper skill sets to effectively manage and execute the applicable processes. In addition, we are at risk of data security, losing visibility and control of the applicable processes and potential language barriers. If we do not effectively manage outsourcing relationships, if third-party providers do not perform efficiently or in a timely manner, or if we experience problems with transitioning the work to a third party, we may experience disruptions in transaction processing or information technology services all of which can negatively impact our business processes, reputation and customers.

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

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

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

Changes to existing accounting rules or regulations may impact our future results of operations. New accounting rules or regulations and varying interpretations of existing accounting rules or regulations have occurred and may occur in the future. In February 2016, the Financial Accounting Standards Board (“FASB”) released new accounting rules, effective fiscal 2019, requiring companies to capitalize substantially all leases, including operating leases, in their financial statements. This change will require us to record a significant amount of lease related assets and liabilities on our balance sheet. These and other future changes to accounting rules or regulations may materially adversely affect our reported results of operations and financial position.

Our total assets include a substantial amount of property and equipment. Changes to estimates or projections related to such assets, or operating results that are lower than our current estimates at certain store locations, may cause us to incur impairment charges that could materially adversely affect our results of operations.

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

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

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

The Sponsors control us and may have conflicts of interest with us.

Investment funds or groups advised by or affiliated with the Sponsors currently control us through their ownership of 98% of our voting common stock. As a result, the Sponsors have control over our decisions to enter into any corporate transaction and have the ability to prevent any transaction that requires the approval of stockholders. In addition, the Sponsors may have an interest in pursuing dispositions, acquisitions, financings or other transactions that, in their judgment, could enhance their equity investments, even though such transactions might involve risks to us as a company.

The Sponsors may direct us to make significant changes to our business operations and strategy, including with respect to, among other things, store openings and closings, new product and service offerings, sales of real estate and other assets, employee headcount levels and initiatives to reduce costs and expenses. We cannot provide assurance that our future business operations will remain broadly in line with our existing operations or that significant real estate and other assets will not be sold.

The Sponsors are also in the business of making investments for their own accounts in companies, and may from time to time acquire and hold interests in businesses that compete directly or indirectly with us. One or more of the Sponsors may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. So long as investment funds associated with or designated by the Sponsors continue to indirectly own a significant amount of the outstanding shares of our common stock, the Sponsors will continue to be able to strongly influence or effectively control our decisions.

Risks Related to Our Substantial Indebtedness

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

We are, and we expect to continue to be, highly leveraged. As of January 28, 2017, our total indebtedness was $4.8 billion, of which $3.4 billion was secured indebtedness. Our substantial indebtedness could have significant consequences, including, among others, the following:

- increasing our vulnerability to general economic and industry conditions;
- requiring a substantial portion of cash flows from operating activities to be dedicated to the payment of principal and interest on our indebtedness, and as a result, reducing our ability to use our cash flows to fund our operations and capital expenditures, capitalize on future business opportunities, expand our business and execute our strategy;
- increasing the difficulty for us to make scheduled payments on our outstanding debt and other obligations, as our business may not be able to generate sufficient cash flows from operating activities to meet our debt service obligations;
- exposing us to the risk of increased interest expense due to changes in borrowing spreads and short-term interest rates;
- causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, debt service requirements and general, corporate or other purposes; and
- limiting our ability to adjust to changing market conditions and reacting to competitive pressure, placing us at a competitive disadvantage compared to our competitors who are less leveraged.

Despite our current level of indebtedness, we may still be able to incur substantially more debt. This could further exacerbate the risks to our financial condition described above.

We may be able to incur additional indebtedness in the future, including under our current outstanding credit facilities. Although our indentures, credit agreements and documents governing our other indebtedness contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of qualifications and exceptions, and the additional indebtedness incurred in compliance with these restrictions could be substantial. These restrictions also will not prevent us from incurring obligations that do not constitute indebtedness. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

If our cash flows and capital resources are insufficient to fund our debt service obligations or we are unable to refinance our indebtedness, we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which are subject to prevailing global economic and market conditions and to certain financial, business and other factors beyond our control. In addition, we and our subsidiaries may from time to time prepay, repurchase, refinance or otherwise acquire debt or debt securities issued by us or our subsidiaries in open market transactions, tender offers, exchange offers, privately negotiated transactions or otherwise. Such exchanges or refinancings may include the issuance or guarantee of debt by certain of our subsidiaries, and may be accompanied by transactions or asset transfers among certain of our subsidiaries. Any debt issued in such transactions may be issued or guaranteed by entities that are not obligors on the debt being refinanced, and may have liens on assets that are not pledged to secure the debt being refinanced. Any such transactions, and the amounts involved, will depend on prevailing market conditions, liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. Even if we were able to refinance or obtain additional financing, the costs of new indebtedness could be substantially higher than the costs of our existing indebtedness.

As of January 28, 2017, we had approximately $446 million of final debt maturities within two years. We believe we will have the ability to refinance, or repay a portion and refinance the balance of, this debt prior to their respective maturity dates; however, a number of factors including factors beyond our control could reduce or restrict our ability to refinance these debt obligations on favorable terms.

If our cash flows and capital resources are insufficient to fund our debt service obligations or we are unable to refinance our indebtedness, we could face substantial liquidity problems, and we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital or restructure our indebtedness. These alternative measures may not be successful and may not permit us to meet our debt obligations. If we were unable to repay amounts when due, the holders of our debt could proceed against the issuers or guarantors of that debt, and the collateral granted to them to secure that debt, if any. Additionally, a failure to repay amounts when due under certain debt will likely constitute an event of default and entitle the holders of other debt to accelerate or otherwise proceed against the issuers or guarantors of such debt.

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

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

- incur certain additional indebtedness;
- transfer assets between and among Toys “R” Us, Inc. and our various subsidiaries;
- pay dividends on, repurchase or make distributions with respect to our or our subsidiaries’ capital stock or make other restricted payments;
- issue stock of subsidiaries;
- make certain investments, loans or advances;
- transfer and sell certain assets;
- create or permit liens on assets;
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets;
- enter into certain transactions with our affiliates; and
- amend certain documents.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following summarizes our worldwide operating stores and distribution centers as of January 28, 2017 (excluding licensed operations in our International segment):

	Owned	Ground Leased (1)	Leased (2)	Total	Total Gross Square Feet (3) (In millions)
Stores:					
Domestic	274	212	393	879	35
International	78	26	708	812	21
	352	238	1,101	1,691	56
Distribution Centers:					
Domestic	7	—	1	8	7
International	5	—	5	10	4
	12	—	6	18	11
Total Operating Stores and Distribution Centers	364	238	1,107	1,709	67

(1) Owned buildings on leased land.

(2) This includes 48 and 16 Long-Term Express stores within our Domestic and International segments, respectively, and excludes the remaining 10 and 29 Temporary Express store locations within our Domestic and International segments, respectively, which remained open as of January 28, 2017. During the fiscal 2016 holiday selling season, we operated 74 Domestic and 52 International Express stores.

(3) Represents total square footage occupied, excluding any space dedicated to catwalks, parking lots and decks.

Refer to Item 1 “Business—Geographic Distribution of Domestic Stores” and “Business—Geographic Distribution of International Stores” of this Annual Report on Form 10-K.

As described above, a significant part of our properties are ground leased (i.e. properties where we own the building but we do not retain fee ownership in the underlying land) or space leased (i.e. we lease a store from a property owner). We lease substantially all of our properties from unrelated third parties, pursuant to leases that vary as to their terms, rental provisions and expiration dates. Substantially all of our leases are considered triple-net leases, which require us to pay all costs and expenses arising in connection with the ownership, operation, leasing, use, maintenance and repair of these properties. These costs include real estate taxes and assessments, utility charges, license and permit fees and insurance premiums, among other things. Virtually all of our leases include options that allow us to renew or extend the lease term beyond the initial lease period, subject to terms and conditions. In addition, some of our leases include early termination options, which we may exercise under specified conditions, including, upon damage, destruction or condemnation of a specified percentage of the value or land area of the property. A portion of our leased stores have contingent rentals, where the lease payments depend on factors that are not measurable at the inception of the lease, such as future sales volume. Contingent rent expense was \$12 million, \$12 million and \$10 million for fiscals 2016, 2015 and 2014, respectively.

We own our Global Resource Center, comprising 585,000 square feet of space, in Wayne, New Jersey.

As of January 28, 2017, we maintained 71 former stores that are no longer part of our operations. Approximately half of these surplus facilities are owned and the remaining locations are leased. We have tenants in the majority of these facilities, and we continue to market those facilities without tenants for disposition or leasing opportunities. The net costs associated with these facilities are reflected in our Consolidated Financial Statements, but the number of surplus facilities is not included above.

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

ITEM 3. LEGAL PROCEEDINGS

We are, and in the future may be, involved in various lawsuits, claims and proceedings incident to the ordinary course of business. The results of litigation are inherently unpredictable. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, require significant amounts of management time and result in diversion of significant resources. We are not able to estimate an aggregate amount or range of reasonably possible losses for those legal matters for which losses are not probable and estimable, primarily for the following reasons: (i) many of the relevant legal proceedings are in preliminary stages, and until such proceedings develop further, there is often uncertainty regarding the relevant facts and circumstances at issue and potential liability; and (ii) many of these proceedings involve matters of which the outcomes are inherently difficult to predict. However, based upon our historical experience with similar matters, we do not expect that any such additional losses would be material to our consolidated financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Our shares of common stock, $0.001 par value ("Common Stock") are privately held by our Sponsors, our officers, certain current and former employees and a private investor and there is no established public trading market for our Common Stock. As of March 17, 2017, there were approximately 300 holders of our Common Stock. During fiscals 2016, 2015 and 2014, no dividends were paid out to shareholders. Refer to Note 2 to our Consolidated Financial Statements entitled "SHORT-TERM BORROWINGS AND LONG-TERM DEBT" for a discussion of our debt agreements which restrict our ability to pay dividends and obtain funds from certain of our subsidiaries through dividends, loans or advances.

ITEM 6. SELECTED FINANCIAL DATA

	Fiscal Years Ended (1)				
(In millions, except number of stores)	January 28, 2017	January 30, 2016	January 31, 2015	February 1, 2014	February 2, 2013
Statement of Operations Data:					
Net sales	$ 11,540	$ 11,802	$ 12,361	$ 12,543	$ 13,543
Net (loss) earnings (2)	(29)	(124)	(288)	(1,036)	39
Net (loss) earnings attributable to Toys "R" Us, Inc. (2)	(36)	(130)	(292)	(1,039)	38
Balance Sheet Data (end of period):					
Working capital	$ 651	$ 490	$ 355	$ 704	$ 1,171
Property and equipment, net	3,067	3,163	3,335	3,638	3,891
Total assets (3)	6,908	6,910	7,017	7,447	8,842
Total debt (3)(4)	4,761	4,685	4,690	4,917	5,264
Total (deficit) equity	(1,292)	(1,265)	(1,095)	(656)	485
Store Count Data (end of period):					
Domestic	879	866	872	873	875
International - Operated	812	756	730	704	665
Total Operated	1,691	1,622	1,602	1,577	1,540
International - Licensed	257	252	212	185	163
Non-GAAP Financial Measure:					
Adjusted EBITDA (5)	$ 792	$ 800	$ 642	$ 583	$ 1,019

(1) Our fiscal year ends on the Saturday nearest to January 31 of each calendar year. With the exception of fiscal 2012, which included 53 weeks, all other fiscal years presented include 52 weeks.

(2) Refer to the Adjusted EBITDA table within this section for certain income and expense items that management believes make it more difficult to assess the Company's actual operating performance.

(3) In accordance with the retrospective adoption of Accounting Standards Update ("ASU") 2015-03 and ASU 2015-15, we revised the balance sheet presentation of debt issuance costs from Other assets to a deduction from the carrying amount of Long-term debt on the Consolidated Balance Sheet as of January 30, 2016. For further details, refer to Note 1 to our Consolidated Financial Statements entitled "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES."

(4) Includes current portion of long-term debt and short-term borrowings. For further details, refer to Note 2 to our Consolidated Financial Statements entitled "SHORT-TERM BORROWINGS AND LONG-TERM DEBT."

(5) Adjusted EBITDA is defined as EBITDA (earnings (loss) before net interest expense (income), income tax expense (benefit), depreciation and amortization), as further adjusted to exclude the effects of certain income and

expense items that management believes make it more difficult to assess the Company's actual operating performance including certain items which are generally non-recurring. We have excluded the impact of such items from internal performance assessments. We believe that excluding items such as Sponsors' management and advisory fees, goodwill and asset impairment charges, severance, restructuring charges, impact of litigation, store closure costs, noncontrolling interest, gains on sales of assets and other charges, helps investors compare our operating performance with our results in prior periods. We believe it is appropriate to exclude these items as they are not related to ongoing operating performance and, therefore, limit comparability between periods and between us and similar companies.

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

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

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

A reconciliation of Net (loss) earnings attributable to Toys "R" Us, Inc. to EBITDA and Adjusted EBITDA is as follows:

	Fiscal Years Ended				
(In millions)	January 28, 2017	January 30, 2016	January 31, 2015	February 1, 2014	February 2, 2013
Net (loss) earnings attributable to Toys "R" Us, Inc.	$(36)	$ (130)	$ (292)	$ (1,039)	$ 38
Add:					
Income tax expense	34	76	32	169	53
Interest expense, net	455	426	447	517	464
Depreciation and amortization	317	343	377	388	407
EBITDA	770	715	564	35	962
Adjustments:					
Certain transaction costs (a)	24	13	(2)	1	5
Compensation expense (b)	21	24	22	3	2
Severance	9	24	17	13	3
Net earnings attributable to noncontrolling interest (c)	7	6	4	3	1
Sponsors' management and advisory fees (d)	6	6	18	22	21
Litigation (e)	5	(1)	(8)	23	1
Impairment of long-lived assets (f)	4	16	13	44	11
Gains on sales of assets (g)	(46)	(20)	(5)	(8)	(4)
Foreign currency re-measurement (h)	(7)	11	15	—	—
Store closure costs (i)	(1)	7	4	2	7
Property losses, net of insurance recoveries (j)	—	(1)	(9)	—	8
Obsolete inventory clearance (k)	—	—	9	51	—
Goodwill impairment (l)	—	—	—	378	—
Prior period adjustments (m)	—	—	—	16	—
Restructuring (n)	—	—	—	—	2

Adjusted EBITDA	$792	$ 800	$ 642	$ 583	$ 1,019

25

(a) Fiscals 2016 and 2015 primarily represent expenses associated with the transition of our U.S. e-commerce operations and other transaction costs.
(b) Primarily represents the incremental compensation expense related to certain one-time awards and modifications, net of forfeitures of certain officers' awards.
(c) Represents noncontrolling interests in Asia JV.
(d) Represents fees expensed to the Sponsors in accordance with the advisory agreement. In June 2015, the advisory agreement was amended in order to reduce the advisory fees payable in fiscal 2015 and thereafter from $17 million to $6 million annually. Refer to Note 16 to our Consolidated Financial Statements entitled "RELATED PARTY TRANSACTIONS" for further details.
(e) Represents certain litigation expenses and settlements recorded for legal matters. Refer to Note 14 to our Consolidated Financial Statements entitled "LITIGATION AND LEGAL PROCEEDINGS" for further details.
(f) Asset impairments primarily due to the identification of underperforming stores, the relocation of certain stores and property sales. Refer to Note 1 to our Consolidated Financial Statements entitled "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and Note 4 to our Consolidated Financial Statements entitled "FAIR VALUE MEASUREMENTS" for further details.
(g) Represents sales of properties and intellectual property. Refer to Note 1 to our Consolidated Financial Statements entitled "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" and Note 5 to our Consolidated Financial Statements entitled "PROPERTY AND EQUIPMENT" for further details.
(h) Represents the unrealized (gain) loss on foreign exchange related to the re-measurement of the portion of the tranche of loans in an aggregate principal amount of $280 million due fiscal 2019 (the "Tranche A-1 Loan") attributed to Toys "R" Us (Canada) Ltd. Toys "R" Us (Canada) Ltee ("Toys-Canada"), an indirect wholly-owned subsidiary. Refer to Note 1 to our Consolidated Financial Statements entitled "SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES" for further details.
(i) Represents store closure costs, net of lease surrender income.
(j) Represents property losses, the write-off of damaged assets and repairs from a hurricane that hit the east coast of the United States, store fires in Australia, and an earthquake and resulting tsunami that hit the Northeast coast of Japan, net of insurance claims recognized.
(k) Represents the incremental expense related to the clearance of excess and obsolete inventory, as well as, third party fees associated with these efforts.
(l) Represents the impairment of goodwill associated with our Toys-Domestic and Toys-Japan reporting units. Refer to "CRITICAL ACCOUNTING POLICIES" within Item 7 entitled "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" for further details.
(m) Represents a non-cash cumulative correction of prior period accrued vacation accounting in fiscal 2013, partially offset by the non-cash cumulative correction of accounting for e-commerce prior period sales.
(n) Represents additional charges related to our 2003 and 2005 restructuring activities primarily due to changes in management's estimates for events such as lease terminations, assignments and sublease income adjustments.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help facilitate an understanding of our historical results of operations during the periods presented and our financial condition. Throughout this MD&A when discussing our results of operations, we refer to the impact of foreign currency translation on our International results. Transactions in our International segment are recorded in each market's functional currency, then converted to U.S. Dollar for financial reporting. We calculate the effect of changes in foreign currency exchange rates by measuring the difference between current period activity translated at the current period's foreign exchange rates and current period activity translated at last period's rates. This MD&A should be read in conjunction with our Consolidated Financial Statements and the accompanying notes, and contains forward-looking statements that involve risks and uncertainties. Refer to "Forward-Looking Statements" and Item 1A

entitled “RISK FACTORS” of this Annual Report on Form 10-K. Our MD&A includes the following sections:
EXECUTIVE OVERVIEW provides an overview of our business.
RESULTS OF OPERATIONS provides an analysis of our financial performance and of our consolidated and segment results of operations for fiscal 2016 compared to fiscal 2015 and fiscal 2015 compared to fiscal 2014.

LIQUIDITY AND CAPITAL RESOURCES provides an overview of our financing, capital expenditures, cash flows and contractual obligations.
CRITICAL ACCOUNTING POLICIES provides a discussion of our accounting policies that require critical judgment, assumptions and estimates.
RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS provides a brief description of significant accounting standards which were adopted during fiscal 2016. This section also refers to Note 18 to our Consolidated Financial Statements entitled "RECENT ACCOUNTING PRONOUNCEMENTS" for accounting standards which we have not yet been required to implement and may be applicable to our future operations.
EXECUTIVE OVERVIEW

Our Business
We are the leading global specialty retailer of toys and baby products as measured by Net sales. We believe our Toys "R" Us and Babies "R" Us brands are recognized as the toy and baby authority. We sell a variety of products in the baby, core toy, entertainment, learning and seasonal categories through our omnichannel offerings that leverage the synergies between our brick-and-mortar stores and e-commerce.
As of January 28, 2017, we operated 1,691 stores and licensed an additional 257 stores, which are located in 38 countries and jurisdictions around the world. We operate our stores under the Toys "R" Us and Babies "R" Us banners and also have smaller format Outlet stores and Express stores. Our omnichannel presence includes our Toysrus.com and Babiesrus.com sites, as well as other e-commerce sites in our international markets. For fiscal 2016, we generated Net sales of $11,540 million, resulting in Net loss attributable to Toys "R" Us, Inc. of $36 million and Adjusted EBITDA of $792 million. For the definition of Adjusted EBITDA, an explanation of why we present it and a description of the limitations of this non-GAAP measure, as well as a reconciliation to Net loss attributable to Toys "R" Us, Inc., refer to Item 6 entitled "SELECTED FINANCIAL DATA" of this Annual Report on Form 10-K.
Our brand names are highly recognized in North America, Europe and Asia, and our expertise in the toy and baby products retail space, substantial scale and geographic footprint and strong vendor relationships account for our market-leading position and distinguish us from the competition.
Every day we strive to improve the customer experience in our stores and online. This enables us to bring joy into the lives of our customers by being the toy and baby authority and definitive destination for kid fun, gift-giving solutions and parenting services. Compared with multi-line mass merchandisers, we believe we are able to provide more knowledgeable service to our customers through our highly trained sales force. We train our store team members to deepen their product knowledge and enhance their targeted selling skills in order to improve customer service.
Our Business Segments
Our business has two reportable segments: Domestic and International. Refer to Note 11 to our Consolidated Financial Statements entitled "SEGMENTS" for our segments' financial results. The following is a brief description of our segments:

- Domestic — Our Domestic segment sells a variety of products through 879 stores that operate in 49 states in the United States, Puerto Rico and Guam and through e-commerce. As of January 28, 2017, our Domestic stores consisted of 358 traditional toy stores, 223 baby stores, 212 SBS stores, 48 Long-Term Express stores and 38 Outlets, as well as Temporary Express locations. Domestic Net sales were $7,131 million for fiscal 2016, which accounted for 62% of our consolidated Net sales.
- International — Our International segment sells a variety of products through 812 operated and 257 licensed stores in 37 countries and jurisdictions and through e-commerce. As of January 28, 2017, our International stores consisted of 574 traditional toy stores, 208 SBS stores, 16 Long-Term Express stores and 14 baby stores, as well as Temporary Express locations. International Net sales were $4,409 million for fiscal 2016, which accounted for 38% of our consolidated Net sales.

In order to properly judge our business performance, it is necessary to be aware of the challenges and risks we face. Refer to the "Forward-Looking Statements" and Item 1A entitled "RISK FACTORS" of this Annual Report on Form 10-K for further details. The risks and uncertainties described are not the only ones that we face. Additional risks and uncertainties not presently known to us, or that we currently believe to be less significant, may also adversely affect our business and operations. If any of the risks actually occur, our business, financial condition, cash flows or results of operations could be materially adversely affected.

RESULTS OF OPERATIONS

Financial Performance

As discussed in more detail in this MD&A, the following financial data represents an overview of our financial performance for fiscals 2016, 2015 and 2014:

($ In millions)	Fiscal Years Ended January 28, 2017	January 30, 2016	January 31, 2015
Net sales	$11,540	$11,802	$12,361
Same store sales	(1.4)%	0.9 %	0.0 %
Gross margin	$4,108	$4,226	$4,430
Gross margin as a percentage of Net sales	35.6 %	35.8 %	35.8 %
Selling, general and administrative expenses (“SG&A”)	$3,480	$3,593	$3,915
SG&A as a percentage of Net sales	30.2 %	30.4 %	31.7 %
Net loss attributable to Toys “R” Us, Inc.	$(36)	$(130)	$(292)
Non-GAAP Financial Measure:			
Adjusted EBITDA (1)	$792	$800	$642

(1) For an explanation of Adjusted EBITDA as a measure of the Company’s operating performance and a reconciliation to Net loss attributable to Toys “R” Us, Inc., refer to Item 6 entitled “SELECTED FINANCIAL DATA” of this Annual Report on Form 10-K.

Fiscal 2016 financial highlights:

- Net sales decreased by $262 million compared to the prior year, predominantly due to a decrease in same store sales and Domestic store closures.
- Consolidated same store sales decreased by 1.4 percentage points due to a decline in both our International and Domestic segments.
- Gross margin, as a percentage of Net sales, (“Gross margin rate”) decreased in our Domestic segment due to higher shipping costs associated with increased e-commerce sales, partially offset by an increase in our International segment.
- SG&A decreased by $113 million primarily due to reductions in annual bonus expense and flagship store operating costs.
- Net loss attributable to Toys “R” Us, Inc. decreased by $94 million.

Fiscal 2015 financial highlights:

- Net sales decreased by $559 million compared to the prior year. Excluding a $571 million negative impact of foreign currency translation, Net sales increased by $12 million.
- Consolidated same store sales increased by 0.9 percentage points driven by growth in our International segment.
- Gross margin, as a percentage of Net sales, (“Gross margin rate”) remained consistent with the prior year.
- SG&A decreased by $322 million primarily due to a favorable impact from foreign currency translation and reductions in payroll, advertising and occupancy expenses.
- Net loss attributable to Toys “R” Us, Inc. decreased by $162 million.

Same Store Sales

In computing same store sales, we include stores that have been open for at least 56 weeks from their “soft” opening date. A soft opening is typically two weeks prior to the grand opening. Long-Term Express stores that have been open for at least 56 weeks from their soft opening date are also included in the computation of same store sales.

Our same store sales computation includes the following:

- 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;
- stores that have expanded or contracted within their current locations; and

- sales from our e-commerce businesses.

By measuring the year-over-year sales of merchandise in the stores that have been open for 56 weeks or more and online, we can better gauge how the core store base and e-commerce business is performing since same store sales excludes the impact of store openings and closings. We calculate International same store sales by applying prior year foreign exchange rates to both current year and prior year sales to provide a consistent basis for comparison.

Various factors affect same store sales, including the number of and timing of stores we open, close, convert, relocate, expand or contract, the number of transactions, the average transaction amount, the general retail sales environment, current local and global economic conditions, consumer preferences and buying trends, changes in sales mix among distribution channels, our ability to efficiently source and distribute products, changes in our merchandise mix, competition, the timing of the release of new merchandise and our promotional events, the success of marketing programs and the cannibalization of existing store net sales by new stores. Among other things, weather conditions, terrorism and catastrophic events can affect same store sales because they may discourage travel or require temporary store closures, thereby reducing customer traffic. These factors have caused our same store sales to fluctuate significantly in the past on a monthly, quarterly and annual basis and, as a result, we expect that same store sales will continue to fluctuate in the future.

The changes in our same store sales by segment for fiscals 2016, 2015 and 2014 are as follows:

	Fiscal Years Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Domestic	(1.3)%	(0.6)%	(1.0)%
International	(1.6)%	3.2%	1.8%
Toys "R" Us - Consolidated	(1.4)%	0.9%	0.0%

Percentage of Net Sales by Product Category

Domestic:	Fiscal Years Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Baby	35.9%	36.0%	36.9%
Core Toy	19.1%	18.3%	17.1%
Entertainment	7.2%	9.0%	10.2%
Learning	24.1%	23.4%	22.6%
Seasonal	13.1%	12.4%	12.2%
Other (1)	0.6%	0.9%	1.0%
Total	100%	100%	100%

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

International:	Fiscal Years Ended		
	January 28, 2017	January 30, 2016	January 31, 2015
Baby	21.3%	20.5%	20.2%
Core Toy	23.5%	23.2%	23.5%
Entertainment	6.0%	7.1%	8.5%
Learning	33.0%	32.8%	31.1%
Seasonal	15.4%	15.7%	15.9%
Other (1)	0.8%	0.7%	0.8%
Total	100%	100%	100%

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

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

29

Store Count by Segment

	Domestic	International	Total Operated
January 31, 2015	872	730	1,602
Opened	15	49	64
Closed	(21)	(23)	(44)
January 30, 2016	866	756	1,622
Opened	29	73	102
Closed	(16)	(17)	(33)
January 28, 2017	879	812	1,691

Store Type	Domestic		International		Toys “R” Us - Consolidated	
	January 28, 2017	January 30, 2016	January 28, 2017 (1)	January 30, 2016	January 28, 2017	January 30, 2016
Traditional Toy	358	361	574	534	932	895
SBS	212	213	208	202	420	415
Baby	223	224	14	15	237	239
Long-Term Express	48	42	16	5	64	47
Outlet	38	26	—	—	38	26
Total Operated	879	866	812	756	1,691	1,622
Excluded from store count:						
Licensed	—	—	257	252	257	252
Temporary Express	10	31	29	25	39	56

(1) The net increase in International stores compared to the prior year is primarily due to 38 stores in China and Southeast Asia.

Fiscal 2016 Compared to Fiscal 2015

Net Loss Attributable to Toys “R” Us, Inc.

(In millions)	Fiscal 2016	Fiscal 2015	Change
Toys “R” Us - Consolidated	$(36)	$(130)	$ 94

Net loss attributable to Toys “R” Us, Inc. decreased by $94 million to $36 million in fiscal 2016, compared to $130 million in fiscal 2015. The improvement was primarily due to a $113 million reduction in SG&A, an increase in Other income, net of $61 million and a $42 million decrease in Income tax expense, partially offset by a $118 million decline in Gross margin.

Net Sales

($ In millions)	Fiscal 2016	Fiscal 2015	$ Change	% Change	Percentage of Net sales Fiscal 2016	Percentage of Net sales Fiscal 2015
Domestic	$7,131	$7,356	$ (225)	(3.1)%	61.8 %	62.3 %
International	4,409	4,446	(37)	(0.8)%	38.2 %	37.7 %
Toys “R” Us - Consolidated	$11,540	$11,802	$ (262)	(2.2)%	100.0 %	100.0 %

Net sales decreased by $262 million or 2.2%, to $11,540 million in fiscal 2016, compared to $11,802 million in fiscal 2015. The impact of foreign currency translation increased Net sales by $12 million in fiscal 2016.

Excluding the impact of foreign currency translation, the decrease in Net sales for fiscal 2016 was primarily due to Domestic store closures, including our Times Square and FAO Schwarz flagship stores. Additionally contributing to the decrease was a decline in Domestic and International same store sales driven by a decrease in the number