

GameStop Corp.  
Form 10-K  
April 01, 2009

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

- b ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended January 31, 2009**
- OR**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from to**

**Commission File No. 1-32637**

**GameStop Corp.**

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

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**20-2733559**

*(I.R.S. Employer  
Identification No.)*

**625 Westport Parkway  
Grapevine, Texas**

*(Address of principal executive offices)*

**76051**

*(Zip Code)*

**Registrant's telephone number, including area code:  
(817) 424-2000**

**Securities registered pursuant to Section 12(b) of the Act:**

**(Title of Class)**

**(Name of Exchange on Which Registered)**

Class A Common Stock, \$.001 par value per share  
Rights to Purchase Series A Junior Participating Preferred  
Stock, \$.001 par value per share

New York Stock Exchange  
New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:  
None**

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

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

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
---	---	--	---

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately \$6,518,000,000, based upon the closing market price of \$39.83 per share of Class A Common Stock on the New York Stock Exchange as of August 1, 2008.

Number of shares of \$.001 par value Class A Common Stock outstanding as of March 25, 2009: 164,511,988

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement of the registrant to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, for the 2009 Annual Meeting of Stockholders are incorporated by reference into Part III.

---

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I</u></b>	
<u>Item 1.</u> <u>Business</u>	2
<u>Item 1A.</u> <u>Risk Factors</u>	14
<u>Item 1B.</u> <u>Unresolved Staff Comments</u>	20
<u>Item 2.</u> <u>Properties</u>	20
<u>Item 3.</u> <u>Legal Proceedings</u>	21
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	22
<b><u>PART II</u></b>	
<u>Item 5.</u> <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	22
<u>Item 6.</u> <u>Selected Consolidated Financial Data</u>	24
<u>Item 7.</u> <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 7A.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
<u>Item 8.</u> <u>Consolidated Financial Statements and Supplementary Data</u>	45
<u>Item 9.</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	46
<u>Item 9A.</u> <u>Controls and Procedures</u>	46
<u>Item 9B.</u> <u>Other Information</u>	46
<b><u>PART III</u></b>	
<u>Item 10.</u> <u>Directors, Executive Officers and Corporate Governance</u>	47
<u>Item 11.</u> <u>Executive Compensation</u>	47
<u>Item 12.</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	47
<u>Item 13.</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	47
<u>Item 14.</u> <u>Principal Accountant Fees and Services</u>	47
<b><u>PART IV</u></b>	
<u>Item 15.</u> <u>Exhibits and Financial Statement Schedules</u>	47
<u>SIGNATURES</u>	51
<u>FINANCIAL STATEMENTS</u>	F-1
<u>EXHIBITS</u>	
<u>EX-12.1</u>	
<u>EX-14.1</u>	
<u>EX-14.2</u>	
<u>EX-21.1</u>	
<u>EX-23.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	



**Table of Contents**

**PART I**

**Item 1. Business**

**General**

GameStop Corp. (together with its predecessor companies, GameStop, we, us, our, or the Company) is the world's largest retailer of video game products and PC entertainment software. We sell new and used video game hardware, video game software and accessories, as well as PC entertainment software, and related accessories and other merchandise. As of January 31, 2009, we operated 6,207 stores in the United States, Australia, Canada and Europe, primarily under the names GameStop and EB Games. We also operate the electronic commerce website [www.gamestop.com](http://www.gamestop.com) and publish *Game Informer*, the industry's largest multi-platform video game magazine in the United States based on circulation, with approximately 3.5 million subscribers.

In the fiscal year ended January 31, 2009, we operated our business in the following segments: United States, Canada, Australia and Europe. Of our 6,207 stores, 4,331 stores are included in the United States segment and 325, 350 and 1,201 stores are included in the Canadian, Australian and European segments, respectively. Each of the segments consists primarily of retail operations, with all stores engaged in the sale of new and used video game systems, software and accessories, which we refer to as video game products, and PC entertainment software and related accessories. Our used video game products provide a unique value proposition to our customers, and our purchasing of used video game products provides our customers with an opportunity to trade in their used video game products for store credits and apply those credits towards other merchandise, which in turn, increases sales. Our products are substantially the same regardless of geographic location, with the primary differences in merchandise carried being the timing of release of new products in the various segments. Stores in all segments are similar in size at an average of approximately 1,500 square feet. Our corporate office and one of our distribution facilities are housed in a 510,000 square foot facility in Grapevine, Texas.

The Company began operations in November 1996. In October 1999, the Company was acquired by, and became a wholly-owned subsidiary of, Barnes & Noble, Inc. (Barnes & Noble). In February 2002, GameStop completed an initial public offering of its Class A common stock and was a majority-owned subsidiary of Barnes & Noble until November 2004, when Barnes & Noble distributed its holdings of outstanding GameStop Class B common stock to its stockholders. In October 2005, GameStop acquired the operations of Electronics Boutique Holdings Corp. (EB), a 2,300-store video game retailer in the U.S. and 12 other countries, by merging its existing operations with EB under GameStop Corp. (the EB merger).

On February 7, 2007, all outstanding Class B common stock of the Company was converted into Class A common stock of the Company on a one-for-one basis and the Company no longer has any Class B common stock. On March 16, 2007, the Company completed a two-for-one stock split of its Class A common stock (the Stock Split). As of January 31, 2009, our Class A common stock traded on the New York Stock Exchange (NYSE) under the symbol GME.

On November 17, 2008, GameStop France SAS, a wholly-owned subsidiary of the Company, completed the acquisition of substantially all of the outstanding capital stock of SFMI Micromania SAS (Micromania) for \$580.4 million, net of cash acquired (the Micromania acquisition). Micromania is a leading retailer of video and computer games in France with 332 locations, 328 of which were operating at the date of acquisition. The Company funded the transaction with cash on hand, funds drawn against its revolving credit facility totaling \$275 million, and term loans totaling \$150 million. As of January 31, 2009, all amounts drawn against the revolving credit facility and

the term loans have been repaid. The Company's operating results for the 52 weeks ended January 31, 2009 ( fiscal 2008 ) include 11 weeks of Micromania's results.

**Disclosure Regarding Forward-looking Statements**

This report on Form 10-K and other oral and written statements made by the Company to the public contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). The forward-looking statements involve a number of risks and uncertainties. A number of factors could cause our actual

## **Table of Contents**

results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to:

our reliance on suppliers and vendors for sufficient quantities of their products and for new product releases;

general economic conditions in the U.S. and internationally and specifically, economic conditions affecting the electronic game industry, the retail industry and the banking and financial services market;

the competitive environment in the electronic game industry;

our ability to open and operate new stores;

alternate sources of distribution of video game software;

our ability to attract and retain qualified personnel;

the impact and costs of litigation and regulatory compliance;

unanticipated litigation results;

the risks involved with our international operations; and

other factors described in this Form 10-K, including those set forth under the caption, Item 1A. Risk Factors.

In some cases, forward-looking statements can be identified by the use of terms such as anticipates, believes, continues, could, estimates, expects, intends, may, plans, potential, predicts, will, should, expressions. These statements are only predictions based on current expectations and assumptions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. You should not place undue reliance on these forward-looking statements.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Form 10-K. In light of these risks and uncertainties, the forward-looking events and circumstances contained in this Form 10-K may not occur, causing actual results to differ materially from those anticipated or implied by our forward-looking statements.

## **Industry Background**

Based upon estimates compiled by various market research firms, management estimates that the combined market for video game products and PC entertainment software exceeded \$45 billion in 2008 in the parts of the world in which we operate. According to NPD Group, Inc., a market research firm (the NPD Group), the electronic game industry was an approximately \$22 billion market in the United States in 2008. Of this \$22 billion market, approximately \$21.3 billion was attributable to video game products, excluding sales of used video game products, and approximately \$700 million was attributable to PC entertainment software. International Development Group, a market research firm (IDG), estimates that retail sales of video game hardware and software and PC entertainment



software totaled approximately \$19.8 billion in Europe in 2008. The NPD Group has reported that video game retail sales in Canada were approximately \$2.1 billion in 2008. According to the independent market research group GfK, the Australian market for video game products was approximately \$1.9 billion in 2008.

*New Video Game Products.* The Entertainment Software Association ( ESA ) estimates that 65% of all American households play video or computer games. We expect the following trends to result in increased sales of video game products:

*Hardware Platform Technology Evolution.* Video game hardware has evolved significantly from the early products launched in the 1980s. The processing speed of video game hardware has increased from 8-bit

**Table of Contents**

speeds in the 1980s to high speed processors in today's gaming systems, such as the Sony PlayStation 3 launched in November 2006 in North America and the first quarter of fiscal 2007 in Australia and Europe, the Nintendo Wii launched in November 2006 worldwide, and Microsoft Xbox 360, launched in the fourth quarter of 2005 in North America and Europe and the first quarter of 2006 in Australia. In addition, portable handheld video game devices have evolved from the 8-bit Nintendo Game Boy to the 128-bit Nintendo DS, which was introduced in November 2004 in North America and the first quarter of 2005 in Australia and Europe, and the Sony PlayStation Portable (the PSP), which was introduced in 2005. Technological developments in both chip processing speed and data storage have provided significant improvements in advanced graphics and audio quality, which allow software developers to create more advanced games, encourage existing players to upgrade their hardware platforms and attract new video game players to purchase an initial system. As general computer technology advances, we expect video game technology to make similar advances.

*Today's Gaming Systems Provide Multiple Capabilities Beyond Gaming.* Most current hardware platforms, including the Sony PlayStation 2 and 3 and Microsoft Xbox and Xbox 360, utilize a DVD software format and have the potential to serve as multi-purpose entertainment centers by doubling as a player for DVD movies and compact discs. In addition, the Sony PlayStation 3 and PSP, the Nintendo DS and Wii and Microsoft Xbox 360 all provide internet connectivity and the Sony PlayStation 3 plays Blu-ray discs.

*Backward Compatibility.* The Sony PlayStation 3, the Nintendo DS and Wii and Microsoft Xbox 360 are, to some extent, backward compatible, meaning that titles produced for the earlier version of the hardware platform may be used on the new hardware platform. We believe that during the initial launch phase of next-generation platforms, backward compatibility results in more stable industry growth because the decrease in consumer demand for products associated with existing hardware platforms that typically precedes the release of next-generation hardware platforms is diminished.

*Introduction of Next-Generation Hardware Platforms Drives Software Demand.* Sales of video game software generally increase as next-generation platforms mature and gain wider acceptance. Historically, when a new platform is released, a limited number of compatible game titles are immediately available, but the selection grows rapidly as manufacturers and third-party publishers develop and release game titles for that new platform.

*Broadening Demographic Appeal.* While the typical electronic game enthusiast is male between the ages of 14 and 49, the electronic game industry is broadening its appeal. More females are playing electronic video games, in part due to the development of video game products that appeal to them. According to ESA, approximately 40% of all electronic game players are female. ESA also states the average game player is 35 years old and the average age of the most frequent game purchaser is 40; however, the video game market also includes approximately 26% of Americans over the age of 50. In addition, the availability of used video game products for sale has enabled a lower-economic demographic, that may not have been able to afford the considerably more expensive new video game products, to participate in the video game industry.

*Used Video Game Products.* As the installed base of video game hardware platforms has increased and new hardware platforms are introduced, a considerable market for used video game hardware and software has developed. Based on reports published by NPD Group, we believe that, as of December 2008, the installed base of video game hardware systems in the United States, based on original sales, totaled over 185 million units of handheld and console video game systems. Of the total installed base, 80 million is comprised of the current generation of video game platforms as follows: 6.8 million Sony PlayStation 3 units, 17.5 million Nintendo Wii units, 13.9 million Microsoft Xbox 360 units, 14.3 million Sony PSP units and 27.5 million Nintendo DS units. The remainder of the installed base consists of legacy video game platforms, including Sony PlayStation 2, Microsoft Xbox, Nintendo's GameCube and Game Boy Advance. According to the IDG, the installed base of hardware systems as of December 2008 in Europe is

approximately 108 million units. The Interactive Entertainment Association of Australia reported as of the end of 2008, the installed base on the current video game platforms stands at 1.0 million Nintendo Wii units, 0.5 million Microsoft Xbox 360 units, and 0.4 million Sony PlayStation 3 units. Hardware manufacturers and third-party software publishers have produced a wide variety of software titles for each of these hardware platforms. Based on internal Company estimates, we believe that the installed base of

## **Table of Contents**

video game software units in the United States currently exceeds 1.5 billion units. As the substantial installed base of video game hardware and software continues to expand, there is a growing demand for used video game products.

*PC Entertainment Software.* PC entertainment software is generally sold in the form of CD-ROMs and played on multimedia PCs featuring fast processors, expanded memories, and enhanced graphics and audio capabilities.

## **Business Strategy**

Our goal is to continue to be the world's largest retailer of new and used video game products and PC entertainment software and strengthen that position by executing the following strategies:

*Continuing to Execute our Proven Growth Strategies.* We intend to continue to execute our proven growth strategies, including:

Opening new stores in our domestic and international target markets; and

Increasing our comparable store sales and operating earnings by capitalizing on industry growth and increasing sales of used video game products.

*Targeting a Broad Audience of Game Players.* We have created a store environment targeting a broad audience, including the electronic game enthusiast, the casual gamer and the seasonal gift giver. Our stores focus on the electronic game enthusiast who demands the latest merchandise featuring the hottest technology immediately on the day of release and the value-oriented customer who wants a wide selection of value-priced used video game products. Our stores offer the opportunity to trade in used video game products in exchange for store credits applicable to future purchases, which, in turn, drives more sales.

*Enhancing our Image as a Destination Location.* Our stores serve as destination locations for game players and gift givers due to our broad selection of products, knowledgeable sales associates, game-oriented environment and unique pricing proposition. We offer all major video game platforms, provide a broad assortment of video game products and offer a larger and more current selection of merchandise than other retailers. We provide a high level of customer service by hiring game enthusiasts and providing them with ongoing sales training, as well as training in the latest technical and functional elements of our products and services, making them the most knowledgeable associates in the video game retail market. Our stores are equipped with several video game sampling areas, which provide our customers with the opportunity to play games before purchase, as well as equipment to play video game clips.

*Offering the Largest Selection of Used Video Game Products.* We believe we are the largest retailer of used video games in the world and carry the broadest selection of used video game products for both current and previous generation platforms. We are one of the only retailers that provides video game software for previous generation platforms, giving us a unique advantage in the video game retail industry. The opportunity to trade in and purchase used video game products offers our customers a unique value proposition generally unavailable at most mass merchants, toy stores and consumer electronics retailers. We obtain most of our used video game products from trade-ins made in our stores by our customers. Used video game products generate significantly higher gross margins than new video game products.

*Building the GameStop Brand.* Substantially all of GameStop's U.S. and European stores are operated under the GameStop name, with the exception of the Micromania stores acquired in France. Building the GameStop brand has enabled us to leverage brand awareness and to capture advertising and marketing efficiencies. Our branding strategy is further supported by the GameStop Edge loyalty card and our website. The Edge card, which is obtained as a bonus with a paid subscription to our *Game Informer* magazine, offers customers discounts on selected merchandise in our

stores. Our website allows our customers to buy games online and to learn about the latest video game products and PC entertainment software and their availability in our stores. In 2007, GameStop introduced its new brand tagline "Power to the Players" and launched a television, radio and newspaper advertising campaign to increase awareness of the GameStop brand. In 2008, the Company expanded its advertising campaign to continue to build brand awareness.

## **Table of Contents**

*Providing a First-to-Market Distribution Network.* We employ a variety of rapid-response distribution methods in our efforts to be the first-to-market for new video game products and PC entertainment software. We strive to deliver popular new releases to selected stores within hours of release and to all of our stores by the next morning. This highly efficient distribution network is essential, as a significant portion of a new title's sales will be generated in the first few days and weeks following its release. As the world's largest retailer of video game products and PC entertainment software with a proven capability to distribute new releases to our customers quickly, we believe that we regularly receive a large allocation of popular new video game products and PC entertainment software. On a daily basis, we actively monitor sales trends, customer reservations and store manager feedback to ensure a high in-stock position for each store. To assist our customers in obtaining immediate access to new releases, we offer our customers the opportunity to pre-order products in our stores or through our website prior to their release.

*Investing in our Information Systems and Distribution Capabilities.* We employ sophisticated and fully-integrated inventory management, store-level point of sale and financial systems and state-of-the-art distribution facilities. These systems enable us to maximize the efficiency of the flow of over 4,500 SKUs, improve store efficiency, optimize store in-stock positions and carry a broad selection of inventory. Our proprietary inventory management system enables us to maximize sales of new release titles and avoid markdowns as titles mature and utilizes electronic point-of-sale equipment that provides corporate headquarters with daily information regarding store-level sales and available inventory levels to automatically generate replenishment shipments to each store at least twice a week. In addition, our highly-customized inventory management system allows us to actively manage the pricing and product availability of our used video game products across our store base and to reallocate our inventory as necessary. Our systems enable each store to carry a merchandise assortment uniquely tailored to its own sales mix and customer needs. Our ability to react quickly to consumer purchasing trends has resulted in a target mix of inventory, reduced shipping and handling costs for overstocks and reduced our need to discount products.

## **Growth Strategy**

*Open New Stores.* We intend to continue to open new stores in our targeted markets. We opened 674 new stores in fiscal 2008 and acquired 328 stores in France, a new market for us. We opened 586 new stores in the 52 weeks ended February 2, 2008 (fiscal 2007). We plan to open approximately 400 new stores in the 52 weeks ending January 30, 2010 (fiscal 2009). Our primary growth vehicles will be the expansion of our strip center store base in the United States and the expansion of our international store base. Our strategy within the U.S. is to open strip center stores in targeted major metropolitan markets and in regional shopping centers in other markets. Our international strategy is to continue our expansion in Europe and the opening of new stores in advantageous markets and locations in Canada and Australia. We analyze each market relative to target population and other demographic indices, real estate availability, competitive factors and past operating history, if available. In some cases, these new stores may adversely impact sales at existing stores, but our goal is to minimize the impact.

*Increase Comparable Store Sales.* We plan to increase our comparable store sales by capitalizing on the growth in the video game industry, expanding our sales of used video game products and increasing awareness of the GameStop brand.

*Capitalize on Growth in Demand.* Our sales of new video game hardware, new video game software and used video game products grew by approximately 55%, 39% and 21%, respectively, in fiscal 2007 primarily due to new store growth and the increase in comparable store sales, and by 11%, 32% and 28%, respectively, in fiscal 2008, due primarily to new store growth, the acquisition of Micromania and the increase in comparable store sales. In fiscal 2007, our comparable store sales increased 24.7%, driven in large measure by the popularity of the Nintendo Wii following its worldwide launch in November 2006, the launch of the Sony PlayStation 3 in Australia and Europe in March 2007 and the release of several strong software titles in the fall of 2007, including *Halo 3* by Microsoft, *Guitar Hero III* and *Call of Duty 4* by Activision, Inc. (Activision) and *Rock*

Edgar Filing: GameStop Corp. - Form 10-K

*Band* by Electronic Arts, Inc. ( Electronic Arts ). Our comparable store sales increased 12.3% in fiscal 2008 due to the continued demand for the Nintendo Wii and strong sales of video game software titles, including *Mario Kart* and *Wii Fit* by Nintendo, *Grand Theft Auto IV* by Take Two

## **Table of Contents**

Interactive Software Inc., *Call of Duty World at War* and *Guitar Hero World Tour* by Activision and *Madden NFL 2009* and *Rock Band Special Edition Bundles* by Electronic Arts.

*Increase Sales of Used Video Game Products.* We will continue to expand the selection and availability of used video game products in our stores. Our strategy consists of increasing consumer awareness of the benefits of trading in and buying used video game products at our stores through increased marketing activities. We expect the continued growth of new platform technology to drive trade-ins of previous generation products, as well as trade-ins of next generation platform products, thereby expanding the supply of used video game products.

*Increase GameStop Brand Awareness.* We intend to increase customer awareness of the GameStop brand. In connection with our brand-building efforts, in each of the last three fiscal years, we increased the amount of media advertising in targeted markets. In fiscal 2009, we plan to continue to increase media advertising to increase brand awareness over a broader demographic area, to expand our GameStop loyalty card program, to aggressively promote trade-ins of used video game products in our stores and to leverage our website at [www.gamestop.com](http://www.gamestop.com).

## **Operating Segments**

We identified our four operating segments based on a combination of geographic areas, the methods with which we analyze performance and how we divide management responsibility. Segment results for the United States include retail operations in the 50 states, the District of Columbia, Guam and Puerto Rico, the electronic commerce website [www.gamestop.com](http://www.gamestop.com) and *Game Informer* magazine. Segment results for Canada include retail operations in stores throughout Canada and segment results for Australia include retail operations in Australia and New Zealand. Segment results for Europe include retail operations in 13 European countries.

Our U.S. segment is supported by distribution centers in Texas and Kentucky, and further supported by the use of third-party distribution centers for new release titles. We distribute merchandise to our Canadian segment from distribution centers in Ontario. We have a distribution center near Brisbane, Australia which supports our Australian operations and a small distribution facility in New Zealand which supports the stores in New Zealand. European segment operations are supported by six regionally-located distribution centers.

All of our international segments purchase products from many of the same vendors, including Sony Corporation ( Sony ) and Electronic Arts. Products from certain other vendors such as Microsoft and Nintendo are obtained either directly from the manufacturer or publisher or through distributors depending upon the particular market in which we operate.

Additional information, including financial information, regarding our operating segments can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this Annual Report on Form 10-K and in Note 17 of Notes to Consolidated Financial Statements.

## **Merchandise**

Substantially all of our revenues are derived from the sale of tangible products. Our product offerings consist of new and used video game products, PC entertainment software, and related products, such as trading cards and strategy guides. Our in-store inventory generally consists of a constantly changing selection of over 4,500 SKUs. We have buying groups in the U.S., Canada, Australia and Europe that negotiate terms, discounts and cooperative advertising allowances for the stores in their respective geographic areas. We use customer requests and feedback, advance orders, industry magazines and product reviews to determine which new releases are expected to be hits. Advance



orders are tracked at individual stores to distribute titles and capture demand effectively. This merchandise management is essential because a significant portion of a game's sales are usually generated in the first days and weeks following its release.

*Video Game Hardware.* We offer the video game platforms of all major manufacturers, including the Sony PlayStation 2 and 3 and PSP, Microsoft Xbox 360, the Nintendo Wii and DS. We also offer extended service agreements on video game hardware and software. In support of our strategy to be the destination location for electronic game players, we aggressively promote the sale of video game platforms. Video game hardware sales are

## **Table of Contents**

generally driven by the introduction of new platform technology and the reduction in price points as platforms mature. Due to our strong relationships with the manufacturers of these platforms, we often receive disproportionately large allocations of new release hardware products, which is an important component of our strategy to be the destination of choice for electronic game players. We believe that selling video game hardware increases store traffic and promotes customer loyalty, leading to increased sales of video game software and accessories, which have higher gross margins than video game hardware.

*Video Game Software.* We purchase new video game software from the leading manufacturers, including Sony, Nintendo and Microsoft, as well as over 40 third-party game publishers, such as Electronic Arts and Activision. We are one of the largest customers of video game titles sold by these publishers. We generally carry over 1,000 SKUs of new video game software at any given time across a variety of genres, including Sports, Action, Strategy, Adventure/Role Playing and Simulation.

*Used Video Game Products.* We believe we are the largest retailer of used video games in the world. We provide our customers with an opportunity to trade in their used video game products in our stores in exchange for store credits which can be applied towards the purchase of other products, primarily new merchandise. We have the largest selection (approximately 3,000 SKUs) of used video game titles which have an average price of \$18 as compared to an average price of \$41 for new video game titles and which generate significantly higher gross margins than new video game products. Our trade-in program provides our customers with a unique value proposition which is generally unavailable at mass merchants, toy stores and consumer electronics retailers. This program provides us with an inventory of used video game products which we resell to our more value-oriented customers. In addition, our highly-customized inventory management system allows us to actively manage the pricing and product availability of our used video game products across our store base and to reallocate our inventory as necessary. Our trade-in program also allows us to be one of the only suppliers of previous generation platforms and related video games. We also operate refurbishment centers in the U.S., Canada, Australia and Europe where defective video game products can be tested, repaired, relabeled, repackaged and redistributed back to our stores.

*PC Entertainment and Other Software.* We purchase PC entertainment software from over 45 publishers, including Electronic Arts, Microsoft and Vivendi Universal. We offer PC entertainment software across a variety of genres, including Sports, Action, Strategy, Adventure/Role Playing and Simulation.

*Accessories and Other Products.* Video game accessories consist primarily of controllers, memory cards and other add-ons. We also carry strategy guides, magazines and trading cards. We carry over 300 SKUs of accessories and other products. In general, this category has higher margins than new video game and PC entertainment products.

## **Store Operations**

As of January 31, 2009, we operated 6,207 stores, primarily under the GameStop name. Each of our stores typically carries over 4,500 SKUs. We design our stores to provide an electronic gaming atmosphere with an engaging and visually captivating layout. Our stores are typically equipped with several video game sampling areas, which provide our customers the opportunity to play games before purchase, as well as equipment to play video game clips. We use store configuration, in-store signage and product demonstrations to produce marketing opportunities both for our vendors and for us.

Our stores average approximately 1,500 square feet and carry a balanced mix of new and used video game products and PC entertainment software. Our stores are generally located in high-traffic power strip centers, local neighborhood strip centers, high-traffic shopping malls and pedestrian areas, primarily in major metropolitan areas. These locations provide easy access and high frequency of visits and, in the case of strip centers and high-traffic pedestrian stores, high visibility. We target strip centers that are conveniently located, have a mass merchant or supermarket anchor

tenant and have a high volume of customers.

**Table of Contents****Site Selection and Locations**

*Site Selection.* In the U.S., we have a dedicated staff of real estate personnel experienced in selecting store locations. International locations are selected by the management in each region or country. Site selections for new stores are made after an extensive review of demographic data and other information relating to market potential, competitor access and visibility, compatible nearby tenants, accessible parking, location visibility, lease terms and the location of our other stores. Most of our stores are located in highly visible locations within malls and strip centers.

*Locations.* The table below sets forth the number of our stores located in the U.S., Canada, Europe and Australia as of January 31, 2009:

<b>United States</b>	<b>Number of Stores</b>
Alabama	76
Alaska	5
Arizona	84
Arkansas	26
California	479
Colorado	60
Connecticut	61
Delaware	19
District of Columbia	2
Florida	318
Georgia	139
Guam	2
Hawaii	23
Idaho	11
Illinois	190
Indiana	80
Iowa	32
Kansas	33
Kentucky	64
Louisiana	67
Maine	10
Maryland	100
Massachusetts	93
Michigan	125
Minnesota	56
Mississippi	39
Missouri	70
Montana	8
Nebraska	21
Nevada	42
New Hampshire	25
New Jersey	161
New Mexico	25
New York	237

Edgar Filing: GameStop Corp. - Form 10-K

North Carolina	136
North Dakota	8
Ohio	184
Oklahoma	48

**Table of Contents**

<b>United States</b>	<b>Number of Stores</b>
Oregon	31
Pennsylvania	205
Puerto Rico	45
Rhode Island	15
South Carolina	66
South Dakota	4
Tennessee	90
Texas	373
Utah	28
Vermont	7
Virginia	145
Washington	77
West Virginia	29
Wisconsin	49
Wyoming	8
Sub-total for United States	4,331

<b>International</b>	<b>Number of Stores</b>
Canada	325
Australia	311
New Zealand	39
Sub-total for Australia	350
Austria	20
Denmark	37
Finland	14
France	332
Germany	179
Ireland	51
Italy	286
Norway	58
Portugal	13
Spain	132
Sweden	57
Switzerland	15
United Kingdom	7
Sub-total for Europe	1,201

Sub-total for International	1,876
Total stores	6,207

**Game Informer**

We publish *Game Informer*, a monthly video game magazine featuring reviews of new title releases, tips and secrets about existing games and news regarding current developments in the electronic game industry. The magazine is sold through subscription and through displays in our stores in the United States, Canada and Ireland.

## **Table of Contents**

*Game Informer* is the twelfth largest consumer publication in the U.S. and for its February 2009 issue, the magazine had approximately 3.5 million paid subscriptions. *Game Informer* revenues are also generated through the sale of advertising space. In addition, we offer the GameStop loyalty card as a bonus with each paid subscription, providing our subscribers with a discount on selected merchandise. *Game Informer* operations are included in the United States segment where the majority of subscriptions and sales are generated.

## **E-Commerce**

We operate an electronic commerce website at [www.gamestop.com](http://www.gamestop.com) that allows our customers to buy video game products and other merchandise online. The site also offers customers information and content about available games, release dates for upcoming games, and access to store information, such as location and product availability. In 2005, we entered into an arrangement with Barnes & Noble under which [www.gamestop.com](http://www.gamestop.com) became the exclusive specialty video game retailer listed on [www.bn.com](http://www.bn.com), Barnes & Noble's e-commerce site. E-commerce results are included in the United States segment where the majority of the sales originate.

## **Advertising**

Our stores are primarily located in high traffic, high visibility areas of regional shopping malls and strip centers. Given the high foot traffic drawn past the stores themselves, we use in-store marketing efforts such as window displays and coming soon signs to attract customers, as well as to promote used video game products. Inside the stores, we feature selected products through the use of vendor displays, coming soon or preview videos, signs, catalogs, point-of-purchase materials and end-cap displays. These advertising efforts are designed to increase the initial sales of new titles upon their release.

On a global basis, we receive cooperative advertising and market development funds from manufacturers, distributors, software publishers and accessory suppliers to promote their respective products. Generally, vendors agree to purchase advertising space in one of our advertising vehicles. Once we run the advertising, the vendor pays to us an agreed amount.

In the last several years, as part of our brand-building efforts and targeted growth strategies, we expanded our advertising and promotional activities in certain targeted markets at certain key times of the year. In addition, we expanded our use of television and radio advertising in certain markets to promote brand awareness and store openings.

## **Information Management**

Our operating strategy involves providing a broad merchandise selection to our customers as quickly and as cost-effectively as possible. We use our inventory management systems to maximize the efficiency of the flow of products to our stores, enhance store efficiency and optimize store in-stock and overall investment in inventory.

*Distribution.* We operate a 410,000 square foot distribution center in Grapevine, Texas and a 260,000 square foot distribution center in Louisville, Kentucky. We currently use the center in Louisville, Kentucky to support our first-to-market distribution efforts, while our Grapevine, Texas facility supports efforts to replenish stores. In order to enhance our first-to-market distribution network, we also utilize the services of several off-site, third-party operated distribution centers that pick up products from our suppliers, repackage the products for each of our stores and ship those products to our stores by package carriers. Our ability to rapidly process incoming shipments of new release titles at the Louisville and third-party facilities and deliver those shipments to all of our stores, either that day or by the next morning, enables us to meet peak demand and replenish stores at least twice a week.



The state-of-the-art facilities in Grapevine, Texas and Louisville, Kentucky are designed to effectively control and minimize inventory levels. Technologically-advanced conveyor systems and flow-through racks control costs and improve speed of fulfillment in both facilities. The technology used in the distribution centers allows for high-volume receiving, distributions to stores and returns to vendors. Inventory is shipped to each store at least twice a week, or daily, if necessary, in order to keep stores in supply of products. Our U.S. distribution facilities also support refurbishment of used products to be redistributed to stores.

## **Table of Contents**

We distribute merchandise to our Canadian segment from two distribution centers in Brampton, Ontario. We have a distribution center near Brisbane, Australia which supports our Australian operations and a small distribution facility in New Zealand which supports the stores in New Zealand. European segment operations are supported by six regionally-located distribution centers in Milan, Italy; Memmingen, Germany; Arlov, Sweden; Valencia, Spain; Dublin, Ireland and Paris, France. All of our international distribution facilities support both new title distribution and replenishment, which are sometimes supported by third-party distribution networks. These facilities are designed to support the first-to-market distribution network and enable our stores to meet peak demand and replenish stores at least twice a week. Our international distribution facilities also support refurbishment of used products to be redistributed to stores.

*Management Information Systems.* Our proprietary inventory management system and point-of-sale technology show daily sales and in-store stock by title by store. Our systems use this data to automatically generate replenishment shipments to each store from our distribution centers, enabling each store to carry a merchandise assortment uniquely tailored to its own sales mix and rate of sale. Our call lists and reservation system also provide our buying staff with information to determine order size and inventory management for store-by-store inventory allocation. We constantly review and edit our merchandise categories with the objective of ensuring that inventory is up-to-date and meets customer needs.

To support our U.S. operations, we use a large-scale, Intel-based computing environment with a state-of-the-art storage area network and a wired and wireless corporate network installed at our U.S. headquarters, and a secure, virtual private network to access and provide services to computing assets located in our stores, distribution centers and satellite offices and to our mobile workforce. This strategy has proven to minimize initial outlay of capital while allowing for flexibility and growth as operations expand. To support our international operations, we use a mid-range, scalable computing environment and a state-of-the-art storage area network. Computing assets and our mobile workforce around the globe access this environment via a secure, virtual private network. Regional communication links exist to each of our distribution centers and offices in international locations with connectivity to our U.S. data center as required by our international, distributed applications.

Our in-store point-of-sale system enables us to efficiently manage in-store transactions. This proprietary point-of-sale system has been enhanced to facilitate trade-in transactions, including automatic look-up of trade-in prices and printing of machine-readable bar codes to facilitate in-store restocking of used video games. In addition, our central database of all used video game products allows us to actively manage the pricing and product availability of our used video game products across our store base and reallocate our used video game products as necessary.

## **Field Management and Staff**

GameStop's U.S. store operations are managed by a centrally-located senior vice president of stores, three vice presidents of stores and 30 regional store operations directors. The regions are further divided into districts, each with a district manager covering an average of 14 stores. In total, there are approximately 300 districts. Our stores in Europe are managed by two vice presidents and managing directors in each country. Our stores in Australia and Canada are each managed by a vice president. Each store employs, on average, one manager, one assistant manager and between two and ten sales associates, many of whom are part-time employees. Each store manager is responsible for managing their personnel and the economic performance of their store. We have cultivated a work environment that attracts employees who are actively interested in electronic games. We seek to hire and retain employees who know and enjoy working with our products so that they are better able to assist customers. To encourage them to sell the full range of our products and to maximize our profitability, we provide our employees with targeted incentive programs to drive overall sales and sales of higher margin products. We also provide our U.S. employees with the opportunity to take home and try new video games, which enables them to better discuss those games with our customers. In addition, employees are casually dressed to encourage customer access and increase the game-oriented

focus of the stores. We also employ regional loss prevention managers who assist the stores in implementing security measures to prevent theft of our products.

Our stores communicate with our corporate offices daily via e-mail. This e-mail allows for better tracking of trends in upcoming titles, competitor strategies and in-stock inventory positions. In addition, this communication allows title selection in each store to be continuously updated and tailored to reflect the tastes and buying patterns of

## **Table of Contents**

the store's local market. These communications also give field management access to relevant inventory levels and loss prevention information. We have invested in significant management training programs for our store managers and our district managers to enhance their business management skills. We also sponsor annual store managers conferences in the U.S., Canada, Europe and Australia, at which we operate an intense educational training program to provide our employees with information about the video game products that will be released by publishers in the holiday season. All video game software publishers are invited to attend.

## **Customer Service**

Our store personnel provide value-added services to each customer, such as maintaining lists of regular customers and reserving new releases for customers with a down payment to ensure product availability. In addition, our store personnel readily provide product reviews to ensure customers are making informed purchasing decisions and inform customers of available resources, including *Game Informer*, to increase a customer's enjoyment of the product upon purchase.

## **Vendors**

We purchase substantially all of our new products worldwide from approximately 75 manufacturers and software publishers and several distributors. Purchases from the top ten vendors accounted for approximately 80% of our new product purchases in fiscal 2008. Only Nintendo, Sony, Microsoft, and Electronic Arts (which accounted for 25%, 13%, 13%, and 11%, respectively) individually accounted for more than 10% of our new product purchases during fiscal 2008. We have established price protections and return privileges with our primary vendors in order to reduce our risk of inventory obsolescence. In addition, we have few purchase contracts with trade vendors and generally conduct business on an order-by-order basis, a practice that is typical throughout the industry. We believe that maintaining and strengthening our long-term relationships with our vendors is essential to our operations and continued expansion. We believe that we have very good relationships with our vendors.

## **Competition**

The electronic game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. In the U.S., we compete with mass merchants and regional chains, including Wal-Mart Stores, Inc. ( Wal-Mart ) and Target Corporation ( Target ); computer product and consumer electronics stores, including Best Buy Co., Inc. ( Best Buy ); other video game and PC software specialty stores located in malls and other locations; toy retail chains; mail-order businesses; catalogs; direct sales by software publishers; and online retailers and game rental companies. In addition, video games are available for sale and rental from many video stores, such as Movie Gallery, Inc. ( Movie Gallery ) and Blockbuster, Inc. ( Blockbuster ). Video game products may also be distributed through other methods which may emerge in the future. We also compete with sellers of used video game products. Additionally, we compete with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers.

Competitors in Europe include Game Group plc ( Game Group ) and its subsidiaries, which operate in the United Kingdom, Ireland, Scandinavia, France, Spain and Portugal, and Media Markt, which operates throughout Europe. Competitors in Canada include Wal-Mart, Best Buy and its subsidiary Future Shop. In Australia, competitors include Game Group, K-Mart, Target and JB HiFi stores.

## **Seasonality**

Our business, like that of many retailers, is seasonal, with the major portion of our sales and operating profit realized during the fourth fiscal quarter, which includes the holiday selling season. During fiscal 2008, we generated

approximately 40% of our sales and approximately 56% of our operating earnings during the fourth quarter. During fiscal 2007, we generated approximately 40% of our sales and approximately 58% of our operating earnings during the fourth quarter.

## **Table of Contents**

### **Trademarks**

We have a number of trademarks and servicemarks, including GameStop, Game Informer, EB Games, Electronics Boutique and Power to the Players, which have been registered by us with the United States Patent and Trademark Office. For many of our trademarks and servicemarks, including Micromania, we also have registered or have registrations pending with the trademark authorities throughout the world. We maintain a policy of pursuing registration of our principal marks and opposing any infringement of our marks.

### **Employees**

We have approximately 16,000 full-time salaried and hourly employees and between 25,000 and 40,000 part-time hourly employees worldwide, depending on the time of year. Fluctuation in the number of part-time hourly employees is due to the seasonality of our business. We believe that our relationship with our employees is excellent. None of our U.S. employees is represented by a labor union or is a member of a collective bargaining unit. Some of our international employees are covered by collective bargaining agreements.

### **Available Information**

We make available on our website ([www.gamestop.com](http://www.gamestop.com)), under Investor Relations SEC Filings, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such material with the Securities and Exchange Commission (SEC). You may read and copy this information or obtain copies of this information by mail from the Public Reference Room of the SEC, 100 F Street, N.E., Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC's Public Reference Room in Washington, D.C. can be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website that contains reports, proxy statements and other information about issuers, like GameStop, who file electronically with the SEC. The address of that site is <http://www.sec.gov>. In addition to copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, the Company's Code of Standards, Ethics and Conduct is available on our website under Investor Relations Corporate Governance and is available to our stockholders in print, free of charge, upon written request to the Company's Investor Relations Department at GameStop Corp., 625 Westport Parkway, Grapevine, Texas 76051.

### **Item 1A. Risk Factors**

An investment in our Company involves a high degree of risk. You should carefully consider the risks below, together with the other information contained in this report, before you make an investment decision with respect to our Company. The risks described below are not the only ones facing our Company. Additional risks not presently known to us, or that we consider immaterial, may also impair our business operations. Any of the following risks could materially adversely affect our business, operating results or financial condition, and could cause a decline in the trading price of our common stock and the value of your investment.

#### **Risks Related to Our Business**

*We depend upon our key personnel and they would be difficult to replace.*

Our success depends upon our ability to attract, motivate and retain key management for our stores and skilled merchandising, marketing and administrative personnel at our headquarters. We depend upon the continued services of our key executive officers, Daniel A. DeMatteo, our Chief Executive Officer; R. Richard Fontaine, our Executive Chairman of the Board; J. Paul Raines, our Chief Operating Officer; David W. Carlson, our Executive Vice President

and Chief Financial Officer; and Tony D. Bartel, our Executive Vice President of Merchandising and Marketing. The loss of services of any of our key personnel could have a negative impact on our business.

***We depend upon the timely delivery of products.***

We depend on major hardware manufacturers, primarily Sony, Nintendo and Microsoft, to deliver new and existing video game platforms on a timely basis and in anticipated quantities. In addition, we depend on software

**Table of Contents**

publishers to introduce new and updated software titles. Any material delay in the introduction or delivery, or limited allocations, of hardware platforms or software titles could result in reduced sales in one or more fiscal quarters.

***We depend upon third parties to develop products and software.***

Our business depends upon the continued development of new and enhanced video game platforms, PC hardware and video game and PC entertainment software. Our business could suffer due to the failure of manufacturers to develop new or enhanced video game platforms, a decline in the continued technological development and use of multimedia PCs, or the failure of software publishers to develop popular game and entertainment titles for current or future generation video game systems or PC hardware.

***Our ability to obtain favorable terms from our suppliers may impact our financial results.***

Our financial results depend significantly upon the business terms we can obtain from our suppliers, including competitive prices, unsold product return policies, advertising and market development allowances, freight charges and payment terms. We purchase substantially all of our products directly from manufacturers, software publishers and, in some cases, distributors. Our largest vendors worldwide are Nintendo, Sony, Microsoft and Electronic Arts, which accounted for 25%, 13%, 13% and 11%, respectively, of our new product purchases in fiscal 2008. If our suppliers do not provide us with favorable business terms, we may not be able to offer products to our customers at competitive prices.

***If our vendors fail to provide marketing and merchandising support at historical levels, our sales and earnings could be negatively impacted.***

The manufacturers of video game hardware and software and PC entertainment software have typically provided retailers with significant marketing and merchandising support for their products. As part of this support, we receive cooperative advertising and market development payments from these vendors. These cooperative advertising and market development payments enable us to actively promote and merchandise the products we sell and drive sales at our stores and on our website. We cannot assure you that vendors will continue to provide this support at historical levels. If they fail to do so, our sales and earnings could be negatively impacted.

***The electronic game industry is cyclical, which could cause significant fluctuation in our earnings.***

The electronic game industry has been cyclical in nature in response to the introduction and maturation of new technology. Following the introduction of new video game platforms, sales of these platforms and related software and accessories generally increase due to initial demand, while sales of older platforms and related products generally decrease as customers migrate toward the new platforms. New video game platforms have historically been introduced approximately every five years. If video game platform manufacturers fail to develop new hardware platforms, our sales of video game products could decline.

***Pressure from our competitors may force us to reduce our prices or increase spending, which could decrease our profitability.***

The electronic game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. We compete with mass merchants and regional chains, including Wal-Mart and Target; computer product and consumer electronics stores, including Best Buy; other U.S. and international video game and PC software specialty stores located in malls and other locations, such as Game Group and Media Markt; toy retail chains; mail-order businesses; catalogs; direct sales by software publishers; and online retailers and game rental companies. In addition, video games are available for sale and rental from many video stores, such as Movie



Gallery and Blockbuster. Video game products and content may also be distributed through methods such as digital distribution and other methods which may emerge in the future. We also compete with an increasing number of sellers of used video game products. Some of our competitors in the electronic game industry have longer operating histories and may have greater financial resources than we do. Additionally, we compete with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers.

**Table of Contents**

If we lose customers to our competitors, or if we reduce our prices or increase our spending to maintain our customers, we may be less profitable.

***International events could delay or prevent the delivery of products to our suppliers.***

Our suppliers rely on foreign sources, primarily in Asia, to manufacture a portion of the products we purchase from them. As a result, any event causing a disruption of imports, including the imposition of import restrictions or trade restrictions in the form of tariffs or quotas, could increase the cost and reduce the supply of products available to us, which could lower our sales and profitability.

***Our international operations expose us to numerous risks.***

We have international retail operations in Australia, Canada and Europe. Because release schedules for hardware and software introduction in these markets often differ from release schedules in the United States, the timing of increases and decreases in foreign sales may differ from the timing of increases and decreases in domestic sales. We are also subject to a number of other factors that may affect our current or future international operations. These include:

economic downturns;

currency exchange rate fluctuations;

international incidents;

government instability; and

competitors entering our current and potential markets.

***There may be possible changes in our global tax rate.***

As a result of our operations in many foreign countries, our global tax rate is derived from a combination of applicable tax rates in the various jurisdictions in which we operate. Depending upon the sources of our income, any agreements we may have with taxing authorities in various jurisdictions and the tax filing positions we take in various jurisdictions, our overall tax rate may be higher than other companies or higher than our tax rates have been in the past. We base our estimate of an annual effective tax rate at any given point in time on a calculated mix of the tax rates applicable to our company and to estimates of the amount of income to be derived in any given jurisdiction. A change in the mix of our business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws in any of the multiple jurisdictions in which we operate or adverse outcomes from the tax audits that regularly are in process in any jurisdiction in which we operate could result in an unfavorable change in our overall tax rate, which could have a material adverse effect on our business and results of our operations.

***If we are unable to renew or enter into new leases on favorable terms, our revenue growth may decline.***

All of our retail stores are located in leased premises. If the cost of leasing existing stores increases, we cannot assure you that we will be able to maintain our existing store locations as leases expire. In addition, we may not be able to enter into new leases on favorable terms or at all, or we may not be able to locate suitable alternative sites or additional sites for new store expansion in a timely manner. Our revenues and earnings may decline if we fail to maintain existing store locations, enter into new leases, locate alternative sites or find additional sites for new store expansion.

***The ability to download video games and PC entertainment software and play video games on the Internet could lower our sales.***

While it is currently only possible to download a limited amount of video game content to the next generation video game systems, at some point in the future this technology may become more prevalent. If advances in technology continue to expand our customers' ability to access video games, PC entertainment software and

**Table of Contents**

incremental content for their games through these and other sources, our customers may no longer choose to purchase video games or PC entertainment software in our stores. As a result, sales and earnings could decline.

***Restrictions on our ability to take trade-ins of and sell used video game products could negatively affect our financial condition and results of operations.***

Our financial results depend on our ability to take trade-ins of, and sell, used video game products within our stores. Actions by manufacturers or publishers of video game products or governmental authorities to limit our ability to take trade-ins or sell used video game products could have a negative impact on our sales and earnings.

***If we fail to keep pace with changing industry technology, we will be at a competitive disadvantage.***

The interactive entertainment industry is characterized by swiftly changing technology, evolving industry standards, frequent new and enhanced product introductions and product obsolescence. These characteristics require us to respond quickly to technological changes and to understand their impact on our customers' preferences. If we fail to keep pace with these changes, our business may suffer.

***An adverse trend in sales during the holiday selling season could impact our financial results.***

Our business, like that of many retailers, is seasonal, with the major portion of our sales and operating profit realized during the fourth fiscal quarter, which includes the holiday selling season. During fiscal 2008, we generated approximately 40% of our sales and approximately 56% of our operating earnings during the fourth quarter. Any adverse trend in sales during the holiday selling season could lower our results of operations for the fourth quarter and the entire year.

***Our results of operations may fluctuate from quarter to quarter, which could affect our business, financial condition and results of operations.***

Our results of operations may fluctuate from quarter to quarter depending upon several factors, some of which are beyond our control. These factors include:

the timing and allocations of new product releases;

the timing of new store openings; and

shifts in the timing of certain promotions.

These and other factors could affect our business, financial condition and results of operations, and this makes the prediction of our financial results on a quarterly basis difficult. Also, it is possible that our quarterly financial results may be below the expectations of public market analysts.

***Failure to effectively manage our new store openings could lower our sales and profitability.***

Our growth strategy is largely dependent upon opening new stores and operating them profitably. We opened 674 stores in fiscal 2008 and expect to open approximately 400 new stores in fiscal 2009. Our ability to open new stores and operate them profitably depends upon a number of factors, some of which may be beyond our control. These factors include:

the ability to identify new store locations, negotiate suitable leases and build out the stores in a timely and cost efficient manner;

the ability to hire and train skilled associates;

the ability to integrate new stores into our existing operations; and

the ability to increase sales at new store locations.

Our growth will also depend on our ability to process increased merchandise volume resulting from new store openings through our inventory management systems and distribution facilities in a timely manner. If we fail to manage new store openings in a timely and cost efficient manner, our growth may decrease.

## **Table of Contents**

***If our management information systems fail to perform or are inadequate, our ability to manage our business could be disrupted.***

We rely on computerized inventory and management systems to coordinate and manage the activities in our distribution centers, as well as to communicate distribution information to the off-site, third-party operated distribution centers with which we work. The third-party distribution centers pick up products from our suppliers, repackage the products for each of our stores and ship those products to our stores by package carriers. We use inventory replenishment systems to track sales and inventory. Our ability to rapidly process incoming shipments of new release titles and deliver them to all of our stores, either that day or by the next morning, enables us to meet peak demand and replenish stores at least twice a week, to keep our stores in stock at optimum levels and to move inventory efficiently. If our inventory or management information systems fail to adequately perform these functions, our business could be adversely affected. In addition, if operations in any of our distribution centers were to shut down or be disrupted for a prolonged period of time or if these centers were unable to accommodate the continued store growth in a particular region, our business could suffer.

***We may engage in acquisitions which could negatively impact our business if we fail to successfully complete and integrate them.***

To enhance our efforts to grow and compete, we may engage in acquisitions. Our plans to pursue future acquisitions are subject to our ability to identify potential acquisition candidates and negotiate favorable terms for these acquisitions. Accordingly, we cannot assure you that future acquisitions will be completed. In addition, to facilitate future acquisitions, we may take actions that could dilute the equity interests of our stockholders, increase our debt or cause us to assume contingent liabilities, all of which may have a detrimental effect on the price of our common stock. Finally, if any acquisitions are not successfully integrated with our business, our ongoing operations could be adversely affected.

***Litigation and litigation results could negatively impact our future financial condition and results of operations.***

In the ordinary course of our business, the Company is, from time to time, subject to various litigation and legal proceedings. In the future, the costs or results of such legal proceedings, individually or in the aggregate, could have a negative impact on the Company's results of operations or financial condition.

***Legislative actions may cause our general and administrative expenses or income tax expense to increase and impact our future financial condition and results of operations.***

In order to comply with laws adopted by the U.S. government or other regulatory bodies, we may be required to increase our expenditures and hire additional personnel and additional outside legal, accounting and advisory services, all of which may cause our general and administrative costs or income tax expenses to increase. Changes in the accounting rules could materially increase the expenses that we report under U.S. generally accepted accounting principles ( GAAP ) and adversely affect our operating results.

## **Risks Relating to Our Indebtedness**

***To service our indebtedness, we will require a significant amount of cash, the availability of which depends on many factors beyond our control.***

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. These factors include:

our reliance on suppliers and vendors for sufficient quantities of their products and new product releases and our ability to obtain favorable terms from these suppliers and vendors;

economic conditions affecting the electronic game industry, the retail industry and the banking and financial services industry;

**Table of Contents**

the highly competitive environment in the electronic game industry and the resulting pressure from our competitors potentially forcing us to reduce our prices or increase spending;

our ability to open and operate new stores;

our ability to attract and retain qualified personnel; and

our dependence upon software publishers to develop popular game and entertainment titles for video game systems and PCs.

If our financial condition or operating results materially deteriorate, our relations with our creditors, including holders of our senior notes, the lenders under our senior credit facility and our suppliers, may be materially and adversely impacted.

***We have significant debt that could adversely impact cash availability for growth and operations and may increase our vulnerability to general adverse economic and industry conditions.***

As of January 31, 2009, we had approximately \$546 million of indebtedness. Our debt service obligations with respect to this indebtedness could have an adverse impact on our earnings and cash flows for as long as the indebtedness is outstanding.

Our indebtedness could have important consequences, including the following:

our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;

we may use a portion of our cash flow from operations to make debt service payments on the senior notes and our senior credit facility, which will reduce the funds available to us for other purposes such as potential acquisitions and capital expenditures;

we may have a higher level of indebtedness than some of our competitors, which may put us at a competitive disadvantage and reduce our flexibility in planning for, or responding to, changing conditions in our industry, including increased competition; and

we may be more vulnerable to general economic downturns and adverse developments in our business.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness, including the senior notes. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. Our senior credit facility and the indenture governing the senior notes restrict our ability to dispose of assets and use the proceeds from such dispositions. We may not be able to consummate those dispositions, dispose of our assets at prices that we believe are fair or use the proceeds from asset sales to make payments on the notes and these proceeds may not be adequate to meet any debt service obligations then due.

***Because of our floating rate credit facilities, we may be adversely affected by interest rate changes.***

Our financial position may be affected by fluctuations in interest rates, as our senior credit facility is subject to floating interest rates.



Interest rates are highly sensitive to many factors, including governmental monetary policies, domestic and international economic and political conditions and other factors beyond our control. If we were to borrow against our senior credit facility, a significant increase in interest rates could have an adverse effect on our financial position and results of operations.

**Table of Contents**

***Our operations are substantially restricted by the indenture governing the senior notes and the terms of our senior credit facility.***

The indenture for the senior notes imposes, and the terms of any future debt may impose, significant operating and financial restrictions on us. These restrictions, among other things, limit the ability of the issuers of the senior notes and of GameStop's restricted subsidiaries to:

incur, assume or permit to exist additional indebtedness or guaranty obligations;

incur liens or agree to negative pledges in other agreements;

engage in sale and leaseback transactions;

make loans and investments;

declare dividends, make payments or redeem or repurchase capital stock;

engage in mergers, acquisitions and other business combinations;

prepay, redeem or purchase certain indebtedness;

amend or otherwise alter the terms of our organizational documents and our indebtedness, including the senior notes;

sell assets; and

engage in transactions with affiliates.

We cannot assure you that these covenants will not adversely affect our ability to finance our future operations or capital needs or to pursue available business opportunities.

The senior credit facility contains various restrictive covenants prohibiting us, in certain circumstances, from, among other things, prepaying, redeeming or purchasing certain indebtedness.

***Despite current anticipated indebtedness levels and restrictive covenants, we may incur additional indebtedness in the future.***

Despite our current level of indebtedness, we may be able to incur substantial additional indebtedness in the future, including additional secured indebtedness. Although the terms of the indenture governing the senior notes and our senior credit facility restrict the issuers of the senior notes and GameStop's restricted subsidiaries from incurring additional indebtedness, these restrictions are subject to important exceptions and qualifications. If we incur additional indebtedness, the risks that we now face as a result of our leverage could intensify.

**Item 1B. *Unresolved Staff Comments***

None.

**Item 2. *Properties***

All of our stores are leased. Store leases typically provide for an initial lease term of three to ten years, plus renewal options. This arrangement gives us the flexibility to pursue extension or relocation opportunities that arise from changing market conditions. We believe that, as current leases expire, we will be able to obtain either renewals at present locations or leases for equivalent locations in the same area.

**Table of Contents**

The terms of the store leases for the 6,207 leased stores open as of January 31, 2009 expire as follows:

<b>Lease Terms to Expire During</b>	<b>Number of Stores</b>
<b>(12 Months Ending on or About January 31)</b>	
Expired and in negotiations	68
2010	838
2011	1,066
2012	852
2013	1,175
2014 and later	2,208
	<b>6,207</b>

The Company owns a 510,000 square foot facility in Grapevine, Texas, which houses our corporate headquarters and certain of our distribution operations. We also own an additional 65,000 square foot building at the Grapevine, Texas location which is currently being used in our refurbishing operations. We also own the following distribution facilities: an 80,000 square foot distribution facility in Arlov, Sweden; a 119,000 square foot distribution facility in Brampton, Ontario, Canada; a 120,000 square foot distribution facility in Milan, Italy; a 67,000 square foot distribution facility in Memmingen, Germany; and a 70,000 square foot distribution facility in Pinkenba, Queensland, Australia.

In addition to our stores, we lease the following distribution or office facilities: a 260,000 square foot distribution center in Louisville, Kentucky under a lease which expires in July 2010; a 59,000 square foot distribution and office facility in Brampton, Ontario, Canada under a lease which expires in December 2016; a 13,000 square foot distribution facility in New Zealand under a lease which expires in April 2010; a 22,000 square foot distribution facility in Valencia, Spain under a lease which expires in September 2010; a 15,000 square foot office facility in Valencia, Spain under a lease which expires in August 2009; a 11,700 square foot office facility in Minneapolis, Minnesota which houses the operations of *Game Informer* magazine, under a lease which expires in February 2012; a 15,000 square foot facility in Dublin, Ireland under a lease which expires in January 2013; a 6,100 square foot office facility in West Chester, Pennsylvania under a lease which expires in June 2011; a 55,000 square foot distribution center in Paris, France under a lease which expires in 2016; and a 28,000 square foot office facility in Sophia Antipolis, France under a lease which is currently expired. This office is relocating to a larger facility in 2009.

**Item 3. *Legal Proceedings***

On February 14, 2005, and as amended, Steve Strickland, as personal representative of the Estate of Arnold Strickland, deceased, Henry Mealer, as personal representative of the Estate of Ace Mealer, deceased, and Willie Crump, as personal representative of the Estate of James Crump, deceased, filed a wrongful death lawsuit against GameStop, Sony, Take-Two Interactive, Rock Star Games and Wal-Mart (collectively, the Defendants ) and Devin Moore, alleging that Defendants' actions in designing, manufacturing, marketing and supplying Defendant Moore with violent video games were negligent and contributed to Defendant Moore killing Arnold Strickland, Ace Mealer and James Crump. Moore was found guilty of capital murder in a criminal trial and was sentenced to death in August 2005.

Plaintiffs' counsel has named a new expert, a psychologist who testified at the criminal trial on behalf of the criminal defendant, who will opine (if allowed) that violent video games were a substantial factor in causing the murders. This same testimony from this same expert was excluded in the criminal trial from the same judge hearing this case. The testimony of plaintiffs' psychologist expert was heard by the Court on October 30, 2008, and the motion to exclude that testimony was argued on December 12, 2008. The ruling on this motion will have an effect on whether the case is able to proceed. The Company is currently awaiting a ruling. There is no current trial date. The Company does not believe there is sufficient information to estimate the amount of the possible loss, if any, resulting from the lawsuit.

**Table of Contents**

In the ordinary course of the Company's business, the Company is, from time to time, subject to various other legal proceedings. Management does not believe that any such other legal proceedings, individually or in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

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

There were no matters submitted to a vote of security holders during the 13 weeks ended January 31, 2009.

**PART II****Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*****Price Range of Common Stock**

The Company's Class A common stock is traded on the NYSE under the symbol GME. The Company's Class B common stock was traded on the NYSE under the symbol GME.B until February 7, 2007 when, immediately following approval by a majority of the Class B common stockholders in a Special Meeting of the Company's Class B common stockholders, all outstanding Class B common shares were converted into Class A common shares on a one-for-one basis.

The following table sets forth, for the periods indicated, the high and low sales prices (as adjusted for the Stock Split) of the Class A common stock on the NYSE Composite Tape:

	<b>Fiscal 2008</b>	
	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 28.23	\$ 16.91
Third Quarter	\$ 47.69	\$ 24.09
Second Quarter	\$ 56.00	\$ 37.62
First Quarter	\$ 59.13	\$ 40.78

	<b>Fiscal 2007</b>	
	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 63.77	\$ 44.76
Third Quarter	\$ 60.80	\$ 37.40
Second Quarter	\$ 44.00	\$ 32.31
First Quarter	\$ 35.85	\$ 24.95

The following table sets forth, for the periods indicated, the high and low sales prices of the Class B common stock on the NYSE Composite Tape:

	<b>Fiscal 2007</b>	
	<b>High</b>	<b>Low</b>

First Quarter	\$ 53.96	\$ 52.25
---------------	----------	----------

The high and low sales prices of the Class B shares do not include the effects of the February 7, 2007 conversion of all outstanding Class B common shares into Class A common shares on a one-for-one basis (the Conversion ) or the Stock Split.

**Approximate Number of Holders of Common Equity**

As of March 6, 2009, there were approximately 1,358 record holders of the Company's Class A common stock, par value \$.001 per share.

**Table of Contents****Dividends**

The Company has never declared or paid any dividends on its common stock. We may consider in the future the advisability of paying dividends. However, our payment of dividends is and will continue to be restricted by or subject to, among other limitations, applicable provisions of federal and state laws, our earnings and various business considerations, including our financial condition, results of operations, cash flow, the level of our capital expenditures, our future business prospects, our status as a holding company and such other matters that our Board of Directors deems relevant. In addition, the terms of the senior credit facility and the terms of the indenture governing the senior notes each restrict our ability to pay dividends. See *Liquidity and Capital Resources* included in *Management's Discussion and Analysis of Financial Condition and Results of Operations* in this Form 10-K.

**Securities Authorized for Issuance under Equity Compensation Plans**

Information for our equity compensation plans in effect as of January 31, 2009 is as follows:

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column(a)) (c)</b>
Equity compensation plans approved by security holders	10,982,000	\$ 12.70	3,938,000
Equity compensation plans not approved by security holders		not applicable	
<b>Total</b>	<b>10,982,000</b>	<b>\$ 12.70</b>	<b>3,938,000</b>

Subsequent to January 31, 2009, an additional 1,418,850 options to purchase our Class A common stock at an exercise price of \$26.02 per share and 571,080 shares of restricted stock were granted under our Amended and Restated 2001 Incentive Plan, as amended. These options and restricted shares vest in equal increments over three years and the options expire on February 4, 2019.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

There were no repurchases of the Company's equity securities during the fourth quarter of fiscal 2008. As of January 31, 2009, the Company had no amount available for purchases under any repurchase program.





**Table of Contents****GameStop Stock Comparative Performance Graph**

The following graph compares the cumulative total stockholder return on our Class A common stock for the period commencing January 30, 2004 through January 30, 2009 (the last trading date of fiscal 2008) with the cumulative total return on the Standard & Poor's 500 Stock Index (the S&P 500) and the Dow Jones Retailers, Other Specialty Industry Group Index (the Dow Jones Specialty Retailers Index) over the same period. Total return values were calculated based on cumulative total return assuming (i) the investment of \$100 in our Class A common stock, the S&P 500 and the Dow Jones Specialty Retailers Index on January 30, 2004 and (ii) reinvestment of dividends. The Class A common stock reflects a two-for-one stock split on March 16, 2007.

The following stock performance graph and related information shall not be deemed soliciting material or filed with the SEC, nor should such information be incorporated by reference into any future filings under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate it by reference in such filing.

	<b>1/30/2004</b>	<b>1/28/2005</b>	<b>1/27/2006</b>	<b>2/2/2007</b>	<b>2/1/2008</b>	<b>1/30/2009</b>
GME	100.00	113.25	235.78	324.70	632.77	298.55
S&P 500 Index	100.00	103.56	113.49	128.05	123.37	73.01
Dow Jones Specialty Retailers Index	100.00	107.52	124.69	136.16	122.75	76.92

**Item 6. Selected Consolidated Financial Data**

The following table sets forth our selected consolidated financial and operating data for the periods and at the dates indicated. Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January 31. The fiscal year ended February 3, 2007 consisted of 53 weeks and the fiscal years ended January 31, 2009, February 2, 2008, January 28, 2006 and January 29, 2005 consisted of 52 weeks. The Statement of Operations Data for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007 and the Balance Sheet Data as of January 31, 2009 and February 2, 2008 are derived from, and are qualified by reference to, our audited financial statements which are included elsewhere in this Form 10-K. The Statement of Operations Data for fiscal years ended January 28, 2006 and January 29, 2005 and the Balance Sheet Data as of February 3, 2007, January 28, 2006 and January 29, 2005 are derived from our audited financial statements which are not included elsewhere in this Form 10-K.

**Table of Contents**

Our selected financial data set forth below should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this Form 10-K.

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>	<b>52 Weeks Ended January 28, 2006(1)</b>	<b>52 Weeks Ended January 29, 2005</b>
--	--	--	--	---	--

(In thousands, except per share data and statistical data)

**Statement of Operations****Data:**

Sales	\$ 8,805,897	\$ 7,093,962	\$ 5,318,900	\$ 3,091,783	\$ 1,842,806
Cost of sales	6,535,762	5,280,255	3,847,458	2,219,753	1,333,506
Gross profit	2,270,135	1,813,707	1,471,442	872,030	509,300
Selling, general and administrative expenses(2)	1,445,419	1,182,016	1,021,113	599,343	373,364
Depreciation and amortization	145,004	130,270	109,862	66,355	36,789
Merger-related expenses(3)	4,593		6,788	13,600	
Operating earnings	675,119	501,421	333,679	192,732	99,147
Interest expense (income), net	38,837	47,774	73,324	25,292	236
Merger-related interest expense(3)				7,518	
Debt extinguishment expense	2,331	12,591	6,059		
Earnings before income taxes	633,951	441,056	254,296	159,922	98,911
Income tax expense	235,669	152,765	96,046	59,138	37,985
Net earnings	\$ 398,282	\$ 288,291	\$ 158,250	\$ 100,784	\$ 60,926
Net earnings per common share basic(4)	\$ 2.44	\$ 1.82	\$ 1.06	\$ 0.87	\$ 0.56
Weighted average shares outstanding basic(4)	163,190	158,226	149,924	115,840	109,324
Net earnings per common share diluted(4)	\$ 2.38	\$ 1.75	\$ 1.00	\$ 0.81	\$ 0.53
Weighted average shares outstanding diluted(4)	167,671	164,844	158,284	124,972	115,592

**Store Operating Data:**

Number of stores by segment

United States	4,331	4,061	3,799	3,624	1,801
---------------	-------	-------	-------	-------	-------

Edgar Filing: GameStop Corp. - Form 10-K

Canada	325	287	267	261	
Australia	350	280	219	177	
Europe	1,201	636	493	428	25
Total	6,207	5,264	4,778	4,490	1,826
Comparable store sales increase (decrease)(5)	12.3%	24.7%	11.9%	(1.4)%	1.7%
Inventory turnover	5.8	6.0	5.2	5.0	5.4
<b>Balance Sheet Data:</b>					
Working capital	\$ 255,330	\$ 534,160	\$ 353,284	\$ 234,293	\$ 111,093
Total assets	4,512,590	3,775,891	3,349,584	3,015,821	915,983
Total debt	545,712	574,473	855,484	975,990	36,520
Total liabilities	2,212,909	1,913,445	1,973,706	1,901,108	372,972
Stockholders' equity	2,299,681	1,862,446	1,375,878	1,114,713	543,011

(1) Includes the results of operations of EB from October 9, 2005, the day after completion of the EB merger, through January 28, 2006. The addition of EB's results affects the comparability of amounts from fiscal periods before the 52 weeks ended January 28, 2006 (fiscal 2005).

**Table of Contents**

- (2) On the first day of the 53 weeks ended February 3, 2007 ( fiscal 2006 ), the Company adopted the provisions of Statement of Financial Accounting Standards No. 123 (Revised 2004), *Share-Based Payment*, ( SFAS 123(R) ) which requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees in its financial statements. The implementation of SFAS 123(R) affects the comparability of amounts from fiscal periods before fiscal 2006. The amount of stock-based compensation included was \$35.4 million, \$26.9 million and \$21.0 million for the fiscal years 2008, 2007 and 2006, respectively.
- (3) The Company's results of operations for fiscal 2008, fiscal 2006 and fiscal 2005 include expenses believed to be of a one-time or short-term nature associated with the Micromania acquisition (fiscal 2008) and the EB merger (fiscal 2006 and fiscal 2005), which included \$4.6 million, \$6.8 million and \$13.6 million, respectively, considered in operating earnings and \$7.5 million included in fiscal 2005 in interest expense. In fiscal 2008, the \$4.6 million included \$3.5 million related to foreign currency losses on funds used to purchase Micromania. In fiscal 2006 and fiscal 2005, the \$6.8 million and \$13.6 million, respectively, included \$1.9 million and \$9.0 million in charges associated with assets of the Company considered to be impaired as a result of the EB merger and \$4.9 million and \$4.6 million, respectively, in costs associated with integrating the operations of GameStop and EB. Costs related to the EB merger included in interest expense in fiscal 2005 include a fee of \$7.1 million for an unused bridge financing facility which the Company obtained as financing insurance in connection with the EB merger.
- (4) Weighted average shares outstanding and earnings per common share have been adjusted to reflect the Conversion and the Stock Split.
- (5) Stores are included in our comparable store sales base beginning in the 13th month of operation.

**Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

*The following discussion should be read in conjunction with the information contained in our consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management's plans and objectives, and any statements concerning assumptions related to the foregoing contained in Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. Certain factors, which may cause actual results to vary materially from these forward-looking statements, accompany such statements or appear elsewhere in this Form 10-K, including the factors disclosed under Item 1A. Risk Factors.*

**General**

GameStop Corp. (together with its predecessor companies, GameStop, we, us, our, or the Company ) is the world's largest retailer of video game products and PC entertainment software. We sell new and used video game hardware, video game software and accessories, as well as PC entertainment software and other merchandise. As of January 31, 2009, we operated 6,207 stores, in the United States, Australia, Canada and Europe, primarily under the names GameStop and EB Games. We also operate an electronic commerce website under the name [www.gamestop.com](http://www.gamestop.com) and publish *Game Informer*, the industry's largest multi-platform video game magazine in the United States based on circulation.

Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January 31. The fiscal years ended January 31, 2009 ( fiscal 2008 ) and February 2, 2008 ( fiscal 2007 ) consisted of 52 weeks. The fiscal year ended February 3, 2007 ( fiscal 2006 ) consisted of 53 weeks.

## Edgar Filing: GameStop Corp. - Form 10-K

The Company began operations in November 1996. In October 1999, the Company was acquired by, and became a wholly-owned subsidiary of, Barnes & Noble, Inc. ( Barnes & Noble ). In February 2002, GameStop completed an initial public offering of its Class A common stock and was a majority-owned subsidiary of Barnes & Noble until November 2004, when Barnes & Noble distributed its holdings of outstanding GameStop Class B common stock to its stockholders. In October 2005, GameStop acquired the operations of Electronics Boutique Holdings Corp. ( EB ), a 2,300-store video game retailer in the U.S. and 12 other countries, by merging its existing operations with EB under GameStop Corp. (the EB merger ).

On February 7, 2007, following approval by a majority of the Class B common stockholders in a special meeting of the Company s Class B common stockholders, all outstanding Class B common shares were converted

## **Table of Contents**

into Class A common shares on a one-for-one basis (the Conversion ). In addition, on February 9, 2007, the Board of Directors of the Company authorized a two-for-one stock split, effected by a one-for-one stock dividend to stockholders of record at the close of business on February 20, 2007, paid on March 16, 2007 (the Stock Split ). Unless otherwise indicated, all numbers in this Management's Discussion and Analysis of Financial Condition and Results of Operations have been restated to reflect the Conversion and the Stock Split.

On November 17, 2008, GameStop France SAS, a wholly-owned subsidiary of the Company, completed the acquisition of substantially all of the outstanding capital stock of SFMI Micromania SAS ( Micromania ) for \$580.4 million, net of cash acquired in the transaction. Micromania is a leading retailer of video and computer games in France with 332 locations, 328 of which were operating on the date of acquisition (the Micromania acquisition ). The Company funded the transaction with cash on hand, funds drawn against its revolving credit facility totaling \$275 million, and term loans totaling \$150 million. As of January 31, 2009, amounts drawn against the revolving credit facility and the term loans have been repaid. The Company's operating results for fiscal 2008 include 11 weeks of Micromania's results.

Growth in the video game industry is driven by the introduction of new technology. In 2005 in the North American markets, Sony introduced the PlayStation Portable (the PSP ) in March and Microsoft introduced the Xbox 360 in November. In November 2006, Nintendo introduced the Wii hardware platform worldwide and Sony introduced the PlayStation 3 hardware platform in the North American markets. Sony introduced the PlayStation 3 platform in the Australian and European markets in March 2007. Typically, following the introduction of new video game platforms, sales of new video game hardware increase as a percentage of total sales in the first full year following introduction. As video game platforms mature, the sales mix attributable to complementary video game software and accessories, which generate higher gross margins, generally increases in the subsequent years. The net effect is generally a decline in gross margins in the first full year following new platform releases and an increase in gross margins in the years subsequent to the first full year following the launch period. Unit sales of maturing video game platforms are typically also driven by manufacturer-funded retail price reductions, further driving sales of related software and accessories. We expect that the installed base of the hardware platforms listed above and sales of related software and accessories will increase in the future.

## **Critical Accounting Policies**

The Company believes that the following are its most significant accounting policies which are important in determining the reporting of transactions and events:

*Use of Estimates.* The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by management could have significant impact on the Company's financial results. Actual results could differ from those estimates.

*Revenue Recognition.* Revenue from the sales of the Company's products is recognized at the time of sale and is stated net of sales discounts. The sales of used video game products are recorded at the retail price charged to the customer. Sales returns (which are not significant) are recognized at the time returns are made. Subscription and advertising revenues are recorded upon release of magazines for sale to consumers. Magazine subscription revenue is recognized on a straight-line basis over the subscription period. Revenue from the sales of product replacement plans is recognized on a straight-line basis over the coverage period. Gift cards sold to customers are recognized as a liability

on the balance sheet until redeemed.

*Stock-Based Compensation.* The Company records share-based compensation expense in earnings based on the grant-date fair value of options or restricted stock granted. As of January 31, 2009, the unrecognized compensation expense related to the unvested portion of our stock options and restricted stock was \$14.3 million and \$23.4 million, respectively, which is expected to be recognized over a weighted average



**Table of Contents**

period of 1.9 and 1.8 years, respectively. Note 1 of Notes to Consolidated Financial Statements provides additional information on stock-based compensation.

*Merchandise Inventories.* Our merchandise inventories are carried at the lower of cost or market generally using the average cost method. Under the average cost method, as new product is received from vendors, its current cost is added to the existing cost of product on-hand and this amount is re-averaged over the cumulative units. Used video game products traded in by customers are recorded as inventory at the amount of the store credit given to the customer. In valuing inventory, management is required to make assumptions regarding the necessity of reserves required to value potentially obsolete or over-valued items at the lower of cost or market. Management considers quantities on hand, recent sales, potential price protections and returns to vendors, among other factors, when making these assumptions. Our ability to gauge these factors is dependent upon our ability to forecast customer demand and to provide a well-balanced merchandise assortment. Any inability to forecast customer demand properly could lead to increased costs associated with inventory markdowns. We also adjust inventory based on anticipated physical inventory losses or shrinkage. Physical inventory counts are taken on a regular basis to ensure the reported inventory is accurate. During interim periods, estimates of shrinkage are recorded based on historical losses in the context of current period circumstances.

*Property and Equipment.* Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is computed using the straight-line method over estimated useful lives (ranging from two to eight years). Maintenance and repairs are expensed as incurred, while betterments and major remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases, including renewal options in which the exercise of the option is reasonably assured (generally ranging from three to ten years). Costs incurred to third parties in purchasing management information systems are capitalized and included in property and equipment. These costs are amortized over their estimated useful lives from the date the systems become operational. The Company periodically reviews its property and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. The Company assesses recoverability based on several factors, including management's intention with respect to its stores and those stores' projected undiscounted cash flows. An impairment loss is recognized for the amount by which the carrying amount of the assets exceeds their fair value, as approximated by the present value of their projected cash flows. Write-downs incurred by the Company through January 31, 2009 have not been material.

*Goodwill.* Goodwill, aggregating \$1,862.1 million, has been recorded as of January 31, 2009 related to various acquisitions. Goodwill represents the excess purchase price over tangible net assets and identifiable intangible assets acquired. The Company does not amortize goodwill, instead it evaluates it for impairment on at least an annual basis. The Company completed its annual impairment test of goodwill as of the first day of the fourth quarter of fiscal 2006, fiscal 2007 and fiscal 2008 and concluded that none of its goodwill was impaired. Note 7 of Notes to Consolidated Financial Statements provides additional information concerning goodwill.

*Other Intangible Assets and Other Noncurrent Assets.* Other intangible assets consist primarily of tradenames, leasehold rights and amounts attributed to favorable leasehold interests recorded as a result of the Micromania acquisition and the EB merger. Intangible assets are recorded consistent with the provisions of Statement of Financial Accounting Standards No. 141, *Business Combinations* (SFAS 141), which requires that intangible assets shall be recognized as an asset apart from goodwill if they arise from a contractual right and are capable of being separated from the entity and sold, transferred, licensed, rented or exchanged individually. The useful life and amortization methodology of intangible assets are based on the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which requires that the assets should be amortized over the period in which they are expected to contribute directly to cash flows.

Tradenames which were recorded as a result of the Micromania acquisition are considered indefinite life intangible assets as they are expected to contribute to cash flows indefinitely and are not subject to

**Table of Contents**

amortization, but they are subject to annual impairment testing. Leasehold rights which were recorded as a result of the Micromania acquisition represent the value of rights of tenancy under commercial property leases for properties located in France. Rights pertaining to individual leases can be sold by us to a new tenant or recovered by us from the landlord if the exercise of the automatic right of renewal is refused. Leasehold rights are amortized on a straight-line basis over the expected lease term not to exceed 20 years with no residual value. Favorable leasehold interests represent the value of the contractual monthly rental payments that are less than the current market rent at stores acquired as part of the Micromania acquisition or the EB merger. Favorable leasehold interests are amortized on a straight-line basis over their remaining lease term with no expected residual value. For additional information related to the Company's intangible assets, see Note 7 of Notes to Consolidated Financial Statements.

Other non-current assets are made up of deposits and deferred financing fees. The deferred financing fees are associated with the Company's revolving credit facility and the senior notes issued in October 2005 in connection with the financing of the EB merger. The deferred financing fees are being amortized over five and seven years to match the terms of the revolving credit facility and the senior notes, respectively. Deferred financing fees incurred in connection with the issuance of the senior floating rate notes in October 2005 in connection with the EB merger were included in deferred financing fees in the balance sheet and were being amortized over six years to match the term of the senior floating rate notes. The remaining balance of the deferred financing fees on the senior floating rate notes was written off to debt extinguishment expense during fiscal 2007 when the notes were redeemed.

*Cash Consideration Received from Vendors.* The Company and its vendors participate in cooperative advertising programs and other vendor marketing programs in which the vendors provide the Company with cash consideration in exchange for marketing and advertising the vendors' products. Our accounting for cooperative advertising arrangements and other vendor marketing programs, in accordance with Financial Accounting Standards Board (FASB) Emerging Issues Task Force Issue 02-16, results in a portion of the consideration received from our vendors reducing the product costs in inventory. The consideration serving as a reduction in inventory is recognized in cost of sales as inventory is sold. The amount of vendor allowances recorded as a reduction of inventory is determined by calculating the ratio of vendor allowances in excess of specific, incremental and identifiable advertising and promotional costs to merchandise purchases. The Company then applies this ratio to the value of inventory in determining the amount of vendor reimbursements recorded as a reduction to inventory reflected on the balance sheet. Because of the variability in the timing of our advertising and marketing programs throughout the year, the Company uses significant estimates in determining the amount of vendor allowances recorded as a reduction of inventory in interim periods, including estimates of full year vendor allowances, specific, incremental and identifiable advertising and promotional costs, merchandise purchases and value of inventory. Estimates of full year vendor allowances and the value of inventory are dependent upon estimates of full year merchandise purchases. Determining the amount of vendor allowances recorded as a reduction of inventory at the end of the fiscal year no longer requires the use of estimates as all vendor allowances, specific, incremental and identifiable advertising and promotional costs, merchandise purchases and value of inventory are known.

Although management considers its advertising and marketing programs to be effective, we do not believe that we would be able to incur the same level of advertising expenditures if the vendors decreased or discontinued their allowances. In addition, management believes that the Company's revenues would be adversely affected if its vendors decreased or discontinued their allowances, but management is unable to quantify the impact.

*Lease Accounting.* The Company's method of accounting for rent expense (and related deferred rent liability) and leasehold improvements funded by landlord incentives for allowances under operating leases (tenant improvement allowances) is in conformance with GAAP, as clarified by the Chief Accountant of the SEC in a February 2005 letter to the American Institute of Certified Public Accountants. For leases that contain predetermined fixed escalations of the minimum rent, we recognize the related rent expense on a straight-line basis and include the impact of escalating rents for periods in which we are reasonably assured of exercising lease options and we include in the lease term any

period during which the Company is not obligated to pay rent while the store is being constructed, or rent holiday.

**Table of Contents**

*Income Taxes.* The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ( SFAS 109 ). SFAS 109 utilizes an asset and liability approach, and deferred taxes are determined based on the estimated future tax effect of differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates. As a result of our operations in many foreign countries, our global tax rate is derived from a combination of applicable tax rates in the various jurisdictions in which we operate. We base our estimate of an annual effective tax rate at any given point in time on a calculated mix of the tax rates applicable to our company and to estimates of the amount of income to be derived in any given jurisdiction. We file our tax returns based on our understanding of the appropriate tax rules and regulations. However, complexities in the tax rules and our operations, as well as positions taken publicly by the taxing authorities, may lead us to conclude that accruals for uncertain tax positions are required. We generally maintain accruals for uncertain tax positions until examination of the tax year is completed by the taxing authority, available review periods expire or additional facts and circumstances cause us to change our assessment of the appropriate accrual amount.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), which clarifies the accounting for uncertainty in income taxes recognized under SFAS 109. FIN 48 addresses the recognition and measurement of tax positions taken or expected to be taken, and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. For additional information related to the Company's adoption of FIN 48, see Note 12 of Notes to Consolidated Financial Statements.

**Consolidated Results of Operations**

The following table sets forth certain income statement items as a percentage of sales for the periods indicated:

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
<b>Statement of Operations Data:</b>			
Sales	100.0%	100.0%	100.0%
Cost of sales	74.2	74.4	72.3
Gross profit	25.8	25.6	27.7
Selling, general and administrative expenses	16.4	16.7	19.2
Depreciation and amortization	1.6	1.8	2.1
Merger-related expenses	0.1		0.1
Operating earnings	7.7	7.1	6.3
Interest expense, net	0.5	0.7	1.4
Debt extinguishment expense		0.2	0.1
Earnings before income taxes	7.2	6.2	4.8
Income tax expense	2.7	2.1	1.8
Net earnings	4.5%	4.1%	3.0%

The Company includes purchasing, receiving and distribution costs in selling, general and administrative expenses, rather than cost of goods sold, in the statement of operations. For the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007, these purchasing, receiving and distribution costs amounted to \$57.0 million, \$43.9 million and \$35.9 million, respectively. The Company includes processing fees associated with purchases made by check and credit cards in cost of sales, rather than selling, general and administrative expenses, in the statement of operations. For the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007, these processing fees amounted to \$65.5 million, \$55.2 million and \$40.9 million, respectively. As a result of these classifications, our gross margins are not comparable to those retailers that include purchasing, receiving and distribution costs in cost of sales and include processing fees associated with purchases made by check and credit

**Table of Contents**

cards in selling, general and administrative expenses. The reclassifications had a net effect of 0.1%, 0.2% and 0.1% of sales for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007, respectively.

The following table sets forth sales (in millions) by significant product category for the periods indicated:

	52 Weeks Ended January 31, 2009		52 Weeks Ended February 2, 2008		53 Weeks Ended February 3, 2007	
	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total
<b>Sales:</b>						
New video game hardware	\$ 1,860.2	21.1%	\$ 1,668.9	23.5%	\$ 1,073.7	20.2%
New video game software	3,685.0	41.9%	2,800.7	39.5%	2,012.5	37.8%
Used video game products	2,026.6	23.0%	1,586.7	22.4%	1,316.0	24.8%
Other	1,234.1	14.0%	1,037.7	14.6%	916.7	17.2%
Total	\$ 8,805.9	100.0%	\$ 7,094.0	100.0%	\$ 5,318.9	100.0%

Other products include PC entertainment and other software and accessories, magazines and character-related merchandise.

The following table sets forth gross profit (in millions) and gross profit percentages by significant product category for the periods indicated:

	52 Weeks Ended January 31, 2009		52 Weeks Ended February 2, 2008		53 Weeks Ended February 3, 2007	
	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent
<b>Gross Profit:</b>						
New video game hardware	\$ 112.6	6.1%	\$ 108.2	6.5%	\$ 77.0	7.2%
New video game software	768.4	20.9%	581.7	20.8%	427.3	21.2%
Used video game products	974.5	48.1%	772.2	48.7%	651.9	49.5%
Other	414.6	33.6%	351.6	33.9%	315.2	34.4%
Total	\$ 2,270.1	25.8%	\$ 1,813.7	25.6%	\$ 1,471.4	27.7%

**Fiscal 2008 Compared to Fiscal 2007**

Despite worldwide economic conditions, sales increased \$1,711.9 million, or 24.1%, to \$8,805.9 million in the 52 weeks of fiscal 2008 compared to \$7,094.0 million in the 52 weeks of fiscal 2007. The increase in sales was attributable to the comparable store sales increase of 12.3% for fiscal 2008 when compared to fiscal 2007, the addition of non-comparable store sales from the 1,588 stores opened since February 3, 2007 of approximately \$698.2 million and the acquisition of Micromania, offset by decreases related to changes in foreign exchange rates of \$71.6 million. The comparable store sales increase was driven by strong sales of new and used video game software which is typical as the installed base of new hardware platforms increases in the years following their launch. Stores are included in our comparable store sales base beginning in the thirteenth month of operation and exclude the effect of changes in foreign exchange rates.

New video game hardware sales increased \$191.3 million, or 11.5%, from fiscal 2007 to fiscal 2008, primarily due to the continued expansion of the installed base of new hardware platforms and the increase in store count since the end of fiscal 2007, including the Micromania acquisition. New video game hardware sales decreased as a percentage of sales from 23.5% in fiscal 2007 to 21.1% in fiscal 2008, primarily due to strong sales of new video game software driven by the continued expansion of the installed base of new video game consoles and a strong lineup of video game titles in fiscal 2008.



**Table of Contents**

New video game software sales increased \$884.3 million, or 31.6%, from fiscal 2007 to fiscal 2008, primarily due to the strong sales of new video game titles released in fiscal 2008 and the increased sales of software related to the new hardware platforms, as well as the new and acquired stores added since the end of fiscal 2007. New video game software sales increased as a percentage of total sales from 39.5% in fiscal 2007 to 41.9% in fiscal 2008 due to the continued expansion of the installed base of new video game consoles, as well as the availability of several strong new titles in fiscal 2008.

Used video game product sales increased \$439.9 million, or 27.7%, from fiscal 2007 to fiscal 2008, primarily due to an increase in store count and an increase in the availability of hardware and software associated with the new hardware platforms as those platforms age and expand. As a percentage of sales, used video game product sales increased from 22.4% to 23.0% primarily due to the continued expansion of the installed base of new video game consoles and the availability of used hardware and software from those consoles. Sales of other product categories, including PC entertainment and other software and accessories, magazines and trading cards, grew 18.9%, or \$196.4 million, from fiscal 2007 to fiscal 2008, primarily due to the increase in store count and strong sales of new PC entertainment software and sales of accessories related to the new hardware platforms.

Cost of sales increased by \$1,255.5 million, or 23.8%, from \$5,280.3 million in fiscal 2007 to \$6,535.8 million in fiscal 2008 as a result of the increase in sales and the changes in gross profit discussed below.

Gross profit increased by \$456.4 million, or 25.2%, from \$1,813.7 million in fiscal 2007 to \$2,270.1 million in fiscal 2008. Gross profit as a percentage of sales increased from 25.6% in fiscal 2007 to 25.8% in fiscal 2008. The gross profit percentage increase was caused primarily by the shift in sales from new video game hardware to new video game software and used video game products as a percentage of total sales in fiscal 2008 as the new platforms mature. These product categories carry a significantly higher margin than new video game hardware. Gross profit as a percentage of sales on new video game hardware decreased from 6.5% in fiscal 2007 to 6.1% in fiscal 2008 due primarily to a decrease in product replacement plan sales. Gross profit as a percentage of sales on new video game software and other products remained relatively consistent from 20.8% and 33.9%, respectively, in fiscal 2007 compared to 20.9% and 33.6%, respectively, in fiscal 2008. Gross profit as a percentage of sales on used video game products decreased from 48.7% in fiscal 2007 to 48.1% in fiscal 2008 due to increased promotional activities and higher refurbishment costs associated with an increase in production of refurbished hardware platforms during fiscal 2008.

Selling, general and administrative expenses increased by \$263.4 million, or 22.3%, from \$1,182.0 million in fiscal 2007 to \$1,445.4 million in fiscal 2008. The increase was primarily attributable to the increase in the number of stores in operation, and the related increases in store, distribution and corporate office operating expenses. Selling, general and administrative expenses as a percentage of sales decreased from 16.7% in fiscal 2007 to 16.4% in fiscal 2008. The decrease in selling, general and administrative expenses as a percentage of sales was primarily due to leveraging as a result of the higher sales associated with the growth of the video game market and cost control efforts. Selling, general and administrative expenses include \$35.4 million and \$26.9 million in stock-based compensation expense for fiscal 2008 and fiscal 2007, respectively. Foreign currency transaction gains and (losses) are included in selling, general and administrative expenses and amounted to (\$6.4) million in fiscal 2008, compared to \$8.6 million in fiscal 2007.

Depreciation and amortization expense increased from \$130.3 million in fiscal 2007 to \$145.0 million in fiscal 2008. This increase of \$14.7 million was due primarily to capital expenditures associated with the opening of 674 new stores during fiscal 2008. Depreciation and amortization expense will increase from fiscal 2008 to the 52 week period ending January 30, 2010 ( fiscal 2009 ) due to continued capital expenditures for new stores and investments in management information systems.

Interest income from the investment of excess cash balances decreased from \$13.8 million in fiscal 2007 to \$11.6 million in fiscal 2008 as a result of lower invested cash balances due to acquisitions and lower interest rates. Interest expense decreased from \$61.6 million in fiscal 2007 to \$50.5 million in fiscal 2008, primarily due to the retirement of \$30.0 million of the Company's senior notes since February 2, 2008 and the retirement of \$270.0 million in senior notes and senior floating rate notes during fiscal 2007. Debt extinguishment expense of \$2.3 million and \$12.6 million was recognized in fiscal 2008 and fiscal 2007, respectively, as a result of the

**Table of Contents**

premiums paid related to debt retirement and the recognition of deferred financing fees and unamortized original issue discount.

Income tax expense increased by \$82.9 million, from \$152.8 million in fiscal 2007 to \$235.7 million in fiscal 2008. The Company's effective tax rate increased from 34.6% in fiscal 2007 to 37.2% in fiscal 2008 due to expenses related to mergers and acquisitions and associated corporate structuring and the deemed repatriation of earnings from foreign subsidiaries. In addition, during fiscal 2007 there were valuation allowances released on foreign net operating losses. See Note 12 of Notes to Consolidated Financial Statements for additional information regarding income taxes.

The factors described above led to an increase in operating earnings of \$173.7 million, or 34.6%, from \$501.4 million in fiscal 2007 to \$675.1 million in fiscal 2008 and an increase in net earnings of \$110.0 million, or 38.2%, from \$288.3 million in fiscal 2007 to \$398.3 million in fiscal 2008.

***Fiscal 2007 Compared to Fiscal 2006***

Sales increased by \$1,775.1 million, or 33.4%, to \$7,094.0 million in the 52 weeks of fiscal 2007 compared to \$5,318.9 million in the 53 weeks of fiscal 2006. The increase in sales was attributable to the comparable store sales increase of 24.7% for fiscal 2007 when compared to fiscal 2006, the addition of non-comparable store sales from the 1,007 stores opened since January 29, 2006 of approximately \$496.2 million and increases related to changes in foreign exchange rates of \$109.4 million, offset by sales of \$99.1 million for the 53rd week included in fiscal 2006. The comparable store sales increase was driven by continued strong sales of the Nintendo Wii, Microsoft's Xbox 360 and the Sony PlayStation 3, which completed its worldwide launch during fiscal 2007, and their related software and accessories, including several strong video game titles, such as *Halo 3* and *Guitar Hero III*. The comparable store sales increase of 24.7% was calculated by using the 52 weeks of fiscal 2007 compared to the most closely comparable 52 weeks of fiscal 2006 with consideration given to the timing of holidays to ensure comparability.

New video game hardware sales increased \$595.2 million, or 55.4%, from fiscal 2006 to fiscal 2007, primarily due to the sales of hardware units mentioned above, as well as the increase in store count since January 2007, offset by the 53rd week of sales included in fiscal 2006. New video game hardware sales increased as a percentage of sales from 20.2% in fiscal 2006 to 23.5% in fiscal 2007, primarily due to the first full year since the Nintendo Wii and the Sony PlayStation 3 launch as well as increasing sales of Microsoft Xbox 360 and the Nintendo DS.

New video game software sales increased \$788.2 million, or 39.2%, from fiscal 2006 to fiscal 2007, primarily due to new stores added in fiscal 2007, sales related to the new hardware platforms and a strong lineup of new video game titles released during the 52 weeks ended February 2, 2008. New video game software sales as a percentage of total sales increased from 37.8% in fiscal 2006 to 39.5% in fiscal 2007 due to increased sales related to the new hardware platforms and the availability of several strong titles in fiscal 2007.

Used video game product sales increased \$270.7 million, or 20.6%, from fiscal 2006 to fiscal 2007, primarily due to the increase in new store count, an increase in overall demand for video game products following the launch of new hardware platforms and the strong growth of used video game product sales internationally, offset by the 53rd week of sales in fiscal 2006. As a percentage of sales, used video game product sales decreased from 24.8% to 22.4% primarily due to the strong sales of new video game hardware and software. Sales of other product categories, including PC entertainment and other software and accessories, magazines and trading cards, grew 13.2%, or \$121.0 million, from fiscal 2006 to fiscal 2007, primarily due to the increase in store count and the increase in new hardware platform accessories sales, offset by the 53rd week of sales in fiscal 2006.

Cost of sales increased by \$1,432.8 million, or 37.2%, from \$3,847.5 million in fiscal 2006 to \$5,280.3 million in fiscal 2007 as a result of the increase in sales and the changes in gross profit discussed below, offset by the 53rd week

of sales in fiscal 2006.

Gross profit increased by \$342.3 million, or 23.3%, from \$1,471.4 million in fiscal 2006 to \$1,813.7 million in fiscal 2007. Gross profit as a percentage of sales decreased from 27.7% in fiscal 2006 to 25.6% in fiscal 2007. The gross profit percentage decrease was caused primarily by the increase in sales of new video game hardware as a percentage of total sales in fiscal 2007. New video game hardware typically carries a much lower margin than sales

**Table of Contents**

in the other product categories. Gross profit as a percentage of sales was also impacted by a decrease in the excess of vendor allowances received over marketing and advertising expenses. Vendor allowances received during fiscal 2006 were abnormally high due to the launches of the Nintendo Wii and the Sony PlayStation 3 and returned to normal levels in fiscal 2007. In addition, net vendor allowances decreased due to higher expenditures on marketing and advertising from fiscal 2006 to fiscal 2007 in support of the Company's branding campaign. These factors led to a decrease in gross profit as a percentage of sales on new video game hardware, new video game software and other products from 7.2%, 21.2% and 34.4% of sales, respectively, in fiscal 2006 to 6.5%, 20.8% and 33.9% of sales, respectively, in fiscal 2007. Gross profit as a percentage of sales on used video game products decreased from 49.5% in fiscal 2006 to 48.7% in fiscal 2007 due to increased promotional expenses and higher refurbishment costs associated with an increase in production of refurbished hardware platforms during fiscal 2007.

Selling, general and administrative expenses increased by \$160.9 million, or 15.8%, from \$1,021.1 million in fiscal 2006 to \$1,182.0 million in fiscal 2007. The increase was primarily attributable to the increase in the number of stores in operation, and the related increases in store, distribution and corporate office operating expenses, offset by expenses from the 53rd week included in fiscal 2006. Selling, general and administrative expenses as a percentage of sales decreased from 19.2% in fiscal 2006 to 16.7% in fiscal 2007. The decrease in selling, general and administrative expenses as a percentage of sales was primarily due to leveraging as a result of the higher sales associated with the introduction of the new video game systems and synergies associated with the acquisition of EB. Selling, general and administrative expenses include \$26.9 million and \$21.0 million in stock-based compensation expense for fiscal 2007 and fiscal 2006, respectively. Foreign currency transaction gains and (losses) are included in selling, general and administrative expenses and amounted to \$8.6 million in fiscal 2007, compared to (\$1.0) million in fiscal 2006.

Depreciation and amortization expense increased from \$109.9 million in fiscal 2006 to \$130.3 million in fiscal 2007. This increase of \$20.4 million was due primarily to capital expenditures for 586 new GameStop stores.

Interest income resulting from the investment of excess cash balances increased from \$11.3 million in fiscal 2006 to \$13.8 million in fiscal 2007 due to interest earned on invested assets. Interest expense decreased from \$84.7 million in fiscal 2006 to \$61.6 million in fiscal 2007, primarily due to the retirement of \$20.0 million of the Company's senior notes and \$250.0 million of the Company's senior floating rate notes since February 3, 2007. Debt extinguishment expense of \$12.6 million was recognized in fiscal 2007 as a result of the premiums paid related to debt retirement and the recognition of deferred financing fees and unamortized original issue discount. Debt extinguishment expense of \$6.1 million was incurred in fiscal 2006 for the loss associated with the Company's repurchase of \$50.0 million of its senior notes payable and \$50.0 million of its senior floating rate notes payable.

Income tax expense increased by \$56.8 million, from \$96.0 million in fiscal 2006 to \$152.8 million in fiscal 2007. The Company's effective tax rate decreased from 37.8% in fiscal 2006 to 34.6% in fiscal 2007 due to the release of foreign valuation allowances on net operating losses and the recognition of foreign tax credits not previously benefited. See Note 12 of Notes to Consolidated Financial Statements for additional information regarding income taxes.

The factors described above led to an increase in operating earnings of \$167.7 million, or 50.3%, from \$333.7 million in fiscal 2006 to \$501.4 million in fiscal 2007 and an increase in net earnings of \$130.0 million, or 82.1%, from \$158.3 million in fiscal 2006 to \$288.3 million in fiscal 2007.

**Segment Performance**

The Company operates its business in the following segments: United States, Canada, Australia and Europe. We identified these segments based on a combination of geographic areas, the methods with which we analyze performance and how we divide management responsibility. Each of the segments consists primarily of retail

operations, with all stores engaged in the sale of new and used video game systems, software and accessories which we refer to as video game products and PC entertainment software and related accessories. These products are substantially the same regardless of geographic location, with the primary differences in merchandise carried being the timing of the release of new products in the various segments. Stores in all segments are similar in size at an average of approximately 1,500 square feet.

**Table of Contents**

As we have expanded our presence in international markets, the Company has increased its operations in foreign currencies, including the euro, Australian dollar, New Zealand dollar, Canadian dollar, British pound, Swiss franc, Danish kroner, Swedish krona, and the Norwegian kroner. The notes issued in connection with the acquisition of Micromania and the EB merger are reflected in the United States segment. See Note 20 of Notes to Consolidated Financial Statements for more information.

Sales by operating segment in U.S. dollars were as follows (in millions):

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
United States	\$ 6,466.7	\$ 5,438.8	\$ 4,269.5
Canada	548.2	473.0	319.7
Australia	520.0	420.8	288.1
Europe	1,271.0	761.4	441.6
Total	\$ 8,805.9	\$ 7,094.0	\$ 5,318.9

Operating earnings by operating segment, defined as income from continuing operations before intercompany royalty fees, net interest expense and income taxes, in U.S. dollars were as follows (in millions):

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
United States	\$ 530.1	\$ 391.2	\$ 285.4
Canada	32.6	35.8	20.0
Australia	46.8	41.8	27.3
Europe	65.6	32.6	1.0
Total	\$ 675.1	\$ 501.4	\$ 333.7

Total assets by operating segment in U.S. dollars were as follows (in millions):

	<b>January 31, 2009</b>	<b>February 2, 2008</b>	<b>February 3, 2007</b>
United States	\$ 2,578.0	\$ 2,742.0	\$ 2,618.9
Canada	293.7	274.7	210.4
Australia	312.8	251.1	210.7
Europe	1,328.1	508.1	309.6

Total	\$	4,512.6	\$	3,775.9	\$	3,349.6
-------	----	---------	----	---------	----	---------

***Fiscal 2008 Compared to Fiscal 2007****United States*

Segment results for the United States include retail operations in 50 states, the District of Columbia, Puerto Rico and Guam, the electronic commerce website [www.gamestop.com](http://www.gamestop.com) and *Game Informer* magazine. As of January 31, 2009, the United States segment included 4,331 GameStop stores, compared to 4,061 stores on February 2, 2008. Sales for the 52 weeks ended January 31, 2009 increased 18.9% compared to the 52 weeks ended February 2, 2008 as a result of increased sales at existing stores and the opening of 643 new stores since February 3, 2007, including 315 stores in the 52 weeks ended January 31, 2009. Sales at existing stores increased due to strong sales of new video game software and used video game products which is typical in the years following the release of new hardware platforms. As the installed base of the new hardware platforms expands, more new software titles become available and trade-ins of used video game products applied toward the purchase of new video games lead to increased sales of new and used video game products. Segment operating income for the 52 weeks ended



**Table of Contents**

January 31, 2009 increased by 35.5% compared to the 52 weeks ended February 2, 2008, driven by strong sales of new video game software and used video game products and their related accessories, as well as the leveraging of selling, general and administrative expenses.

*Canada*

Sales in the Canadian segment in the 52 weeks ended January 31, 2009 increased 15.9% compared to the 52 weeks ended February 2, 2008. The increase in sales was primarily attributable to increased sales at existing stores and the additional sales at the 58 stores opened since February 3, 2007. As of January 31, 2009, the Canadian segment had 325 stores compared to 287 stores as of February 2, 2008. The increase in sales at existing stores was driven by strong sales of new video game software related to the continued expansion of the installed base of new hardware platforms. Segment operating income for the 52 weeks ended January 31, 2009 decreased by 8.9% compared to the 52 weeks ended February 2, 2008. The decrease in operating income when compared to the prior year was due primarily to a lower gross margin percentage driven by economic issues and competitive issues stemming from changes in foreign exchange rates. For the 52 weeks ended January 31, 2009, changes in exchange rates when compared to the prior year had the effect of decreasing operating earnings by \$2.7 million.

*Australia*

Segment results for Australia include retail operations in Australia and New Zealand. As of January 31, 2009, the Australian segment included 350 stores, compared to 280 stores as of February 2, 2008. Sales for the 52 weeks ended January 31, 2009 increased 23.6% compared to the 52 weeks ended February 2, 2008. The increase in sales was due to higher sales at existing stores and the additional sales at the 133 stores opened since February 3, 2007, including the eight New Zealand stores acquired from The Gamesman Limited during July 2008. The increase in sales at existing stores was due to a strong video game software title lineup and the availability of the new hardware platforms in fiscal 2008 when compared to the prior fiscal year following the launch of the Sony PlayStation 3 in the first quarter of fiscal 2007. In addition, the new hardware platforms drove an increase in used product sales as the installed base of platforms increased and more software became available. Segment operating income in the 52 weeks ended January 31, 2009 increased by 12.0% when compared to the 52 weeks ended February 2, 2008. The increase in operating earnings for the 52 weeks ended January 31, 2009 was due to the higher sales and related gross margin offset by the higher selling, general and administrative expenses associated with the increase in the number of stores in operation and the unfavorable impact of changes in exchange rates since the prior year. For the 52 weeks ended January 31, 2009, changes in exchange rates when compared to the prior year had the effect of decreasing operating earnings by \$4.0 million.

*Europe*

Segment results for Europe include retail operations in 13 European countries including France, in which we commenced operations on November 17, 2008 as a result of the Micromania acquisition. As of January 31, 2009, the European segment operated 1,201 stores, compared to 636 stores as of February 2, 2008. For the 52 weeks ended January 31, 2009, European sales increased 66.9% compared to the 52 weeks ended February 2, 2008. The increase in sales was primarily due to the additional sales at the 754 stores opened since February 3, 2007, including the 328 stores from the Micromania acquisition and the 49 stores acquired from Free Record Shop Norway AS, a Norwegian private limited liability company ( FRS ), in Norway during the first quarter of fiscal 2008 and the increase in sales at existing stores. The increase in sales at existing stores was due to strong sales of new video game software and the availability of the new hardware platforms in fiscal 2008 when compared to the prior fiscal year following the launch of the Sony PlayStation 3 in the first quarter of fiscal 2007. In addition, the new hardware platforms drove an increase in used product sales as the installed base of the platforms increased and more software became available.

The segment operating income in Europe for the 52 weeks ended January 31, 2009 increased to \$65.6 million compared to \$32.6 million in the 52 weeks ended February 2, 2008. The increase in the operating income was driven by the increase in sales and related margin dollars discussed above, the earnings generated by the Micromania stores and the continued maturation of our operations in the rest of the European market, offset by the unfavorable impact

**Table of Contents**

of changes in exchange rates since the prior year. For the 52 weeks ended January 31, 2009, changes in exchange rates when compared to fiscal 2007 had the effect of decreasing operating earnings by \$3.3 million.

***Fiscal 2007 Compared to Fiscal 2006****United States*

Segment results for the United States include retail operations in 50 states, the District of Columbia, Puerto Rico and Guam, the electronic commerce website [www.gamestop.com](http://www.gamestop.com) and *Game Informer* magazine. As of February 2, 2008, the United States segment included 4,061 GameStop stores, compared to 3,799 stores on February 3, 2007, and 3,624 stores on January 28, 2006. Sales for the 52 weeks ended February 2, 2008 increased 27.4% compared to the 53 weeks ended February 3, 2007 as a result of increased sales at existing stores and the opening of 604 new stores since January 28, 2006, including 328 stores in the 52 weeks ended February 2, 2008. Sales at existing stores increased due to strong sales of new hardware platform units, including the Nintendo Wii and the Sony PlayStation 3 and their related software and accessories, as well as Microsoft's Xbox 360 hardware, software and accessories, particularly new sales of *Halo 3* and *Guitar Hero III* released during fiscal 2007. Segment operating income for the 52 weeks ended February 2, 2008 increased by 37.1% compared to the 53 weeks ended February 3, 2007, driven by strong sales of the new hardware platforms and their related software and accessories, leveraging of selling, general and administrative expenses, and the recognition of synergies related to the acquisition of EB, including the shut-down in fiscal 2006 of EB's corporate headquarters and distribution center.

*Canada*

Sales in the Canadian segment in the 52 weeks ended February 2, 2008 increased 48.0% compared to the 53 weeks ended February 3, 2007. The increase in sales was primarily attributable to increased sales at existing stores and the additional sales at the 28 stores opened since January 28, 2006. As of February 2, 2008, the Canadian segment had 287 stores compared to 267 stores as of February 3, 2007. The increase in sales at existing stores was driven by strong sales of the new hardware platform units, including the Nintendo Wii and the Sony PlayStation 3 and their related software and accessories, as well as Microsoft's Xbox 360 hardware, software and accessories, particularly new software sales of *Halo 3* and *Guitar Hero III* released in fiscal 2007. Segment operating income for the 52 weeks ended February 2, 2008 increased by 79.0% compared to the 53 weeks ended February 3, 2007, driven by the increased sales and the related margin dollars discussed above, the leveraging of selling, general and administrative expenses and the favorable impact of changes in exchange rates since the prior year. For the 52 weeks ended February 2, 2008, changes in exchange rates when compared to the prior year had the effect of increasing operating earnings by \$1.9 million.

*Australia*

Segment results for Australia include retail operations in Australia and New Zealand. As of February 2, 2008, the Australian segment included 280 stores, compared to 219 as of February 3, 2007. Sales for the 52 weeks ended February 2, 2008 increased 46.1% compared to the 53 weeks ended February 3, 2007. The increase in sales was due to higher sales at existing stores and the additional sales at the 104 stores opened since January 28, 2006. The increase in sales at existing stores was due to strong sales of the Sony PlayStation 3, which launched in Australia and New Zealand during the first quarter of fiscal 2007, as well as strong sales of other video game hardware, including the Nintendo Wii, and increased sales of handheld video game systems during fiscal 2007 compared to fiscal 2006. The increased hardware sales led to increases in sales in new video game software, used video game products and accessories and other products. Segment operating income in the 52 weeks ended February 2, 2008 increased by 53.1% when compared to the 53 weeks ended February 3, 2007. The increase was driven by the increased sales and related margin dollars discussed above, the leveraging of selling, general and administrative expenses and the

favorable impact of changes in exchange rates since the prior year. For the 52 weeks ended February 2, 2008, changes in exchange rates when compared to the prior year had the effect of increasing operating earnings by \$3.7 million.

## **Table of Contents**

### *Europe*

Segment results for Europe include retail operations in 12 European countries including Portugal, which commenced operations in the first quarter of fiscal 2007. As of February 2, 2008, the European segment operated 636 stores, compared to 493 stores as of February 3, 2007. For the 52 weeks ended February 2, 2008, European sales increased 72.4% compared to the 53 weeks ended February 3, 2007. The increase in sales was primarily due to the increase in sales at existing stores and the additional sales at the 271 stores opened since January 28, 2006. The increase in store count was offset by store closings in the first quarter of fiscal 2007, primarily in Spain, as part of the implementation of the integration strategy of the acquisition of EB. The increase in sales at existing stores was driven by strong sales of the Sony PlayStation 3, which launched in Europe during the first quarter of fiscal 2007, as well as strong sales of other video game hardware, including the Nintendo Wii, and increased sales of Microsoft's Xbox 360 and handheld video game systems during fiscal 2007 compared to fiscal 2006. The increased hardware sales led to increases in sales in new video game software, used video game products and accessories and other products.

The segment operating income in Europe for the 52 weeks ended February 2, 2008 increased to \$32.6 million compared to \$1.0 million in the 53 weeks ended February 3, 2007. The increase in the operating income was driven by the increase in sales and related margin dollars discussed above, the leveraging of selling, general and administrative expenses, both of which reflect the continued maturation of our operations in the European market, and the favorable impact of changes in exchange rates since the prior year. For the 52 weeks ended February 2, 2008, changes in exchange rates when compared to fiscal 2006 had the effect of increasing operating earnings by \$2.7 million.

## **Liquidity and Capital Resources**

### *Cash Flows*

During fiscal 2008, cash provided by operations was \$549.2 million, compared to cash provided by operations of \$484.8 million in fiscal 2007. The increase in cash provided by operations of \$64.4 million from fiscal 2007 to fiscal 2008 was primarily due to an increase in cash provided by net earnings, including the non-cash adjustments to net earnings, of \$80.7 million and a decrease in the excess tax benefits realized from the exercise of stock-based awards of \$59.1 million. These amounts were offset by an increase in cash used in operations for working capital of \$75.4 million from fiscal 2007 to fiscal 2008 primarily due to an increase in merchandise inventories resulting from an increase in store count and sales levels.

During fiscal 2007, cash provided by operations was \$484.8 million, compared to cash provided by operations of \$420.1 million in fiscal 2006. The increase in cash provided by operations of \$64.7 million from fiscal 2006 to fiscal 2007 was primarily due to an increase in the cash provided by net earnings, including the non-cash adjustments to net earnings, of \$168.5 million offset by an increase in the excess tax benefits realized from the exercise of stock-based awards of \$49.5 million. These amounts were offset by a net decrease in cash provided by operations for working capital of \$54.3 million from fiscal 2006 to fiscal 2007 due primarily to an increase in merchandise inventories resulting from an increase in store count and sales.

Cash used in investing activities was \$813.9 million in fiscal 2008, \$174.5 million during fiscal 2007 and \$125.9 million during fiscal 2006. During fiscal 2008, the Company used \$580.4 million, net of cash acquired, to purchase Micromania and \$50.3 million, net of cash acquired, to acquire FRS, The Gamesman Limited and an increased ownership interest in GameStop Group Limited. In addition, during fiscal 2008, \$183.2 million of cash was used for capital expenditures primarily to open 674 new stores in the United States and internationally and to invest in information systems. During fiscal 2007, \$175.6 million of cash was used for capital expenditures primarily to open 586 stores in the United States and internationally and to invest in information systems, which were offset by \$1.1 million of cash received related to the finalization of the purchase price of Game Brands Inc. which was acquired

during the fourth quarter of fiscal 2006. During fiscal 2006, \$133.9 million of cash was used for capital expenditures primarily to invest in information and distribution systems in support of the integration of the operations of EB, to open new stores in the United States and for international expansion. Also, during the fourth quarter of fiscal 2006, the Company purchased Game Brands Inc., a 72-store video game retailer, for \$11.3 million.

## **Table of Contents**

These investing activities were offset by \$19.3 million of cash provided by the sale of the Pennsylvania corporate office and distribution center which were acquired in the EB merger.

Cash provided by financing activities was \$22.7 million in fiscal 2008 and cash used in financing activities was \$117.1 million in fiscal 2007 and \$43.3 million in fiscal 2006. The cash flows provided by financing activities in fiscal 2008 were due to cash received related to the issuance of shares associated with stock option exercises of \$29.0 million and for the excess tax benefits realized from the exercise of stock-based awards of \$34.2 million. These cash inflows were offset by the repurchase of \$30.0 million of principal value of the Company's senior notes and increases in other non-current assets. In addition, the Company borrowed \$425.0 million related to the acquisition of Micromania and subsequently repaid the balance before the end of fiscal 2008. The cash used in financing activities for fiscal 2007 was primarily due to the repurchase of \$20.0 million and \$250.0 million of principal value of the Company's senior notes and senior floating rate notes, respectively, and the \$12.2 million principal payment made in October 2007 on the Barnes & Noble promissory note. These cash outflows were offset by \$64.9 million received for the issuance of shares relating to stock option exercises and \$93.3 million for the realization of tax benefits relating to the exercise of stock-based awards. The cash used in financing activities in fiscal 2006 was primarily due to the repurchase of \$50.0 million each of the senior notes and the senior floating rate notes, the payment of the \$12.2 million principal due on the Barnes & Noble promissory note and the repayment of the \$9.1 million mortgage on EB's Pennsylvania distribution center. The fiscal 2006 outflows were offset by \$33.9 million received for the issuance of shares relating to stock option exercises and \$43.8 million for the realization of tax benefits relating to the exercise of stock-based awards.

## ***Sources of Liquidity***

We utilize cash generated from operations and have funds available to us under our revolving credit facility to cover seasonal fluctuations in cash flows and to support our various growth initiatives. Our cash and cash equivalents are carried at cost, which approximates market value, and consist primarily of time deposits with highly rated commercial banks and money market investment funds holding direct U.S. Treasury obligations.

In October 2005, in connection with the EB merger, the Company entered into a five-year, \$400 million Credit Agreement (the "Revolver"), including a \$50 million letter of credit sub-limit, secured by the assets of the Company and its U.S. subsidiaries. The Revolver places certain restrictions on the Company and its subsidiaries, including limitations on asset sales, additional liens and the incurrence of additional indebtedness. In April 2007, the Company amended the Revolver to extend the maturity date from October 11, 2010 to April 25, 2012, reduce the LIBO interest rate margin, reduce and fix the rate of the unused commitment fee and modify or delete certain other covenants.

The availability under the Revolver is limited to a borrowing base which allows the Company to borrow up to the lesser of (x) approximately 70% of eligible inventory and (y) 90% of the appraisal value of the inventory, in each case plus 85% of eligible credit card receivables, net of certain reserves. Letters of credit reduce the amount available to borrow by their face value. The Company's ability to pay cash dividends, redeem options, and repurchase shares is generally prohibited, except that if availability under the Revolver is or will be after any such payment equal to or greater than 25% of the borrowing base, the Company may repurchase its capital stock and pay cash dividends. In addition, in the event that credit extensions under the Revolver at any time exceed 80% of the lesser of the total commitment or the borrowing base, the Company will be subject to a fixed charge coverage ratio covenant of 1.5:1.0.

The per annum interest rate on the Revolver is variable and, at the Company's option, is calculated by applying a margin of (1) 0.0% to 0.25% above the higher of the prime rate of the administrative agent or the federal funds effective rate plus 0.50% or (2) 1.00% to 1.50% above the LIBO rate. The applicable margin is determined quarterly as a function of the Company's consolidated leverage ratio. As of January 31, 2009, the applicable margin was 0.0% for prime rate loans and 1.00% for LIBO rate loans. In addition, the Company is required to pay a commitment fee of

0.25% for any unused portion of the total commitment under the Revolver. As of January 31, 2009, there were no borrowings outstanding under the Revolver and letters of credit outstanding totaled \$7.7 million.

In October 2008, the Company amended the Revolver to permit both the acquisition of Micromania and a committed \$150.0 million junior term loan facility (the Term Loans ). In addition, during any period for which the



**Table of Contents**

Term Loans were outstanding, the amendment increased the applicable margin under the Revolver (i) payable on LIBO rate loans to a range of 1.5% to 2.0% from the current range of 1.0% to 1.5% and (ii) payable on prime rate loans to a range of 0.5% to 0.75% from the current range of 0.0% to 0.25%. The margins applicable prior to the entry into the amendment apply once the Term Loans are no longer outstanding. The Term Loans were outstanding during the fourth quarter of fiscal 2008.

In November 2008, in connection with the acquisition of Micromania, the Company entered into a Term Loan Agreement (the "Term Loan Agreement") with Bank of America, N.A and Banc of America Securities LLC. The Term Loan Agreement provided for Term Loans in the aggregate of \$150.0 million, consisting of a \$50.0 million secured term loan ("Term Loan A") and a \$100.0 million unsecured term loan ("Term Loan B"). The Term Loan Agreement provided that the principal of Term Loan B was to be repaid in four equal installments of \$25.0 million a week for four consecutive weeks, commencing on December 3, 2008. Term Loan A was scheduled to mature on March 31, 2009. Amounts borrowed under the Term Loan Agreement may not be reborrowed once repaid. Borrowings made pursuant to the Term Loan Agreement bore interest, payable quarterly or, if earlier, at the end of any interest period, at a per annum rate equal to either (a) the prime loan rate, described in the Term Loan Agreement as the higher of (i) Bank of America N.A.'s prime rate or (ii) the federal funds rate plus 0.50%, in each case plus 1.75%, or (b) the LIBO rate (a publicly published rate) plus 3.75%. The effective interest rate on Term Loan A was 5.75% per annum and the effective rate on Term Loan B ranged from 5% to 5.75% per annum.

The Term Loan Agreement contained customary affirmative and negative covenants, including limitations on GameStop and its subsidiaries with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets, changes of business and transactions with affiliates. In addition, the Company was subject to a fixed charge coverage ratio covenant of 1.5:1.0. The covenants permitted the Company to use proceeds of the Term Loans for working capital, capital expenditures, payment of transaction costs and a portion of the consideration in connection with the acquisition of Micromania and for all other lawful corporate purposes.

In November 2008, the Company borrowed \$275.0 million under the Revolver and borrowed \$150.0 million under the Term Loans in order to complete the acquisition of Micromania. As of January 31, 2009, the Revolver and the Term Loans were repaid in full.

In September 2007, the Company's Luxembourg subsidiary entered into a discretionary \$20.0 million Uncommitted Line of Credit (the "Line of Credit") with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit will be made available to the Company's foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of January 31, 2009, there were \$5.6 million of cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled \$4.9 million.

In September 2005, the Company, along with GameStop, Inc. as co-issuer (together with the Company, the "Issuers"), completed the offering of \$300 million aggregate principal amount of Senior Floating Rate Notes due 2011 (the "Senior Floating Rate Notes") and \$650 million aggregate principal amount of Senior Notes due 2012 (the "Senior Notes" and, together with the Senior Floating Rate Notes, the "Notes"). The Notes were issued under an Indenture, dated September 28, 2005 (the "Indenture"), by and among the Issuers, the subsidiary guarantors party thereto, and Citibank, N.A., as trustee (the "Trustee"). The net proceeds of the offering were used to pay the cash portion of the merger consideration paid to the stockholders of EB in connection with the EB merger. In November 2006, Wilmington Trust Company was appointed as the new Trustee for the Notes.

The Senior Notes bear interest at 8.0% per annum, mature on October 1, 2012 and were priced at 98.688%, resulting in a discount at the time of issue of \$8.5 million. The discount is being amortized using the effective interest method.

As of January 31, 2009, the unamortized original issue discount was \$4.3 million. The Issuers pay interest on the Senior Notes semi-annually, in arrears, every April 1 and October 1, to holders of record on the immediately preceding March 15 and September 15, and at maturity.

The Indenture contains affirmative and negative covenants customary for such financings, including, among other things, limitations on (1) the incurrence of additional debt, (2) restricted payments, (3) liens, (4) sale and leaseback transactions and (5) asset sales. Events of default provided for in the Indenture include, among other

## **Table of Contents**

things, failure to pay interest or principal on the Notes, other breaches of covenants in the Indenture, and certain events of bankruptcy and insolvency. As of January 31, 2009, the Company was in compliance with all covenants associated with the Revolver and the Indenture.

Under certain conditions, the Issuers may on any one or more occasions prior to maturity redeem up to 100% of the aggregate principal amount of Senior Notes issued under the Indenture at redemption prices at or in excess of 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date. The circumstances which would limit the percentage of the Notes which may be redeemed or which would require the Company to pay a premium in excess of 100% of the principal amount are defined in the Indenture. Upon a Change of Control (as defined in the Indenture), the Issuers are required to offer to purchase all of the Notes then outstanding at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase. The Issuers may acquire Senior Notes by means other than redemption, whether by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws, so long as such acquisitions do not otherwise violate the terms of the Indenture.

### ***Uses of Capital***

Our future capital requirements will depend on the number of new stores we open and the timing of those openings within a given fiscal year. We opened 674 stores in fiscal 2008 and purchased 328 stores through our acquisition of Micromania. We expect to open approximately 400 stores in fiscal 2009. Capital expenditures for fiscal 2009 are projected to be approximately \$170 million, to be used primarily to fund new store openings and invest in distribution and information systems in support of operations.

In May 2006, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of \$100 million of its Senior Floating Rate Notes and Senior Notes. As of February 3, 2007, the Company had repurchased the maximum authorized amount, having acquired \$50 million of its Senior Notes and \$50 million of its Senior Floating Rate Notes, and delivered the Notes to the Trustee for cancellation. The associated loss on the retirement of this debt was \$6.1 million for the 53 week period ended February 3, 2007, which consists of the premium paid to retire the Notes and the recognition of the deferred financing fees and the original issue discount on the Notes.

On February 9, 2007, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional \$150 million of its Senior Notes and Senior Floating Rate Notes. As of August 4, 2007, the Company had repurchased the maximum authorized amount, having acquired \$20 million of its Senior Notes and \$130 million of its Senior Floating Rate Notes, and delivered the Notes to the Trustee for cancellation. The associated loss on the retirement of this debt was \$8.8 million for the 52 week period ended February 2, 2008, which consists of the premium paid to retire the Notes and the recognition of the deferred financing fees and the original issue discount on the Notes.

On June 28, 2007, the Company announced that its Board of Directors authorized the redemption of the remaining \$120 million of Senior Floating Rate Notes outstanding. The Company redeemed the Senior Floating Rate Notes on October 1, 2007 at the redemption price specified by the Senior Floating Rate Notes of 102.00%, plus all accrued and unpaid interest through the redemption date. The Company incurred a one-time pre-tax charge of \$3.8 million associated with the redemption, which represents a \$2.4 million redemption premium and \$1.4 million to recognize unamortized deferred financing costs for the 52 week period ended February 2, 2008.

On February 7, 2008, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional \$130 million of its Senior Notes. The timing and amount of the repurchases will be determined by the Company's management based on their evaluation of market conditions and other factors. In

addition, the repurchases may be suspended or discontinued at any time. As of January 31, 2009, the Company had repurchased \$30 million of its Senior Notes pursuant to this new authorization and delivered the Senior Notes to the Trustee for cancellation. The associated loss on retirement of debt is \$2.3 million, which consists of the premium paid to retire the Senior Notes and the write-off of the deferred financing fees and the original issue discount on the Senior Notes for the 52 week period ended January 31, 2009.

**Table of Contents**

In October 2004, GameStop issued a promissory note in favor of Barnes & Noble in the principal amount of \$74.0 million in connection with the repurchase of GameStop's common stock held by Barnes & Noble. The note was unsecured and bore interest at 5.5% per annum, payable with each principal installment. Scheduled principal payments of \$12.2 million and \$12.2 million were made in October 2006 and October 2007, respectively, satisfying the promissory note in full.

We used cash to expand the Company through acquisitions during fiscal 2008. On April 5, 2008, the Company purchased all the outstanding stock of FRS for \$21.0 million, net of cash acquired. FRS operated 49 record stores in Norway and also operated office and warehouse facilities in Oslo, Norway. The Company converted these stores into video game stores with an inventory assortment similar to its other stores in Norway.

In 2003, the Company purchased a 51% controlling interest in GameStop Group Limited which operates stores in Ireland and the United Kingdom. Under the terms of the purchase agreement, the minority interest owners of the remaining 49% have the ability to require the Company to purchase their remaining shares in incremental percentages at a price to be determined based partially on the Company's price to earnings ratio and GameStop Group Limited's earnings. On May 21, 2008, the minority interest owners exercised their right to sell one-third of their shares, or approximately 16% of GameStop Group Limited, to the Company under the terms of the original purchase agreement for \$27.4 million. The transaction was completed in June 2008 and recorded in accordance with the provisions of SFAS 141.

On November 17, 2008, GameStop France SAS, a wholly owned subsidiary of GameStop, completed the acquisition of substantially all of the outstanding capital stock of SFMI Micromania from L Capital, LV Capital, Europ@web and other shareholders of Micromania for approximately \$580.4 million, net of cash acquired. Micromania is a leading retailer of video and computer games in France with 332 stores as of January 31, 2009. The Company funded the transaction with cash on hand, a draw on the Revolver totaling \$275.0 million, and the Term Loans.

Based on our current operating plans, we believe that available cash balances, cash generated from our operating activities and funds available under the Revolver will be sufficient to fund our operations, required payments on the Senior Notes, store expansion and remodeling activities and corporate capital expenditure programs for at least the next 12 months.

**Contractual Obligations**

The following table sets forth our contractual obligations as of January 31, 2009:

Contractual Obligations	Total	Payments Due by Period			
		Less Than 1 Year	1-3 Years (In millions)	3-5 Years	More Than 5 Years
Long-Term Debt(1)	\$ 726.0	\$ 44.0	\$ 88.0	\$ 594.0	\$
Operating Leases	972.8	295.1	387.1	179.5	111.1
Purchase Obligations(2)	734.3	734.3			
Total	\$ 2,433.1	\$ 1,073.4	\$ 475.1	\$ 773.5	\$ 111.1

- (1) The long-term debt consists of \$550.0 million (principal value), which bears interest at 8.0% per annum. Amounts include contractual interest payments.
- (2) Purchase obligations represent outstanding purchase orders for merchandise from vendors. These purchase orders are generally cancelable until shipment of the products.

In addition to minimum rentals, the operating leases generally require the Company to pay all insurance, taxes and other maintenance costs and may provide for percentage rentals. Percentage rentals are based on sales performance in excess of specified minimums at various stores. Leases with step rent provisions, escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term, including renewal options for those leases in which it is reasonably assured that the Company will exercise the renewal option. The Company does not have leases with capital improvement funding.

## **Table of Contents**

The Company has entered into employment agreements with R. Richard Fontaine, Executive Chairman, Daniel A. DeMatteo, Chief Executive Officer, J. Paul Raines, Chief Operating Officer, David W. Carlson, Executive Vice President and Chief Financial Officer and Tony D. Bartel, Executive Vice President Merchandising and Marketing. The terms of the employment agreements with Mr. Fontaine and Mr. DeMatteo commenced on April 11, 2005 and continued for a period of three years thereafter and were automatically renewed in April 2008 for an additional year. The term of the employment agreement for Mr. Raines commenced on September 7, 2008 and continues for a period of three years thereafter. The term of the employment agreement for Mr. Carlson commenced on April 3, 2006 and continued for a period of two years thereafter and was automatically renewed in April 2008 for an additional year. The term of the employment agreement for Mr. Bartel commenced on October 24, 2008 and continues for a period of three years thereafter. Each of these employment agreements contains provisions for automatic annual renewals unless either party gives notice of non-renewal at least six months prior to expiration. The employment agreements for Mr. Fontaine, Mr. DeMatteo and Mr. Carlson will automatically renew in April 2009 for a period of one year as no notice of non-renewal was given.

Each of the employment agreements was amended and restated on December 31, 2008 to bring them into compliance with Section 409A of the Internal Revenue Code of 1986, as amended, enacted as part of the American Jobs Creation Act of 2004. The minimum annual salaries during the term of employment under the amended and restated employment agreements for Messrs. Fontaine, DeMatteo, Raines, Carlson and Bartel shall be no less than \$650,000, \$535,000, \$900,000, \$350,000 and \$400,000, respectively. The Board of Directors of the Company has set Messrs. Fontaine's, DeMatteo's, Raines', Carlson's and Bartel's annual salaries for fiscal 2009 at \$1,200,000, \$1,250,000, \$920,000, \$500,000 and \$500,000, respectively.

As of January 31, 2009, we had standby letters of credit outstanding in the amount of \$7.7 million and had bank guarantees outstanding in the amount of \$12.9 million, \$7.9 million of which are cash collateralized.

As of January 31, 2009, the Company had \$32.2 million of income tax liability, including accrued interest and penalties related to unrecognized tax benefits in other long-term liabilities in its consolidated balance sheet. At the time of this filing, the settlement period for the noncurrent portion of our income tax liability cannot be determined. In addition, any payments related to unrecognized tax benefits would be partially offset by reductions in payments in other jurisdictions.

In 2003, the Company purchased a 51% controlling interest in GameStop Group Limited. Under the terms of the purchase agreement, the individual owners of the remaining 49% interest have the ability to require the Company to purchase their remaining shares in incremental percentages at a price to be determined based partially on the Company's price to earnings ratio and GameStop Group Limited's earnings. In June 2008, additional shares representing an interest of approximately 16% were purchased by the Company. The Company already consolidates the results of GameStop Group Limited; therefore, any additional amounts acquired will not have a material effect on the Company's financial statements.

## **Off-Balance Sheet Arrangements**

As of January 31, 2009, the Company had no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

## **Impact of Inflation**

We do not believe that inflation has had a material effect on our net sales or results of operations.

## **Certain Relationships and Related Transactions**

The Company operates departments within nine bookstores operated by Barnes & Noble, a related party through a common stockholder who is chairman of the board of directors of Barnes & Noble and a member of the Company's Board of Directors. The Company pays a license fee to Barnes & Noble on the gross sales of such departments. The Company deems the license fee to be reasonable and based upon terms equivalent to those that would prevail in an arm's length transaction. During the 52 weeks ended January 31, 2009 and February 2, 2008 and the 53 weeks ended February 3, 2007, these charges amounted to \$1.3 million, \$1.2 million and \$1.0 million, respectively.



## **Table of Contents**

In May 2005, the Company entered into an arrangement with Barnes & Noble under which [www.gamestop.com](http://www.gamestop.com) became the exclusive specialty video game retailer listed on [www.bn.com](http://www.bn.com), Barnes & Noble's e-commerce site. Under the terms of this agreement, the Company pays a fee to Barnes & Noble for sales of video game or PC entertainment products sold through [www.bn.com](http://www.bn.com). The fee paid to Barnes & Noble in connection with this arrangement was \$0.5 million, \$0.4 million and \$0.3 million for the 52 weeks ended January 31, 2009, 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007, respectively.

Until June 2005, GameStop participated in Barnes & Noble's workers' compensation, property and general liability insurance programs. The costs incurred by Barnes & Noble under these programs were allocated to GameStop based upon total payroll expense, property and equipment, and insurance claim history of GameStop. Management deemed the allocation methodology to be reasonable. Although the Company secured its own insurance coverage, costs will likely continue to be incurred by Barnes & Noble on insurance claims which were incurred under its programs prior to June 2005 and any such costs applicable to insurance claims against GameStop will be allocated to the Company. During the 52 weeks ended January 31, 2009 and February 2, 2008 and the 53 weeks ended February 3, 2007, these allocated charges amounted to \$0.2 million, \$0.3 million and \$0.8 million, respectively.

The Company had a promissory note in the favor of Barnes & Noble in the principal amount of \$74.0 million, in connection with the repurchase of the Company's common stock held by Barnes & Noble in October 2004. The note was unsecured and bore interest at 5.5% per annum, payable with each principal installment. Scheduled principal payments of \$12.2 million were made in October 2006 and October 2007 and the note has been satisfied in full. Interest expense on the promissory note for the 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007 totaled \$0.4 million and \$1.1 million, respectively.

## **Recent Accounting Standards and Pronouncements**

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* — an amendment of FASB Statement No. 133 ( SFAS 161 ). SFAS 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and their effect on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Company on February 1, 2009. The Company is currently evaluating the impact that the adoption of SFAS 161 will have on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ( SFAS 141(R) ). SFAS 141(R) amends the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for the Company on February 1, 2009, and the Company will apply SFAS 141(R) prospectively to all business combinations subsequent to the effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements* — an amendment of Accounting Research Bulletin No. 51 ( SFAS 160 ). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the controlling and noncontrolling interests and requires the separate disclosure of income attributable to controlling and noncontrolling interests. SFAS 160 became effective for the Company on February 1, 2009. The Company is currently evaluating the impact that the adoption of SFAS 160 will have on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Company adopted SFAS 157 on February 3, 2008 as required for its financial assets and liabilities. However, in February 2008, the FASB released a FASB Staff Position, FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of SFAS 157 for all non-

## **Table of Contents**

financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS 157 for our financial assets and liabilities did not have a material impact on the Company's financial condition and results of operations. We do not believe the adoption of SFAS 157 for our non-financial assets and liabilities, effective February 1, 2009, will have a material impact on our consolidated financial statements.

## **Seasonality**

Our business, like that of many retailers, is seasonal, with the major portion of sales and operating profit realized during the fourth quarter which includes the holiday selling season. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other factors, the timing of new product introductions and new store openings, sales contributed by new stores, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays or promotions and changes in our merchandise mix.

## **Item 7A. *Quantitative and Qualitative Disclosures About Market Risk***

### **Interest Rate Exposure**

We do not use derivative financial instruments to hedge interest rate exposure. We limit our interest rate risks by investing our excess cash balances in short-term, highly-liquid instruments with a maturity of one year or less. In addition, the Senior Notes outstanding issued in connection with the EB merger carry a fixed interest rate. We do not expect any material losses from our invested cash balances, and we believe that our interest rate exposure is modest.

### **Foreign Currency Risk**

The Company follows the provisions of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ), as amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ). SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value, while SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if it is, depending on the type of hedge transaction.

The Company uses forward exchange contracts, foreign currency options and cross-currency swaps, (together, the Foreign Currency Contracts ) to manage currency risk primarily related to intercompany loans denominated in non-functional currencies and certain foreign currency assets and liabilities. These Foreign Currency Contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the re-measurement of related intercompany loans and foreign currency assets and liabilities. The aggregate fair value of the Foreign Currency Contracts as of January 31, 2009 was an asset of \$0.3 million as measured by observable inputs obtained from market news reporting services, such as Bloomberg and The Wall Street Journal, and industry-standard models that consider various assumptions, including quoted forward prices, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures. A hypothetical strengthening or weakening of 10% in the foreign exchange rates underlying the Foreign Currency Contracts from the market rate as of January 31, 2009 would result in a (loss) or gain in value of the forwards, options and swaps of (\$17.7 million) or \$17.7 million, respectively.

## **Item 8. *Consolidated Financial Statements and Supplementary Data***

See Item 15(a)(1) and (2) of this Form 10-K.

**Table of Contents**

**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A. *Controls and Procedures***

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's management conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective. Notwithstanding the foregoing, a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that it will detect or uncover failures within the Company to disclose material information otherwise required to be set forth in the Company's periodic reports.

(b) Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of January 31, 2009. The effectiveness of our internal control over financial reporting as of January 31, 2009 has been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in their report which is included in this Form 10-K.

The Company completed the acquisition of Micromania on November 17, 2008 and the results of operations of Micromania are included in the Company's consolidated financial statements for the period from the date of the acquisition through January 31, 2009. Management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting the internal controls of Micromania. Such exclusion was in accordance with the Securities and Exchange Commission guidance that an assessment of a recently acquired business may be omitted from management's report on internal control over financial reporting in the year of the acquisition. The assets, liabilities and results of operation for Micromania were not significant when compared to the Company's consolidated assets, liabilities and results of operations as of and for the 52 weeks ended January 31, 2009.

(c) Changes in Internal Control Over Financial Reporting

Micromania operates on different information technology systems than the Company. The Company is currently evaluating the internal control processes at Micromania and changes to certain processes, information technology systems, and other components of internal controls resulting from this evaluation may occur. Other than the impact of the acquisition of Micromania, there was no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. *Other Information***

None.

46

---

**Table of Contents**

**PART III**

**Item 10. *Directors, Executive Officers and Corporate Governance\****

**Code of Ethics**

The Company has adopted a Code of Ethics for Senior Financial and Executive Officers that is applicable to the Company's Executive Chairman of the Board, Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Accounting Officer and any Executive Vice President of the Company. This Code of Ethics is filed as Exhibit 14.1 to this Form 10-K. The Company also has adopted a Code of Standards, Ethics and Conduct applicable to all of the Company's management-level employees, which is filed as Exhibit 14.2 to this Form 10-K.

In accordance with SEC rules, the Company intends to disclose any amendment (other than any technical, administrative, or other non-substantive amendment) to either of the above Codes, or any waiver of any provision thereof with respect to any of the executive officers listed in the paragraph above, on the Company's website ([www.gamestop.com](http://www.gamestop.com)) within four business days following such amendment or waiver.

**Item 11. *Executive Compensation\****

**Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters\****

**Item 13. *Certain Relationships and Related Transactions, and Director Independence\****

**Item 14. *Principal Accountant Fees and Services\****

**PART IV**

**Item 15. *Exhibits and Financial Statement Schedules***

(a) *The following documents are filed as a part of this Form 10-K:*

(1) *Index and Consolidated Financial Statements*

The list of consolidated financial statements set forth in the accompanying Index to Consolidated Financial Statements at page F-1 herein is incorporated herein by reference. Such consolidated financial statements are filed as part of this report on Form 10-K.

(2) *Financial Statement Schedules required to be filed by Item 8 of this Form 10-K:*

The following financial statement schedule for the 52 weeks ended January 31, 2009 and February 2, 2008 and the 53 weeks ended February 3, 2007 is filed as part of this report on Form 10-K and should be read in conjunction with our Consolidated Financial Statements appearing elsewhere in this Form 10-K:

\* The information not otherwise provided herein that is required by Items 10, 11, 12, 13 and 14 will be set forth in the definitive proxy statement relating to the 2009 Annual Meeting of Stockholders of the Company, which is to be filed with the SEC pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. This

Edgar Filing: GameStop Corp. - Form 10-K

definitive proxy statement relates to a meeting of stockholders involving the election of directors and the portions therefrom required to be set forth in this Form 10-K by Items 10, 11, 12, 13 and 14 are incorporated herein by reference pursuant to General Instruction G(3) to Form 10-K.





Edgar Filing: GameStop Corp. - Form 10-K

- 10.1 Insurance Agreement, dated as of January 1, 2002, between Barnes & Noble, Inc. and GameStop Holdings Corp. (f/k/a GameStop Corp.).(7)
- 10.2 Operating Agreement, dated as of January 1, 2002, between Barnes & Noble, Inc. and GameStop Holdings Corp. (f/k/a GameStop Corp.).(7)
- 10.3 Third Amended and Restated 2001 Incentive Plan.(15)
- 10.4 Second Amended and Restated Supplemental Compensation Plan.(8)
- 10.5 Form of Option Agreement.(9)
- 10.6 Form of Restricted Share Agreement.(10)
- 10.7 Credit Agreement, dated as of October 11, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A. and the other lending institutions listed in the Agreement, Bank of America, N.A. and Citicorp North America, Inc., as Issuing Banks, Bank of America, N.A., as Administrative Agent and Collateral Agent, Citicorp North America, Inc., as Syndication Agent, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Documentation Agent.(11)

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
10.8	Guaranty, dated as of October 11, 2005, by GameStop Corp. (f/k/a GSC Holdings Corp.) and certain subsidiaries of GameStop Corp. in favor of the agents and lenders.(11)
10.9	Security Agreement, dated October 11, 2005, by GameStop Corp. (f/k/a GSC Holdings Corp.) and certain subsidiaries of GameStop Corp. in favor of Bank of America, N.A., as Collateral Agent for the Secured Parties.(11)
10.10	Patent and Trademark Security Agreement, dated as of October 11, 2005 by GameStop Corp. (f/k/a GSC Holdings Corp.) and certain subsidiaries of GameStop Corp. in favor of Bank of America, N.A., as Collateral Agent.(11)
10.11	Mortgage, Security Agreement, and Assignment and Deeds of Trust, dated October 11, 2005, between GameStop of Texas, L.P. and Bank of America, N.A., as Collateral Agent.(11)
10.12	Mortgage, Security Agreement, and Assignment and Deeds of Trust, dated October 11, 2005, between Electronics Boutique of America, Inc. and Bank of America, N.A., as Collateral Agent.(11)
10.13	Form of Securities Collateral Pledge Agreement, dated as of October 11, 2005.(11)
10.14	First Amendment, dated April 25, 2007, to Credit Agreement, dated as of October 11, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A. and the other lending institutions listed in the Amendment, Bank of America, N.A. and Citicorp North America, Inc., as Issuing Banks, Bank of America, N.A., as Administrative Agent and Collateral Agent, Citicorp North America, Inc., as Syndication Agent, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Documentation Agent.(12)
10.15	Second Amendment, dated as of October 23, 2008, to Credit Agreement, dated as of October 11, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A. and the other lending institutions listed in the Amendment, Bank of America, N.A. and Citicorp North America, Inc., as Issuing Banks, Bank of America, N.A., as Administrative Agent and Collateral Agent, Citicorp North America, Inc., as Syndication Agent, and GE Business Financial Services, Inc., as Documentation Agent.(14)
10.16	Term Loan Agreement, dated November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender, Bank of America, N.A., as Administrative Agent and Collateral Agent, and Banc of America Securities LLC, as Sole Arranger and Bookrunner.(14)
10.17	Security Agreement, dated November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender and Bank of America, N.A., as Collateral Agent.(14)
10.18	Patent and Trademark Security Agreement, dated as of November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender, and Bank of America, N.A., as Collateral Agent.(14)
10.19	Securities Collateral Pledge Agreement, dated November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender, and Bank of America, N.A., as Collateral Agent.(14)
10.20	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and R. Richard Fontaine.(15)
10.21	Amended and Restated Executive Employment Agreement, dated as December 31, 2008, between GameStop Corp. and Daniel A. DeMatteo.(15)
10.22	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and David W. Carlson.(15)
10.23	

Edgar Filing: GameStop Corp. - Form 10-K

- Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and Tony Bartel.(15)
- 10.24 Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and J. Paul Raines.(15)
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 14.1 Code of Ethics for Senior Financial and Executive Officers.

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
14.2	Code of Standards, Ethics and Conduct.
21.1	Subsidiaries.
23.1	Consent of BDO Seidman, LLP.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(1)	Incorporated by reference to GameStop Holdings Corp. s Form 8-K filed with the Securities and Exchange Commission on April 18, 2005.
(2)	Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on February 7, 2007.
(3)	Incorporated by reference to the Registrant s Amendment No. 1 to Form S-4 filed with the Securities and Exchange Commission on July 8, 2005.
(4)	Incorporated by reference to GameStop Holdings Corp. s Form 8-K filed with the Securities and Exchange Commission on September 30, 2005.
(5)	Incorporated by reference to the Registrant s Form 10-Q for the fiscal quarter ended October 29, 2005 filed with the Securities and Exchange Commission on December 8, 2005.
(6)	Incorporated by reference to the Registrant s Form S-3ASR filed with the Securities and Exchange Commission on April 10, 2006.
(7)	Incorporated by reference to GameStop Holdings Corp. s Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on January 24, 2002.
(8)	Incorporated by reference to Appendix A to the Registrant s Proxy Statement for 2008 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on May 23, 2008.
(9)	Incorporated by reference to GameStop Holdings Corp. s Form 10-K for the fiscal year ended January 29, 2005 filed with the Securities and Exchange Commission on April 11, 2005.
(10)	Incorporated by reference to GameStop Holdings Corp. s Form 8-K filed with the Securities and Exchange Commission on September 12, 2005.
(11)	Incorporated by reference to Registrant s Form 8-K filed with the Securities and Exchange Commission on October 12, 2005.

- (12) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 26, 2007.
- (13) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on October 2, 2008.
- (14) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on November 18, 2008.
- (15) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on January 7, 2009.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

GAMESTOP CORP.

By: /s/ Daniel A. DeMatteo

Daniel A. DeMatteo  
*Chief Executive Officer*

Date: April 1, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<b>Name</b>	<b>Capacity</b>	<b>Date</b>
/s/ Daniel A. DeMatteo Daniel A. DeMatteo	Chief Executive Officer and Director (Principal Executive Officer)	April 1, 2009
/s/ R. Richard Fontaine R. Richard Fontaine	Executive Chairman and Director	April 1, 2009
/s/ David W. Carlson David W. Carlson	Executive Vice President, Chief Financial Officer and Assistant Secretary (Principal Financial Officer)	April 1, 2009
/s/ Robert A. Lloyd Robert A. Lloyd	Senior Vice President, Chief Accounting Officer (Principal Accounting Officer)	April 1, 2009
/s/ Jerome L. Davis Jerome L. Davis	Director	April 1, 2009
/s/ Steven R. Koonin Steven R. Koonin	Director	April 1, 2009
/s/ Leonard Riggio Leonard Riggio	Director	April 1, 2009

Edgar Filing: GameStop Corp. - Form 10-K

/s/ Michael N. Rosen	Director	April 1, 2009
Michael N. Rosen		
/s/ Stephanie M. Shern	Director	April 1, 2009
Stephanie M. Shern		
/s/ Stanley P. Steinberg	Director	April 1, 2009
Stanley P. Steinberg		



**Table of Contents**

<b>Name</b>	<b>Capacity</b>	<b>Date</b>
/s/ Gerald R. Szczepanski Gerald R. Szczepanski	Director	April 1, 2009
/s/ Edward A. Volkwein Edward A. Volkwein	Director	April 1, 2009
/s/ Lawrence S. Zilavy Lawrence S. Zilavy	Director	April 1, 2009

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<b>GameStop Corp. Consolidated Financial Statements:</b>	
<u>Reports of Independent Registered Public Accounting Firm</u>	F-2
Consolidated Financial Statements:	
<u>Balance Sheets</u>	F-5
<u>Statements of Operations</u>	F-6
<u>Statements of Stockholders' Equity</u>	F-7
<u>Statements of Cash Flows</u>	F-8
<u>Notes to Consolidated Financial Statements</u>	F-9

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
GameStop Corp.  
Grapevine, Texas

We have audited the accompanying consolidated balance sheets of GameStop Corp. as of January 31, 2009 and February 2, 2008 and the related consolidated statements of operations, stockholders' equity, and cash flows for the 52 week period ended January 31, 2009, the 52 week period ended February 2, 2008, and for the 53 week period ended February 3, 2007. In connection with our audits of the financial statements, we have also audited the financial statement schedules listed in Item 15(a)(2) of this Form 10-K. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GameStop Corp. as of January 31, 2009 and February 2, 2008, and the results of its operations and its cash flows for the 52 week period ended January 31, 2009, for the 52 week period ended February 2, 2008, and for the 53 week period ended February 3, 2007, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for uncertainty in income taxes recognized in accordance with the provisions of FASB Interpretation No. 48 (As Amended), *Accounting for Uncertainty in Income Taxes*, on February 4, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), GameStop Corp.'s internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 31, 2009 expressed an unqualified opinion thereon.

/s/ BDO SEIDMAN, LLP  
BDO Seidman, LLP

Dallas, Texas  
March 31, 2009

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders  
GameStop Corp.  
Grapevine, Texas

We have audited GameStop Corp.'s internal control over financial reporting as of January 31, 2009, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). GameStop Corp.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included under Item 9A of the Annual Report on Form 10-K, Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in Item 9A, Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Micromania SAS, which was acquired on November 17, 2008, and which is included in the consolidated balance sheet of GameStop Corp. as of January 31, 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for the 52 week period ended January 31, 2009. Micromania's financial statements constituted total assets and liabilities of approximately 18.4% and 9.0%, respectively, and revenues and operating earnings of approximately 2.8% and 3.8%, respectively, of the related consolidated financial statement amounts as of and for the period ended January 31, 2009. Management did not assess the effectiveness of internal control over financial reporting of Micromania SAS because of the timing of the acquisition which was completed on November 17, 2008. Our audit of internal control over financial reporting of GameStop Corp. also did not include an evaluation of the internal control over financial reporting of Micromania SAS.

In our opinion, GameStop Corp. maintained, in all material respects, effective internal control over financial reporting as of January 31, 2009, based on the COSO criteria.

F-3

---

**Table of Contents**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of GameStop Corp. as of January 31, 2009 and February 2, 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for the 52 week period ended January 31, 2009, for the 52 week period ended February 2, 2008 and for the 53 week period ended February 3, 2007. We have also audited the schedule listed in Item 15(a)(2) of this Form 10-K. Our report dated March 31, 2009 expressed an unqualified opinion on those consolidated financial statements and schedule.

/s/ BDO SEIDMAN, LLP  
BDO Seidman, LLP

Dallas, Texas  
March 31, 2009

F-4

---

**Table of Contents****GAMESTOP CORP.****CONSOLIDATED BALANCE SHEETS**

	<b>January 31, 2009</b>	<b>February 2, 2008</b>
	<b>(In thousands)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 578,141	\$ 857,414
Receivables, net	65,981	56,019
Merchandise inventories, net	1,075,792	801,025
Deferred income taxes - current	23,615	27,481
Prepaid expenses	59,101	48,915
Other current assets	15,411	3,863
Total current assets	1,818,041	1,794,717
Property and equipment:		
Land	10,397	11,870
Buildings and leasehold improvements	454,651	378,611
Fixtures and equipment	619,845	538,738
Total property and equipment	1,084,893	929,219
Less accumulated depreciation and amortization	535,639	417,550
Net property and equipment	549,254	511,669
Goodwill, net	1,862,107	1,402,440
Other intangible assets	247,790	14,214
Deferred taxes		26,332
Other noncurrent assets	35,398	26,519
Total noncurrent assets	2,694,549	1,981,174
Total assets	\$ 4,512,590	\$ 3,775,891

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:		
Accounts payable	\$ 1,047,963	\$ 844,376
Accrued liabilities	514,748	416,181
Total current liabilities	1,562,711	1,260,557
Senior notes payable, long-term portion, net	545,712	574,473
Other long-term liabilities	104,486	78,415

Edgar Filing: GameStop Corp. - Form 10-K

Total long-term liabilities	650,198	652,888
Total liabilities	2,212,909	1,913,445
Commitments and contingencies (Notes 10 and 11)		
Stockholders' equity:		
Preferred stock — authorized 5,000 shares; no shares issued or outstanding		
Class A common stock — \$.001 par value; authorized 300,000 shares; 163,843 and 161,007 shares issued and outstanding, respectively	164	161
Additional paid-in-capital	1,307,453	1,208,474
Accumulated other comprehensive income (loss)	(28,426)	31,603
Retained earnings	1,020,490	622,208
Total stockholders' equity	2,299,681	1,862,446
Total liabilities and stockholders' equity	\$ 4,512,590	\$ 3,775,891

See accompanying notes to consolidated financial statements.

F-5

---



Table of Contents**GAMESTOP CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
	<b>(In thousands, except per share data)</b>		
Sales	\$ 8,805,897	\$ 7,093,962	\$ 5,318,900
Cost of sales	6,535,762	5,280,255	3,847,458
Gross profit	2,270,135	1,813,707	1,471,442
Selling, general and administrative expenses	1,445,419	1,182,016	1,021,113
Depreciation and amortization	145,004	130,270	109,862
Merger-related expenses	4,593		6,788
Operating earnings	675,119	501,421	333,679
Interest income	(11,619)	(13,779)	(11,338)
Interest expense	50,456	61,553	84,662
Debt extinguishment expense	2,331	12,591	6,059
Earnings before income tax expense	633,951	441,056	254,296
Income tax expense	235,669	152,765	96,046
Net earnings	\$ 398,282	\$ 288,291	\$ 158,250
Net earnings per common share basic	\$ 2.44	\$ 1.82	\$ 1.06
Weighted average shares of common stock basic	163,190	158,226	149,924
Net earnings per common share diluted	\$ 2.38	\$ 1.75	\$ 1.00
Weighted average shares of common stock diluted	167,671	164,844	158,284

See accompanying notes to consolidated financial statements.

**Table of Contents****GAMESTOP CORP.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	<b>Class A Common Stock Shares</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance at January 28, 2006	145,594	\$ 146	\$ 921,335	\$ 886	\$ 192,346	\$ 1,114,713
Comprehensive income:						
Net earnings for the 53 weeks ended February 3, 2007					158,250	
Foreign currency translation				2,341		
Total comprehensive income						160,591
Stock-based compensation			20,978			20,978
Exercise of employee stock options and issuance of shares upon vesting of restricted stock grant (including tax benefit of \$45,735)	6,711	6	79,590			79,596
Balance at February 3, 2007	152,305	152	1,021,903	3,227	350,596	1,375,878
Cumulative effect of change in accounting principle					(16,679)	(16,679)
Balance at February 4, 2007, adjusted	152,305	152	1,021,903	3,227	333,917	1,359,199
Comprehensive income:						
Net earnings for the 52 weeks ended February 2, 2008					288,291	
Foreign currency translation				28,376		
Total comprehensive income						316,667
Stock-based compensation			26,911			26,911
Exercise of employee stock options and issuance of shares upon vesting of restricted stock grant (including tax benefit of \$94,786)	8,702	9	159,660			159,669
Balance at February 2, 2008	161,007	161	1,208,474	31,603	622,208	1,862,446
Comprehensive income:						
Net earnings for the 52 weeks ended January 31, 2009					398,282	
Foreign currency translation				(60,029)		
Total comprehensive income						338,253
Stock-based compensation			35,354			35,354
	2,836	3	63,625			63,628

Exercise of employee stock  
options and issuance of shares  
upon vesting of restricted stock  
grant (including tax benefit of  
\$37,562)

Balance at January 31, 2009	163,843	\$ 164	\$ 1,307,453	\$ (28,426)	\$ 1,020,490	\$ 2,299,681
-----------------------------	---------	--------	--------------	-------------	--------------	--------------

See accompanying notes to consolidated financial statements.

F-7

---

**Table of Contents****GAMESTOP CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
	<b>(In thousands)</b>		
Cash flows from operating activities:			
Net earnings	\$ 398,282	\$ 288,291	\$ 158,250
Adjustments to reconcile net earnings to net cash flows provided by operating activities:			
Depreciation and amortization (including amounts in cost of sales)	146,363	131,277	110,176
Provision for inventory reserves	42,979	51,879	50,779
Amortization and retirement of deferred financing fees	2,496	5,669	4,595
Amortization and retirement of original issue discount on senior notes	1,239	1,162	1,523
Stock-based compensation expense	35,354	26,911	20,978
Deferred taxes	(25,535)	(10,999)	(2,522)
Excess tax benefits realized from exercise of stock-based awards	(34,174)	(93,322)	(43,758)
Loss on disposal of property and equipment	5,193	8,205	4,261
Increase in other long-term liabilities	4,071	8,946	6,775
Increase in liability to landlords for tenant allowances, net	4,266	5,075	1,586
Change in the value of foreign exchange contracts	(17,414)	186	(8,323)
Changes in operating assets and liabilities, net of businesses acquired			
Receivables, net	(2,901)	(19,903)	4,891
Merchandise inventories	(209,442)	(143,525)	(115,370)
Prepaid expenses and other current assets	(10,111)	(3,590)	(21,371)
Prepaid taxes and taxes payable	44,698	118,862	54,369
Accounts payable and accrued liabilities	163,871	109,717	193,269
Net cash flows provided by operating activities	549,235	484,841	420,108
Cash flows from investing activities:			
Purchase of property and equipment	(183,192)	(175,569)	(133,930)
Acquisitions, net of cash acquired	(630,706)	1,061	(11,303)
Sale of assets held for sale			19,297
Net cash flows used in investing activities	(813,898)	(174,508)	(125,936)
Cash flows from financing activities:			
Repurchase of notes payable	(30,000)	(270,000)	(100,000)
Repayment of other debt		(12,173)	(21,263)
Borrowings for acquisition	425,000		
Repayments of acquisition borrowings	(425,000)		

Edgar Filing: GameStop Corp. - Form 10-K

Issuance of shares relating to stock options	28,950	64,883	33,861
Excess tax benefits realized from exercise of stock-based awards	34,174	93,322	43,758
Net change in other noncurrent assets and other intangible assets	(10,474)	6,826	385
Net cash flows provided by (used in) financing activities	22,650	(117,142)	(43,259)
Exchange rate effect on cash and cash equivalents	(37,260)	11,820	(103)
Net increase (decrease) in cash and cash equivalents	(279,273)	205,011	250,810
Cash and cash equivalents at beginning of period	857,414	652,403	401,593
Cash and cash equivalents at end of period	\$ 578,141	\$ 857,414	\$ 652,403

See accompanying notes to consolidated financial statements.

F-8

---

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

***Background***

GameStop Corp. (together with its predecessor companies, GameStop, we, our, or the Company), is the world's largest retailer of video game systems and software and PC entertainment software and related accessories primarily through its GameStop and EB Games stores. We also operate the electronic commerce website [www.gamestop.com](http://www.gamestop.com) and publish *Game Informer* magazine. The Company's stores, which totaled 6,207 at January 31, 2009, are located in major regional shopping malls and strip centers. The Company operates in four business segments, which are the United States, Australia, Canada and Europe.

The Company is a Delaware corporation, formerly known as GSC Holdings Corp., and has grown through a business combination (the EB merger) of GameStop Holdings Corp., formerly known as GameStop Corp., and Electronics Boutique Holdings Corp. (EB), which was completed on October 8, 2005. The Company also has grown through acquisitions, the most recent of which occurred on November 17, 2008 when the Company purchased SFMI Micromania SAS (Micromania), a leading retailer of video and computer games in France.

Until October 2004, Barnes & Noble, Inc. (Barnes & Noble) held 72,018 shares of GameStop's common stock. In October 2004, GameStop repurchased 12,214 of the shares of common stock held by Barnes & Noble and immediately retired the shares. In November 2004, Barnes & Noble distributed to its stockholders its remaining 59,804 shares of GameStop's common stock in a tax-free dividend.

***Basis of Presentation and Consolidation***

Our consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its majority-owned subsidiary, GameStop Group Limited (formerly Gamesworld Group Limited). All significant intercompany accounts and transactions have been eliminated in consolidation. All dollar and share amounts in the consolidated financial statements and notes to the consolidated financial statements are stated in thousands unless otherwise indicated.

The Company's fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. Fiscal 2008 consisted of the 52 weeks ended on January 31, 2009. Fiscal 2007 consisted of the 52 weeks ended on February 2, 2008. Fiscal 2006 consisted of the 53 weeks ended on February 3, 2007. The Company's operating results for fiscal 2008 include 11 weeks of Micromania's results.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by management could have

significant impact on the Company's financial results. Actual results could differ from those estimates.

***Reclassifications***

Certain reclassifications have been made to conform the prior period data to the current year presentation.

***Cash and Cash Equivalents***

The Company considers all short-term, highly-liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company's cash and cash equivalents are carried at cost, which

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

approximates market value, and consist primarily of time deposits with highly rated commercial banks. From time to time depending upon interest rates, credit worthiness and other factors, the Company invests in money market investment funds holding direct U.S. Treasury obligations. The Company held such cash equivalents as of February 2, 2008.

***Merchandise Inventories***

The Company's merchandise inventories are carried at the lower of cost or market generally using the average cost method. Under the average cost method, as new product is received from vendors, its current cost is added to the existing cost of product on-hand and this amount is re-averaged over the cumulative units. Used video game products traded in by customers are recorded as inventory at the amount of the store credit given to the customer. In valuing inventory, management is required to make assumptions regarding the necessity of reserves required to value potentially obsolete or over-valued items at the lower of cost or market. Management considers quantities on hand, recent sales, potential price protections and returns to vendors, among other factors, when making these assumptions. The Company's ability to gauge these factors is dependent upon the Company's ability to forecast customer demand and to provide a well-balanced merchandise assortment. Inventory is adjusted based on anticipated physical inventory losses or shrinkage and actual losses resulting from periodic physical inventory counts. Inventory reserves as of January 31, 2009 and February 2, 2008 were \$56,567 and \$59,698, respectively.

***Property and Equipment***

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is computed using the straight-line method over their estimated useful lives ranging from two to eight years. Maintenance and repairs are expensed as incurred, while betterments and major remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases, including option periods in which the exercise of the option is reasonably assured (generally ranging from three to ten years). Costs incurred in purchasing management information systems are capitalized and included in property and equipment. These costs are amortized over their estimated useful lives from the date the systems become operational.

The Company periodically reviews its property and equipment when events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. The Company assesses recoverability based on several factors, including management's intention with respect to its stores and those stores' projected undiscounted cash flows. An impairment loss would be recognized for the amount by which the carrying amount of the assets exceeds their fair value, as approximated by the present value of their projected cash flows. Write-downs incurred by the Company through January 31, 2009 have not been material.

***Goodwill***

Goodwill represents the excess purchase price over tangible net assets and identifiable intangible assets acquired. The Company does not amortize goodwill, instead it evaluates it for impairment on at least an annual basis. The Company completed its annual impairment test of goodwill on the first day of the fourth quarter of fiscal 2006, fiscal 2007 and fiscal 2008 and concluded that none of its goodwill was impaired. Note 7 provides additional information concerning the changes in goodwill for the consolidated financial statements presented.



***Other Intangible Assets***

Other intangible assets consist primarily of tradenames, leasehold rights and amounts attributed to favorable leasehold interests recorded as a result of the Micromania acquisition and the EB merger. Intangible assets are recorded consistent with the provisions of Statement of Financial Accounting Standards No. 141, *Business Combinations* ( SFAS 141 ), which requires that intangible assets shall be recognized as an asset apart from

F-10

---

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

goodwill if they arise from a contractual right and are capable of being separated from the entity and sold, transferred, licensed, rented or exchanged individually. The useful life and amortization methodology of intangible assets are based on the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, which requires that the assets should be amortized over the period in which they are expected to contribute directly to cash flows.

Tradenames which were recorded as a result of the Micromania acquisition are considered indefinite life intangible assets as they are expected to contribute to cash flows indefinitely and are not subject to amortization, but are subject to annual impairment testing. Leasehold rights which were recorded as a result of the Micromania acquisition represent the value of rights of tenancy under commercial property leases for properties located in France. The rights to any particular lease can be sold by us to a new tenant or recovered by us from the landlord if the exercise of the automatic right of renewal is refused. Leasehold rights are amortized on a straight-line basis over the expected lease term not to exceed 20 years with no residual value. Favorable leasehold interests represent the value of the contractual monthly rental payments that are less than the current market rent at stores acquired as part of the Micromania acquisition or the EB merger. Favorable leasehold interests are amortized on a straight-line basis over their remaining lease term with no expected residual value. Note 7 provides additional information related to the Company's intangible assets.

***Revenue Recognition***

Revenue from the sales of the Company's products is recognized at the time of sale and is stated net of sales discounts. The sales of used video game products are recorded at the retail price charged to the customer. Sales returns (which are not significant) are recognized at the time returns are made. Subscription and advertising revenues are recorded upon release of magazines for sale to consumers. Magazine subscription revenue is recognized on a straight-line basis over the subscription period. Revenue from the sales of product replacement plans is recognized on a straight-line basis over the coverage period. The deferred revenues for magazine subscriptions and deferred financing plans are included in accrued liabilities (see Note 6).

Revenues do not include sales taxes or other taxes collected from customers.

***Cost of Sales and Selling, General and Administrative Expenses Classification***

The classification of cost of sales and selling, general and administrative expenses varies across the retail industry. The Company includes purchasing, receiving and distribution costs in selling, general and administrative expenses, rather than cost of goods sold, in the statement of operations. For the 52 weeks ended January 31, 2009, the 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007, these purchasing, receiving and distribution costs amounted to \$57,037, \$43,928 and \$35,903, respectively.

The Company includes processing fees associated with purchases made by check and credit cards in cost of sales, rather than selling, general and administrative expenses, in the statement of operations. For the 52 weeks ended January 31, 2009, the 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007, these processing fees amounted to \$65,493, \$55,215 and \$40,877, respectively.

***Customer Liabilities***

The Company establishes a liability upon the issuance of merchandise credits and the sale of gift cards. Revenue is subsequently recognized when the credits and gift cards are redeemed. In addition, income ( breakage ) is recognized quarterly on unused customer liabilities older than three years to the extent that the Company believes the likelihood of redemption by the customer is remote, based on historical redemption patterns. Breakage has historically been immaterial. To the extent that future redemption patterns differ from those historically experienced, there will be variations in the recorded breakage.

F-11

---

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Pre-Opening Expenses***

All costs associated with the opening of new stores are expensed as incurred. Pre-opening expenses are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

***Closed Store Expenses***

Upon a formal decision to close or relocate a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and, once the store is vacated, a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

***Advertising Expenses***

The Company expenses advertising costs for newspapers and other media when the advertising takes place. Advertising expenses for television, newspapers and other media during the 52 weeks ended January 31, 2009, 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007 were \$46,708, \$26,243 and \$16,043, respectively. During fiscal 2007, the Company launched a new marketing campaign for television, radio and print to promote the GameStop brand and its brand tagline, Power to the Players.

***Income Taxes***

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ( SFAS 109 ). SFAS 109 utilizes an asset and liability approach, and deferred taxes are determined based on the estimated future tax effect of differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates. On February 4, 2007, the Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, to account for uncertainty in income taxes recognized in the Company's financial statements (see Note 12).

U.S. income taxes have not been provided on \$204,649 of undistributed earnings of foreign subsidiaries as of January 31, 2009. The Company reinvests earnings of foreign subsidiaries in foreign operations and expects that future earnings will also be reinvested in foreign operations indefinitely.

***Lease Accounting***

The Company's method of accounting for rent expense (and related deferred rent liability) and leasehold improvements funded by landlord incentives for allowances under operating leases (tenant improvement allowances) is in conformance with GAAP. For leases that contain predetermined fixed escalations of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and includes the impact of escalating rents for periods in which it is reasonably assured of exercising lease options and the Company includes in the lease term any period during which the Company is not obligated to pay rent while the store is being constructed.

***Foreign Currency Translation***

GameStop has determined that the functional currencies of its foreign subsidiaries are the subsidiaries' local currencies. The accounts of the foreign subsidiaries are translated in accordance with Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation*. The assets and liabilities of the subsidiaries are translated at the applicable exchange rate as of the end of the balance sheet date and revenue and expenses are translated at an average rate over the period. Currency translation adjustments are recorded as a component of other comprehensive income. Transaction gains and (losses) are included in net income and amounted to (\$9,993), \$8,575 and (\$962) for the 52 weeks ended January 31, 2009, the 52 weeks ended February 2, 2008 and the 53 weeks ended

F-12

---

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

February 3, 2007, respectively. The foreign currency transaction losses in fiscal 2008 are primarily related to the increase in the value of the U.S. dollar compared to the functional currencies in the countries the Company operates in internationally, primarily the euro, the Canadian dollar and the Australian dollar. The foreign currency transaction gains in fiscal 2007 are primarily due to the decrease in the value of the U.S. dollar compared to the functional currencies in the countries the Company operates in internationally. The net foreign currency transaction loss in the 52 weeks ended January 31, 2009 included a \$3,545 net loss related to the change in foreign exchange rates related to the funding of the Micromania acquisition recorded in merger-related expenses.

The Company follows the provisions of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ), as amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*. SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if it is, depending on the type of hedge transaction.

The Company uses forward exchange contracts, foreign currency options and cross-currency swaps, (together, the Foreign Currency Contracts ) to manage currency risk primarily related to intercompany loans denominated in non-functional currencies and certain foreign currency assets and liabilities. These Foreign Currency Contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the re-measurement of related intercompany loans and foreign currency assets and liabilities.

***Net Earnings Per Common Share***

Net earnings per common share is presented in accordance with Statement of Financial Accounting Standards No. 128, *Earnings Per Share* ( SFAS 128 ). Basic earnings per common share are computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common share are computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period. Potentially dilutive securities include stock options and unvested restricted stock outstanding during the period, using the treasury stock method. Potentially dilutive securities are excluded from the computations of diluted earnings per share if their effect would be antidilutive. Note 4 provides additional information regarding net earnings per common share.

***Stock Options***

The Company records share-based compensation expense in earnings based on the grant-date fair value of options granted. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This valuation model requires the use of subjective assumptions, including expected option life and expected volatility. The Company uses historical data to estimate the option life and the employee forfeiture rate, and uses historical volatility when estimating the stock price volatility. The weighted-average fair values of the options granted during the 52 weeks ended January 31, 2009, the 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007 were estimated at \$15.45, \$10.16 and \$8.42, respectively, using the following assumptions:

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
Volatility	38.2%	40.5%	54.5%
Risk-free interest rate	2.4%	4.8%	4.6%
Expected life (years)	3.5	4.0	3.0
Expected dividend yield	0%	0%	0%

F-13

---

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In addition to requiring companies to recognize the estimated fair value of share-based payments in earnings, companies now have to present tax benefits received in excess of amounts determined based on the compensation expense recognized on the statements of cash flows. Such tax benefits are presented as a use of cash in the operating section and a source of cash in the financing section of the Statement of Cash Flows. Note 13 provides additional information regarding the Company's stock option plan.

***Fair Values of Financial Instruments***

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities reported in the accompanying consolidated balance sheets approximate fair value due to the short-term maturities of these assets and liabilities. The fair value of the Company's senior notes payable in the accompanying consolidated balance sheets is estimated based on recent quotes from brokers. As of January 31, 2009, the senior notes payable had a carrying value of \$545,712 and a fair value of \$547,250. As of February 2, 2008, the senior notes payable had a carrying value of \$574,473 and a fair value of \$591,600.

Effective February 3, 2008, the Company implemented FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( SFAS 157 ), which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurements. The Company elected to implement SFAS 157 with the one-year deferral permitted by FASB Staff Position ( FSP ) 157-2 for nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed on a recurring basis (at least annually). We do not expect any significant impact to our consolidated financial statements when we implement SFAS 157 for these assets and liabilities.

Due to our election under FSP 157-2, for fiscal 2008, SFAS 157 applies to our Foreign Currency Contracts, Company-owned life insurance policies with a cash surrender value and certain nonqualified deferred compensation liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition. The implementation of SFAS 157 did not result in a significant change in the method of calculating fair value of assets or liabilities. The primary impact from adoption was additional disclosures.

In October 2008, the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active* ( FSP 157-3 ), to clarify how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our financial statements for the period ended November 1, 2008. The application of the provisions of FSP 157-3 did not materially impact our consolidated financial statements for the period ended November 1, 2008. The Company does not currently own any securities, including cash equivalents, for which a dislocated market or other liquidity problems are known to exist.

SFAS 157 requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs. Level 3 inputs are unobservable inputs for the asset or liability reflecting our assumptions about pricing by market participants.

We value our Foreign Currency Contracts, Company-owned life insurance policies with cash surrender values and certain nonqualified deferred compensation liabilities based on Level 2 inputs using quotations provided by major



market news services, such as Bloomberg and The Wall Street Journal, and industry-standard models that consider various assumptions, including quoted forward prices, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures. When appropriate, valuations are adjusted to reflect credit considerations, generally based on available market evidence.

**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table provides the fair value of our financial assets and liabilities measured on a recurring basis and recorded on our condensed consolidated balance sheet as of January 31, 2009:

	<b>January 31, 2009</b>
	<b>Level 2</b>
	<b>(In thousands)</b>
<b>Assets</b>	
Foreign Currency Contracts	\$ 12,104
Company-owned life insurance	2,134
Total assets	\$ 14,238
<b>Liabilities</b>	
Foreign Currency Contracts	\$ 11,766
Non-qualified deferred compensation	905
Total liabilities	\$ 12,671

***Guarantees***

The Company had bank guarantees relating to international store leases totaling \$12,930 as of January 31, 2009.

***Vendor Concentration***

The Company's largest vendors worldwide are Nintendo, Sony Computer Entertainment, Microsoft and Electronic Arts, Inc., which accounted for 25%, 13%, 13% and 11%, respectively, of the Company's new product purchases in fiscal 2008, 21%, 17%, 16% and 11%, respectively, in fiscal 2007 and 11%, 13%, 14% and 10%, respectively, in fiscal 2006.

***Stock Conversion and Stock Split***

On February 7, 2007, following approval by a majority of the Class B common stockholders in a special meeting of the Company's Class B common stockholders, all outstanding Class B common shares were converted into Class A common shares on a one-for-one basis (the "Conversion"). In addition, on February 9, 2007, the Board of Directors of the Company authorized a two-for-one stock split, effected by a one-for-one stock dividend to stockholders of record at the close of business on February 20, 2007, paid on March 16, 2007 (the "Stock Split"). The effect of the Conversion and the Stock Split has been retroactively applied to all periods presented in the consolidated financial statements and notes thereto.

***New Accounting Pronouncements***

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133 ( SFAS 161 ). SFAS 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and their effect on an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Company on February 1, 2009. The Company is currently evaluating the impact that the adoption of SFAS 161 will have on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* ( SFAS 141(R) ). SFAS 141(R) amends the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for the Company on February 1, 2009, and the Company will apply prospectively SFAS 141(R) to all business combinations subsequent to the effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51* ( SFAS 160 ). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the controlling and noncontrolling interests and requires the separate disclosure of income attributable to controlling and noncontrolling interests. SFAS 160 became effective for the Company on February 1, 2009. The Company is currently evaluating the impact that the adoption of SFAS 160 will have on its consolidated financial statements.

**2. Acquisitions**

On November 17, 2008, GameStop France SAS, a wholly-owned subsidiary of the Company, completed the acquisition of substantially all of the outstanding capital stock of Micromania for \$580,407, net of cash acquired. Micromania is a leading retailer of video and computer games in France with 332 locations, 328 of which were operating upon acquisition. The Company funded the transaction with cash on hand, funds drawn against its existing \$400,000 credit agreement (the Revolver ) totaling \$275,000, and term loans totaling \$150,000 under a junior term loan facility (the Term Loans ). As of January 31, 2009, all of the borrowings against the Revolver and the Term Loans have been repaid. The purpose of the acquisition was to expand the Company's presence in Europe. The impact of the acquisition on the Company's results of operations, as if the acquisition had been completed as of the beginning of the periods presented, is not significant.

The consolidated financial statements include the results of Micromania from the date of acquisition and are reported in the European segment. The purchase price has been allocated based on estimated fair values as of the acquisition date. The purchase price was allocated as follows as of November 17, 2008:

	<b>November 17, 2008 (In thousands)</b>
Current assets	\$ 187,877
Property, plant & equipment	34,164
Goodwill	413,318
Intangible assets:	
Tradenname	131,560
Leasehold rights and interests	102,746
Total intangible assets	234,306
Other long-term assets	7,786
Current liabilities	(220,237)

Long-term liabilities	(76,807)
Total purchase price	\$ 580,407

The purchase price allocation has been prepared on a preliminary basis based on the information that was available to the Company at the time the consolidated financial statements were prepared, and revisions to the preliminary purchase price allocation are expected as additional information becomes available.

In determining the purchase price allocation, management considered, among other factors, the Company's intention to use the acquired assets. The total weighted-average amortization period for the intangible assets,

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

excluding goodwill and the Micromania tradename, is approximately ten years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized, with no expected residual value. None of the goodwill is deductible for income tax purposes. Note 7 provides additional information concerning goodwill and intangible assets.

Merger-related expenses totaling \$4,593 shown in the fiscal 2008 statements of operations include a net loss related to the change in foreign exchange rates related to the funding of the Micromania acquisition and other costs considered to be of a one-time or short-term nature which are included in operating earnings.

On April 5, 2008, the Company purchased all the outstanding stock of Free Record Shop Norway AS, a Norwegian private limited liability company ( FRS ), for \$21,006, net of cash acquired. FRS operated 49 record stores in Norway, nine of which have been closed as of January 31, 2009. The Company has converted the remaining stores into video game stores with an inventory assortment similar to its other stores in Norway. The acquisition was accounted for using the purchase method of accounting, with the excess of the purchase price over the net assets acquired, in the amount of \$17,981, recorded as goodwill. The Company has included the results of operations of FRS, which were not material, in its financial statements beginning on the closing date of the acquisition on April 5, 2008.

In 2003, the Company purchased a 51% controlling interest in GameStop Group Limited which operates stores in Ireland and the United Kingdom. Under the terms of the purchase agreement, the minority interest owners of the remaining 49% have the ability to require the Company to purchase their remaining shares in incremental percentages at a price to be determined based partially on the Company's price to earnings ratio and GameStop Group Limited's earnings. On May 21, 2008, the minority interest owners exercised their right to sell one-third of their shares, or approximately 16% of GameStop Group Limited, to the Company under the terms of the original purchase agreement for \$27,383. The transaction was completed in June 2008 and recorded in accordance with the provisions of SFAS 141.

During July 2008, the Company purchased certain assets and website operations from The Gamesman Limited, a video game and entertainment software retailer, including eight stores in New Zealand, for \$1,910. The acquisition was accounted for using the purchase method of accounting, with the excess of the purchase price over the net assets acquired, in the amount of \$605, recorded as goodwill. The Company has included the results of operations of the eight New Zealand stores acquired from The Gamesman Limited, which were not material, in the Company's financial statements beginning on the closing date of the acquisition on July 14, 2008.

On January 13, 2007, the Company purchased Game Brands Inc. ( Game Brands ), a 72-store video game retailer operating under the name Rhino Video Games, for \$11,344. The acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations for the period subsequent to the acquisition are included in the consolidated financial statements. The excess of the purchase price over the net assets acquired, in the amount of \$8,083 was recorded as goodwill in fiscal 2006. Purchase price adjustments to reduce goodwill for Game Brands were \$1,467 during fiscal 2007.

The pro forma effect assuming the above acquisitions were made at the beginning of fiscal 2006 is not material to the Company's consolidated financial statements.

Merger-related expenses of \$6,788 shown in the statement of operations for fiscal 2006 include costs believed to be of a one-time or short-term nature associated with integrating the operations of GameStop and EB during the 53 weeks ended February 3, 2007. The Company completed all integration activities relating to the EB merger in fiscal 2006.

### **3. Vendor Arrangements**

The Company and approximately 50 of its vendors participate in cooperative advertising programs and other vendor marketing programs in which the vendors provide the Company with cash consideration in exchange for

F-17

---

**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

marketing and advertising the vendors' products. The Company's accounting for cooperative advertising arrangements and other vendor marketing programs, in accordance with FASB Emerging Issues Task Force Issue 02-16, results in a portion of the consideration received from the Company's vendors reducing the product costs in inventory rather than as an offset to the Company's marketing and advertising costs. The consideration serving as a reduction in inventory is recognized in cost of sales as inventory is sold. The amount of vendor allowances to be recorded as a reduction of inventory was determined by calculating the ratio of vendor allowances in excess of specific, incremental and identifiable advertising and promotional costs to merchandise purchases. The Company then applied this ratio to the value of inventory in determining the amount of vendor reimbursements to be recorded as a reduction to inventory reflected on the balance sheet.

The cooperative advertising programs and other vendor marketing programs generally cover a period from a few days up to a few weeks and include items such as product catalog advertising, in-store display promotions, Internet advertising, co-op print advertising, product training and promotion at the Company's annual store managers conference. The allowance for each event is negotiated with the vendor and requires specific performance by the Company to be earned.

Specific, incremental and identifiable advertising and promotional costs were \$92,083 and \$76,074 in the 52 week periods ended January 31, 2009 and February 2, 2008, respectively, and \$49,585 in the 53 weeks ended February 3, 2007. Vendor allowances received in excess of advertising expenses were recorded as a reduction of cost of sales of \$125,115 and \$92,425 for the 52 week periods ended January 31, 2009 and February 2, 2008, respectively, and \$117,082 for the 53 weeks ended February 3, 2007. The amounts deferred as a reduction in inventory were \$3,193 for the 52 weeks ended January 31, 2009 and \$1,377 for the 53 weeks ended February 3, 2007. The amount recognized as income related to the capitalization of excess vendor allowances was \$6,113 for the 52 weeks ended February 2, 2008.

**4. Computation of Net Earnings per Common Share**

As of February 3, 2007, the Company had two classes of common stock. Subsequent to February 3, 2007, the Company completed the Conversion and the Stock Split and now has only Class A common stock outstanding and computed earnings per share in accordance with SFAS 128. A reconciliation of shares used in calculating basic and diluted net earnings per common share is as follows:

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
	<b>(In thousands, except per share data)</b>		
Net earnings	\$ 398,282	\$ 288,291	\$ 158,250
Weighted average common shares outstanding	163,190	158,226	149,924
Dilutive effect of options and warrants on common stock	4,481	6,618	8,360
Common shares and dilutive potential common shares	167,671	164,844	158,284



Edgar Filing: GameStop Corp. - Form 10-K

Net earnings per common share:

Basic	\$	2.44	\$	1.82	\$	1.06
-------	----	------	----	------	----	------

Diluted	\$	2.38	\$	1.75	\$	1.00
---------	----	------	----	------	----	------

F-18

---

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table contains information on restricted shares and options to purchase shares of Class A common stock which were excluded from the computation of diluted earnings per share because they were anti-dilutive:

	<b>Anti-Dilutive Shares</b>	<b>Range of Exercise Prices</b>	<b>Expiration Dates</b>
	(In thousands, except per share data)		
52 Weeks Ended January 31, 2009	2,473	\$ 26.68 - 49.95	2010 - 2018
52 Weeks Ended February 2, 2008			
53 Weeks Ended February 3, 2007	16		2009

**5. Receivables, Net**

Receivables consist primarily of bankcard receivables and other receivables. Other receivables include receivables from *Game Informer* magazine advertising customers, receivables from landlords for tenant allowances and receivables from vendors for merchandise returns, vendor marketing allowances and various other programs. An allowance for doubtful accounts has been recorded to reduce receivables to an amount expected to be collectible. Receivables consisted of the following:

	<b>January 31, 2009</b>	<b>February 2, 2008</b>
	(In thousands)	
Bankcard receivables	\$ 45,650	\$ 33,667
Other receivables	24,097	25,465
Allowance for doubtful accounts	(3,766)	(3,113)
Total receivables, net	\$ 65,981	\$ 56,019

**6. Accrued Liabilities**

Accrued liabilities consisted of the following:

	<b>January 31, 2009</b>	<b>February 2, 2008</b>
	(In thousands)	
Customer liabilities	\$ 163,904	\$ 145,626
Deferred revenue	42,936	47,423

Edgar Filing: GameStop Corp. - Form 10-K

Accrued rent	20,760	22,698
Accrued interest	18,416	19,181
Employee compensation and related taxes	83,475	58,445
Income taxes payable	16,495	6,303
Other taxes	61,434	34,004
Other accrued liabilities	107,328	82,501
Total accrued liabilities	\$ 514,748	\$ 416,181

F-19

---

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Goodwill, Intangible Assets and Deferred Financing Fees**

The changes in the carrying amount of goodwill for the Company's business segments for the 52 weeks ended February 2, 2008 and the 52 weeks ended January 31, 2009 were as follows:

	<b>United States</b>	<b>Canada</b>	<b>Australia (In thousands)</b>	<b>Europe</b>	<b>Total</b>
Balance at February 3, 2007	\$ 1,098,089	\$ 116,818	\$ 147,224	\$ 41,776	\$ 1,403,907
Adjustment to goodwill acquired	(1,467)				(1,467)
Balance at February 2, 2008	\$ 1,096,622	\$ 116,818	\$ 147,224	\$ 41,776	\$ 1,402,440
Goodwill acquired, net			423	459,244	459,667
Balance at January 31, 2009	\$ 1,096,622	\$ 116,818	\$ 147,647	\$ 501,020	\$ 1,862,107

There were no impairments to goodwill during the 52 weeks ended January 31, 2009 and February 2, 2008.

Intangible assets consist of point-of-sale software and amounts attributed to favorable leasehold interests acquired in the EB merger and Micromania acquisition and are included in other non-current assets in the consolidated balance sheet. The tradename acquired in the Micromania acquisition in the amount of \$133,231 has been determined to be an indefinite lived intangible asset and is therefore not subject to amortization. The total weighted-average amortization period for the remaining intangible assets, excluding goodwill, is approximately ten years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized, with no expected residual value.

The deferred financing fees associated with the Company's revolving credit facility and senior notes issued in connection with the financing of the EB merger are included in other noncurrent assets in the consolidated balance sheet. The deferred financing fees are being amortized over five and seven years to match the terms of the revolving credit facility and the senior notes, respectively.

The changes in the carrying amount of deferred financing fees and other intangible assets for the 52 weeks ended February 2, 2008 and January 31, 2009 were as follows:

	<b>Deferred Financing Fees</b>	<b>Other Intangible Assets</b>
	<b>(In thousands)</b>	
Balance at February 3, 2007	\$ 14,375	\$ 14,545

Edgar Filing: GameStop Corp. - Form 10-K

Addition for revolving credit facility renewal and extension in 2007	263	
Write-off of deferred financing fees remaining on repurchased senior notes and senior floating rate notes (see Note 8)	(3,416)	
Addition of leasehold rights		5,238
Amortization for the 52 weeks ended February 2, 2008	(2,259)	(5,569)
Balance at February 2, 2008	8,963	14,214
Addition for revolving credit facility amendment	1,025	
Addition for term loan facility fee	2,525	
Write-off of deferred financing fees remaining on repurchased senior notes (see Note 8)	(337)	
Addition of non-compete agreement		2,987
Addition of tradename from Micromania acquisition		133,231
Addition of leasehold rights from Micromania acquisition		105,292
Amortization for the 52 weeks ended January 31, 2009	(3,256)	(7,934)
Balance at January 31, 2009	\$ 8,920	\$ 247,790

F-20

---

**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The gross carrying value and accumulated amortization of deferred financing fees as of January 31, 2009 were \$23,857 and \$14,937, respectively.

The estimated aggregate amortization expenses for deferred financing fees and other intangible assets for the next five fiscal years are approximately:

Year Ended	Amortization of Deferred Financing Fees	Amortization of Other Intangible Assets
	(In thousands)	
January 2010	\$ 2,671	\$ 13,709
January 2011	2,669	11,020
January 2012	2,669	9,235
January 2013	911	8,524
January 2014		8,221
	\$ 8,920	\$ 50,709

**8. Debt**

In October 2005, in connection with the EB merger, the Company entered into a five-year, \$400,000 Credit Agreement (the Revolver), including a \$50,000 letter of credit sub-limit, secured by the assets of the Company and its U.S. subsidiaries. The Revolver places certain restrictions on the Company and its subsidiaries, including limitations on asset sales, additional liens and the incurrence of additional indebtedness. In April 2007, the Company amended the Revolver to extend the maturity date from October 11, 2010 to April 25, 2012, reduce the LIBO interest rate margin, reduce and fix the rate of the unused commitment fee and modify or delete certain other covenants.

The availability under the Revolver is limited to a borrowing base which allows the Company to borrow up to the lesser of (x) approximately 70% of eligible inventory and (y) 90% of the appraisal value of the inventory, in each case plus 85% of eligible credit card receivables, net of certain reserves. Letters of credit reduce the amount available to borrow by their face value. The Company's ability to pay cash dividends, redeem options and repurchase shares is generally prohibited, except that if availability under the Revolver is, or will be after any such payment, equal to or greater than 25% of the borrowing base, the Company may repurchase its capital stock and pay cash dividends. In addition, in the event that credit extensions under the Revolver at any time exceed 80% of the lesser of the total commitment or the borrowing base, the Company will be subject to a fixed charge coverage ratio covenant of 1.5:1.0.

The per annum interest rate on the Revolver is variable and, at the Company's option, is calculated by applying a margin of (1) 0.0% to 0.25% above the higher of the prime rate of the administrative agent or the federal funds effective rate plus 0.50% or (2) 1.00% to 1.50% above the LIBO rate. The applicable margin is determined quarterly as a function of the Company's consolidated leverage ratio. As of January 31, 2009, the applicable margin was 0.0%

for prime rate loans and 1.00% for LIBO rate loans. In addition, the Company is required to pay a commitment fee of 0.25% for any unused portion of the total commitment under the Revolver. As of January 31, 2009, there were no borrowings outstanding under the Revolver and letters of credit outstanding totaled \$7,721.

In October 2008, the Company amended the Revolver to permit both the acquisition of Micromania and a committed \$150,000 junior term loan facility (the Term Loans ). In addition, during any period for which the Term Loans were outstanding, the amendment increased the applicable margin under the Revolver (i) payable on LIBO rate loans to a range of 1.5% to 2.0% from the current range of 1.0% to 1.5% and (ii) payable on prime rate loans to a range of 0.5% to 0.75% from the current range of 0.0% to 0.25%. The margins applicable prior to the entry into the amendment apply once the Term Loans are no longer outstanding. The Term Loans were outstanding during the fourth quarter of fiscal 2008.

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In November 2008, in connection with the acquisition of Micromania, the Company entered into a Term Loan Agreement (the Term Loan Agreement) with Bank of America, N.A and Banc of America Securities LLC. The Term Loan Agreement provided for Term Loans in the aggregate of \$150,000, consisting of a \$50,000 secured term loan (Term Loan A) and a \$100,000 unsecured term loan (Term Loan B). The Term Loan Agreement provided that the principal of Term Loan B was to be repaid in four equal installments of \$25,000 a week for four consecutive weeks, commencing on December 3, 2008. Term Loan A was scheduled to mature on March 31, 2009. Amounts borrowed under the Term Loan Agreement may not be reborrowed once repaid. Borrowings made pursuant to the Term Loan Agreement bore interest, payable quarterly or, if earlier, at the end of any interest period, at a per annum rate equal to either (a) the prime loan rate, described in the Term Loan Agreement as the higher of (i) Bank of America N.A.'s prime rate or (ii) the federal funds rate plus 0.50%, in each case plus 1.75%, or (b) the LIBO rate (a publicly published rate) plus 3.75%. The effective interest rate on Term Loan A was 5.75% per annum and the effective rate on Term Loan B ranged from 5% to 5.75% per annum.

The Term Loan Agreement contained customary affirmative and negative covenants, including limitations on GameStop and its subsidiaries with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets, changes of business and transactions with affiliates. In addition, the Company was subject to a fixed charge coverage ratio covenant of 1.5:1.0. The covenants permitted the Company to use proceeds of the Term Loans for working capital, capital expenditures, payment of transaction costs and a portion of the consideration in connection with the acquisition of Micromania and for all other lawful corporate purposes.

In November 2008, the Company borrowed \$275,000 under the Revolver and borrowed \$150,000 under the Term Loans in order to complete the acquisition of Micromania. As of January 31, 2009 the Revolver and the Term Loans were repaid in full.

In September 2007, the Company's Luxembourg subsidiary entered into a discretionary \$20,000 Uncommitted Line of Credit (the Line of Credit) with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit will be made available to the Company's foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of January 31, 2009, there were \$5,618 of cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled \$4,948.

In September 2005, the Company, along with GameStop, Inc. as co-issuer (together with the Company, the Issuers), completed the offering of \$300,000 aggregate principal amount of Senior Floating Rate Notes due 2011 (the Senior Floating Rate Notes) and \$650,000 aggregate principal amount of Senior Notes due 2012 (the Senior Notes and, together with the Senior Floating Rate Notes, the Notes). The Notes were issued under an Indenture, dated September 28, 2005 (the Indenture), by and among the Issuers, the subsidiary guarantors party thereto, and Citibank, N.A., as trustee (the Trustee). The net proceeds of the offering were used to pay the cash portion of the merger consideration paid to the stockholders of EB in connection with the EB merger. In November 2006, Wilmington Trust Company was appointed as the new Trustee for the Notes.

The Senior Notes bear interest at 8.0% per annum, mature on October 1, 2012 and were priced at 98.688%, resulting in a discount at the time of issue of \$8,528. The discount is being amortized using the effective interest method. As of January 31, 2009, the unamortized original issue discount was \$4,288. The Issuers pay interest on the Senior Notes semi-annually, in arrears, every April 1 and October 1, to holders of record on the immediately preceding March 15



and September 15, and at maturity.

The Indenture contains affirmative and negative covenants customary for such financings, including, among other things, limitations on (1) the incurrence of additional debt, (2) restricted payments, (3) liens, (4) sale and leaseback transactions and (5) asset sales. Events of default provided for in the Indenture include, among other things, failure to pay interest or principal on the Notes, other breaches of covenants in the Indenture, and certain events of bankruptcy and insolvency. As of January 31, 2009, the Company was in compliance with all covenants associated with the Revolver and the Indenture.

F-22

---

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Under certain conditions, the Issuers may on any one or more occasions prior to maturity redeem up to 100% of the aggregate principal amount of Senior Notes issued under the Indenture at redemption prices at or in excess of 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date. The circumstances which would limit the percentage of the Notes which may be redeemed or which would require the Company to pay a premium in excess of 100% of the principal amount are defined in the Indenture. Upon a Change of Control (as defined in the Indenture), the Issuers are required to offer to purchase all of the Notes then outstanding at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase. The Issuers may acquire Senior Notes by means other than redemption, whether by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws, so long as such acquisitions do not otherwise violate the terms of the Indenture.

In May 2006, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of \$100,000 of its Senior Notes and Senior Floating Rate Notes. As of February 3, 2007, the Company had repurchased the maximum authorized amount, having acquired \$50,000 of its Senior Notes and \$50,000 of its Senior Floating Rate Notes, and delivered the Notes to the Trustee for cancellation. The associated loss on the retirement of this debt was \$6,788 for the 53 week period ended February 3, 2007, which consists of the premium paid to retire the Notes and the recognition of the deferred financing fees and the original issue discount on the Notes.

On February 9, 2007, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional \$150,000 of its Senior Notes and Senior Floating Rate Notes. As of August 4, 2007, the Company had repurchased the maximum authorized amount, having acquired \$20,000 of its Senior Notes and \$130,000 of its Senior Floating Rate Notes, and delivered the Notes to the Trustee for cancellation. The associated loss on retirement of this debt was \$8,751 for the 52 week period ended February 2, 2008, which consists of the premium paid to retire the Notes and the recognition of the deferred financing fees and the original issue discount on the Notes.

On June 28, 2007, the Company announced that its Board of Directors authorized the redemption of the remaining \$120,000 of Senior Floating Rate Notes outstanding. The Company redeemed the Senior Floating Rate Notes on October 1, 2007 at the redemption price specified by the Senior Floating Rate Notes of 102.0%, plus all accrued and unpaid interest through the redemption date. The Company incurred a one-time pre-tax charge of \$3,840 associated with the redemption, which represents a \$2,400 redemption premium and \$1,440 to recognize unamortized deferred financing costs.

On February 7, 2008, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional \$130,000 of its Senior Notes. The timing and amount of the repurchases will be determined by the Company's management based on their evaluation of market conditions and other factors. In addition, the repurchases may be suspended or discontinued at any time. As of January 31, 2009, the Company had repurchased \$30,000 of its Senior Notes pursuant to this new authorization and delivered the Senior Notes to the Trustee for cancellation. The associated loss on retirement of debt is \$2,331, which consists of the premium paid to retire the Senior Notes and the write-off of the deferred financing fees and the original issue discount on the Senior Notes for the 52 week period ended January 31, 2009.

In October 2004, GameStop issued a promissory note in favor of Barnes & Noble in the principal amount of \$74,020 in connection with the repurchase of the Company's common stock held by Barnes & Noble. The note was unsecured

and bore interest at 5.5% per annum, payable with each principal installment. Scheduled principal payments of \$12,173 and \$12,173 were made in October 2006 and October 2007, respectively, satisfying the promissory note in full.

The maturity on the \$550,000 Senior Notes, gross of the unamortized original issue discount of \$4,288, occurs in the fiscal year ending January 2013.

F-23

---

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Comprehensive Income**

Comprehensive income is net earnings, plus certain other items that are recorded directly to stockholders' equity, and consisted of the following:

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008 (In thousands)</b>	<b>53 Weeks Ended February 3, 2007</b>
Net earnings	\$ 398,282	\$ 288,291	\$ 158,250
Other comprehensive income:			
Foreign currency translation adjustments	(60,029)	28,376	2,341
Total comprehensive income	\$ 338,253	\$ 316,667	\$ 160,591

**10. Leases**

The Company leases retail stores, warehouse facilities, office space and equipment. These are generally leased under noncancelable agreements that expire at various dates through 2034 with various renewal options for additional periods. The agreements, which have been classified as operating leases, generally provide for minimum and, in some cases, percentage rentals and require the Company to pay all insurance, taxes and other maintenance costs. Leases with step rent provisions, escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term, which includes renewal option periods when the Company is reasonably assured of exercising the renewal options and includes rent holidays (periods in which the Company is not obligated to pay rent). The Company does not have leases with capital improvement funding. Percentage rentals are based on sales performance in excess of specified minimums at various stores.

Approximate rental expenses under operating leases were as follows:

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008 (In thousands)</b>	<b>53 Weeks Ended February 3, 2007</b>
Minimum	\$ 303,727	\$ 255,259	\$ 226,974
Percentage rentals	22,927	19,968	13,819
	\$ 326,654	\$ 275,227	\$ 240,793

Future minimum annual rentals, excluding percentage rentals, required under leases that had initial, noncancelable lease terms greater than one year, as of January 31, 2009 are approximately:

<b>Year Ended</b>	<b>Amount (In thousands)</b>
January 2010	\$ 295,081
January 2011	218,667
January 2012	168,419
January 2013	111,530
January 2014	67,976
Thereafter	111,083
	\$ 972,756

F-24

---

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**11. Commitments and Contingencies**

**Contingencies**

On February 14, 2005, and as amended, Steve Strickland, as personal representative of the Estate of Arnold Strickland, deceased, Henry Mealer, as personal representative of the Estate of Ace Mealer, deceased, and Willie Crump, as personal representative of the Estate of James Crump, deceased, filed a wrongful death lawsuit against GameStop, Sony, Take-Two Interactive, Rock Star Games and Wal-Mart (collectively, the Defendants ) and Devin Moore, alleging that Defendants' actions in designing, manufacturing, marketing and supplying Defendant Moore with violent video games were negligent and contributed to Defendant Moore killing Arnold Strickland, Ace Mealer and James Crump. Moore was found guilty of capital murder in a criminal trial and was sentenced to death in August 2005.

Plaintiffs' counsel has named a new expert, a psychologist who testified at the criminal trial on behalf of the criminal defendant, who will opine (if allowed) that violent video games were a substantial factor in causing the murders. This same testimony from this same expert was excluded in the criminal trial from the same judge hearing this case. The testimony of plaintiffs' psychologist expert was heard by the Court on October 30, 2008, and the motion to exclude that testimony was argued on December 12, 2008. The ruling on this motion will have an effect on whether the case is able to proceed. The Company is currently awaiting a ruling. There is no current trial date. The Company does not believe there is sufficient information to estimate the amount of the possible loss, if any, resulting from the lawsuit.

In the ordinary course of the Company's business, the Company is, from time to time, subject to various other legal proceedings. Management does not believe that any such other legal proceedings, individually or in the aggregate, will have a material adverse effect on the Company's financial condition or results of operations.

In 2003, the Company purchased a 51% controlling interest in GameStop Group Limited. Under the terms of the purchase agreement, the individual owners of the remaining 49% interest have the ability to require the Company to purchase their remaining shares in incremental percentages at a price to be determined based partially on the Company's price to earnings ratio and GameStop Group Limited's earnings. Shares representing approximately 16% were purchased in June 2008 bringing the Company's interest in GameStop Group Limited to approximately 67%. The Company already consolidates the results of GameStop Group Limited; therefore, any additional amounts acquired will not have a material effect on the Company's financial statements.

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****12. Income Taxes**

The provision for income tax consisted of the following:

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008 (In thousands)</b>	<b>53 Weeks Ended February 3, 2007</b>
Current tax expense:			
Federal	\$ 168,935	\$ 34,107	\$ 32,127
State	13,874	5,149	2,370
Foreign	39,999	31,874	18,894
	222,808	71,130	53,391
Deferred tax expense (benefit):			
Federal	(15,858)	(2,582)	571
State	(7,468)	(1,805)	(2,149)
Foreign	(1,375)	(8,764)	(1,502)
	(24,701)	(13,151)	(3,080)
Charge in lieu of income taxes, relating to the tax effect of stock-based awards tax deduction	37,562	94,786	45,735
Total income tax expense	\$ 235,669	\$ 152,765	\$ 96,046

The components of earnings before income tax expense consisted of the following:

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008 (In thousands)</b>	<b>53 Weeks Ended February 3, 2007</b>
United States	\$ 532,787	\$ 364,929	\$ 211,814
International	101,164	76,127	42,482
Total	\$ 633,951	\$ 441,056	\$ 254,296

The difference in income tax provided and the amounts determined by applying the statutory rate to income before income taxes resulted from the following:

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
Federal statutory tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal effect	1.1	0.5	2.0
Foreign income taxes	0.5	(0.8)	0.7
Other (including permanent differences)	0.6	(0.1)	0.1
	37.2%	34.6%	37.8%

The Company's effective tax rate increased from 34.6% in the 52 weeks ended February 2, 2008 to 37.2% in the 52 weeks ended January 31, 2009, primarily due to expenses related to the mergers and acquisitions and associated corporate structuring. The Company's effective tax rate decreased from 37.8% in the 53 weeks ended February 3, 2007 to 34.6% in the 52 weeks ended February 2, 2008 primarily due to the release of valuation



**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

allowances on foreign net operating losses and the recognition of foreign tax credits not previously benefited. Valuation allowances were recorded in earlier years against foreign net operating losses generated in subsidiaries for which profitability could not be reasonably foreseen. The valuation allowances on foreign net operating losses were released during fiscal 2007 upon such subsidiaries attaining profitability.

Differences between financial accounting principles and tax laws cause differences between the bases of certain assets and liabilities for financial reporting purposes and tax purposes. The tax effects of these differences, to the extent they are temporary, are recorded as deferred tax assets and liabilities under SFAS 109 and consisted of the following components:

	<b>January 31, 2009</b>	<b>February 2, 2008</b>
	<b>(In thousands)</b>	
Deferred tax asset:		
Fixed assets	\$ 32,460	\$ 21,395
Inventory obsolescence reserve	16,580	16,823
Deferred rents	13,001	11,585
Stock-based compensation	27,081	16,347
Net operating losses	15,283	17,801
Other	13,565	12,455
Total deferred tax assets	117,970	96,406
Deferred tax liabilities:		
Goodwill	(34,033)	(30,280)
Prepaid expenses	(4,392)	(4,110)
Acquired intangible assets	(60,576)	
Other	(2,877)	(8,203)
Total deferred tax (liabilities) assets	(101,878)	(42,593)
Net	\$ 16,092	\$ 53,813
Financial statements:		
Current deferred tax assets	\$ 23,615	\$ 27,481
Deferred tax (liabilities) assets	\$ (7,523)	\$ 26,332

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Internal Revenue Service ( IRS ) completed examination of the Company s U.S. income tax returns for the fiscal years ended on January 29, 2005 and January 28, 2006 during fiscal 2008. The Company did not record

any material adjustments to its consolidated financial statements as a result of these audits. The Company is no longer subject to U.S. federal income tax examination by tax authorities for years before and including the fiscal year ended January 28, 2006. The IRS has commenced an examination of EB's U.S. income tax return for the short year ended October 8, 2005. EB is no longer subject to U.S. federal income tax examination by tax authorities for years prior to and including the fiscal year ended February 1, 2003.

With respect to state and local jurisdictions and countries outside of the United States, the Company and its subsidiaries are typically subject to examination for three to six years after the income tax returns have been filed. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for in the accompanying financial statements for any adjustments that might be incurred due to state, local or foreign audits.

**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), on February 4, 2007. As a result of the implementation of FIN 48, the Company recognized a \$16,679 increase in the liability for unrecognized tax benefits, interest and penalties, which was accounted for as a reduction of the February 3, 2007 balance of retained earnings. As of February 4, 2007, the gross amounts of unrecognized tax benefits, interest and penalties was \$25,250. Additionally, adoption of FIN 48 resulted in the reclassification of certain accruals for uncertain tax positions in the amount of \$7,864 from prepaid taxes to other long-term liabilities in our consolidated balance sheet.

For the 52 weeks ended January 31, 2009, the Company recognized an increase of \$5,733 in the liability for unrecognized tax benefits and an increase of \$2,276 for interest and penalties. As of January 31, 2009, the gross amount of unrecognized tax benefits, interest and penalties was \$32,234. The total amount of unrecognized tax benefit that, if recognized, would affect the effective tax rate was \$26,578 for the fiscal year ended January 31, 2009. For the 52 weeks ended February 2, 2008, the Company recognized a decrease of \$1,597 in the liability for unrecognized tax benefits and an increase of \$572 for interest and penalties. As of February 2, 2008, the gross amount of unrecognized tax benefits, interest and penalties was \$24,225. A reconciliation of the changes in the gross balances of unrecognized tax benefits during the 52 weeks ended January 31, 2009 and the 52 weeks ended February 2, 2008 follows:

	<b>January 31, 2009</b>	<b>February 2, 2008</b>
	<b>(In thousands)</b>	
Beginning balance of unrecognized tax benefits	\$ 24,225	\$ 25,250
Increases related to current period tax positions	974	132
Increases (decreases) related to prior period tax positions	8,667	(116)
Reductions as a result of a lapse of the applicable statute of limitations	(1,072)	(1,041)
Reductions as a result of settlements with taxing authorities	(560)	
Ending balance of unrecognized tax benefits	\$ 32,234	\$ 24,225

Prior to the adoption of FIN 48, the Company recognized interest relating to income tax matters as a component of interest expense and recognized penalties relating to income tax matters as a component of selling, general and administrative expense. Such interest and penalties were immaterial. Subsequent to adoption of FIN 48, the Company recognizes accrued interest and penalties related to income tax matters in income tax expense. The Company had \$3,101 in interest and penalties related to unrecognized tax benefits accrued at the date of adoption and \$5,656 as of January 31, 2009.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of the Company's unrecognized tax positions could significantly increase or decrease within the next 12 months as a result of settling ongoing audits. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

**13. Stock Incentive Plan**

Effective June 2007, the Company's stockholders voted to amend the Amended and Restated 2001 Incentive Plan (the Incentive Plan) to provide for issuance under the Incentive Plan of the Company's Class A common stock. The Incentive Plan provides a maximum aggregate amount of 43,500 shares of Class A common stock with respect to which options may be granted and provides for the granting of incentive stock options, non-qualified stock options, and restricted stock, which may include, without limitation, restrictions on the right to vote such shares and restrictions on the right to receive dividends on such shares. The options to purchase Class A common shares are issued at fair market value of the underlying shares on the date of grant. In general, the options vest and become exercisable ratably over a three-year period, commencing one year after the grant date, and expire ten years from issuance. Shares issued upon exercise of options are newly issued shares.

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Stock Options*

A summary of the status of the Company's stock options is presented below:

	<b>Shares</b> <b>(Thousands of shares)</b>	<b>Weighted- Average Exercise Price</b>
Balance, January 28, 2006	22,912	\$ 6.16
Granted	3,260	\$ 20.68
Exercised	(6,660)	\$ 5.08
Forfeited	(756)	\$ 17.57
Balance, February 3, 2007	18,756	\$ 8.64
Granted	939	\$ 26.68
Exercised	(8,480)	\$ 7.65
Forfeited	(350)	\$ 20.16
Balance, February 2, 2008	10,865	\$ 10.60
Granted	1,362	\$ 49.95
Exercised	(2,279)	\$ 12.70
Forfeited	(257)	\$ 36.12
Balance, January 31, 2009	9,691	\$ 14.96

The following table summarizes information as of January 31, 2009 concerning outstanding and exercisable options:

<b>Range of Exercise Prices</b>	<b>Options Outstanding</b>			<b>Options Exercisable</b>	
	<b>Number Outstanding</b>	<b>Weighted- Average Remaining Life</b>	<b>Weighted- Average Contractual Price</b>	<b>Number Exercisable</b>	<b>Weighted- Average Exercise Price</b>
	<b>(000s)</b>	<b>(Years)</b>		<b>(000s)</b>	
\$ 1.76 - \$ 2.25	3,518	2.36	\$ 2.25	3,518	\$ 2.25
\$ 5.90 - \$ 6.36	134	4.20	\$ 6.01	134	\$ 6.01
\$ 7.55 - \$ 8.24	142	5.00	\$ 7.70	142	\$ 7.70

Edgar Filing: GameStop Corp. - Form 10-K

\$ 9.00 - \$10.63	2,390	5.25	\$ 9.70	2,390	\$ 9.70
\$17.94 - \$20.68	1,622	6.97	\$ 20.28	935	\$ 19.98
\$26.68 - \$26.68	650	8.03	\$ 26.68	147	\$ 26.68
\$49.95 - \$49.95	1,235	9.02	\$ 49.95		\$
\$ 1.76 - \$49.95	9,691	5.14	\$ 14.96	7,266	\$ 7.65

The total intrinsic value of options exercised during the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007 was \$87,864, \$264,094, and \$123,788, respectively. The intrinsic value of options exercisable and options outstanding was \$124,710 and \$127,525, respectively, as of January 31, 2009.

The fair value of each option is recognized as compensation expense on a straight-line basis between the grant date and the date the options become fully vested. During the 52 weeks ended January 31, 2009 and February 2, 2008 and the 53 weeks ended February 3, 2007, the Company included compensation expense relating to the grant of these options in the amount of \$15,423, \$15,803 and \$16,629, respectively, in selling, general and administrative expenses. As of January 31, 2009, the unrecognized compensation expense related to the unvested portion of the Company's stock options was \$14,332 which is expected to be recognized over a weighted average period of 1.9 years.

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Subsequent to the fiscal year ended January 31, 2009, an additional 1,419 options to purchase the Company's Class A common stock at an exercise price of \$26.02 per share were granted under the Incentive Plan. The options vest in equal installments over three years and expire in February 2019.

***Restricted Stock Awards***

The Company grants restricted stock awards to certain of its employees, officers and non-employee directors. Restricted stock awards generally vest over a three-year period on the anniversary of the date of issuance.

The following table presents a summary of the Company's restricted stock awards activity:

	<b>Shares</b>		<b>Weighted-Average Grant Date Fair Value</b>
	<b>(Thousands of shares)</b>		
Nonvested shares at January 28, 2006	100	\$	17.94
Granted	532	\$	20.86
Vested	(50)	\$	17.94
Nonvested shares at February 3, 2007	582	\$	20.61
Granted	974	\$	27.09
Vested	(223)	\$	20.07
Forfeited	(32)	\$	24.28
Nonvested shares at February 2, 2008	1,301	\$	25.46
Granted	602	\$	49.20
Vested	(556)	\$	16.57
Forfeited	(56)	\$	29.53
Nonvested shares at January 31, 2009	1,291	\$	35.89

The 532 shares of restricted stock granted in the 53 weeks ended February 3, 2007 vest in either equal installments over three years or in total at the end of three years depending on the grant. The 602 and 974 shares of restricted stock granted in the 52-week periods ended January 31, 2009 and February 2, 2008, respectively, vest in equal installments over three years.

During the 52 weeks ended January 31, 2009, 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007, the Company included compensation expense relating to the grant of these restricted shares in the amounts of \$19,931, \$11,108 and \$4,349, respectively, in selling, general and administrative expenses in the accompanying consolidated statements of operations. As of January 31, 2009, there was \$23,436 of unrecognized compensation

expense related to nonvested restricted stock awards that is expected to be recognized over a weighted average period of 1.8 years.

Subsequent to the fiscal year ended January 31, 2009, an additional 571 shares of restricted stock were granted under the Incentive Plan, which vest over three years.

#### **14. Employees Defined Contribution Plan**

The Company sponsors a defined contribution plan (the Savings Plan ) for the benefit of substantially all of its U.S. employees who meet certain eligibility requirements, primarily age and length of service. The Savings Plan allows employees to invest up to 60%, up to a maximum of \$15.5 a year, of their eligible gross cash compensation invested on a pre-tax basis. The Company's optional contributions to the Savings Plan are generally in amounts based upon a certain percentage of the employees' contributions. The Company's contributions to the Savings Plan

F-30

---



**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

during the 52 weeks ended January 31, 2009, 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007, were \$2,736, \$2,235 and \$1,992, respectively.

**15. Certain Relationships and Related Transactions**

The Company operates departments within nine bookstores operated by Barnes & Noble, a related party through a common stockholder who is the Chairman of the Board of Directors of Barnes & Noble and a member of the Company's Board of Directors. The Company pays a license fee to Barnes & Noble on the gross sales of such departments. The Company deems the license fee to be reasonable and based upon terms equivalent to those that would prevail in an arm's length transaction. During the 52 weeks ended January 31, 2009, 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007, these charges amounted to \$1,276, \$1,221 and \$996, respectively.

In May 2005, the Company entered into an arrangement with Barnes & Noble under which [www.gamestop.com](http://www.gamestop.com) became the exclusive specialty video game retailer listed on [www.bn.com](http://www.bn.com), Barnes & Noble's e-commerce site. Under the terms of this agreement, the Company pays a fee to Barnes & Noble for sales of video game or PC entertainment products sold through [www.bn.com](http://www.bn.com). For the 52 weeks ended January 31, 2009, the 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007, the fee to Barnes & Noble totaled \$498, \$382 and \$348, respectively.

Until June 2005, GameStop participated in Barnes & Noble's workers' compensation, property and general liability insurance programs. The costs incurred by Barnes & Noble under these programs were allocated to GameStop based upon total payroll expense, property and equipment, and insurance claim history of GameStop. Management deemed the allocation methodology to be reasonable. Although GameStop secured its own insurance coverage, costs will likely continue to be incurred by Barnes & Noble on insurance claims which were incurred under its programs prior to June 2005 and any such costs applicable to insurance claims against GameStop will be allocated to the Company. During the 52 weeks ended January 31, 2009, the 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007, these allocated charges amounted to \$164, \$287 and \$812, respectively.

The Company had a promissory note in favor of Barnes & Noble in the principal amount of \$74,020 in connection with the repurchase of the Company's common stock held by Barnes & Noble in October 2004. The note was unsecured and bore interest at 5.5% per annum, payable with each principal installment. Scheduled principal payments of \$12,173 were made in October 2006 and October 2007 and the note has been satisfied in full. Interest expense on the promissory note for the 52 weeks ended February 2, 2008 and the 53 weeks ended February 3, 2007 totaled \$444 and \$1,148, respectively.

**16. Significant Products**

The following table sets forth sales (in millions) by significant product category for the periods indicated:

<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
--	--	--

Edgar Filing: GameStop Corp. - Form 10-K

	<b>Sales</b>	<b>Percent of Total</b>	<b>Sales</b>	<b>Percent of Total</b>	<b>Sales</b>	<b>Percent of Total</b>
<b>Sales:</b>						
New video game hardware	\$ 1,860.2	21.1%	\$ 1,668.9	23.5%	\$ 1,073.7	20.2%
New video game software	3,685.0	41.9%	2,800.7	39.5%	2,012.5	37.8%
Used video game products	2,026.6	23.0%	1,586.7	22.4%	1,316.0	24.8%
Other	1,234.1	14.0%	1,037.7	14.6%	916.7	17.2%
Total	\$ 8,805.9	100.0%	\$ 7,094.0	100.0%	\$ 5,318.9	100.0%

F-31

---

**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth gross profit (in millions) and gross profit percentages by significant product category for the periods indicated:

	<b>52 Weeks Ended January 31, 2009</b>		<b>52 Weeks Ended February 2, 2008</b>		<b>53 Weeks Ended February 3, 2007</b>	
	<b>Gross Profit</b>	<b>Gross Profit Percent</b>	<b>Gross Profit</b>	<b>Gross Profit Percent</b>	<b>Gross Profit</b>	<b>Gross Profit Percent</b>
<b>Gross Profit:</b>						
New video game hardware	\$ 112.6	6.1%	\$ 108.2	6.5%	\$ 77.0	7.2%
New video game software	768.4	20.9%	581.7	20.8%	427.3	21.2%
Used video game products	974.5	48.1%	772.2	48.7%	651.9	49.5%
Other	414.6	33.6%	351.6	33.9%	315.2	34.4%
<b>Total</b>	<b>\$ 2,270.1</b>	<b>25.8%</b>	<b>\$ 1,813.7</b>	<b>25.6%</b>	<b>\$ 1,471.4</b>	<b>27.7%</b>

**17. Segment Information**

The Company operates its business in the following segments: United States, Canada, Australia and Europe. The Company identifies segments based on a combination of geographic areas and management responsibility. Each of the segments includes significant retail operations with all stores engaged in the sale of new and used video game systems and software and personal computer entertainment software and related accessories. Segment results for the United States include retail operations in 50 states, the District of Columbia, Guam and Puerto Rico, the electronic commerce website [www.gamestop.com](http://www.gamestop.com) and *Game Informer* magazine. Segment results for Canada include retail operations in Canada and segment results for Australia include retail operations in Australia and New Zealand. Segment results for Europe include retail operations in 13 European countries. The fiscal 2008 results of the European segment include 11 weeks of Micromania's results. The Company measures segment profit using operating earnings, which is defined as income from continuing operations before intercompany royalty fees, net interest expense and income taxes. Transactions between reportable segments consist primarily of royalties, management fees, intersegment loans and related interest.

Information on segments and the reconciliation to earnings before income taxes are as follows (in millions):

<b>Fiscal Year Ended January 31, 2009</b>	<b>United States</b>	<b>Canada</b>	<b>Australia</b>	<b>Europe</b>	<b>Other</b>	<b>Consolidated</b>
Sales	\$ 6,466.7	\$ 548.2	\$ 520.0	\$ 1,271.0	\$	\$ 8,805.9
Depreciation and amortization	103.6	8.1	9.7	23.6		145.0

Edgar Filing: GameStop Corp. - Form 10-K

Operating earnings	530.1	32.6	46.8	65.6		675.1
Interest income	(30.0)	(0.9)	(3.1)	(20.0)	42.4	(11.6)
Interest expense	49.8		0.2	42.9	(42.4)	50.5
Earnings before income tax expense	534.4	22.4	39.9	37.3		634.0
Income tax expense	197.1	7.5	12.3	18.8		235.7
Goodwill	1,096.6	116.8	147.7	501.0		1,862.1
Other long-lived assets	363.3	28.4	24.6	416.1		832.4
Total assets	2,578.0	293.7	312.8	1,328.1		4,512.6

F-32

---

**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

<b>Fiscal Year Ended February 2, 2008</b>	<b>United States</b>	<b>Canada</b>	<b>Australia</b>	<b>Europe</b>	<b>Other</b>	<b>Consolidated</b>
Sales	\$ 5,438.8	\$ 473.0	\$ 420.8	\$ 761.4	\$	\$ 7,094.0
Depreciation and amortization	100.0	7.9	8.3	14.1		130.3
Operating earnings	391.2	35.8	41.8	32.6		501.4
Interest income	(21.9)	(2.0)	(3.2)	(12.6)	25.9	(13.8)
Interest expense	61.0		0.3	26.2	(25.9)	61.6
Earnings before income tax expense	364.9	26.9	35.0	14.3		441.1
Income tax expense	129.7	9.6	10.4	3.1		152.8
Goodwill	1,096.6	116.8	147.2	41.8		1,402.4
Other long-lived assets	377.5	35.8	34.6	130.8		578.7
Total assets	2,742.0	274.7	251.1	508.1		3,775.9

<b>Fiscal Year Ended February 3, 2007</b>	<b>United States</b>	<b>Canada</b>	<b>Australia</b>	<b>Europe</b>	<b>Other</b>	<b>Consolidated</b>
Sales	\$ 4,269.5	\$ 319.7	\$ 288.1	\$ 441.6	\$	\$ 5,318.9
Depreciation and amortization	85.3	6.6	6.3	11.7		109.9
Operating earnings	285.4	20.0	27.3	1.0		333.7
Interest income	(16.8)	(0.8)	(1.5)	(8.5)	16.3	(11.3)
Interest expense	84.3		0.1	16.6	(16.3)	84.7
Earnings (loss) before income tax expense	211.8	20.9	28.7	(7.1)		254.3
Income tax expense	78.6	7.4	8.8	1.2		96.0
Goodwill	1,098.1	116.8	147.2	41.8		1,403.9
Other long-lived assets	343.2	32.5	25.4	104.2		505.3
Total assets	2,618.9	210.4	210.7	309.6		3,349.6

**18. Supplemental Cash Flow Information**

	<b>52 Weeks Ended January 31, 2009</b>	<b>52 Weeks Ended February 2, 2008</b>	<b>53 Weeks Ended February 3, 2007</b>
Cash paid during the period for:			
Interest	\$ 45,252	\$ 59,357	\$ 81,732
Income taxes	204,776	47,792	59,620

(In thousands)

Subsidiaries acquired:			
Goodwill	459,287	(1,061)	8,083
Cash received in acquisition	45,650		41
Net assets acquired (or liabilities assumed)	171,419		3,220
Cash paid	\$ 676,356	\$ (1,061)	\$ 11,344

## 19. Shareholders Equity

On February 7, 2007, following approval by a majority of the Class B common stockholders in a special meeting of the Company's Class B common stockholders, all outstanding Class B common shares were converted into Class A common shares on a one-for-one basis. In addition, on February 9, 2007, the Board of Directors of the Company authorized a two-for-one stock split, effected by a one-for-one stock dividend to stockholders of record at the close of business on February 20, 2007, paid on March 16, 2007.

F-33

---

**Table of Contents**

**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The holders of Class A common stock are entitled to one vote per share on all matters to be voted on by stockholders. Holders of Class A common stock will share in any dividend declared by the Board of Directors, subject to any preferential rights of any outstanding preferred stock. In the event of the Company's liquidation, dissolution or winding up, all holders of common stock are entitled to share ratably in any assets available for distribution to holders of shares of common stock after payment in full of any amounts required to be paid to holders of preferred stock.

In 2005, the Company adopted a rights agreement under which one right (a Right) is attached to each outstanding share of the Company's common stock. Each Right entitles the holder to purchase from the Company one one-thousandth of a share of a series of preferred stock, designated as Series A Junior Participating Preferred Stock (the Series A Preferred Stock), at a price of \$100.00 per one one-thousandth of a share. The Rights will be exercisable only if a person or group acquires 15% or more of the voting power of the Company's outstanding common stock or announces a tender offer or exchange offer, the consummation of which would result in such person or group owning 15% or more of the voting power of the Company's outstanding common stock.

If a person or group acquires 15% or more of the voting power of the Company's outstanding common stock, each Right will entitle a holder (other than such person or any member of such group) to purchase, at the Right's then current exercise price, a number of shares of common stock having a market value of twice the exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold at any time after the Rights have become exercisable, each Right will entitle its holder to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value at that time of twice the exercise price of the Right. Furthermore, at any time after a person or group acquires 15% or more of the voting power of the outstanding common stock of the Company but prior to the acquisition of 50% of such voting power, the Board of Directors may, at its option, exchange part or all of the Rights (other than Rights held by the acquiring person or group) at an exchange rate of one one-thousandth of a share of Series A Preferred Stock or one share of the Company's common stock for each Right.

The Company will be entitled to redeem the Rights at any time prior to the acquisition by a person or group of 15% or more of the voting power of the outstanding common stock of the Company, at a price of \$.01 per Right. The Rights will expire on October 28, 2014.

The Company has 5,000 shares of \$.001 par value preferred stock authorized for issuance, of which 500 shares have been designated by the Board of Directors as Series A Preferred Stock and reserved for issuance upon exercise of the Rights. Each such share of Series A Preferred Stock will be nonredeemable and junior to any other series of preferred stock the Company may issue (unless otherwise provided in the terms of such stock) and will be entitled to a preferred dividend equal to the greater of \$1.00 or one thousand times any dividend declared on the Company's common stock. In the event of liquidation, the holders of Series A Preferred Stock will receive a preferred liquidation payment of \$1,000.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon. Each share of Series A Preferred Stock will have ten thousand votes, voting together with the Company's common stock. However, in the event that dividends on the Series A Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, holders of the Series A Preferred Stock shall have the right, voting as a class, to elect two of the Company's directors. In the event of any merger, consolidation or other transaction in which the Company's common stock is exchanged, each share of Series A Preferred Stock will be entitled to receive one thousand times the amount and type of consideration received per share of the Company's common stock. At January 31, 2009, there were no shares of Series A Preferred Stock outstanding.

**20. Consolidating Financial Statements**

In order to finance the EB merger, as described in Note 8, on September 28, 2005, the Company, along with GameStop, Inc. as co-issuer, completed the offering of the Notes. The direct and indirect domestic wholly-owned subsidiaries of the Company, excluding GameStop, Inc., as co-issuer, have guaranteed the Senior Notes on a senior unsecured basis with unconditional guarantees.

F-34

---



**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following consolidating financial statements present the financial position as of January 31, 2009 and February 2, 2008 and results of operations and cash flows for the fiscal years ended January 31, 2009, February 2, 2008 and February 3, 2007 of the Company's guarantor and non-guarantor subsidiaries.

**GAMESTOP CORP.****CONSOLIDATING BALANCE SHEET**

	<b>Issuers and Guarantor Subsidiaries January 31, 2009</b>	<b>Non-Guarantor Subsidiaries January 31, 2009</b>	<b>Eliminations</b>	<b>Consolidated January 31, 2009</b>
<b>(Amounts in thousands, except per share amounts)</b>				
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 373,178	\$ 204,963	\$	\$ 578,141
Receivables, net	195,677	678,203	(807,899)	65,981
Merchandise inventories, net	637,257	438,535		1,075,792
Deferred income taxes - current	21,088	2,527		23,615
Prepaid expenses	40,957	18,144		59,101
Other current assets	6,262	9,149		15,411
<b>Total current assets</b>	<b>1,274,419</b>	<b>1,351,521</b>	<b>(807,899)</b>	<b>1,818,041</b>
Property and equipment:				
Land	2,670	7,727		10,397
Buildings and leasehold improvements	281,481	173,170		454,651
Fixtures and equipment	509,585	110,260		619,845
	793,736	291,157		1,084,893
Less accumulated depreciation and amortization	436,068	99,571		535,639
<b>Net property and equipment</b>	<b>357,668</b>	<b>191,586</b>		<b>549,254</b>
Investment	1,870,083		(1,870,083)	
Goodwill, net	1,096,622	765,485		1,862,107
Other intangible assets		247,790		247,790
Other noncurrent assets	5,621	29,777		35,398
<b>Total noncurrent assets</b>	<b>3,329,994</b>	<b>1,234,638</b>	<b>(1,870,083)</b>	<b>2,694,549</b>

Edgar Filing: GameStop Corp. - Form 10-K

Total assets \$ 4,604,413 \$ 2,586,159 \$ (2,677,982) \$ 4,512,590

**LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT):**

Current liabilities:				
Accounts payable	\$ 736,805	\$ 311,158	\$	\$ 1,047,963
Accrued liabilities	988,211	334,436	(807,899)	514,748
Total current liabilities	1,725,016	645,594	(807,899)	1,562,711
Senior notes payable, long-term portion, net	545,712			545,712
Other long-term liabilities	34,004	70,482		104,486
Total long-term liabilities	579,716	70,482		650,198
Total liabilities	2,304,732	716,076	(807,899)	2,212,909
Stockholders' equity (deficit):				
Preferred stock - authorized 5,000 shares; no shares issued or outstanding				
Class A common stock - \$.001 par value; authorized 300,000 shares; 163,843 shares issued and outstanding	164			164
Additional paid-in-capital	1,307,453	1,699,630	(1,699,630)	1,307,453
Accumulated other comprehensive income (loss)	(28,426)	(33,800)	33,800	(28,426)
Retained earnings	1,020,490	204,253	(204,253)	1,020,490
Total stockholders' equity (deficit)	2,299,681	1,870,083	(1,870,083)	2,299,681
Total liabilities and stockholders' equity (deficit)	\$ 4,604,413	\$ 2,586,159	\$ (2,677,982)	\$ 4,512,590

F-35

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****GAMESTOP CORP.****CONSOLIDATING BALANCE SHEET**

	<b>Issuers and Guarantor Subsidiaries February 2, 2008</b>	<b>Non-Guarantor Subsidiaries February 2, 2008</b>	<b>Eliminations</b>	<b>Consolidated February 2, 2008</b>
	<b>(Amounts in thousands, except per share amounts)</b>			
<b>ASSETS:</b>				
Current assets:				
Cash and cash equivalents	\$ 671,333	\$ 186,081	\$	\$ 857,414
Receivables, net	198,923	22,616	(165,520)	56,019
Merchandise inventories, net	501,861	299,164		801,025
Deferred income taxes current	24,153	3,328		27,481
Prepaid expenses	36,793	12,122		48,915
Other current assets	326	3,537		3,863
Total current assets	1,433,389	526,848	(165,520)	1,794,717
Property and equipment:				
Land	2,670	9,200		11,870
Buildings and leasehold improvements	246,907	131,704		378,611
Fixtures and equipment	427,623	111,115		538,738
	677,200	252,019		929,219
Less accumulated depreciation and amortization	331,176	86,374		417,550
Net property and equipment	346,024	165,645		511,669
Investment	543,088		(543,088)	
Goodwill, net	1,096,622	305,818		1,402,440
Other intangible assets	9,899	4,315		14,214
Deferred taxes	7,378	18,954		26,332
Other noncurrent assets	14,199	12,320		26,519
Total noncurrent assets	2,017,210	507,052	(543,088)	1,981,174
Total assets	\$ 3,450,599	\$ 1,033,900	\$ (708,608)	\$ 3,775,891

**LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT):**

Current liabilities:				
Accounts payable	\$ 635,722	\$ 208,654	\$	\$ 844,376
Accrued liabilities	309,472	272,229	(165,520)	416,181
Total current liabilities	945,194	480,883	(165,520)	1,260,557
Senior notes payable, long-term portion, net	574,473			574,473
Other long-term liabilities	68,486	9,929		78,415
Total long-term liabilities	642,959	9,929		652,888
Total liabilities	1,588,153	490,812	(165,520)	1,913,445
Stockholders' equity (deficit):				
Preferred stock - authorized 5,000 shares; no shares issued or outstanding		57,407	(57,407)	
Class A common stock - \$.001 par value; authorized 300,000 shares; 161,007 shares issued and outstanding	161	31,484	(31,484)	161
Additional paid-in-capital	1,208,474	296,860	(296,860)	1,208,474
Accumulated other comprehensive income (loss)	31,603	11,262	(11,262)	31,603
Retained earnings	622,208	146,075	(146,075)	622,208
Total stockholders' equity (deficit)	1,862,446	543,088	(543,088)	1,862,446
Total liabilities and stockholders' equity (deficit)	\$ 3,450,599	\$ 1,033,900	\$ (708,608)	\$ 3,775,891

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****GAMESTOP CORP.****CONSOLIDATING STATEMENT OF OPERATIONS**

<b>For the 52 Weeks Ended January 31, 2009</b>	<b>Issuers and Guarantor Subsidiaries January 31, 2009</b>	<b>Non-Guarantor Subsidiaries January 31, 2009</b>	<b>Eliminations</b>	<b>Consolidated January 31, 2009</b>
		<b>(Amounts in thousands)</b>		
Sales	\$ 6,466,663	\$ 2,339,234	\$	\$ 8,805,897
Cost of sales	4,767,229	1,768,533		6,535,762
Gross profit	1,699,434	570,701		2,270,135
Selling, general and administrative expenses	1,034,733	410,686		1,445,419
Depreciation and amortization	103,593	41,411		145,004
Merger-related expenses	4,593			4,593
Operating earnings	556,515	118,604		675,119
Interest income	(17,446)	(36,995)	42,822	(11,619)
Interest expense	38,844	54,434	(42,822)	50,456
Debt extinguishment expense	2,331			2,331
Earnings before income tax expense	532,786	101,165		633,951
Income tax expense	197,045	38,624		235,669
Net earnings	\$ 335,741	\$ 62,541	\$	\$ 398,282

**GAMESTOP CORP.****CONSOLIDATING STATEMENT OF OPERATIONS**

<b>For the 52 Weeks Ended February 2, 2008</b>	<b>Issuers and Guarantor Subsidiaries February 2, 2008</b>	<b>Non-Guarantor Subsidiaries February 2, 2008</b>	<b>Eliminations</b>	<b>Consolidated February 2, 2008</b>
		<b>(Amounts in thousands)</b>		
Sales	\$ 5,438,757	\$ 1,655,205	\$	\$ 7,093,962

Edgar Filing: GameStop Corp. - Form 10-K

Cost of sales	4,022,955	1,257,300		5,280,255
Gross profit	1,415,802	397,905		1,813,707
Selling, general and administrative expenses	899,292	282,724		1,182,016
Depreciation and amortization	99,966	30,304		130,270
Operating earnings	416,544	84,877		501,421
Interest income	(21,893)	(17,754)	25,868	(13,779)
Interest expense	60,917	26,504	(25,868)	61,553
Debt extinguishment expense	12,591			12,591
Earnings before income tax expense	364,929	76,127		441,056
Income tax expense	129,655	23,110		152,765
Net earnings	\$ 235,274	\$ 53,017	\$	\$ 288,291

F-37

---







Edgar Filing: GameStop Corp. - Form 10-K

Purchase of property and equipment	(117,484)	(65,708)	(183,192)
Acquisitions, net of cash acquired		(630,706)	(630,706)
Net cash flows used in investing activities	(117,484)	(696,414)	(813,898)
Cash flows from financing activities:			
Repurchase of notes payable	(30,000)		(30,000)
Borrowings for acquisition	425,000		425,000
Repayments of acquisition borrowings	(425,000)		(425,000)
Issuance of shares relating to stock options	28,950		28,950
Excess tax benefits realized from exercise of stock-based awards	34,174		34,174
Net change in other noncurrent assets and other intangible assets	(1,313,695)	1,303,221	(10,474)
Net cash flows provided by (used in) financing activities	(1,280,571)	1,303,221	22,650
Exchange rate effect on cash and cash equivalents		(37,260)	(37,260)
Net increase (decrease) in cash and cash equivalents	(298,155)	18,882	(279,273)
Cash and cash equivalents at beginning of period	671,333	186,081	857,414
Cash and cash equivalents at end of period	\$ 373,178	\$ 204,963	\$ 578,141

F-39

---

**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****GAMESTOP CORP.****CONSOLIDATING STATEMENT OF CASH FLOWS**

<b>For the 52 Weeks Ended February 2, 2008</b>	<b>Issuers and Guarantor Subsidiaries February 2, 2008</b>	<b>Non-Guarantor Subsidiaries February 2, 2008</b>	<b>Eliminations</b>	<b>Consolidated February 2, 2008</b>
	<b>(Amounts in thousands)</b>			
Cash flows from operating activities:				
Net earnings	\$ 235,274	\$ 53,017	\$	\$ 288,291
Adjustments to reconcile net earnings to net cash flows provided by operating activities:				
Depreciation and amortization (including amounts in cost of sales)	100,961	30,316		131,277
Provision for inventory reserves	44,728	7,151		51,879
Amortization and retirement of deferred financing fees	5,669			5,669
Amortization and retirement of original issue discount on senior notes	1,162			1,162
Stock-based compensation expense	26,911			26,911
Deferred taxes	(4,708)	(6,291)		(10,999)
Excess tax benefits realized from exercise of stock-based awards	(93,322)			(93,322)
Loss on disposal of property and equipment	1,960	6,245		8,205
Increase in other long-term liabilities	5,296	3,650		8,946
Increase in liability to landlords for tenant allowances, net	4,374	701		5,075
Change in the value of foreign exchange contracts	6,792	(6,606)		186
Changes in operating assets and liabilities, net of business acquired				
Receivables, net	(8,145)	(11,758)		(19,903)
Merchandise inventories	(51,452)	(92,073)		(143,525)
Prepaid expenses and other current assets	(6,265)	2,675		(3,590)
Prepaid taxes and taxes payable	104,823	14,039		118,862
Accounts payable and accrued liabilities	(39,710)	149,427		109,717
Net cash flows provided by operating activities	334,348	150,493		484,841
Cash flows from investing activities:				

Edgar Filing: GameStop Corp. - Form 10-K

Purchase of property and equipment	(123,258)	(52,311)	(175,569)
Acquisitions, net of cash acquired	1,061		1,061
Net cash flows used in investing activities	(122,197)	(52,311)	(174,508)
Cash flows from financing activities:			
Repurchase of notes payable	(270,000)		(270,000)
Repayment of debt relating to repurchase of common stock from Barnes & Noble	(12,173)		(12,173)
Issuance of shares relating to stock options	64,883		64,883
Excess tax benefits realized from exercise of stock-based awards	93,322		93,322
Net change in other noncurrent assets and other intangible assets	636	6,190	6,826
Net cash flows provided by (used in) financing activities	(123,332)	6,190	(117,142)
Exchange rate effect on cash and cash equivalents		11,820	11,820
Net increase in cash and cash equivalents	88,819	116,192	205,011
Cash and cash equivalents at beginning of period	582,514	69,889	652,403
Cash and cash equivalents at end of period	\$ 671,333	\$ 186,081	\$ 857,414

F-40

Table of Contents**GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****GAMESTOP CORP.****CONSOLIDATING STATEMENT OF CASH FLOWS**

<b>For the 53 Weeks Ended February 3, 2007</b>	<b>Issuers and Guarantor Subsidiaries February 3, 2007</b>	<b>Non-Guarantor Subsidiaries February 3, 2007</b>	<b>Eliminations</b>	<b>Consolidated February 3, 2007</b>
	<b>(Amounts in thousands)</b>			
Cash flows from operating activities:				
Net earnings	\$ 133,160	\$ 25,090	\$	\$ 158,250
Adjustments to reconcile net earnings to net cash flows provided by operating activities:				
Depreciation and amortization (including amounts in cost of sales)	85,566	24,610		110,176
Provision for inventory reserves	47,325	3,454		50,779
Amortization and retirement of deferred financing fees	4,595			4,595
Amortization and retirement of original issue discount on senior notes	1,523			1,523
Stock-based compensation expense	20,978			20,978
Excess tax benefits realized from exercise of stock-based awards	(43,758)			(43,758)
Deferred taxes	(1,578)	(944)		(2,522)
Loss on disposal of property and equipment	2,606	1,655		4,261
Increase in other long-term liabilities	5,410	1,365		6,775
Increase in liability to landlords for tenant allowances, net	1,105	481		1,586
Change in value of foreign exchange contracts	(6,716)	(1,607)		(8,323)
Changes in operating assets and liabilities, net of business acquired				
Receivables, net	1,253	3,638		4,891
Merchandise inventories	(71,334)	(44,036)		(115,370)
Prepaid expenses and other current assets	(19,513)	(1,858)		(21,371)
Prepaid taxes and taxes payable	49,206	5,163		54,369
Accounts payable and accrued liabilities	178,417	14,852		193,269
Net cash flows provided by operating activities	388,245	31,863		420,108
Cash flows from investing activities:				
Purchase of property and equipment	(97,140)	(36,790)		(133,930)

Edgar Filing: GameStop Corp. - Form 10-K

Acquisitions, net of cash acquired	(11,303)		(11,303)
Sale of assets held for sale	19,297		19,297
Net cash flows used in investing activities	(89,146)	(36,790)	(125,936)
Cash flows from financing activities:			
Repurchase of notes payable	(100,000)		(100,000)
Repayment of debt relating to repurchase of common stock from Barnes & Noble	(12,173)		(12,173)
Repayment of other debt	(9,016)	(74)	(9,090)
Issuance of shares relating to stock options	33,861		33,861
Excess tax benefits realized from exercise of stock-based awards	43,758		43,758
Net change in other noncurrent assets and other intangible assets	(1,938)	2,323	385
Net cash flows provided by (used in) financing activities	(45,508)	2,249	(43,259)
Exchange rate effect on cash and cash equivalents		(103)	(103)
Net increase (decrease) in cash and cash equivalents	253,591	(2,781)	250,810
Cash and cash equivalents at beginning of period	328,923	72,670	401,593
Cash and cash equivalents at end of period	\$ 582,514	\$ 69,889	\$ 652,403

**21. Unaudited Quarterly Financial Information**

The following table sets forth certain unaudited quarterly consolidated statement of operations information for the fiscal years ended January 31, 2009 and February 2, 2008. The unaudited quarterly information includes all

**Table of Contents****GAMESTOP CORP.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

	Fiscal Year Ended January 31, 2009				Fiscal Year Ended February 2, 2008			
	1st Quarter(1)	2nd Quarter	3rd Quarter(2)	4th Quarter(3)	1st Quarter(4)	2nd Quarter(5)	3rd Quarter(6)	4th Quarter
	(Amounts in thousands, except per share amounts)							
profit	\$ 1,813,617	\$ 1,804,420	\$ 1,695,746	\$ 3,492,114	\$ 1,278,983	\$ 1,338,193	\$ 1,611,201	\$ 2,865,684
ing earnings	473,406	484,123	473,429	839,177	348,769	361,299	419,564	684,123
arnings	109,903	100,069	85,335	379,812	60,618	50,747	96,905	293,125
arnings per on share	62,125	57,163	46,669	232,325	24,723	21,810	51,957	189,125
	0.38	0.35	0.29	1.42	0.16	0.14	0.32	
arnings per on share d	0.37	0.34	0.28	1.39	0.15	0.13	0.31	

The following footnotes are discussed as pretax expenses.

- (1) The results of operations for the first quarter of the fiscal year ended January 31, 2009 include debt extinguishment expense of \$2,331.
- (2) The results of operations for the third quarter of the fiscal year ended January 31, 2009 include merger-related expenses of \$16,605 associated with the change in foreign exchange rates related to the funding of the Micromania acquisition.
- (3) The results of operations for the fourth quarter of the fiscal year ended January 31, 2009 include merger-related income of \$12,012 associated with the change in foreign exchange rates related to the funding of the Micromania acquisition.
- (4) The results of operations for the first quarter of the fiscal year ended February 2, 2008 include debt extinguishment expense of \$6,724.
- (5) The results of operations for the second quarter of the fiscal year ended February 2, 2008 include debt extinguishment expense of \$2,027.
- (6) The results of operations for the third quarter of the fiscal year ended February 2, 2008 include debt extinguishment expense of \$3,840.

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description</b>
2.1	Agreement and Plan of Merger, dated as of April 17, 2005, among GameStop Corp. (f/k/a GSC Holdings Corp.), Electronics Boutique Holdings Corp., GameStop, Inc., GameStop Holdings Corp. (f/k/a GameStop Corp.), Cowboy Subsidiary LLC and Eagle Subsidiary LLC.(1)
2.2	Sale and Purchase Agreement, dated September 30, 2008, between EB International Holdings, Inc. and L Capital, LV Capital, Europ@Web and other Micromania shareholders.(13)
2.3	Amendment, dated November 17, 2008, to Sale and Purchase Agreement for Micromania Acquisition listed as Exhibit 2.2 above.(14)
3.1	Second Amended and Restated Certificate of Incorporation.(2)
3.2	Amended and Restated Bylaws.(3)
4.1	Indenture, dated September 28, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), GameStop, Inc., the subsidiary guarantors party thereto, and Citibank N.A., as trustee.(4)
4.2	First Supplemental Indenture, dated October 8, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), GameStop, Inc., the subsidiary guarantors party thereto, and Citibank N.A., as trustee.(5)
4.3	Rights Agreement, dated as of June 27, 2005, between GameStop Corp. (f/k/a GSC Holdings Corp.) and The Bank of New York, as Rights Agent.(3)
4.4	Form of Indenture.(6)
10.1	Insurance Agreement, dated as of January 1, 2002, between Barnes & Noble, Inc. and GameStop Holdings Corp. (f/k/a GameStop Corp.).(7)
10.2	Operating Agreement, dated as of January 1, 2002, between Barnes & Noble, Inc. and GameStop Holdings Corp. (f/k/a GameStop Corp.).(7)
10.3	Third Amended and Restated 2001 Incentive Plan.(15)
10.4	Second Amended and Restated Supplemental Compensation Plan.(8)
10.5	Form of Option Agreement.(9)
10.6	Form of Restricted Share Agreement.(10)
10.7	Credit Agreement, dated as of October 11, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A. and the other lending institutions listed in the Agreement, Bank of America, N.A. and Citicorp North America, Inc., as Issuing Banks, Bank of America, N.A., as Administrative Agent and Collateral Agent, Citicorp North America, Inc., as Syndication Agent, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Documentation Agent.(11)
10.8	Guaranty, dated as of October 11, 2005, by GameStop Corp. (f/k/a GSC Holdings Corp.) and certain subsidiaries of GameStop Corp. in favor of the agents and lenders.(11)
10.9	Security Agreement, dated October 11, 2005, by GameStop Corp. (f/k/a GSC Holdings Corp.) and certain subsidiaries of GameStop Corp. in favor of Bank of America, N.A., as Collateral Agent for the Secured Parties.(11)
10.10	Patent and Trademark Security Agreement, dated as of October 11, 2005 by GameStop Corp. (f/k/a GSC Holdings Corp.) and certain subsidiaries of GameStop Corp. in favor of Bank of America, N.A., as Collateral Agent.(11)
10.11	Mortgage, Security Agreement, and Assignment and Deeds of Trust, dated October 11, 2005, between GameStop of Texas, L.P. and Bank of America, N.A., as Collateral Agent.(11)
10.12	Mortgage, Security Agreement, and Assignment and Deeds of Trust, dated October 11, 2005, between Electronics Boutique of America, Inc. and Bank of America, N.A., as Collateral Agent.(11)

Edgar Filing: GameStop Corp. - Form 10-K

- 10.13 Form of Securities Collateral Pledge Agreement, dated as of October 11, 2005.(11)
  - 10.14 First Amendment, dated April 25, 2007, to Credit Agreement, dated as of October 11, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A. and the other lending institutions listed in the Amendment, Bank of America, N.A. and Citicorp North America, Inc., as Issuing Banks, Bank of America, N.A., as Administrative Agent and Collateral Agent, Citicorp North America, Inc., as Syndication Agent, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Documentation Agent.(12)
-



**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
10.15	Second Amendment, dated as of October 23, 2008, to Credit Agreement, dated as of October 11, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A. and the other lending institutions listed in the Amendment, Bank of America, N.A. and Citicorp North America, Inc., as Issuing Banks, Bank of America, N.A., as Administrative Agent and Collateral Agent, Citicorp North America, Inc., as Syndication Agent, and GE Business Financial Services, Inc., as Documentation Agent.(14)
10.16	Term Loan Agreement, dated November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender, Bank of America, N.A., as Administrative Agent and Collateral Agent, and Banc of America Securities LLC, as Sole Arranger and Bookrunner.(14)
10.17	Security Agreement, dated November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender and Bank of America, N.A., as Collateral Agent.(14)
10.18	Patent and Trademark Security Agreement, dated as of November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender, and Bank of America, N.A., as Collateral Agent.(14)
10.19	Securities Collateral Pledge Agreement, dated November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender, and Bank of America, N.A., as Collateral Agent.(14)
10.20	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and R. Richard Fontaine.(15)
10.21	Amended and Restated Executive Employment Agreement, dated as December 31, 2008, between GameStop Corp. and Daniel A. DeMatteo.(15)
10.22	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and David W. Carlson.(15)
10.23	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and Tony Bartel.(15)
10.24	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and J. Paul Raines.(15)
12.1	Computation of Ratio of Earnings to Fixed Charges.
14.1	Code of Ethics for Senior Financial and Executive Officers.
14.2	Code of Standards, Ethics and Conduct.
21.1	Subsidiaries.
23.1	Consent of BDO Seidman, LLP.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Edgar Filing: GameStop Corp. - Form 10-K

- (1) Incorporated by reference to GameStop Holdings Corp. s Form 8-K filed with the Securities and Exchange Commission on April 18, 2005.
  - (2) Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on February 7, 2007.
  - (3) Incorporated by reference to the Registrant s Amendment No. 1 to Form S-4 filed with the Securities and Exchange Commission on July 8, 2005.
  - (4) Incorporated by reference to GameStop Holdings Corp. s Form 8-K filed with the Securities and Exchange Commission on September 30, 2005.
-

**Table of Contents**

- (5) Incorporated by reference to the Registrant's Form 10-Q for the fiscal quarter ended October 29, 2005 filed with the Securities and Exchange Commission on December 8, 2005.
- (6) Incorporated by reference to the Registrant's Form S-3ASR filed with the Securities and Exchange Commission on April 10, 2006.
- (7) Incorporated by reference to GameStop Holdings Corp.'s Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on January 24, 2002.
- (8) Incorporated by reference to Appendix A to the Registrant's Proxy Statement for 2008 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on May 23, 2008.
- (9) Incorporated by reference to GameStop Holdings Corp.'s Form 10-K for the fiscal year ended January 29, 2005 filed with the Securities and Exchange Commission on April 11, 2005.
- (10) Incorporated by reference to GameStop Holdings Corp.'s Form 8-K filed with the Securities and Exchange Commission on September 12, 2005.
- (11) Incorporated by reference to Registrant's Form 8-K filed with the Securities and Exchange Commission on October 12, 2005.
- (12) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on April 26, 2007.
- (13) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on October 2, 2008.
- (14) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on November 18, 2008.
- (15) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on January 7, 2009.