Edward O. Sassower, P.C.
Joshua A. Sussberg, P.C. (*pro hac vice* admission pending)
KIRKLAND & ELLIS LLP
KIRKLAND & ELLIS INTERNATIONAL LLP
601 Lexington Avenue
New York, New York 10022
Telephone: (212) 446-4800
Facsimile: (212) 446-4900

-and-

James H.M. Sprayregen, P.C.
Anup Sathy, P.C.
Chad J. Husnick, P.C. (*pro hac vice* admission pending)
Robert A. Britton (*pro hac vice* admission pending)
Emily E. Geier (*pro hac vice* admission pending)
KIRKLAND & ELLIS LLP
KIRKLAND & ELLIS INTERNATIONAL LLP
300 North LaSalle
Chicago, Illinois 60654
Telephone: (312) 862-2000
Facsimile: (312) 862-2200

Michael A. Condyles (VA 27807)
Peter J. Barrett (VA 46179)
Jeremy S. Williams (VA 77469)
KUTAK ROCK LLP
901 East Byrd Street, Suite 1000
Richmond, Virginia 23219-4071
Telephone: (804) 644-1700
Facsimile: (804) 783-6192

Proposed Co-Counsel to the Debtors and Debtors in Possession

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
RICHMOND DIVISION

In re:	)	Chapter 11
TOYS “R” US, INC., *et al.*,[1]	)	Case No. 17-34665 (KLP)
Debtors.	)	(Joint Administration Requested)

DECLARATION OF MICHAEL J. SHORT, CHIEF FINANCIAL OFFICER OF TOYS “R” US, INC., IN SUPPORT OF DEBTORS’ FIRST DAY MOTIONS

I, Michael J. Short, declare as follows:

1. I am the Executive Vice President and Chief Financial Officer of Toys “R” Us, Inc., and one of the above-captioned debtors and debtors in possession (collectively, the “Debtors,” and, together with their non-Debtor affiliates, the “Company” or “Toys”).

[1] The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are set forth in the *Debtors’ Motion for Entry of an Order (I) Directing Joint Administration of Chapter 11 Cases and (II) Granting Related Relief* filed contemporaneously herewith. The location of the Debtors’ service address is One Geoffrey Way, Wayne, NJ 07470.

2. I have served as the Company's Executive Vice President and Chief Financial Officer since June 2014. Prior to that, from January 2007 to January 2014, I served as the Executive Vice President and Chief Financial Officer of AutoNation, an automotive retailer. From 2000 to 2007, I was the Executive Vice President and Chief Financial Officer of Universal Orlando.

3. Each of the Debtors filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code, 11 U.S.C. §§ 101–1532 (the "Bankruptcy Code"), in the United States Bankruptcy Court for the Eastern District of Virginia (the "Court") on September 18, 2017 the ("Petition Date"). To minimize the adverse effects on their business, the Debtors have filed motions and pleadings seeking various types of "first day" relief (collectively, the "First Day Motions"). [2]

4. I am generally familiar with the Debtors' day-to-day operations, business and financial affairs, and books and records. I submit this declaration to explain to the Court and interested parties why the Debtors filed these cases, and in support of the First Day Motions.

5. Unless I state otherwise, this declaration is based upon the following:

- personal knowledge;
- information provided to me by my management team and advisors, including investment banker Lazard Frères & Co. ("Lazard"), restructuring advisor Alvarez & Marsal North America, LLC ("A&M"), and restructuring counsel Kirkland & Ellis LLP("K&E");
- my review of documents and information concerning the Debtors' operations, financial affairs, and restructuring initiatives; and
- my opinions based on my experience and knowledge.

2 Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the respective First Day Motions.

6. I am over the age of 18 and authorized to submit this declaration on behalf of the Debtors, and I would testify to the matters stated in this declaration.

7. The Debtors have filed a number of First Day Motions seeking relief necessary to stabilize their business operations, facilitate the efficient administration of these chapter 11 cases, and protect the value of their estates. The relief requested in each of the First Day Motions is critical to maximize the value of these estates. I believe the relief requested in the First Day Motions is essential to allow the Debtors to operate with minimal disruption during the pendency of these chapter 11 cases. I have reviewed the First Day Motions discussed below and the facts set forth in each First Day Motion are true and correct to the best of my knowledge and belief, with appropriate reliance on the Company's officers and advisors.

I. Debtors' Motion for Entry of an Order (I) Directing Joint Administration of Chapter 11 Cases and (II) Granting Related Relief (the "Joint Administration Motion").

8. Pursuant to the Joint Administration Motion, the Debtors request entry of an order directing procedural consolidation and joint administration of these chapter 11 cases. Given the integrated nature of the Debtors' operations, joint administration of these chapter 11 cases will provide significant administrative convenience and cost savings to the Debtors without harming the substantive rights of any party in interest.

9. Many of the motions, hearings, and orders in these chapter 11 cases will affect each and every Debtor entity. For example, virtually all of the relief sought by the Debtors in the First Day Motions is sought on behalf of all of the Debtors. The entry of an order directing joint administration of these chapter 11 cases will reduce fees and costs by avoiding duplicative filings and objections. Joint administration of these chapter 11 cases, for procedural purposes only, under a single docket, will also ease the administrative burdens on the Court by allowing the Debtors' cases to be administered as a single joint proceeding instead of multiple independent chapter 11

cases. Accordingly, I respectfully submit that the Joint Administration Motion should be approved.

II. Debtors' Motion For Entry of an Order (I) Establishing Certain Notice, Case Management, and Administrative Procedures and (II) Granting Related Relief (the "Case Management Procedures Motion").

10. Pursuant to the Case Management Procedures Motion, the Debtors request entry of an order establishing certain noticing, case management, and administrative procedures including, among other things: (a) directing that matters requiring notice under Bankruptcy Rule 2002(a)(2)-(6) will be served only on individuals and entities identified on a shortened mailing list and those creditors who, in accordance with Local Bankruptcy Rules 2002-1 and 9013-1(M), file with the Court a request to receive such notice pursuant to Bankruptcy Rule 2002; (b) allowing electronic service of all documents (except complaints and summonses) for the 2002 List (as defined in the Case Management Procedures); and (c) directing that all matters be heard at periodic omnibus hearings to be scheduled in advance by the Court.

11. Given the thousands of potential creditors who may file requests for service of filings and considering the numerous motions and applications to be filed in these chapter 11 cases, I understand that approval of the Case Management Procedures will provide significant administrative convenience and cost savings by reducing the need for emergency hearings and requests for expedited relief, and will foster consensual resolution of important matters. Furthermore, the Debtors' use of electronic service to the 2002 List will reduce the administrative and financial burden of providing notice to the Debtors' creditors and other parties in interest.

12. I have been advised that the establishment of the Case Management Procedures will also promote the efficient and orderly administration of these chapter 11 cases. Authorizing the Debtors to serve their documents on a limited mailing matrix will ease the administrative and economic burdens on the Court and the Debtors' estates. Authorizing electronic service in these

chapter 11 cases for the 2002 List will also allow for efficient and effective service at a significantly reduced cost to the Debtors' estates and other serving parties. Early notice of Omnibus Hearings to all parties in interest will enable these parties to plan efficiently for the use of hearing time, will avoid the need for numerous hearings within each month, and will lessen the burden on the Court and on the Debtors' estates. Additionally, parties in interest will still have the opportunity to bring true emergency matters before the Court on an expedited basis pursuant to the Local Bankruptcy Rules and the Case Management Procedures.

III. Debtors' Motion for Entry of an Order (I) Extending Time to File Schedules and Statements of Financial Affairs, (II) Authorizing the Debtors to File a Consolidated List of Creditors in Lieu of Submitting a Mailing Matrix for Each Debtor, (III) Authorizing the Debtors to File a Consolidated List of the Debtors' 50 Largest Unsecured Creditors, and (IV) Granting Related Relief (the "Creditor Matrix, SOFAs, and Schedules Motion").

13. Pursuant to the Creditor Matrix, SOFAs, and Schedules Motion, the Debtors seek entry of an order: (a) extending the deadline by which the Debtors must file their schedules of assets and liabilities, schedules of current income and expenditures, schedules of executory contracts and unexpired leases, and statements of financial affairs (collectively, the "Schedules and Statements") by forty-five (45) days—for a total of fifty-nine (59) days from the Petition Date—without prejudice to the Debtors' ability to request additional extensions for cause shown; (b) authorizing the Debtors to file a consolidated list of creditors in lieu of submitting a separate mailing matrix for each Debtor; and (c) authorizing the Debtors to file a consolidated list of the Debtors' 50 largest unsecured creditors.

A. Schedules and Statements Extension.

14. To prepare the Schedules and Statements, the Debtors must compile information from books, records, and documents relating to the claims of thousands of creditors, as well as the Debtors' many assets, contracts, and leases. This information is voluminous and located in

numerous places throughout the Debtors' worldwide organization. Collecting the necessary information requires an enormous expenditure of time and effort on the part of the Debtors, their employees, and their professional advisors in the near term—when these resources would be best used to stabilize the Debtors' business operations.

15. Although the Debtors, with the assistance of their professional advisors, are working diligently and expeditiously to prepare the Schedules and Statements, the Debtors' resources are strained. Considering the amount of work entailed in completing the Schedules and Statements combined with the competing demands on the Debtors' employees and professionals to assist in efforts to stabilize business operations during the initial postpetition period, the Debtors likely will not be able to properly and accurately complete the Schedules and Statements within the required time period.

16. The Debtors therefore request that the Court extend the 14-day period for an additional 45 days, without prejudice to the Debtors' right to request further extensions, for cause shown.

B. Consolidated Creditor Matrix.

17. Although I understand that a list of creditors usually is filed on a debtor-by-debtor basis, in a complex chapter 11 bankruptcy case involving more than one debtor, the debtors may file a consolidated creditor matrix. This will help alleviate administrative burdens, costs, and the possibility of duplicative service, and will prevent the Debtors' estates from incurring unnecessary costs associated with serving multiple notices to the parties listed on the Debtors' voluminous creditor matrix.

C. Consolidated List of 50 Largest Creditors.

18. The Debtors request authority to file a single, consolidated list of their 50 largest general unsecured creditors. Here, compiling separate top creditor lists for each individual Debtor

would consume an excessive amount of the Debtors' time and resources, and filing a consolidated list would more appropriately reflect the liabilities against the Debtors' operations on an enterprise level.

19. Accordingly, I respectfully submit that the Court should approve the Creditor Matrix, SOFAs, and Schedules Motion.

IV. Debtors' Application for Entry of an Order (I) Authorizing the Debtors to Employ and Retain Prime Clerk LLC as Claims and Noticing Agent, Effective *Nunc Pro Tunc* To The Petition Date and (II) Granting Related Relief (the "Claims and Noticing Agent Application").

20. Pursuant to the Claims and Noticing Agent Application, the Debtors seek entry of an order appointing Prime Clerk LLC ("Prime Clerk") as Claims and Noticing Agent in the Debtors' chapter 11 cases effective *nunc pro tunc* to the Petition Date to, among other tasks, assume full responsibility for the distribution of notices and the maintenance, processing, and docketing of proofs of claim filed in the Debtors' chapter 11 cases pursuant to the provisions of the Engagement Agreement.

21. Based on my discussions with the Debtors' advisors, I believe that the Debtors' selection of Prime Clerk to act as the Claims and Noticing Agent is appropriate under the circumstances and in the best interest of the estates. Moreover, it is my understanding that based on all engagement proposals obtained and reviewed that Prime Clerk's rates are competitive and comparable to the rates charged by their competitors for similar services.

22. The Debtors anticipate that there will be thousands of persons and entities to be noticed in these chapter 11 cases. In light of the number of parties in interest and the complexity of the Debtors' business, the Debtors submit that the appointment of a claims and noticing agent will provide the most effective and efficient means of, and relieve the Debtors and/or the Clerk's office of the administrative burden of, noticing and processing proofs of claim and is in the best

interests of both the Debtors' estates and their creditors. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Claims and Noticing Agent Application.

V. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue to Operate Their Cash Management System, (B) Honor Certain Prepetition Obligations Related Thereto, (C) Maintain Existing Business Forms, and (D) Perform Intercompany Transactions, and (II) Granting Related Relief ("Cash Management Motion").

23. Pursuant to the Cash Management Motion, the Debtors seek entry of interim and final orders authorizing the Debtors to: (i) continue to operate their Cash Management System, (ii) pay any prepetition or postpetition amounts outstanding on account of the Bank Fees and Armored Car Services Fees, (iii) maintain existing Business Forms in the ordinary course of business, and (iv) continue to perform Intercompany Transactions (as such terms are defined below) consistent with historical practice.

24. The Debtors operate a complex cash management system. The Debtors use their Cash Management System to transfer and distribute funds and to facilitate cash monitoring, forecasting, and reporting. The Debtors' treasury department maintains daily oversight over the Cash Management System and implements cash management controls for entering, processing, and releasing funds, including in connection with intercompany transactions. Additionally, the Debtors' corporate accounting and cash audit departments regularly reconcile the Debtors' books and records to ensure that all transfers are accounted for properly.

25. As of the Petition Date, the Cash Management System includes a total of 729 bank accounts, including 719 accounts in the name of U.S. Debtors and 10 accounts in the name of certain non-Debtor affiliates (collectively, the "Bank Accounts"), all maintained by the Debtors, which are held at 13 banks (collectively, the "Cash Management Banks"). The Cash Management System consists of:

- two concentration Bank Accounts, maintained at Citibank, N.A. ("Citibank") (the "Main Concentration Account"), and Bank of America, N.A. ("Bank of America") (the "Secondary Concentration Account"), respectively (together, the "Concentration Accounts");

- 43 disbursement Bank Accounts (collectively, the "Disbursement Accounts"), of which ten are maintained at Bank of America, 14 are maintained at Citibank, 18 are maintained at Wells Fargo Bank, N.A. ("Wells Fargo"), and one is maintained at Banco Popular de Puerto Rico ("Banco Popular");

- 627 zero-balance store level Bank Accounts (collectively, the "Store Level Accounts"), of which 245 are maintained at Bank of America, 19 are maintained at Fifth Third Bancorp ("Fifth Third"), 19 are maintained at JPMorgan Chase Bank, N.A ("Chase"), 70 are maintained at Regions Financial Corporation ("Regions"), 188 are maintained at U.S. Bank, N.A. ("U.S. Bank"), and 86 are maintained at Wells Fargo;

- 30 deposit Bank Accounts (collectively, the "Deposit Accounts"), of which two are maintained at Banco Popular, two are maintained at Bank of Hawaii, two are maintained at Chase, four are maintained at Wells Fargo, eight are maintained at Bank of America, nine are maintained at Citibank, one is maintained at Fifth Third, one is maintained at U.S. Bank, and one is maintained at Regions;

- ten Bank Accounts maintained by certain Debtor and non-Debtor affiliates (collectively, the "Domestically Controlled Bank Accounts"), all of which are maintained at Citibank;

- six investment Bank Accounts (collectively, the "Investment Accounts"), of which two are maintained at Deutsche Bank, two are maintained at Goldman Sachs, and two are maintained at International Cash Distributors, LLC;

- six inactive Bank Accounts (collectively, the "Inactive Accounts"), of which two are maintained at Bank of America and four are maintained at Citibank; and

- five other Bank Accounts (collectively, the "Other Accounts"), of which four are maintained at Bank of America and one is maintained at Key Bank of Vermont.

26. On a monthly basis the Debtors pay approximately $300,000 in service charges and other fees in connection with the maintenance of the Cash Management System (the "Bank Fees"). The Debtors paid approximately $2.7 million on account of Bank Fees in 2016 and approximately $1.5 million to date in 2017. The Debtors estimate that they owe approximately $300,000 on account of Bank Fees as of the Petition Date and request authority to pay outstanding Bank Fees,

including any prepetition amounts, in the ordinary course of business on a postpetition basis in order to ensure the uninterrupted operation of the Cash Management System.

27. The Debtors estimate that cash collections for the Cash Management System average approximately $525 million per month, including store cash receipts, credit and debit card receipts, wholesale and franchise income, and website sales. In addition, the Debtors estimate that total third-party disbursements from the Cash Management System will range between $425 million and $700 million per month during these chapter 11 cases. In addition, the Debtors' pay approximately $100,000 in monthly fees on account of the Armored Car Services. As of the Petition Date, the Debtors estimate that approximately $300,000 is outstanding on account of the Armored Car Services.

28. Of the 13 Cash Management Banks, four are designated as authorized depositories under the U.S. Trustee Guidelines. In addition, the majority of the Store Level Accounts are held at Bank of America, Chase, and Wells Fargo Bank, which are all authorized depositories. The remaining Store Level Accounts are held at Fifth Third, U.S. Bank, and Regions. However, approximately 292 Bank Accounts are held at Cash Management Banks that are not Authorized Depositories under the U.S. Trustee Guidelines. Of those 292 Bank Accounts held by Cash Management Banks that are not Authorized Depositories, approximately 277 are Store Level Accounts, which, as noted above, receive deposits from stores throughout the week that are regularly swept into one of the Store Concentration Accounts. The Store Level Accounts only collect deposits and transfer funds to the Store Concentration Accounts. The Cash Management Banks at which the Store Level Accounts are maintained are, in many cases, the only bank located nearby these stores, and if the Debtors are not permitted to maintain these Store Level Accounts, the stores that make daily deposits into such accounts will likely have to submit their required daily

deposits by other means, creating additional operational and administrative burdens and expenses to the detriment of the Debtors' business and their estates. Such disruption is particularly unwarranted in this case as all of the affected bank accounts are insured by the FDIC.

29. Of the remaining 15 non-Store Level Accounts held by Cash Management Banks that are not Authorized Depositories, six are Investment Accounts in which no additional funds will be deposited during the course of these chapter 11 cases, one is the Captive Account maintained by TRU (Vermont) Inc. at Key Bank of Vermont, one is a Payroll Account maintained by TRU of Puerto Rico, Inc., at Banco Popular, and seven are Store Concentration Accounts, of which two are maintained at Banco Popular, one is maintained at U.S. Bank, one is maintained at Fifth Third, two are maintained at Bank of Hawaii, and one is maintained at Regions. All of the non-Investment Accounts are FDIC insured.

30. As part of the Cash Management System, the Debtors utilize preprinted business forms, including letterhead, purchase orders, invoices, and preprinted checks. The U.S. Trustee Guidelines require that the Cash Management Banks print "Debtor in Possession" and the bankruptcy case number on checks issued after the Petition Date. To minimize expenses to their estates and avoid confusion on the part of employees, customers, vendors, and suppliers during the pendency of these chapter 11 cases, the Debtors request that the Court authorize their continued use of all Business Forms in existence immediately before the Petition Date, without reference to the Debtors' status as debtors in possession. If the Debtors exhaust their existing supply of checks during these chapter 11 cases, the Debtors will print or order checks with the designation "Debtor in Possession" and the corresponding bankruptcy case number.

31. The Debtors maintain business relationships and have entered into certain agreements with each other and certain non-Debtor affiliates (the "<u>Intercompany Transactions</u>")

resulting in intercompany receivables and payables in the ordinary course of business (collectively, the "Intercompany Claims"). The Intercompany Transactions include the transfer of funds through direct deposits to purchase merchandise, fund operating expenses, and settle obligations arising from such agreements on behalf of certain Debtors and non-Debtor entities.

32. In addition, Toys Delaware pays taxes on behalf of all subsidiaries. Tax related Intercompany Claims are not settled but are reflected as journal entries in each entity's books and records.

33. Pursuant to the Domestic Services Agreement, Toys Delaware provides to certain of its Debtor and non-Debtor affiliates certain financing, accounting, legal, information technology, operations, merchandising, and administrative services, as applicable in exchange for an annual fee. Pursuant to the Domestic Services Agreement, Toys Delaware invoices a portion of the corresponding annual fee, according to that particular affiliate's Allocated Percent (as defined in the Domestic Services Agreement) of provided Shared Services, plus any expenses incurred in providing such Shared Services, on a monthly basis. Intercompany Claims on account of the Domestic Services Agreement are settled in cash on a quarterly basis pursuant to the Debtors' regular intercompany settlement process. In the Debtors' 2016 fiscal year, the total amount paid to Toys Delaware for Shared Services on account of the Domestic Services Agreement was approximately $7.6 million. To date in the Debtors' 2017 fiscal year, the total amount paid to Toys Delaware for Shared Services on account of the Domestic Services Agreement is approximately $2.3 million.

34. Pursuant to the ITASSA, Toys Delaware invoices a portion of the corresponding affiliate's Preliminary Service Fee (as defined in the ITASSA), plus any expenses incurred in providing such Shared Services. Intercompany Claims on account of the ITASSA are settled every

four to six weeks pursuant to the Debtors' regular intercompany settlement process. In the Debtors' 2016 fiscal year, the total amount paid to Toys Delaware for Shared Services on account of the ITASSA was approximately $29.6 million. To date in the Debtors' 2017 fiscal year, the total amount paid to Toys Delaware for Shared Services on account of the ITASSA is approximately $16.1 million.

35. The Shared Services are essential to the management and operations of the Debtors' business and result in efficiencies and cost savings to the Debtors' and their Debtor and non-Debtor affiliates. Many of the Debtors' direct and indirect subsidiaries do not always maintain their own employees and therefore rely on Toys Delaware to provide essential Shared Services. Requiring the Debtors to discontinue Intercompany Transactions and the settlement of Intercompany Claims related to the Services Agreements at this critical time would be extremely costly and inefficient, and detrimental to the value of the Debtors and their estates.

36. Debtor Geoffrey is party to two Licensing Agreements with certain of the Debtors' foreign wholly owned subsidiaries pursuant to which Geoffrey licenses the Debtors' trademarks to such subsidiaries. Geoffrey, through its Royalty Account, receives royalty payments on account of the Licensing Agreements. Intercompany Claims on account of the Licensing Agreements are typically settled in cash every four to six weeks pursuant to the Debtors' regular intercompany settlement process. In 2016, Geoffrey received approximately $64.5 million in royalty payments on account of the Licensing Agreements. So far in 2017, Geoffrey has received approximately $34 million on account of the Licensing Agreements. Pursuant to this Motion, the Debtors seek

authority to continue entering into Intercompany Transactions and settling Intercompany Claims related to the Licensing Agreements in the ordinary course on a postpetition basis.

37. The Debtors track all fund transfers through their accounting system and can ascertain, trace, and account for all Intercompany Transactions. If the Intercompany Transactions were to be discontinued, the Cash Management System and the Debtors' operations would be disrupted unnecessarily to the detriment of the Debtors, their creditors, and other stakeholders.

38. The Debtors have the ability, through their Cash Management System to track and report expenses by each of the Debtors' separate entities and to allocate payments in proportion to such entity's respective share of costs. While the Debtors do not always allocate costs in the ordinary course of business, pursuant to the DIP financing described in the various pleadings filed contemporaneously herewith, the Debtors are able to allocate expenses and revenue between the Toys Delaware and the TRU Taj entities to ensure that each such entity is properly charged for its share of any respective expenses. This will allow the Debtors to ensure that the lenders to the TRU Taj side of the Company do not finance expenses related to Toys Delaware and that the lenders to the Toys Delaware side of the business do not finance expenses related to TRU Taj.

39. I believe that the relief requested in the Cash Management Motion is essential to the continued operation of the Debtors' business and denial of such relief would severely disrupt, if not cripple, the Debtors' business. Therefore, I believe that the relief requested in the Cash Management Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Cash Management Motion.

VI. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Pay Prepetition Wages, Salaries, Other Compensation, and Reimbursable Expenses and (B) Continue Employee Benefits Programs, and (II) Granting Related Relief (the "Wages Motion").

40. Pursuant to the Wages Motion, the Debtors seek entry of interim and final orders (a) authorizing the Debtors to (i) pay all prepetition wages, salaries, reimbursable expenses, and other obligations on account of the Employee Compensation and Benefits Programs (as defined in the Wages Motion) in the ordinary course of business and (ii) continue to administer the Employee Compensation and Benefits Programs, including payment of prepetition obligations related thereto.

41. The Debtors employ over 11,150 individuals on a full-time basis and 21,300 individuals on a part-time basis (collectively, the "Employees") in the United States and U.S. Territories. Approximately 28,700 Employees are paid on an hourly basis, and approximately 3,750 Employees earn a salary. The Employees are not party to any collective bargaining agreements. The Debtors also periodically retain specialized individuals as independent contractors, as well as temporary workers sourced from various staffing agencies (the "Staffing Agencies"), to complete discrete projects and fulfill certain duties on a short- and long-term basis when the Debtors are otherwise unable to fill required positions (such individuals collectively, the "Temporary Staff"). The Temporary Staff are an important supplement to the efforts of the Debtors' Employees. At this time, the Debtors retain approximately 1,010 Temporary Staff.

42. In addition, over the next four months, in preparation for and during the holiday season, the Debtors anticipate that the number of seasonal part-time Employees in their distribution centers and stores will grow by approximately 38,600, increasing the total number of hourly Employees to over 67,200. This growth is consistent with historic annual headcount during this peak selling period and the Debtors' financial projections. The Debtors endeavor to hire all

part-time Employees directly, but in the event that they are unable to fill all open positions in specific stores, the Debtors will utilize the Staffing Agencies to ensure they are able to maintain their operations. These seasonal Employees are all paid hourly and are generally not entitled to the benefits addressed herein, with the exception of certain performance-based bonuses.

43. The Debtors' Employees and Temporary Staff perform a wide variety of functions critical to the Debtors' operations at the Debtors' home office, distribution centers, and regional stores. Certain of these individuals are highly trained and have an essential working knowledge of the Debtors' business that cannot be easily replaced. The remainder of these individuals provide services necessary to continue the Debtors' store-level operations. Without the continued, uninterrupted services of their Employees and Temporary Staff, the Debtors' reorganization efforts will be threatened.

44. The vast majority of Employees rely exclusively on the Employee Compensation and Benefits Programs to pay their daily living expenses and support their families. Thus, Employees will face significant financial consequences if the Debtors are not permitted to continue the Employee Compensation and Benefits Programs in the ordinary course of business. The Debtors seek to minimize the personal hardship the Employees and Temporary Employees would suffer if employee obligations are not paid when due or as expected. Consequently, the relief requested is necessary and appropriate.

45. The Debtors are seeking authority to pay and honor certain prepetition claims relating to the Employee Compensation and Benefits, including, among other things, wages, salaries, and other compensation; expense reimbursement; payroll services, federal and state withholding taxes and other amounts withheld (including garnishments, Employees' share of insurance premiums, taxes, and 401(k) contributions); health insurance, including, medical, dental,

and vision; workers' compensation benefits; paid time off, other paid leave, and unpaid leave; life and accidental death and dismemberment insurance; short- and long-term disability coverage; employee assistance; severance; and other benefits that the Debtors have historically directly or indirectly provided to the Employees in the ordinary course of business and as further described in the Wages Motion.

46. Pursuant to the Wages Motion, the Debtors also seek authority to continue their incentive programs and to honor their obligations to non-insider Employees under the pre-existing bonus programs, described more fully in the Wages Motion. The Debtors believe the Non-Insiders Employee Incentive Programs drive Employees' performance, align Employees' interests with those of the Debtors generally, and promote the overall efficiency of the Debtors' operations. I understand that "insiders" (as the term is defined in section 101(31) of the Bankruptcy Code) of the Debtors are excluded from the relief requested in the Wages Motion with respect to any bonus programs or severance payments. I understand that no Employees are owed Employee Compensation in excess of $12,850.

47. I believe the Employees provide the Debtors with services necessary to conduct the Debtors' business, and absent the payment of the Employee Compensation and Benefits Programs owed to the Employees, the Debtors will likely experience Employee turnover and instability at this critical time. I believe that without these payments, the Employees may become demoralized and unproductive because of the potential significant financial strain and other hardships the Employees may face. Employees may then elect to seek alternative employment opportunities. Additionally, a significant portion of the value of the Debtors' business is tied to their workforce, which cannot be replaced without significant efforts—which efforts may not be successful given the overhang of these chapter 11 cases. I believe enterprise value may be materially impaired to

the detriment of all stakeholders in such a scenario. I therefore believe that payment of the prepetition obligations with respect to the Employee Compensation and Benefits Programs is a necessary and critical element of the Debtors' efforts to preserve value and will give the Debtors the greatest likelihood of retention of their Employees as the Debtors seek to operate their business in these chapter 11 cases.

48. Therefore, I believe that the relief requested in the Wages Motion inures to the benefit of all parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Wages Motion.

VII. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to (A) Continue and Renew Their Liability, Property, Casualty, and Other Insurance Policies and Honor All Obligations In Respect Thereof; (B) Continue and Renew Their Prepetition Insurance Premium Financing Agreements; and (C) Continue the Surety Bond Programs and (II) Granting Related Relief (the "Insurance Motion").

49. Pursuant to the Insurance Motion, the Debtors seek entry of an order authorizing the Debtors to: (a) continue insurance coverage entered into prepetition and satisfy payment of prepetition obligations related thereto in the ordinary course of business and renew, supplement, or purchase insurance coverage in the Debtors' discretion on a postpetition basis, and (b) continue and renew their surety bond program on an uninterrupted basis.

50. In the ordinary course of business, the Debtors maintain approximately 62 Insurance Policies that are administered by various third-party insurance carriers. These Insurance Policies provide coverage for, among other things, the Debtors' global property, commercial general liability, automobile liability, employment practices liability, international casualty, international general and products liability, integrated umbrella coverage, director and officer liability, criminal liability, fiduciary liability, employed lawyers' insurance, e-risk errors and omissions, ocean cargo, business travel, special risk, storage tank, and helipad liability. The

aggregate annual premium on account of the Insurance Policies is approximately $15.9 million[3] plus applicable taxes and surcharges.

51. The Insurance Policies all renew in July with the following exceptions: (a) the Debtors' natural flood insurance policies renew in September and October; (b) the Debtors' special risks insurance policies renew in March; (c) the Debtors' business travel insurance policies next renew in October 2019; and (d) .the Debtors' aviation insurance policies renew in November. The Debtors estimate that, as of the Petition Date, there is approximately $2.7 million in premiums due on account of the Insurance Policies. Accordingly, the Debtors seek authority to continue honoring any amounts on account of the Insurance Policies in the ordinary course of business to ensure uninterrupted coverage under the Insurance Policies.

52. Pursuant to certain of the Insurance Policies, the Debtors are required to pay various deductibles or retention amounts (the "Insurance Deductible(s)"), depending upon the type of claim and Insurance Policy involved. Under such Insurance Policies, the Insurance Carriers may pay claimants and then invoice the Debtors for any Insurance Deductible. In such situations, the Insurance Carriers may have prepetition claims against the Debtors. If the Debtors were to fail to make any Insurance Deductible payments, the Debtors could be in jeopardy of losing that Insurance Policy, being in violation of state laws, and having certain letters of credit or bonds drawn. The Debtors seek authority to honor any amounts owed on account of any Insurance Deductible in the ordinary course of business.

53. The Debtors' also maintain a re-insurance system under their general property and business interruption policies (the "Reinsurance System"). Pursuant to the Reinsurance System the Debtors maintain a trust (the "Reinsurance Trust") at a third party as collateral to pay claims

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[3] The annual premiums paid by the Debtors include commission payments to the Debtors' insurance broker.

under their underlying insurance policies. From time to time, the Debtors' insurers require them to contribute additional collateral into the Reinsurance Trusts to cover claims under the underlying policies. The Debtors do not currently know if or when their insurers may require additional contributions into the Reinsurance Trust, and therefore, out of an abundance of caution, respectfully request the authority to make contributions into the Reinsurance Trust as required.

54. The Debtors retain the services of insurance brokers and claims servicers (collectively, the "Brokers") to help manage their portfolios of risk. The Debtors obtain the majority of their Insurance Policies through their insurance broker, Integro Group ("Integro"). Integro assists the Debtors in obtaining comprehensive insurance coverage for their operations in a cost-effective manner, manages renewal data, markets the Insurance Policies, provides all interactions with carriers including negotiating policy terms, provisions, and premiums, handles claims, and provides ongoing support throughout the applicable policy periods. Integro collects commission payments for services rendered as part of the premiums paid on the Insurance Policies as well as fees. As of the Petition Date, the Debtors do not believe that they owe any amounts to Integro on account of fees, commissions, or any other prepetition obligations. Out of an abundance of caution, however, the Debtors seek authority to honor any amounts owed to Integro to ensure uninterrupted coverage under their Insurance Policies.

55. The Debtors' broker of record with respect to the Debtors' directors' and officers', fiduciary, and crime Insurance Policies (the "D&O Policies") is Alliant Insurance Services ("Alliant"). In this capacity, Alliant is authorized to negotiate changes with respect to, or cancel, the Debtors' existing D&O Policies. Alliant is further authorized to procure new D&O Policies for the Debtors and, before the Petition Date, Alliant assisted the Debtors with procuring a new directors' and officers' runoff policy. The Debtors pay Alliant a commission in connection with

these services, payable as part of the premiums paid on the D&O Policies. As of the Petition Date, the Debtors do not believe that they owe any amounts to Alliant on account of fees, commissions, or any other prepetition obligations. Out of an abundance of caution, however, the Debtors seek authority to honor any amounts owed to Alliant to ensure uninterrupted coverage under their D&O Policies.

56. Additionally, the Debtors contract with Marsh Clearsight, LLC ("Marsh") to provide their claims intake and management system (the "Claims Intake System"). The Claims Intake System is a software enterprise management system that allows the Debtors to enter and manage potential claims at the store level as they occur and is essential to the Debtors' management of their Insurance Policies. As of the Petition Date, the Debtors owed Marsh approximately $34,000 in connection with the Claims Intake System, and request the authority to pay all outstanding amounts in connection therewith.

57. In the ordinary course of business, the Debtors are required to provide surety bonds to certain third parties, often governmental units or other public agencies, to secure the Debtors' payment or performance of certain obligations (the "Surety Bond Program"). These obligations include one continuous customs bond with the United States Customs and Border Protection Agency.

58. When a party that transacts with the Debtors requests a bond and the Debtors determine that they have better operational uses for cash and do not wish to provide the cash and cash equivalents necessary to satisfy such request, they may post a surety bond. In these situations, sureties provide, upfront, the full amount of the requested cash and cash equivalents to the requesting party on behalf of the Debtors, in exchange for a fee from the Debtors and an amount of collateral to secure the bond issuance on the Debtors' behalf. The issuance of a surety bond

shifts the risk of the Debtors' nonperformance or nonpayment from an obligee (here, the United States government) to a surety.

59. The Debtors have 70 primary surety bonds with Travelers Casualty and Surety Company of America ("Travelers") in the amount of approximately $9.5 million. The Debtors also maintain one continuous customs bond with Navigators Insurance Company ("Navigators" and together with Travelers the "Sureties" and each a "Surety"). The premiums for the surety bonds are generally determined on an annual basis and are paid by the Debtors when the bond is issued or renewed. The Debtors pay approximately $80,000 annually in premiums on account of surety bonds.

60. Continuation and renewal of the Insurance Policies and Surety Bond Program is essential to preserving the value of the Debtors' business, properties, and assets. Moreover, in many cases, coverage provided by the Insurance Policies is required by the regulations, laws, and contracts that govern the Debtors' commercial activities, including the requirements of the U.S. Trustee. I believe that the relief requested in the Insurance Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Insurance Motion.

VIII. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Payment of Certain Prepetition and Postpetition Taxes and Fees and (II) Granting Related Relief (the "Taxes Motion").

61. Pursuant to the Taxes Motion, the Debtors seek the authority to pay and remit the Taxes and Fees that accrued prior to the Petition Date and that will become payable during the pendency of these chapter 11 cases. The Debtors also request that the Court authorize and direct applicable financial institutions, when the Debtors in their sole discretion so request, to receive,

process, honor, and pay any and all checks or wire transfer requests in respect of the Taxes and Fees.

62. In the ordinary course of business, the Debtors collect, withhold, and incur sales, use, VAT, withholding, income, franchise, property, and import taxes, as well as other business and regulatory fees, as more fully described in the Taxes Motion, and occasionally are the subject of audit investigations on account of prior year tax returns. The Debtors estimate that approximately $123.8 million in Taxes and Fees relating to the prepetition period are due and payable or will become due and payable after the Petition Date. Payment of the Taxes and Fees is critical to the Debtors' continued and uninterrupted operations. The Debtors' failure to pay prepetition Taxes and Fees may cause the authorities to take precipitous action, including, but not limited to, conducting audits, filing liens, preventing the Debtors from doing business in certain jurisdictions, seeking to lift the automatic stay, or pursuing payment of the Taxes and Fees from the Debtors' officers and directors, all of which would greatly disrupt the Debtors' operations and ability to focus on their reorganization efforts.

63. I believe that the relief requested in the Taxes Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11 without disruption. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Taxes Motion.

IX. Debtors' Motion for Entry of Interim and Final Orders (I) Approving the Debtors' Proposed Adequate Assurance of Payment for Future Utility Services, (II) Prohibiting Utility Companies from Altering, Refusing, or Discontinuing Services, (III) Approving the Debtors' Proposed Procedures for Resolving Additional Assurance Requests, and (IV) Granting Related Relief (the "Utilities Motion").

64. Pursuant to the Utilities Motion, the Debtors seek entry of interim and final orders: (a) approving the Debtors' Proposed Adequate Assurance of payment for future utility services;

(b) prohibiting Utility Companies from altering, refusing, or discontinuing services; and (c) approving the Debtors' proposed procedures for resolving Additional Assurance Requests.

65. In connection with the operation of their business and management of their properties, the Debtors obtain electricity, telephone, internet, natural gas, propane, water, waste management (including sewer and trash), and other similar services from a number of third-party utility companies or brokers. On average, the Debtors pay approximately $7.0 million each month for third-party Utility Services, calculated as a historical average payment for the twelve-month period ended August 31, 2017. Accordingly, the Debtors estimate that their cost for Utility Services during the next 30 days (not including any deposits to be paid) will be approximately $7.0 million. The Debtors have provided certain of the Utility Companies with cash deposits, letters of credit, or surety bonds, and estimate that the amount currently held as deposits or prepayments with respect to the Utility Companies is approximately $3.8 million. To provide additional assurance of payment, the Debtors propose to deposit $2,675,244 into a segregated account, which is an amount sufficient to cover one half of the Debtors' average monthly cost of Utility Services, calculated as a historical average payment for the twelve-month period ended August 31, 2017, less the amount of Prepetition Deposits held by the Utility Companies.[4] The Adequate Assurance Deposit will be held by the Debtors, and the Debtors' creditors will have no lien on any Adequate Assurance Deposit to the extent not returned to the Debtors pursuant to the terms set forth in the Order or the Adequate Assurance Account.

66. The Debtors also request approval of their proposed Adequate Assurance Procedures. These procedures allow Utility Companies to request additional adequate assurance

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[4] As set forth in **Exhibit C** attached to the Utilities Motion, Prepetition Deposits held by a Utility Company were applied against the average two week spend of all of the Debtors' accounts at such Utility Company.

where they believe it is required, and ensure that all key stakeholder groups obtain notice of such request before it is honored.

67. In addition, the Debtors seek authority to continue honoring in the ordinary course of business certain non-technical utility-related reimbursement obligations that are paid directly to their Landlords.

68. Preserving Utility Services on an uninterrupted basis is essential to the Debtors' ongoing operations and, therefore, to the success of their reorganization. Indeed, because the Debtors operate a customer-facing retail enterprise and the Debtors' business depends upon having an ability to maintain open and active stores, any interruption in Utility Services, even for a brief period of time, would disrupt the Debtors' ability to continue its operations. I believe this disruption would adversely impact customer relationships and result in a significant decline in the Debtors' revenues and profits. Such a result could seriously jeopardize the Debtors' reorganization efforts and, ultimately, value and creditor recoveries. It is critical, therefore, that Utility Services continue uninterrupted during these chapter 11 cases. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Utilities Motion.

X. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Prepetition Claims of Lien Claimants, Import and Export Claimants, and 503(b)(9) Claimants, (II) Confirming Administrative Expense Priority of Outstanding Orders, and (III) Granting Related Relief (the "Lien Claimants Motion").

69. Pursuant to the Lien Claimants Motion, the Debtors seek entry of interim and final orders (a) authorizing, but not directing, the Debtors to pay in the ordinary course all prepetition and postpetition amounts owing on account of (i) certain shippers, warehousemen, and other non-merchant lienholders, (ii) certain import claimants, and (iii) certain Bankruptcy Code section 503(b)(9) claimants; and (b) confirming the administrative expense priority status of Outstanding Orders.

A. Lien Claimants.

70. The Debtors' business depends on the uninterrupted flow of inventory and other goods through its supply chain and distribution network, including the purchase, import, warehousing, and shipment of the Debtors' Merchandise. Generally, the Debtors procure inventory from third-party toy, game, and product manufacturers, which are located in North America (the "Domestic Vendors") and abroad (the "Foreign Vendors," and together with the Domestic Vendors, the "Vendors"). After leaving the port, the product is delivered to a destination port where it is unloaded before arriving at the Debtors' warehouses and distribution centers located in North America (collectively, the "Warehousemen").[5] Additionally, the flow from the Debtors' Vendors to the Warehousemen, and ultimately to stock the Debtors' brick and mortar stores and fulfill online orders, depends on the services provided by, among others, various freight forwarders, common or contract carriers, and customs brokers (collectively, the "Shippers").

71. The United States-based Debtors also purchase certain products from American manufacturers. Of these purchases, approximately 80 percent of these purchases are "collect," meaning that the Debtors contract with trucking companies to pick up the product at the warehouse and deliver it to the Debtors' warehouses. The Debtors take possession of the product when it is placed on the trucking company's vehicles. The remaining 20 percent of such purchase are "prepaid," meaning that the shipper (factory or vendor) delivers the product directly to the Debtors' warehouses, in which case the Debtors only take possession of such product upon delivery.

72. Additionally, the Debtors employ various general contractors and vendors to assist with remodels and on-site construction and repairs at the corporate headquarters, warehouses, and

5 The Debtors' stores outside of the United States are served by Distribution Centers in the applicable region. The Debtors intend to continue all such operations in the ordinary course pursuant to the relief sought by the foreign vendors motion filed contemporaneously herewith.

retail stores (the "Non-Merchant Lienholders" and, together with the Shippers and Warehousemen, the "Lien Claimants"). In particular, the Non-Merchant Lienholders provide renovation and repair services or delivery and installation of various furniture and fixtures in the Debtors' corporate headquarters, warehouses, or retail stores. Some of the Non-Merchant Lienholders are not required to perform future services, but rather perform work and related services on an order-by-order basis. It is imperative that the Non-Merchant Lienholders continue providing these services. Otherwise, the Debtors' uncompleted remodeling and construction projects may grind to a halt, and the Non-Merchant Lienholders may not make necessary repairs to such essentials as the lighting and air conditioning in the Debtors' corporate headquarters, warehouses, and retail stores.

73. Under certain nonbankruptcy laws, the Lien Claimants may be able to assert liens on the goods in their possession to secure payment of the charges or expenses incurred in connection with the Lien Charges.[6] Accordingly, in the event the Lien Charges remain unpaid, the Lien Claimants are likely to attempt to assert such possessory liens, and may refuse to deliver or release goods in their possession until their claims are satisfied and their liens redeemed. The Lien Claimants' retention of the Debtors' goods and supplies would disrupt the Debtors' operations and affect the Debtors' ability to efficiently administer these chapter 11 cases. With approximately $243.2 million worth of Merchandise currently in transit, the cost of such disruption to the Debtors' estates would likely be greater than the applicable Lien Charges. Further, pursuant

6 For example, section 7-307 of the Uniform Commercial Code provides, in pertinent part, that "[a] carrier has a lien on the goods covered by a bill of lading or on the proceeds thereof in its possession for charges after the date of the carrier's receipt of the goods for storage or transportation, including demurrage and terminal charges, and for expenses necessary for preservation of the goods incident to their transportation or reasonably incurred in their sale pursuant to law." *See* U.C.C. § 7-307(a) (2003).

to section 363(e) of the Bankruptcy Code, the Lien Claimants may be entitled to adequate protection of any valid possessory lien, which would drain estate assets.

74. Collectively, the Debtors estimate approximately $51.2 million of third-party shipping, storage, and other charges (collectively, the "Lien Charges") are due and owing as of the Petition Date, of which approximately $35.9 million may become due and owing during the interim period. I believe that payment of the Lien Charges is necessary to preserve and enhance the value of the Debtors' business for the benefit of all parties in interest.

B. The Import Claimants.

75. In the ordinary course of their business, the Debtors import inventory and related materials (collectively, the "Imported Goods") from the Foreign Vendors. Timely receipt or transmittal, as applicable, of the Imported Goods and Exported Goods is critical to both the Debtors' domestic and foreign business operations and affect the Debtors' ability to efficiently administer these chapter 11 cases.

76. The Debtors seek authority to pay any and all necessary and appropriate Import Charges incurred on account of prepetition transactions. Absent such payment, parties to whom the Debtors owe Import Charges may interfere with the transportation of the Imported Goods. The Debtors estimate that approximately $200,000 in Import Charges for goods currently in transit is outstanding as of the Petition Date, of which the entirety may become due and owing during the interim period. For the foregoing reasons, I believe that payment of the Import Charges is necessary to preserve and enhance the value of the Debtors' business for the benefit of all parties in interest.

C. The 503(b)(9) Claimants.

77. The Debtors may have received certain inventory, goods, or materials from various foreign and domestic vendors (collectively, the "503(b)(9) Claimants") within the 20-day period

immediately preceding the Petition Date. Many of the Debtors' relationships with the 503(b)(9) Claimants are not governed by long-term contracts, but are instead maintained on an order-by-order basis. As a result, a 503(b)(9) Claimant may refuse to supply new orders without payment of its prepetition claims. Such refusal could negatively affect the Debtors' estates as the Debtors' business is dependent on the steady flow of inventory to stock their stores.

78. By this motion, the Debtors seek authority, but not direction, to pay up to $25 million during the interim period and up to $100 million on a final basis on account of the 503(b)(9) Claims. I believe that payment of the 503(b)(9) Claims is necessary to preserve and enhance the value of the Debtors' business for the benefit of all parties in interest.

D. The Outstanding Orders.

79. Prior to the Petition Date and in the ordinary course of business, the Debtors may have ordered goods that will not be delivered until after the Petition Date (the "Outstanding Orders"). To avoid becoming general unsecured creditors of the Debtors' estates with respect to such goods, certain suppliers may refuse to ship or transport such goods (or may recall such shipments) with respect to such Outstanding Orders unless the Debtors issue substitute purchase orders postpetition. To prevent any disruption to the Debtors' business operations, and given that goods delivered after the Petition Date are afforded administrative expense priority under section 503(b) of the Bankruptcy Code, the Debtors seek an order (a) granting administrative expense priority status under section 503(b) of the Bankruptcy Code to all undisputed obligations of the Debtors arising from the acceptance of goods subject to Outstanding Orders and (b) authorizing the Debtors to satisfy such obligations in the ordinary course of business. I believe that the requested relief related to the Outstanding Orders is necessary to preserve and enhance the value of the Debtors' business for the benefit of all parties in interest.

XI. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Maintain and Administer Their Existing Customer Programs and Honor Certain Prepetition Obligations Related Thereto and (II) Granting Related Relief (the "Customer Programs Motion").

80. Pursuant to the Customer Programs Motion, the Debtors seek entry of interim and final orders (a) authorizing the Debtors to maintain and administer their Customer Programs and honor certain prepetition obligations related thereto.

81. The Debtors have historically provided certain incentives, discounts, and accommodations to their customers to attract and maintain positive customer relationships in the ordinary course of business. On account of the Customer Programs, the Debtors may owe certain obligations to their customers as well as other third parties (collectively, the "Customer Obligations") arising both before and after the Petition Date. The Customer Programs promote customer satisfaction and inure to the goodwill of the Debtors' business and the value of their brand. These programs include refund and exchange programs, loyalty programs, gift card and certificate programs, warranty programs, sale promotions, charitable donation programs, and other customer programs. Accordingly, maintaining the goodwill of their customers is important to the Debtors' ongoing operations in these chapter 11 cases, and is necessary to maximize value for the benefit of all of the Debtors' stakeholders.

82. I believe that continuing to administer the Customer Programs without interruption during the pendency of the chapter 11 cases will help preserve the Debtors' valuable customer relationships and goodwill, which will inure to the benefit of all of the Debtors' creditors and benefit their estates. In contrast, if the Debtors are unable to continue the Customer Programs postpetition or pay amounts due and owing to customers, the Debtors risk alienating certain customers (who might then initiate business relationships with the Debtors' competitors) and might suffer corresponding losses in customer loyalty and goodwill that will harm their prospects

maximizing the value of their estates. The Debtors' Customer Programs are essential marketing strategies for attracting new customers.

83. I believe that the failure to honor the Customer Programs could place the Debtors at a competitive disadvantage in the marketplace, amplifying the negative effect of customer uncertainty that may arise from the chapter 11 filings. Such uncertainty could erode the Debtors' hard-earned reputation and brand loyalty, which, in turn, could adversely impact their prospects for a successful emergence from bankruptcy.

84. I believe that the relief requested herein will pay dividends with respect to the long-term reorganization of their businesses, both in terms of profitability and the engendering of goodwill, especially at this critical time following the filing of the chapter 11 cases. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the Customer Programs Motion.

XII. Debtors' Motion for Entry of Interim and Final Orders (I) Approving Notification and Hearing Procedures for Certain Transfers of and Declarations of Worthlessness with Respect to Common Stock, and (II) Granting Related Relief (the "Equity Trading Motion").

85. Pursuant to the Equity Trading Motion, the Debtors seek entry of interim and final orders (a) approving certain notification and hearing procedures related to certain transfers, or declarations of worthlessness with respect to, Toys "R" Us, Inc.'s common stock or any Beneficial Ownership therein (any such record or Beneficial Ownership of common stock, the "Common Stock"), (b) directing that any purchase, sale, or other transfer of Common Stock in violation of the procedures shall be null and void *ab initio*; and (c) granting related relief.

86. The Debtors currently estimate that they have approximately $250 million of foreign tax credits ("FTCs"). They further estimate that they may generate additional FTCs, and potentially net operating losses ("NOLs"), in the 2017 and 2018 tax years (FTCs and NOLs,

together with certain other tax attributes, the "Tax Attributes"). The Tax Attributes are of significant value to the Debtors and their estates because the Debtors may be able to carry forward their Tax Attributes to offset their future taxable income potentially for as long as 20 years, thereby reducing their future aggregate tax obligations.

87. The Procedures are the mechanism by which the Debtors will monitor and object to certain transfers of and declarations of worthlessness with respect to the common stock to ensure preservation of the Tax Attributes. The Debtors seek limited relief that will enable them to closely monitor certain transfers of common stock and claims of worthless stock deductions in accordance with the procedures, so as to be in a position to act expeditiously to prevent such transfers or claims of worthless deductions, if necessary, with the purpose of preserving the Tax Attributes.

88. If no restrictions on trading or worthlessness deductions are imposed by the Court, such trading or deductions could severely limit or even eliminate the Debtors' ability to utilize their Tax Attributes. These Tax Attributes could generate the potential for material future tax savings or other tax structuring possibilities in these chapter 11 cases. Furthermore, the relief requested in the Equity Trading Motion is narrowly tailored because it will affect only (a) holders of the equivalent of 4.5 percent or more of outstanding common stock; (b) parties who are interested in purchasing sufficient common stock to result in such party becoming a holder of 4.5 percent or more of outstanding common stock; and (c) any "50-percent shareholder" seeking to claim a worthless stock deduction. As such, I believe that the relief requested in the Equity Trading Motion is in the best interests of the Debtors' estates, their creditors, and all other parties in interest, and will enable the Debtors to continue to operate their business in chapter 11 without disruption. Accordingly, I respectfully submit that the Equity Trading Motion should be approved.

XIII. Debtors' Motion for Entry of an Order Implementing a Procedural Protocol for the Administration of Cross-Border Insolvency Proceedings (the "Cross-Border Protocol Motion").

89. Pursuant to the Cross-Border Protocol Motion, the Debtors seek entry of an order approving and implementing a procedural protocol to facilitate a coordinated administration of the Debtors' and their affiliates' dual insolvency proceedings in the United States (the "Chapter 11 Cases") and Canada (the "CCAA Proceeding," and collectively with the Chapter 11 Cases, the "Restructuring Proceedings") to establish a clear framework of general principles that will govern the cross-border administration of the Chapter 11 Cases and address certain key issues that may arise during the Restructuring Proceedings.

90. In light of the cross-border issues that are likely to arise (and in some instances imminently) given the complex, transnational nature of the Chapter 11 Cases and the CCAA Proceedings, it is appropriate to install a protocol to preclude unnecessary confusion and ensure that: (a) the Restructuring Proceedings are coordinated to avoid inconsistent or duplicative activities; (b) all parties are adequately informed of key issues concerning the Restructuring Proceedings; (c) the substantive rights of all parties are protected; and (d) the jurisdictional integrity of the Courts is preserved.

91. Based on my discussions with our advisors, I believe that approving and implementing a procedural protocol will establish the necessary and appropriate means for communication between the Courts and will facilitate the requisite level of coordination with respect to cross-border matters arising in these proceedings. In addition, the purely procedural and administrative nature of the Protocol does not adversely affect any party's substantive rights. Accordingly, I respectfully submit that the Cross-Border Protocol Motion should be approved.

XIV. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Certain Prepetition Claims of Foreign Vendors and (II) Granting Related Relief (the "Foreign Vendors Motion").

92. Pursuant to the Foreign Vendors Motion, the Debtors seek entry of interim and final orders authorizing, but not directing, the Debtors to pay, in the ordinary course of business, all Foreign Vendor Claims held by Foreign Vendors located outside the United States, that are essential to the Debtors' ongoing business operations.

93. Substantially all of the Debtors' retail products are manufactured overseas and shipped to ports around the globe for eventual delivery to the Company's stores. Accordingly, the Debtors regularly transact business with a diverse set of over 150 Foreign Vendors comprised of factories, manufacturing companies, and distributors in over 10 countries, including Australia, China, Germany, India, and France. The Foreign Vendors include manufacturers of branded products and the Debtors' private label factories and brands, which represent approximately $1.5 billion in annual sales. The Debtors' worldwide business operations depend not only on the timely and uninterrupted flow of inventory through their supply chain, but also on maintaining uninterrupted operations everywhere they operate. The Foreign Vendors play critical roles in fulfilling these essential functions.

94. At any given time, the Debtors are engaged with the Foreign Vendors to, among other things: (i) procure inventory and negotiate future purchase orders; (ii) coordinate the shipment and delivery of inventory to stores and distribution centers; (iii) procure services and maintain utilities vital to corporate, store, and distribution center operations; and (iv) otherwise procure services or products related to operational stability in the ordinary course of business. These business relationships give rise to the Foreign Vendor Claims, including for products and services provided to the Debtors, as well as foreign tax obligations, import/export fees, customs fees, or duties related to such claims.

95. The Foreign Vendors currently provide the Debtors with an average of 60 days to pay for the goods and services they provide. These 60 day trade terms provide the Debtors with nearly $84 million in liquidity, without which the Debtors would have insufficient cash to continue operations. The cost of a disruption to inventory and trade terms far outweighs the costs of making all prepetition payments to Foreign Vendors in the ordinary course of business. Failure to do so may cripple the Debtors' business.

96. The Debtors estimate that as of the Petition Date, approximately $56 million is accrued and outstanding on account of Foreign Vendor Claims, of which approximately $20 million may come due on an interim basis.

A. Failure to Pay the Foreign Vendors Would Have Dire Consequences on the Debtors' Business.

97. Based on my experience, I believe there is a significant risk that the nonpayment of even a single invoice could cause a Foreign Vendor to stop shipping goods to the Debtors on a timely basis or to sever completely its business relationship with the Debtors. I am advised that foreign vendors often have skeptical reactions to the United States bankruptcy process because many of them are unfamiliar with the unique debtor-in-possession mechanism that is at the heart of a chapter 11 proceeding. Short of severing their contractual relations with the Debtors, nonpayment of prepetition claims may cause Foreign Vendors to delay shipments until more certainty develops with respect to the Debtors' reorganization. The Debtors can ill-afford delays of this nature prior to the holiday season.

98. Further, if the Foreign Vendor Claims are not paid, the Foreign Vendors may take precipitous action against the Debtors based upon an erroneous belief that they are not subject to the automatic stay provisions of section 362(a) of the Bankruptcy Code. Although the automatic stay applies to protect the Debtors' assets wherever they are located in the world, in my experience,

attempting to enforce the Bankruptcy Code in foreign countries is often an expensive and fruitless exercise. Moreover, even if it could be enforced, the automatic stay by itself would not protect assets of the Debtors' non-Debtor affiliates, which could remain at risk of seizure or setoff.

99. In the absence of enforcement of the automatic stay, the Foreign Vendors could, among other things, initiate a lawsuit in a foreign court and obtain a judgment against the Debtors to collect prepetition amounts owed to them or seek to attach or seize foreign assets of the Debtors or their non-Debtor affiliates even prior to obtaining a judgment. Further, payment of foreign tax, import/export fees, customs fees, or duties related to such claims is required to obtain the underlying goods or materials being imported to the United States.

100. More fundamentally, the Foreign Vendors could simply refuse to do business with the Debtors. Because the Foreign Vendors generally have no or *de minimis* assets or operations in the United States that would be subject to the jurisdiction of this Court, the Debtors have no workable enforcement mechanism against these parties. The cumulative effect of the Foreign Vendors' breach of their contracts with the Debtors could be detrimental to the Debtors' operations and their ability to reorganize. Without timely deliveries from their foreign vendors, the provision of services, and the cooperation of all the Foreign Vendors, the Debtors' operations would suffer—to the detriment of the Debtors and their stakeholders. Given the importance of the holiday season to the Debtors' worldwide operations, the Debtors cannot risk even the slightest delay in building their inventory, which will allow the Debtors to achieve target revenue for the benefit of all stakeholders.

101. The Debtors' international operations, generally, are self-contained within each particular country or region. While certain elements of the Debtors international operations are coordinated, the Foreign Debtors in each country or region, as applicable, maintain their own

management and boards of directors, generate their own purchase orders, pay their own utility providers, shippers, insurers, construction costs, other vendors, and employees, and generally operate independently of the U.S. Debtors. It is my understanding that any impairment of the claim of any of these Foreign Vendors could cause confusion and chaos for the Foreign Debtors and harm foreign operations, disrupt the supply chain, and destroy the value inherent in the Foreign Debtors during this critical season. Further, certain of the Foreign Vendors may take action to put the Foreign Debtors into bankruptcy proceedings in local jurisdictions, which could lead to unnecessary liquidations, severe financial costs, and even, in some case, incarceration of certain directors and officers. I believe that paying all prepetition claims of Foreign Vendors in the ordinary course will minimize disruption to the Foreign Debtors' operations and ultimately preserve and increase the value of the Debtors' estates.

102. If the Debtors do not have the authority to pay all Foreign Vendor Claims as they come due in the ordinary course of business, Foreign Vendors around the globe, who generally view all bankruptcy processes as liquidations, may take a variety of adverse actions against the Debtors, causing the Debtors' worldwide operations to grind to a halt. For any company this would be troubling, but for a company that derives 40 percent of its annual sales over an upcoming eight-week period, such a result would be catastrophic. And since the Debtors typically transact business on an order-by-order basis, the Debtors would generally lack any mechanism to compel the Foreign Vendors to continue providing goods and services. Accordingly, I believe that the relief requested by the Foreign Vendors Motion, is justified by the facts and circumstances of these cases.

103. In light of these consequences, it is my conclusion that payment of the Foreign Vendor Claims is essential to avoid disruptions to the Debtors' operations. Indeed, the Debtors

calculate that the amount of the Foreign Vendor Claims pales in comparison to the potential damage to the Debtors' business if the Debtors' operations were to experience significant disruption. Therefore, the Debtors and their stakeholders would benefit from the relief requested herein. The Debtors seek to pay the Foreign Vendor Claims in the ordinary course on such terms and conditions as are appropriate, in the Debtors' business judgment, to avoid disruptions to their business.

104. Moreover, the Debtors do not have long-term supply contracts with these vendors. Rather, the Debtors obtain product from manufacturers through Master Purchase Agreements (each a "Master Purchase Agreement") and Purchase Orders (each a "Purchase Order") issued under each Master Purchase Agreement. While the Master Purchase Agreements set out the general terms of the parties' relationships and anticipate that the parties will enter into future Purchase Orders for specific products, the Master Purchase Agreements do not obligate the manufacturer to provide any product to the Debtors, nor do they require the manufacturer to accept future Purchase Orders.

105. I believe that even a signal to the Foreign Vendors that payment is uncertain would likely cause them to constrict their payment terms that are essential to the Debtors' business. For example, Foreign Vendors concerned with not being paid could restrict the favorable trade terms on which the Debtors rely, such as by demanding cash on delivery ("COD") rather than allowing payment 75 days from the date of shipment, and requiring that the Debtors provide a deposit when placing an order, rather than the Foreign Vendors funding fabric and production costs.

B. Prepetition Payment of Obligations Owed to the Foreign Vendors is Justified.

106. For all the foregoing reasons, the payment of the Foreign Vendor Claims is justified as it is essential to ensure the continuous and uninterrupted operation of the Debtors' businesses. As described above, the Debtors require a steady stream of goods and services from their Foreign

Vendors to maintain operational stability as the Debtors transition into chapter 11. Without these goods and services, the Debtors would be forced to cease or substantially curtail operations. Obtaining new merchandise would require massive up-front payments that the Debtors do not have the liquidity to make, and which likely would lead to this restructuring being converted to a chapter 7 liquidation.

107. It is therefore imperative that the Debtors be allowed to pay prepetition amounts owed to the Foreign Vendors, as it is critical to their ability to continue operating as a going-concern. The potential harm to the Debtors' estates from disruption of their Foreign Vendor relationships far outweighs the cost associated with paying a portion of the Debtors' prepetition obligations to the Foreign Vendors. The Debtors' other creditors will be no worse off, and in fact will fare far better, if the Debtors are empowered to negotiate such payments to achieve a smooth transition into bankruptcy with minimal disruption to their operations. As such, I believe the relief sought in the Foreign Vendor Motion will help maximize the value of their estates.

XV. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Certain Prepetition Claims of Critical Vendors and (II) Granting Related Relief (the "Critical Vendors Motion").

108. Pursuant to the Critical Vendors Motion, the Debtors seek entry of interim and final orders: (a) authorizing, but not directing, the Debtors to pay, in the ordinary course of business, all undisputed, liquidated, prepetition amounts owing on account of claims held by Critical Vendors; and (b) granting related relief.

A. The Critical Vendors

109. The Debtors are in the business of selling toys and baby products to millions of parents and children around the world. Parents and other caregivers shop at Toys "R" Us because they know that if they want to buy the latest "hot" toy on the market, it will be available. Likewise, 50 percent of expecting new mothers come to Babies "R" Us to register for their needs, because

they know that Babies "R" Us provides a wide selection of the most in-demand baby products. This is the core of the Debtors' business— engaging a limited number of critical product and service providers (collectively, the "Critical Vendors") that ensure that Toys "R" Us and Babies "R" Us are *the* destinations for toys, baby products, and related items.

110. The Debtors' business is dependent on fashionable and in-trend items and without these vendors of specialized goods, the Debtors could not effectively compete in the marketplace. If the Debtors fail to stock such products, the effects would extend far beyond simply not selling those particular products. If consumers become aware that the Debtors do not stock a hot seasonal item, they will simply not come to the Debtors' stores or visit their website, where they may have purchased additional items beyond the one product that they initially came to purchase. Furthermore, in the baby segment, many of the products most popular on registries are not substitutable, and not being able to provide such a product would have long-term negative impacts on consumer confidence. In addition, it is my understanding that many of the Debtors' items are already included in advertisements, and in some instances, the Debtors have taken pre-sales on inventory they have not received. Without these core products, the Debtors' business would suffer greatly.

111. The Debtors obtain these core products from a limited number of highly specialized vendors that are, due to among other things, demand created by branding and marketing, irreplaceable. Moreover, the Debtors rely on timely and frequent delivery of these critical goods and services and any interruption in this supply—however brief—would disrupt the Debtors' operations and could potentially cause irreparable harm to their business, goodwill, customer base, and market share. The harm to the Debtors' estates of not having products or services provided by the Critical Vendors would far outweigh the cost of payment of the Critical Vendor Claims.

112. As of the Petition Date, the Debtors also enjoy favorable trade terms with many of their Critical Vendors, including top-of-market trade payment timing and a disproportionately high allocation of the most sought after products on the market. The Debtors' business model is effectively built on these trade terms and, because the Debtors do not have contracts with most of the Critical Vendors, these trade terms are subject to contraction at the Critical Vendors' discretion. The Debtors believe that many of their vendors may be relatively inexperienced with the chapter 11 process and unwilling to do business with the Debtors on customary trade terms absent the relief requested herein. This unwillingness would effectively be a death-knell for the business relationship between the parties.

113. The Debtors have extended trade terms with many of their vendors. This allows the Debtors to pay for goods, on average, 60 days after the goods are received. In other words, if the Debtors receive a shipment of product on September 1, they do not pay for that product until, on average 60 days later. Any modification to these terms may require the Debtors to pay for goods on materially shortened terms, including cash on delivery, or even *prepayment* for their products, creating significant inefficiencies in their operations. The less time the Debtors have to repay their vendors, the more they must rely on sources of funds other than sales to make such payments. If the Debtors' trade terms contracted from 60 days to cash-on-delivery, the Debtors estimate that they would require over $1.0 billion in additional liquidity as of the Petition Date. Absent that amount—which the Debtors do not have and could not procure—the Debtors would be unable to purchase inventory, unable to sell product, unable to build inventory for the critical holiday season, and unable to continue as a going concern. Accordingly, a contraction in trade terms could have a severe negative effect on the value of the Debtors' estates and the recoveries available to stakeholders.

114. The impact of trade terms is especially acute now, as the Debtors are in the process of building substantial inventory for the holiday shopping season, their busiest time of the year where the Debtors' historically have earned approximately 40 percent of their annual net retail sales. If the Debtors are unable to stock sufficient quantities of the most in-demand merchandise due to the liquidity impact of reduced trade terms, they will simply not have the product to sell and will not generate the foot-traffic to cross-sell other merchandise. Given the need to build inventory now, the Debtors need the ability to pay the Critical Vendor Claims to ensure a successful holiday season. Given the need to build inventory now, I believe that the Debtors need the ability to pay the Critical Vendor Claims to ensure a successful holiday season. If there is an interruption in the Debtors' supply chain, lead times for vendors to provide goods can be up to 60-90 days, and it is difficult for the Debtors to re-start shipments or switch to new vendors. In addition, many of the Debtors' Critical Vendors ship their goods from abroad and with a Chinese holiday during the week beginning October 1, 2017, any delay in the supply chain now would cause an extended delay in shipments and risk delivery timing and amount for the holiday season.

115. Moreover, many of the Critical Vendors have no obligation to continue providing goods under the relevant contracts, and, as a result, it is my belief that the Debtors would be unable to force those vendors to continue to perform under section 365 of the Bankruptcy Code.

116. The bulk of the Debtors' Critical Vendors are suppliers of the inventory and merchandise that the Debtors sell in their stores (the "Merchandise Vendors"). Given the unique nature of the merchandise sold in the Debtors' stores, with certain toys having strong, entrenched brand identities that render them irreplaceable, the inventory and merchandise that the Debtors purchase from the Merchandise Vendors is not substitutable. Furthermore, the Debtors' business is wholly reliant on the sale of such Merchandise, as failure to stock the hottest, most in-demand

product would render the Debtors' stores irrelevant to the vast majority of shoppers, resulting in significant revenue loss. As discussed above, the trade terms on which the Merchandise Vendors supply goods are also critical to the Debtors' success and ability to build a holiday inventory. Without these Merchandise Vendors' products and agreement to continue an ordinary course relationship, the Debtors cannot operate a profitable, successful business.

117. The Debtors also do business with certain suppliers of goods and equipment that are vital to the Debtors day-to-day operations (the "Operating and Retail Vendors") as well as vendors that provide critical marketing support products and services for their business operations (the "Marketing Support Vendors" and together with the Operating and Retail Vendors, collectively, the "Non-Merchandise Vendors"). Essential goods provided by such vendors include online operations, website development and maintenance, and management, general supplies and packaging materials, employee onboarding and management programs, regulated direct mail and digital marketing campaigns, customer relationship management capabilities, brand creative services, and the Debtors' omnichannel initiatives, among others. In many instances, the Non-Merchandise are the only vendors able to produce or deliver the volume or quality of certain materials or products sufficient to meet the Debtors' operational needs.

118. The Debtors also rely on the Non-Merchandise Vendors to attract customers and drive sales. The services provided by the Non-Merchandise Vendors allow customers to seamlessly transition their engagement with the Company's products between physical stores, online websites or mobile apps, catalogs, and through social media. This infrastructure is essential to promoting upcoming events and programs, building customer loyalty, and ultimately driving revenue for the benefit of the Debtors' estates and all stakeholders.

119. Without these Non-Merchandise Vendors, I do not believe that the Debtors can sustain the highest quality retail and website operations that they have worked for years to achieve, and I believe that the Debtors would be unable to continue serving their customers, and would likely lose significant revenue. Given the proximity to the holiday season, if certain Non-Merchandise Vendors refuse to provide goods and services to the Debtors after the Petition Date on account of unpaid prepetition claims (including implementing the holiday seasonal marketing plans that certain Non-Merchandise Vendors have already developed), the Debtors would be left scrambling to procure new vendors. This process could take several months and would almost certainly not be completed in time for effective holiday marketing campaigns, resulting in a detrimental impact to the Company's customer interface and brand messaging efforts.

120. The Non-Merchandise Vendors represent approximately 3 percent of the Debtors' outstanding accounts payable balance. The vast majority of these Non-Merchandise Vendors are subject to contractual arrangements (and as a result would not receive relief as Critical Vendors). The relief requested in the Motion remains necessary, however, for certain of these Non-Merchandise Vendors that provide products and services to the Debtors on the basis of informal arrangements and are irreplaceable to the debtors for the reasons stated above.

121. The Debtors request authority to make payments on account of prepetition Critical Vendor Claims of up to $115 million on an interim basis and a total of $325 million on a final basis. [7] I believe that the requested relief will allow the Debtors to preserve stakeholder value by

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[7] For the avoidance of doubt, this number does not include approximately $145 million owed to Critical Vendors that the Debtors believe would qualify as 503(b)(9) Claims as set forth in the *Debtors Motion for Entry of Interim and Final Orders (I) Authorizing the Debtors to Pay Prepetition Claims of Lien Claimants, Import Claimants, and 503(b)(9) Claimants, (II) Confirming Administrative Expense Priority of Outstanding Orders, and (III) Granting Related Relief* (the "Lien Claimants Motion"), filed contemporaneously herewith.

paying the prepetition claims of certain counterparties that are critical to the Debtors' business enterprise.

B. Process for Determining Payments to Critical Vendors.

122. The Debtors and their advisors, including A&M and K&E, have spent considerable time reviewing and analyzing their books and records, consulting with management and the Debtors' personnel responsible for operations and purchasing, reviewing contracts and supply agreements, and analyzing applicable laws, regulations, and historical practice to identify certain critical business relationships and/or suppliers of goods and services—the loss of which would materially impair the going-concern viability of the Debtors' business. In this process, the Debtors considered a variety of factors, including:

- whether a vendor is a sole- or limited-source or high-volume supplier for goods or services critical to the Debtors' business operations;
- whether alternative vendors are available that can provide requisite volumes of similar goods or services on equal (or better) terms and, if so, whether the Debtors would be able to continue operating while transitioning business thereto;
- the degree to which replacement costs (including pricing, transition expenses, professional fees, and lost sales or future revenue) exceed the amount of a vendor's prepetition claim;
- whether an agreement exists by which the Debtors could compel a vendor to continue performing on prepetition terms;
- whether certain specifications or contract requirements prevent, directly or indirectly, the Debtors from obtaining goods or services from alternative sources;
- whether failure to pay all or part of a particular vendor's claim could cause the vendor to refuse to ship inventory or to provide critical services on a postpetition basis;
- whether the Debtors' inability to pay all or part of the vendor's prepetition claim could trigger financial distress for the applicable vendor; and

- whether failure to pay a particular vendor could result in contraction of trade terms as a matter of applicable non-bankruptcy law or regulation.

123. The Debtors and their advisors have used this set of criteria to identify the amount needed to pay the Critical Vendors that supply products vital to the Debtors' operations and without which the Debtors would not be able to operate their businesses.

C. The Debtors Will Not Have the Necessary Support for Their Operations Unless They Pay Their Critical Vendors.

124. In order for the Debtors' to preserve stakeholder value, I believe the Debtors need to pay the prepetition claims of the Critical Vendors. The relief requested in the Critical Vendor Motion is necessary because many of the Critical Vendors have no obligation to continue providing goods under the relevant contracts, and, as a result, the Debtors would be unable to force those vendors to continue to perform under section 365 of the Bankruptcy Code. Additionally, the Debtors do not seek authorization to honor prepetition obligations arising under contract, except where the Debtors determine, in their business judgment, such parties may be capable of terminating their contracts notwithstanding section 362(a) of the Bankruptcy Code or may otherwise inflict immediate and irreparable harm on the Debtors by their refusal to comply with their contractual obligations.

D. Prepetition Payment of Obligations Owed to the Critical Vendors Is Justified.

125. I believe payment of these prepetition obligations is necessary to protect the Debtors and their support infrastructure. The alternative would result in harm to the Debtors that would far outweigh the cost associated with paying a portion of the Debtors' prepetition obligations to the Critical Vendors. The Debtors' other creditors will be no worse off, and in fact will fare far better, if the Debtors are empowered to negotiate such payments to achieve a smooth transition into bankruptcy with minimal disruption to their operations. As such, I believe the relief sought in this Critical Vendor Motion will help maximize the value of their estates.

XVI. Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the North American Debtors to Obtain Postpetition Financing, (II) Authorizing the North American Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status to the Postpetition Lenders, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief (the "North American DIP Motion"); and Debtors' Motion for Entry of Interim and Final Orders (I) Authorizing the Tru Taj Debtors to Obtain Postpetition Financing, (II) Authorizing the Tru Taj Debtors to Use Cash Collateral, (III) Granting Liens and Providing Superpriority Administrative Expense Status, (IV) Granting Adequate Protection to the Prepetition Lenders, (V) Modifying the Automatic Stay, (VI) Scheduling a Final Hearing, and (VII) Granting Related Relief (the "Tru Taj DIP Motion" and, together with the Domestic DIP Motion, the "DIP Motions")

126. Pursuant to the DIP Motions, the Debtors seek entry of interim and final orders approving the DIP Motions. The Debtors commenced these cases with firm commitments for approximately $3,125 million of combined postpetition financings to support their North American and international businesses at the most capital intensive—and important—time in the Debtors' fiscal year. With insufficient cash to maintain their debt service obligations and continue the vital operational task of building inventory in advance of the holiday shopping season, the Debtors have, in recent weeks, successfully negotiated and secured postpetition financing facilities which will finance the Debtors' domestic and international operations.

127. I believe that the DIP Facilities will provide the Debtors immediate access to the liquidity to pay vendors for inventory shipments, thereby enabling the Debtors to capitalize on the critical holiday season when approximately 40 percent of net retail sales occurs. Just as importantly, the DIP Facilities will also provide the Debtors liquidity to fund the administrative costs of these chapter 11 cases, providing the Debtors time to develop a consensual plan of reorganization, right size their capital structure, and emerge from bankruptcy with a strategically sound business plan. The North American DIP Motion and the Tru Taj DIP Motion are brought on an emergency basis in light of the immediate and irreparable harm that will befall the Debtors'

estates if they are not permitted to access the interim financing needed to fund critical business operations during the first weeks of these cases.

128. For these reasons, it is vital that the Debtors enter into, and be authorized to immediately obtain and use, the DIP facilities. It will avoid immediate and irreparable harm, maximize the value of the Debtors' estates and is a sound exercise of the Debtors' business judgment.

A. The Debtors Cannot Prudently Operate Their Business With Cash Collateral Alone.

129. The Debtors, in consultation with A&M and K&E, reviewed and analyzed the Debtors' projected cash needs and prepared a Budget outlining the postpetition cash needs of the Debtors' North American and international business in the initial 13 weeks of these chapter 11 cases. I believe that the Budget and projections provide an accurate reflection of the funding requirements for the North American and international operations over the identified period and are reasonable and appropriate under the circumstances. The Debtors relied on these forecasts to determine the amount of postpetition financing required to administer these chapter 11 cases.

130. Based on this forecast and current supply-chain concerns, the Debtors determined that they would require access to both Cash Collateral and postpetition financing to provide sufficient liquidity to administer the Debtors' estates during these chapter 11 cases. Among other things, the Debtors need such liquidity to pay vendors and other participants in the Debtors' supply chain to restore the critical flow of inventory to the Debtors' stores and distribution centers ahead of the important holiday season, the most profitable sales season in the toy retail market. In light of the sudden tightening of trade, the DIP Facilities will provide the Debtors with the liquidity needed to reactivate their supply chain, provide assurance to their vendors, and capitalize on the holiday season. The amount of interim financing contemplated by the DIP Motions will ensure

that the Debtors have the necessary liquidity to continue to operate without material disruption following the Petition Date, avoiding immediate and irreparable harm to the Debtors' estates and stakeholders.

131. Aside from the Debtors' inability to adequately fund operations, the costs associated with administering these chapter 11 cases will also impose significant demands on the Debtors' liquidity. Immediate access to the DIP Facilities and Cash Collateral is essential to fund the administration of these chapter 11 cases, enabling the Debtors and their stakeholders to develop a consensual plan of reorganization.

132. In sum, without the immediate relief requested by this Motion, the Debtors face a material risk of substantial, irreparable, and ongoing harm. Access to new capital to fund these chapter 11 cases will ensure the Debtors have sufficient funds to preserve and maximize the value of their estates.

B. The Proposed DIP Facilities Will Send a Positive Signal to the Market and the Debtors' Creditors.

133. The Debtors operate in a highly competitive market and have faced increasing market headwinds in recent years, including a massive stoppage in inventory flow in recent weeks. I believe that the Company's vendors, landlords, and other stakeholders will be focused on whether these chapter 11 cases are appropriately capitalized such that the Debtors can continue operating as a going concern while they negotiate the terms of a chapter 11 plan. Vendors have already demonstrated that they will not be willing to accept new purchase orders or fulfill outstanding purchase orders on anything longer than cash-on-delivery terms if they doubt the Debtors' viability. Given the Company's historic average of 60-day trade terms, payment of cash on delivery would require the Debtors to immediately obtain a significant amount—over $1.0

billion—of new liquidity. Access to the DIP Facilities will allow the Debtors to purchase new inventory and restore normalized trade credit terms with their vendors.

134. Therefore, I believe that the relief requested in the DIP Motions inures to the benefit of all parties in interest. Accordingly, on behalf of the Debtors, I respectfully submit that the Court should approve the DIP Motions.

XVII. Cleansing Materials

135. In addition to the First Day Motions discussed herein, the Debtors are required to make public certain information shared with certain parties in connection with the Debtors' marketing of and negotiations to obtain the proposed DIP Facilities, as well as alternate financing and refinancing transactions contemplated by the Debtors prior to the Petition Date, including the sale-lease back transaction (*See* Brandon Declaration, ¶ [88]). The materials shared with such parties are attached hereto as **Exhibit A**.

* * * * *

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct.

Dated: September 19, 2017

/s/ *Michael J. Short*
Michael J. Short
Executive Vice President and
Chief Financial Officer
Toys "R" Us, Inc.

EXHIBIT A

Cleansing Materials

P&L Forecast By Region
(USD, Millions)

			Forecast			
		FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
US Sales		$ 6,899	$ 7,090	$ 7,717	$ 8,556	$ 9,345
US Margin		2,222	2,234	2,417	2,666	2,899
US SG&A		(1,826)	(2,044)	(2,098)	(2,193)	(2,299)
US Adjusted EBITDA	**(a)**	**$ 396**	**$ 190**	**$ 319**	**$ 473**	**$ 600**
PropCo II Rent		(67)	(67)	(67)	(67)	(69)
PropCo I Rent		(170)	(170)	(180)	(187)	(187)
MAP Rent		(8)	(8)	(8)	(8)	(8)
Franchise		16	17	17	18	18
Royalty		77	80	84	88	93
1x		(50)	(6)	(6)	(6)	(6)
Surplus Income		2	2	2	2	2
US Del EBITDA	**(a)**	**$ 196**	**$ 38**	**$ 161**	**$ 313**	**$ 443**
Canada Sales		843	887	913	931	950
Canada Margin		310	323	332	339	346
Canada SG&A		(207)	(231)	(235)	(239)	(244)
Canada 1X		8	-	-	-	-
Canada Itassa		(4)	(4)	(4)	(5)	(5)
Canada EBITDA		**$ 107**	**$ 88**	**$ 93**	**$ 95**	**$ 97**

Notes:

(a) Excludes corporate overhead expenses.

EBITDA Summary By Region
(USD, Millions)

		FY 2016	FY 2017	FY 2018
EBITDA				
United Kingdom		$ 49	$ 49	$ 50
Central Europe		58	62	65
France		23	22	22
Iberia		31	30	29
Poland		0	2	2
European Import Center		(0)	(0)	(2)
Total Europe		**$ 161**	**$ 165**	**$ 166**
Australia		7	11	12
Total EBITDA	(a)	**$ 168**	**$ 176**	**$ 178**
Proforma Adjustments to EBITDA:	(b)			
Propco Rent - UK		(32)	(32)	(32)
Propco Rent - France		(9)	(9)	(9)
Propco Rent - Spain		(16)	(16)	(16)
Total Propco Rent		**$ (57)**	**$ (57)**	**$ (57)**
Royalty Payments		(37)	(40)	(43)
ITASSA Payments		(16)	(16)	(16)
GSO (China)		(0)	(0)	(0)
Total Adjustments		**$ (110)**	**$ (113)**	**$ (116)**
Proforma EBITDA		**$ 58**	**$ 63**	**$ 62**

Notes:

(a) Amounts relating to the forecast period (August 2017 onward) were converted to USD at spot rates as of July 2017. Note that FY 2017 is a 53-week year; hence amounts across periods are not comparable. Based on the Company's budget fx rates, the Y.O.Y. 2018 revenue growth is 5.6% (adjusting for the 53rd week in FY2017). EBITDA during FY2017 at budget fx rates (adjusted for the 53rd week) is $158MM, compared to $166MM in 2018, representing a 4.8% increase.

(b) The Proforma EBITDA adjustments reflect intercompany expenses that are excluded from the Company's EBITDA amounts. These are being adjusted here to illustrate the actual costs to the businesses, assuming that the related entities (Propcos and Toys-DE) were true 3rd parties. The adjustments exclude Exchange Rate Gain/Loss, and Stock Options & Restricted Stock Expense.

Toys"R"Us Q2 2017 LTM Adjusted EBITDA by Market

($'s in millions)	Domestic	Canada	Europe (ex. UK)	UK	Australia	Japan	Southeast Asia	Other Int'l License Revenue	Corporate and Other	Consolidated Toys "R" Us, Inc.
Operating earnings (loss)	334	95	72	34	2	57	42	16	(215)	437
Depreciation and amortization	146	15	25	12	6	35	17	-	47	303
EBITDA	**480**	**110**	**97**	**46**	**8**	**92**	**59**	**16**	**(168)**	**740**
Adjustments:										
Compensation expense	-	-	-	-	-	(1)	-	-	(29)	(30)
Sponsors' management and advisory fees	-	-	-	-	-	-	-	-	6	6
Severance	7	-	4	-	-	3	-	-	6	20
Store closure costs	-	-	1	-	-	-	-	-	-	1
Property losses, net of insurance recoveries	-	-	-	-	-	-	-	-	1	1
Litigation	-	(2)	-	-	-	-	-	-	-	(2)
Certain transaction costs	(1)	-	-	2	-	-	-	-	18	19
Foreign currency re-measurement	-	(5)	-	-	-	-	-	-	-	(5)
Impairment of long-lived assets	2	-	3	-	-	-	-	-	-	5
Net gains on sales of properties	(1)	-	-	-	-	-	-	-	(45)	(46)
Total Adjustments	7	(7)	8	2	-	2	-	-	(43)	(31)
Adjusted EBITDA	**487**	**103**	**105**	**48**	**8**	**94**	**59**	**16**	**(211)**	**709**
Intercompany Items										
ITASSA	-	(4)	(10)	(5)	(1)	(8)	(2)	-	30	-
Licensing Fees	(81)	-	(26)	(9)	(2)	(19)	(11)	-	148	-
Total Intercompany Items	(81)	(4)	(36)	(14)	(3)	(27)	(13)	-	178	-
Adjusted EBITDA including Intercompany	**406**	**99**	**69**	**34**	**5**	**67**	**46**	**16**	**(33)**	**709**

Toys"R"Us FY 2016 Adjusted EBITDA by Market

($'s in millions)	Domestic	Canada	Europe (ex. UK)	UK	Australia	Japan	Southeast Asia	Other Int'l License Revenue	Corporate and Other	Consolidated Toys "R" Us, Inc.
Operating earnings (loss)	414	96	76	36	2	54	43	16	(277)	460
Depreciation and amortization	155	15	26	12	5	36	17	-	51	317
EBITDA	**569**	**111**	**102**	**48**	**7**	**90**	**60**	**16**	**(226)**	**777**
Adjustments:										
Compensation expense	-	-	-	-	-	-	-	-	21	21
Sponsors' management and advisory fees	-	-	-	-	-	-	-	-	6	6
Severance	2	-	4	-	-	-	-	-	3	9
Store closure costs	(2)	-	1	-	-	-	-	-	-	(1)
Property losses, net of insurance recoveries	-	-	-	-	-	-	-	-	-	-
Litigation	-	-	4	-	-	-	-	-	1	5
Certain transaction costs	-	-	-	1	-	-	-	-	23	24
Foreign currency re-measurement	-	(7)	-	-	-	-	-	-	-	(7)
Impairment of long-lived assets	3	-	1	-	-	-	-	-	-	4
Net gains on sales of properties	(1)	-	-	-	-	-	-	-	(45)	(46)
Total Adjustments	2	(7)	10	1	-	-	-	-	9	15
Adjusted EBITDA	**571**	**104**	**112**	**49**	**7**	**90**	**60**	**16**	**(217)**	**792**
Intercompany Items										
ITASSA	-	(4)	(10)	(5)	(1)	(8)	(2)	-	30	-
Licensing Fees	(84)	-	(27)	(8)	(2)	(16)	(11)	-	148	-
Total Intercompany Items	(84)	(4)	(37)	(13)	(3)	(24)	(13)	-	178	-
Adjusted EBITDA including Intercompany	**487**	**100**	**75**	**36**	**4**	**66**	**47**	**16**	**(39)**	**792**

Toys"R"Us Q2 2017 Cash by Market

	Domestic	Canada	Europe (ex. UK)	UK	Australia	Asia JV (inc. Japan)	Other Int'l License Revenue	Corporate and Other[1]	Consolidated Toys "R" Us, Inc.
Cash and Cash Equivelants	NA	17	37	12	12	96	NA	134	308

[1] *Includes $39 million at TRU Taj LLC and $48 million at Propco I*

Toys"R"Us Q4 2016 Cash by Market

	Domestic	Canada	Europe (ex. UK)	UK	Australia	Asia JV (inc. Japan)	Other Int'l License Revenue	Corporate and Other[1]	Consolidated Toys "R" Us, Inc.
Cash and Cash Equivelants	NA	8	152	16	5	212	NA	173	566

[1] *Includes $62 million at TRU Taj LLC and $66 million at Propco I*

Toys"R"Us Property Company Q2 2017 Cash by Silo

($'s in thousands)	PropCo I	Giraffe/PropCo II	UK PropCo	France PropCo	Spain PropCo	Total
Q2 2017 YTD	$ 47,973	$ 1,012	$ 313	$ 1,667	$ 2,019	$ 52,984

Toys"R"Us Q2 2017 LTM Capital Expenditures by Silo

($'s in millions)	Domestic	Canada	Europe (ex. UK)	UK	Australia	Japan	China and SE Asia	Corporate and Other (1)	Consolidated Toys "R" Us, Inc.
Q2 2017 LTM	$ 74	$ 12	$ 22	$ 13	$ 3	$ 17	$ 19	$ 68	$ 228

(1) - Corporate and Other primarily includes technology costs.

Toys-DE Q2'17 Financial and Sales Performance

($ in millions)

Toys-DE Quarterly and YTD Performance Summary	13 Weeks Ended		26 Weeks Ended	
	7/29/2017	7/30/2016	7/29/2017	7/30/2016
Net Sales	$1,440	$1,540	$2,961	$3,154
Other Revenues	21	20	41	39
Total Revenues	**$1,461**	**$1,560**	**$3,002**	**$3,193**
Cost of Sales	$964	$986	$1,966	$2,027
Cost of Other Revenues	2	2	3	3
Gross Margin	**$495**	**$572**	**$1,033**	**$1,163**
Selling, General & Administrative Expenses	$520	$565	$1,092	$1,151
Depreciation & Amortization	46	53	92	104
Other Income, Net	(47)	(30)	(69)	(67)
Total Operating Expenses	**$519**	**$588**	**$1,115**	**$1,188**
Operating Loss	**($24)**	**($16)**	**($82)**	**($25)**
Interest Expense	($72)	($63)	($131)	($135)
Interest Income	31	27	60	54
Loss Before Income Taxes	**($65)**	**($52)**	**($153)**	**($106)**
Memo: Same Store Sales				
Domestic	(6.8%)	--	(6.5%)	0.1%
Canada	(3.3%)	4.6%	(1.8%)	6.7%
Consolidated	(6.4%)	0.5%	(6.0%)	0.7%

Toys-DE Adjusted EBITDA

($ in millions)

Toys-DE Adjusted EBITDA	13 Weeks Ended		26 Weeks Ended	
	7/29/2017	7/30/2016	7/29/2017	7/30/2016
Operating Loss	($24)	($16)	($82)	($25)
Plus: Depreciation & Amortization	46	53	92	104
EBITDA	**$22**	**$37**	**$10**	**$79**
Adjustments:				
Certain Transaction Costs	$2	$5	$5	$8
Store Closure Costs	2	--	2	7
Sponsors' Management & Advisory Fees	1	1	3	3
Foreign Currency Re-Measurement	(12)	4	(7)	(9)
Compensation Expense	(3)	1	(2)	2
Litigation	(3)	--	(3)	--
Severance	--	--	10	1
Impairment of Long-Lived Assets		1	--	1
Adjusted EBITDA	**$9**	**$49**	**$18**	**$92**

TRU Taj Q2'17 Financial and Sales Performance

($ in millions)

TRU Taj LLC Quarterly and YTD Performance Summary

	13 Weeks Ended		26 Weeks Ended	
	7/29/2017	**7/30/2016**	**7/29/2017**	**7/30/2016**
Net Sales	$726	$734	$1,405	$1,433
Other Revenues	66	66	136	138
Total Revenues	**$792**	**$800**	**$1,541**	**$1,571**
Cost of Sales	$430	$431	$850	$862
Gross Margin	**$362**	**$369**	**$691**	**$709**
Selling, General & Administrative Expenses	$278	$277	$550	$567
Depreciation & Amortization	30	31	59	60
Other Expense (Income), Net	2	4	--	3
Intercompany expense	22	21	40	35
Total Operating Expenses	**$332**	**$333**	**$649**	**$665**
Operating Earnings	**$30**	**$36**	**$42**	**$44**
Interest Expense	($49)	($23)	($94)	($59)
Interest Income	1	--	1	1
(Loss) Earnings **Before Income Taxes**	**($18)**	**$13**	**($51)**	**($14)**
Memo:				
Same Store Sales	0.0%	0.3%	(0.3%)	0.6%
Adj. EBITDA	$66	$73	$107	$115

TRU Taj Adjusted EBITDA

($ in millions)

TRU Taj LLC Adjusted EBITDA				
	13 Weeks Ended		26 Weeks Ended	
	7/29/2017	7/30/2016	7/29/2017	7/30/2016
Operating Loss	$30	$36	$42	$44
Plus: Depreciation & Amortization	30	31	59	60
EBITDA	**$60**	**$67**	**$101**	**$104**
Adjustments:				
Severance	$4	$1	$4	$1
Impairment of long-lived assets	2	--	2	--
Certain transaction costs	--	--	--	(1)
Litigation	--	--	--	4
Compensation expense	--	--	--	1
Loss on sales of assets	--	--	--	1
Foreign currency re-measurement	--	5	--	5
Store closure costs	--	--	--	--
Adjusted EBITDA	**$66**	**$73**	**$107**	**$115**

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Consolidated TRU Asia, LLC

Statement of Operations by Legal Entity

2017 FY Forecast

($ in millions)

2017 FY Forecast	Consolidated TRU Asia, LLC	Consolidated Japan	Asia JV excluding Consolidated Japan
	HTAS	HJPX	
Total Net Sales	1,693.8	1,269.1	424.7
Cost of Sales	1,047.9	828.6	219.3
Merchandise Margin	645.9	440.5	205.4
Selling General & Administrative	473.4	334.6	138.8
EBITDA	**172.5**	**105.9**	**66.6**
ITASSA	10		
Royalties	35		
EBITDA-Revised	**127.5**		

TRU Asia Metrics

	Q2 YTD 17 SSS	**Store Count**
Southeast Asia	1.5%	223
Japan	1.8%	161
Combined Asia	1.7%	384

	FY 16 SSS	**Store Count**
Southeast Asia	-1.6%	226
Japan	-1.0%	163
Combined Asia	-1.2%	389

	FY 15 SSS	**Store Count**
Southeast Asia	7.5%	188
Japan	0.9%	163
Combined Asia	2.2%	351

	FY 14 SSS	**Store Count**
Southeast Asia	9.1%	159
Japan	2.4%	165
Combined Asia	3.6%	324

Toys-Delaware Unencumbered Property Summary

Of the 98 Toys-Delaware stores owned or ground leased, four were EBITDA negative for the last twelve months ended July 29, 2017.

Toys-Delaware Third-Party Appraisal of Properties

In 2017, a third-party appraisal firm valued the 4 distribution centers and 11 non-ground-leased stores owned by Toys-Delaware at approximately $361,075,000.

France Propco Property Valuation

In 2016, a third-party valuation firm valued the nine properties currently occupied by Toys "R" Us and located in France at €81,550,000.

Cash Flow Projections

We are projecting the UK to generate between $85 and $90 million in net cash flow over the remaining portion of the fiscal year, including $40 million of new loans from the debtor-in-possession financing. We expect to have excess availability of greater than $70 million on our European ABL facility at the end of the fiscal year (including these funds).