

GameStop Corp.  
Form 10-Q  
December 11, 2013  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 2, 2013**

**OR**

· **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)*

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**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**

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

Indicate by 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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Number of shares of \$.001 par value Class A Common Stock outstanding as of December 4, 2013: 115,810,737

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**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. Financial Statements****GAMESTOP CORP.****CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | November 2,<br>2013                                 | October 27,<br>2012 | February 2,<br>2013 |
|--|---|---------------------|---------------------|
|  | (In millions, except per share data)<br>(Unaudited) |                     |                     |
| <b>ASSETS:</b>                                 |   |                     |                     |
| Current assets:                                |   |                     |                     |
| Cash and cash equivalents                      | \$ 649.1  | \$ 366.4            | \$ 635.8            |
| Receivables, net                               | 88.6  | 49.6                | 73.6                |
| Merchandise inventories, net                   | 1,717.0   | 1,645.7             | 1,171.3             |
| Deferred income taxes - current                | 55.0  | 44.6                | 61.7                |
| Prepaid income taxes                           | 30.4  | 46.9                |                     |
| Prepaid expenses                               | 92.0  | 83.8                | 61.2                |
| Other current assets                           | 2.6   | 15.4                | 7.3                 |
| <b>Total current assets</b>                    | <b>2,634.7</b>                                      | <b>2,252.4</b>      | <b>2,010.9</b>      |
| Property and equipment:                        |   |                     |                     |
| Land   | 21.3  | 22.2                | 22.5                |
| Buildings and leasehold improvements           | 604.0   | 597.4               | 606.4               |
| Fixtures and equipment                         | 952.9   | 897.9               | 926.0               |
| <b>Total property and equipment</b>            | <b>1,578.2</b>                                      | <b>1,517.5</b>      | <b>1,554.9</b>      |
| Less accumulated depreciation and amortization | 1,105.3   | 997.6               | 1,030.1             |
| <b>Net property and equipment</b>              | <b>472.9</b>  | <b>519.9</b>        | <b>524.8</b>        |
| Goodwill                                       | 1,371.4   | 1,377.9             | 1,383.1             |
| Other intangible assets, net                   | 142.9   | 149.7               | 153.4               |
| Other noncurrent assets                        | 120.3   | 49.4                | 61.4                |
| <b>Total noncurrent assets</b>                 | <b>2,107.5</b>                                      | <b>2,096.9</b>      | <b>2,122.7</b>      |
| <b>Total assets</b>                            | <b>\$ 4,742.2</b>                                   | <b>\$ 4,349.3</b>   | <b>\$ 4,133.6</b>   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>    |   |                     |                     |
| Current liabilities:                           |   |                     |                     |
| Accounts payable                               | \$ 1,501.8  | \$ 1,277.6          | \$ 870.9            |
| Accrued liabilities                            | 991.0   | 823.0               | 741.0               |
| Income taxes payable                           |   |                     | 103.4               |
| <b>Total current liabilities</b>               | <b>2,492.8</b>                                      | <b>2,100.6</b>      | <b>1,715.3</b>      |
| Deferred income taxes                          | 26.2  | 55.6                | 31.5                |
| Other long-term liabilities                    | 75.9  | 95.5                | 100.5               |
| <b>Total long-term liabilities</b>             | <b>102.1</b>  | <b>151.1</b>        | <b>132.0</b>        |
| <b>Total liabilities</b>                       | <b>2,594.9</b>                                      | <b>2,251.7</b>      | <b>1,847.3</b>      |

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| Commitments and contingencies (Note 8)  |            |            |            |
|---|------------|------------|------------|
| Stockholders' equity:   |            |            |            |
| Preferred stock - authorized 5.0 shares; no shares issued or outstanding  |            |            |            |
| Class A common stock - \$.001 par value; authorized 300.0 shares; 116.2, 130.9 and 128.2 shares issued, 116.2, 120.9 and 118.2 shares outstanding, respectively |            |            |            |
|   | 0.1        | 0.1        | 0.1        |
| Additional paid-in-capital  | 220.8      | 409.8      | 348.3      |
| Accumulated other comprehensive income  | 118.6      | 144.6      | 164.4      |
| Retained earnings   | 1,807.8    | 1,543.1    | 1,773.5    |
| <br>  |            |            |            |
| Total stockholders' equity  | 2,147.3    | 2,097.6    | 2,286.3    |
| <br>  |            |            |            |
| Total liabilities and stockholders' equity  | \$ 4,742.2 | \$ 4,349.3 | \$ 4,133.6 |

See accompanying notes to condensed consolidated financial statements.

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

|   | 13 Weeks Ended                                      |                     | 39 Weeks Ended      |                     |
|---|---|---------------------|---------------------|---------------------|
|   | November 2,<br>2013                                 | October 27,<br>2012 | November 2,<br>2013 | October 27,<br>2012 |
|   | (In millions, except per share data)<br>(Unaudited) |                     |                     |                     |
| Net sales   | \$ 2,106.7  | \$ 1,772.8          | \$ 5,355.7          | \$ 5,325.2          |
| Cost of sales   | 1,508.3   | 1,215.4             | 3,697.6             | 3,648.6             |
| Gross profit  | 598.4   | 557.4               | 1,658.1             | 1,676.6             |
| Selling, general and administrative expenses                              | 448.5   | 438.2               | 1,319.3             | 1,319.4             |
| Depreciation and amortization   | 40.8  | 43.9                | 123.7               | 132.3               |
| Goodwill impairments  |   | 627.0               |                     | 627.0               |
| Asset impairments   |   | 51.8                |                     | 51.8                |
| Operating earnings (loss)   | 109.1   | (603.5)             | 215.1               | (453.9)             |
| Interest income   | (0.3)   | (0.2)               | (0.5)               | (0.6)               |
| Interest expense  | 1.0   | 1.2                 | 3.4                 | 2.9                 |
| Earnings (loss) before income tax expense                                 | 108.4   | (604.5)             | 212.2               | (456.2)             |
| Income tax expense  | 39.8  | 19.8                | 78.5                | 74.7                |
| Consolidated net income (loss)  | 68.6  | (624.3)             | 133.7               | (530.9)             |
| Net loss attributable to noncontrolling interests                         |   |                     |                     | 0.1                 |
| Consolidated net income (loss) attributable to GameStop Corp.             | \$ 68.6   | \$ (624.3)          | \$ 133.7            | \$ (530.8)          |
| Basic net income (loss) per common share attributable to GameStop Corp.   | \$ 0.59   | \$ (5.08)           | \$ 1.14             | \$ (4.13)           |
| Diluted net income (loss) per common share attributable to GameStop Corp. | \$ 0.58   | \$ (5.08)           | \$ 1.12             | \$ (4.13)           |
| Dividends per common share  | \$ 0.275  | \$ 0.25             | \$ 0.825            | \$ 0.55             |
| Weighted average shares of common stock outstanding basic                 | 116.8   | 122.8               | 117.7               | 128.5               |
| Weighted average shares of common stock outstanding diluted               | 118.1   | 122.8               | 118.9               | 128.5               |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****GAMESTOP CORP.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

|   | 13 Weeks Ended               |                     | 39 Weeks Ended      |                     |
|---|------------------------------|---------------------|---------------------|---------------------|
|   | November 2,<br>2013          | October 27,<br>2012 | November 2,<br>2013 | October 27,<br>2012 |
|   | (In millions)<br>(Unaudited) |                     |                     |                     |
| Consolidated net income (loss)                              | \$ 68.6                      | \$ (624.3)          | \$ 133.7            | \$ (530.9)          |
| Other comprehensive income (loss):                          |                              |                     |                     |                     |
| Foreign currency translation adjustment                     | 20.3                         | 33.2                | (45.8)              | (25.2)              |
| Total comprehensive income (loss)                           | 88.9                         | (591.1)             | 87.9                | (556.1)             |
| Comprehensive loss attributable to noncontrolling interests |                              |                     |                     | 0.2                 |
| Comprehensive income (loss) attributable to GameStop Corp.  | \$ 88.9                      | \$ (591.1)          | \$ 87.9             | \$ (555.9)          |

See accompanying notes to condensed consolidated financial statements.

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

|   | Class A<br>Common Stock<br>Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(In millions)<br>(Unaudited) | Retained<br>Earnings | Total      |
|---|-----------------------------------|-----------------|----------------------------------|---|----------------------|------------|
| Balance at February 2, 2013   | 118.2                             | \$ 0.1          | \$ 348.3                         | \$ 164.4  | \$ 1,773.5           | \$ 2,286.3 |
| Net income for the 39 weeks ended November 2, 2013  |                                   |                 |                                  |   | 133.7                | 133.7      |
| Foreign currency translation  |                                   |                 |                                  | (45.8)  |                      | (45.8)     |
| Dividends <sup>1</sup>  |                                   |                 |                                  |   | (99.4)               | (99.4)     |
| Stock-based compensation  |                                   |                 | 16.7                             |   |                      | 16.7       |
| Purchase of treasury stock  | (5.2)                             |                 | (208.8)                          |   |                      | (208.8)    |
| Exercise of stock options and issuance of shares upon vesting of restricted stock grants (including tax benefit of \$9.8) | 3.2                               |                 | 64.6                             |   |                      | 64.6       |
| Balance at November 2, 2013   | 116.2                             | \$ 0.1          | \$ 220.8                         | \$ 118.6  | \$ 1,807.8           | \$ 2,147.3 |

1 Dividends declared per common share were \$0.825 in the 39 weeks ended November 2, 2013.

|   | GameStop Corp. Stockholders       |                 |                                  |   |                      |                            | Total      |
|---|-----------------------------------|-----------------|----------------------------------|---|----------------------|----------------------------|------------|
|   | Class A<br>Common Stock<br>Shares | Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(In millions)<br>(Unaudited) | Retained<br>Earnings | Noncontrolling<br>Interest | Total      |
| Balance at January 28, 2012   | 136.8                             | \$ 0.1          | \$ 726.6                         | \$ 169.7  | \$ 2,145.7           | \$ (1.9)                   | \$ 3,040.2 |
| Purchase of subsidiary shares from noncontrolling interest  |                                   |                 | (2.1)                            |   |                      | 2.1                        |            |
| Net loss for the 39 weeks ended October 27, 2012  |                                   |                 |                                  |   | (530.8)              | (0.1)                      | (530.9)    |
| Foreign currency translation  |                                   |                 |                                  | (25.1)  |                      | (0.1)                      | (25.2)     |
| Dividends <sup>2</sup>  |                                   |                 |                                  |   | (71.8)               |                            | (71.8)     |
| Stock-based compensation  |                                   |                 | 15.7                             |   |                      |                            | 15.7       |
| Purchase of treasury stock  | (16.7)                            |                 | (334.7)                          |   |                      |                            | (334.7)    |
| Exercise of stock options and issuance of shares upon vesting of restricted stock grants (including tax benefit of \$0.6) | 0.8                               |                 | 4.3                              |   |                      |                            | 4.3        |
| Balance at October 27, 2012   | 120.9                             | \$ 0.1          | \$ 409.8                         | \$ 144.6  | \$ 1,543.1           | \$                         | \$ 2,097.6 |

2 Dividends declared per common share were \$0.55 in the 39 weeks ended October 27, 2012.



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See accompanying notes to condensed consolidated financial statements.

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

|  | 39 Weeks Ended               |                     |
|--|------------------------------|---------------------|
|  | November 2,<br>2013          | October 27,<br>2012 |
|  | (In millions)<br>(Unaudited) |                     |
| Cash flows from operating activities:  |                              |                     |
| Consolidated net income (loss)   | \$ 133.7                     | \$ (530.9)          |
| Adjustments to reconcile net income (loss) to net cash flows provided by operating activities: |                              |                     |
| Depreciation and amortization (including amounts in cost of sales)                             | 125.7                        | 134.2               |
| Goodwill impairments and asset impairments   |                              | 678.8               |
| Amortization of deferred financing fees  | 0.9                          | 0.9                 |
| Stock-based compensation expense   | 16.7                         | 15.7                |
| Deferred income taxes  | 0.6                          | (11.0)              |
| Excess tax benefits realized from exercise of stock-based awards                               | (11.1)                       | (0.4)               |
| Loss on disposal of property and equipment   | 4.4                          | 4.7                 |
| Changes in other long-term liabilities   | (23.7)                       | (9.5)               |
| Changes in operating assets and liabilities, net:  |                              |                     |
| Receivables, net   | (15.5)                       | 14.7                |
| Merchandise inventories  | (563.8)                      | (518.6)             |
| Prepaid expenses and other current assets  | (27.2)                       | (3.8)               |
| Prepaid income taxes and accrued income taxes payable  | (124.0)                      | (126.0)             |
| Accounts payable and accrued liabilities   | 889.3                        | 554.9               |
| Net cash flows provided by operating activities  | 406.0                        | 203.7               |
| Cash flows from investing activities:  |                              |                     |
| Purchase of property and equipment   | (76.0)                       | (88.9)              |
| Acquisitions, net of cash acquired   |                              | (1.5)               |
| Investment   | (62.6)                       |                     |
| Other  | 1.3                          | (1.5)               |
| Net cash flows used in investing activities  | (137.3)                      | (91.9)              |
| Cash flows from financing activities:  |                              |                     |
| Purchase of treasury shares  | (204.9)                      | (328.2)             |
| Dividends paid   | (98.7)                       | (71.4)              |
| Borrowings from the revolver   | 130.0                        | 81.0                |
| Repayments of revolver borrowings  | (130.0)                      | (81.0)              |
| Issuance of shares relating to stock options   | 54.8                         | 3.8                 |
| Excess tax benefits realized from exercise of stock-based awards                               | 11.1                         | 0.4                 |
| Net cash flows used in financing activities  | (237.7)                      | (395.4)             |
| Exchange rate effect on cash and cash equivalents  | (17.7)                       | (5.0)               |
| Net increase (decrease) in cash and cash equivalents   | 13.3                         | (288.6)             |
| Cash and cash equivalents at beginning of period   | 635.8                        | 655.0               |
| Cash and cash equivalents at end of period   | \$ 649.1                     | \$ 366.4            |

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See accompanying notes to condensed consolidated financial statements.

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**GAMESTOP CORP.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Summary of Significant Accounting Policies**

***Basis of Presentation***

GameStop Corp. (together with its predecessor companies, GameStop, we, us, our, or the Company), a Delaware corporation, is the world's largest multichannel video game retailer. We sell new and pre-owned video game hardware, physical and digital video game software, accessories, as well as PC entertainment software, new and pre-owned mobile and consumer electronics products and other merchandise. The unaudited condensed consolidated financial statements include the accounts of the Company and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting only of normal, recurring adjustments) which are, in our opinion, necessary for a fair presentation of the information for the periods presented. These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all disclosures required under GAAP for complete consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with our annual report on Form 10-K for the 53 weeks ended February 2, 2013 (fiscal 2012). The preparation of financial statements in conformity with GAAP requires us 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, we have made our 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 us could have a significant impact on our financial results. Actual results could differ from those estimates.

Due to the seasonal nature of the business, the results of operations for the 39 weeks ended November 2, 2013 are not indicative of the results to be expected for the 52 weeks ending February 1, 2014 (fiscal 2013).

***Cash and Cash Equivalents***

We consider all short-term, highly-liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Our cash and cash equivalents are carried at cost, which approximates market value, and consist primarily of time deposits with commercial banks. From time to time depending upon interest rates, credit worthiness and other factors, we invest in money market investment funds holding direct U.S. Treasury obligations. Accounts payable and accrued liabilities include \$240.0 million, \$76.8 million and \$261.1 million of outstanding checks not yet presented for payment as of the quarters ending November 2, 2013, October 27, 2012 and for the year ending February 2, 2013, respectively.

***Restricted Cash***

Restricted cash of \$10.6 million, \$12.8 million and \$13.4 million as of November 2, 2013, October 27, 2012 and February 2, 2013, respectively, consists primarily of bank deposits serving as collateral for bank guarantees issued on behalf of our foreign subsidiaries and is included in other noncurrent assets in our condensed consolidated balance sheets.

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**GAMESTOP CORP.**

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

***Revenue Recognition***

Revenue from the sales of our products is recognized at the time of sale, net of sales discounts and net of an estimated sales return reserve, based on historical return rates, with a corresponding reduction in cost of sales. Our sales return policy is generally limited to less than 30 days and as such our sales returns are, and have historically been, immaterial.

***Recently Issued Accounting Standards***

In July 2013, accounting standards update ( ASU ) 2013-11 *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* was issued requiring an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as either a reduction to a deferred tax asset or separately as a liability depending on the existence, availability and/or use of an operating loss carryforward, a similar tax loss, or a tax credit carryforward. This ASU will be effective for us beginning the first quarter of 2014. We do not expect that this ASU will have an impact on our condensed consolidated financial statements as we currently do not have any unrecognized tax benefits in the same jurisdictions in which we have tax loss or credit carryovers.

In March 2013, ASU 2013-05 *Foreign Currency Matters (Topic 830)* was issued providing guidance with respect to the release of cumulative translation adjustments into net income when a parent company sells either a part or all of an investment in a foreign entity. The ASU requires the release of cumulative translation adjustments when a company no longer holds a controlling financial interest in a foreign subsidiary or a group of assets that constitutes a business within a foreign entity. This ASU will be effective for us beginning the first quarter of 2014. We are evaluating the effect of this ASU, but do not expect it to have a significant impact on our condensed consolidated financial statements.

***Recently Adopted Accounting Standards***

In February 2013, ASU 2013-02 *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* was issued regarding disclosure of amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present either on the face of the statement of operations or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This ASU was effective for our annual and interim periods beginning in fiscal 2013. The ASU had no effect on our condensed consolidated financial statements.

**Table of Contents****GAMESTOP CORP.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Accounting for Stock-Based Compensation**

The following is a summary of the stock-based awards granted during the periods indicated:

|   | 39 Weeks Ended November 2, 2013 |   | 39 Weeks Ended October 27, 2012 |  |
|---|---------------------------------|---|---------------------------------|--|
|   | Shares                          | Weighted Average Grant Date Fair Value<br>(In thousands, except per share data) | Shares                          | Weighted Average Grant Date Fair Value |
| Stock options time-vested                 | 457                             | \$ 7.10   |                                 |  |
| Restricted stock awards time-vested       | 916                             | \$ 24.82  | 784                             | \$ 23.66                               |
| Restricted stock awards performance-based | 262                             | \$ 24.82  | 626                             | \$ 23.66                               |
| Total stock-based awards                  | 1,635                           |   | 1,410                           |  |

For stock options granted, we record stock-based compensation expense in earnings based on the grant-date fair value. 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, expected volatility, expected dividend yield and expected employee forfeiture rate. We use historical data to estimate the option life, dividend yield and the employee forfeiture rate, and use historical volatility when estimating the stock price volatility. The following assumptions were used with respect to the stock options granted:

|                         | 39 Weeks Ended<br>November 2,<br>2013 |
|-------------------------|---------------------------------------|
| Volatility              | 46.4%                                 |
| Risk-free interest rate | 1.0%                                  |
| Expected life (years)   | 5.6                                   |
| Expected dividend yield | 4.3%                                  |

Total stock-based compensation recognized in selling, general and administrative expenses was as follows for the periods indicated:

|                                  | 13 Weeks Ended      |                     | 39 Weeks Ended      |                     |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
|                                  | November 2,<br>2013 | October 27,<br>2012 | November 2,<br>2013 | October 27,<br>2012 |
|                                  | (In millions)       |                     |                     |                     |
| Stock-based compensation expense | \$ 5.2              | \$ 5.3              | \$ 16.7             | \$ 15.7             |

As of November 2, 2013, the unrecognized compensation expense related to the unvested portion of our stock based awards was \$38.0 million, which is expected to be recognized over a weighted average period of 2.0 years. The total intrinsic value of options exercised during the 13 weeks ended November 2, 2013 and October 27, 2012 was \$27.6 million and \$1.1 million, respectively. The total intrinsic value of options exercised during the 39 weeks ended November 2, 2013 and October 27, 2012 was \$48.7 million and \$2.2 million, respectively.

**Table of Contents****GAMESTOP CORP.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Computation of Net Income (Loss) per Common Share**

A reconciliation of shares used in calculating basic and diluted net income (loss) per common share is as follows:

|   | 13 Weeks Ended                       |                     | 39 Weeks Ended      |                     |
|---|--------------------------------------|---------------------|---------------------|---------------------|
|   | November 2,<br>2013                  | October 27,<br>2012 | November 2,<br>2013 | October 27,<br>2012 |
|   | (In millions, except per share data) |                     |                     |                     |
| Consolidated net income (loss) attributable to GameStop Corp.       | \$ 68.6                              | \$ (624.3)          | \$ 133.7            | \$ (530.8)          |
| Weighted average common shares outstanding                          | 116.8                                | 122.8               | 117.7               | 128.5               |
| Dilutive effect of options and restricted shares on common stock(1) | 1.3                                  |                     | 1.2                 |                     |
| Common shares and dilutive potential common shares                  | 118.1                                | 122.8               | 118.9               | 128.5               |
| Net income (loss) per common share:                                 |                                      |                     |                     |                     |
| Basic   | \$ 0.59                              | \$ (5.08)           | \$ 1.14             | \$ (4.13)           |
| Diluted   | \$ 0.58                              | \$ (5.08)           | \$ 1.12             | \$ (4.13)           |

- (1) Excludes 1.1 million, 4.6 million, 1.6 million and 4.2 million share-based awards for the 13 weeks ended November 2, 2013, the 13 weeks ended October 27, 2012, the 39 weeks ended November 2, 2013 and the 39 weeks ended October 27, 2012, respectively, because their effects were antidilutive.

**4. Fair Value Measurements and Financial Instruments*****Recurring Fair Value Measurements and Derivative Financial Instruments***

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value accounting guidance applies to our forward exchange contracts, foreign currency options and cross-currency swaps (together, the 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.

Fair value accounting guidance 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 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table provides the fair value of our assets and liabilities measured at fair value on a recurring basis and recorded on our condensed consolidated balance sheets (in millions):

|                                       | November 2,<br>2013 | October 27,<br>2012 | February 2,<br>2013 |
|---------------------------------------|---------------------|---------------------|---------------------|
| <b>Assets</b>                         |                     |                     |                     |
| Foreign Currency Contracts            |                     |                     |                     |
| Other current assets                  | \$ 2.6              | \$ 15.3             | \$ 7.3              |
| Other noncurrent assets               |                     | 1.9                 | 0.9                 |
| Company-owned life insurance(1)       | 5.5                 | 3.3                 | 3.5                 |
| <b>Total assets</b>                   | <b>8.1</b>          | <b>20.5</b>         | <b>11.7</b>         |
| <b>Liabilities</b>                    |                     |                     |                     |
| Foreign Currency Contracts            |                     |                     |                     |
| Accrued liabilities                   | 12.7                | 2.2                 | 9.1                 |
| Other long-term liabilities           | 3.5                 | 0.3                 | 4.4                 |
| Nonqualified deferred compensation(2) | 1.1                 | 0.9                 | 0.9                 |
| <b>Total liabilities</b>              | <b>\$ 17.3</b>      | <b>\$ 3.4</b>       | <b>\$ 14.4</b>      |

(1) Recognized in other non-current assets in our condensed consolidated balance sheets.

(2) Recognized in accrued liabilities in our condensed consolidated balance sheets.

We use 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 total gross notional value of derivatives related to our Foreign Currency Contracts was \$653.4 million and \$574.2 million as of November 2, 2013 and October 27, 2012, respectively. The total net notional value of derivatives related to our Foreign Currency Contracts was \$86.7 million and \$133.9 million as of November 2, 2013 and October 27, 2012, respectively.

Activity related to the trading of derivative instruments and the offsetting impact of related intercompany loans and foreign currency assets and liabilities recognized in selling, general and administrative expense is as follows (in millions):

|  | 13 Weeks Ended      |                     | 39 Weeks Ended      |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | November 2,<br>2013 | October 27,<br>2012 | November 2,<br>2013 | October 27,<br>2012 |
| Gains (losses) on the changes in fair value of derivative instruments  | \$ 2.5              | \$ (16.7)           | \$ (7.8)            | \$ 0.2              |
| Gains (losses) on the re-measurement of related intercompany loans and foreign currency assets and liabilities | (2.6)               | 19.0                | 10.8                | 1.0                 |
| <b>Total</b>   | <b>\$ (0.1)</b>     | <b>\$ 2.3</b>       | <b>\$ 3.0</b>       | <b>\$ 1.2</b>       |

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We do not use derivative financial instruments for trading or speculative purposes. We are exposed to counterparty credit risk on all of our derivative financial instruments and cash equivalent investments. We

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**GAMESTOP CORP.**

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

manage counterparty risk according to the guidelines and controls established under our comprehensive risk management and investment policies. We continuously monitor our counterparty credit risk and utilize a number of different counterparties to minimize our exposure to potential defaults. We do not require collateral under derivative or investment agreements.

***Nonrecurring Fair Value Measurements***

In addition to assets and liabilities that are recorded at fair value on a recurring basis, we record certain assets and liabilities at fair value on a nonrecurring basis as required by GAAP. Assets and liabilities that are measured at fair value on a nonrecurring basis relate primarily to our tangible property and equipment, goodwill and other intangible assets, which are remeasured when the derived fair value is below carrying value on our condensed consolidated balance sheets. For these assets, we do not periodically adjust carrying value to fair value except in the event of impairment. When we determine that impairment has occurred, the carrying value of the asset is reduced to fair value and the difference is recorded within operating earnings in our condensed consolidated statements of operations. We did not record any impairment charges related to assets measured at fair value on a nonrecurring basis during the 39 weeks ended November 2, 2013. During the 13 and 39 weeks ended October 27, 2012, we recorded a \$678.8 million impairment charge related to assets measured at fair value on a nonrecurring basis, comprised of \$627.0 million of goodwill impairments, \$44.9 million of trade name impairment and \$6.9 million of property and equipment impairments.

The fair value remeasurements included in the goodwill, trade name and property and equipment impairments were based on significant unobservable inputs (Level 3).

***Other Fair Value Disclosures***

The carrying values of our cash equivalents, receivables, net and accounts payable approximate the fair value due to their short maturities.

**5. Goodwill and Intangible Assets**

***Goodwill***

Goodwill represents the excess purchase price over tangible net assets and identifiable intangible assets acquired. Under the provisions of Financial Accounting Standards Board Accounting Standards Codification Topic 350 ( ASC 350 ), we are required to evaluate goodwill and other intangible assets not subject to amortization for impairment at least annually. This annual test is completed at the beginning of the fourth quarter of each fiscal year or when circumstances indicate the carrying value of the goodwill or other intangible assets might be impaired. Goodwill has been assigned to reporting units for the purpose of impairment testing. We have four operating segments, the United States, Australia, Canada and Europe, which also define our reporting units based upon aggregation of components with similar economic characteristics of operations within each segment, including the nature of products, product distribution and the type of customer and separate management within those regions. We estimate fair value of each reporting unit based on the discounted cash flows of each reporting unit. We use a two-step process to test goodwill for potential impairment. If the estimated fair value of the reporting unit is higher than its carrying value, then goodwill is not considered to be impaired. If the carrying value of the reporting unit is higher than its estimated fair value, then the second step of the goodwill impairment test is needed. The second step compares the implied fair value of the reporting unit's goodwill with its carrying amount. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value, then an impairment loss is recognized in the amount of the excess.

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**GAMESTOP CORP.**

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

During the third quarter of fiscal 2012, we determined that sufficient indicators of potential impairment existed to require an interim goodwill impairment test under the provisions of ASC 350. These indicators included the trading prices of our Class A Common Stock and the decrease in our market capitalization below the total amount of stockholders' equity on our condensed consolidated balance sheet.

Upon completion of step one of the interim goodwill impairment test, we determined that the fair values of our Australia, Canada and Europe reporting units were below their carrying values and, as a result, conducted step two of the interim goodwill impairment test to determine the implied fair value of goodwill for the Australia, Canada and Europe reporting units. The calculated fair value of the United States reporting unit significantly exceeded its carrying value. Therefore, step two of the interim goodwill impairment test was not required for the United States reporting unit.

The implied fair value of goodwill is determined in step two of the goodwill impairment test by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation used in a business combination and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. In the process of conducting the second step of the goodwill impairment test, we identified intangible assets consisting of trade names in our Australia, Canada and Europe reporting units. Additionally, we identified hypothetical unrecognized fair value changes to merchandise inventories, property and equipment, unfavorable leasehold interests and deferred income taxes. The combination of these hypothetical unrecognized intangible assets and other hypothetical unrecognized fair value changes to the carrying values of other assets and liabilities, together with the lower reporting unit fair values calculated in step one, resulted in an implied fair value of goodwill substantially below the carrying value of goodwill for the Australia, Canada and Europe reporting units. Accordingly, we recorded non-cash, non-tax deductible goodwill impairments for the 13 weeks ended October 27, 2012 of \$107.1 million, \$100.3 million and \$419.6 million in our Australia, Canada and Europe reporting units, respectively, to reduce the carrying value of goodwill.

We are currently in the process of conducting our annual step one impairment testing for fiscal 2013.

***Trade Name***

As a result of the impairment indicators described above, during the third quarter of fiscal 2012, we also tested our long-lived assets for impairment and concluded that our Micromania trade name was impaired. As a result of the impairment test, we recorded a \$44.9 million impairment for the 13 weeks ended October 27, 2012. The fair value of our Micromania trade name was calculated using a relief-from-royalty approach, which assumes the fair value of the trade name is the discounted cash flows of the amount that would be paid by a hypothetical market participant had they not owned the trade name and instead licensed the trade name from another company.

We are currently in the process of conducting our annual impairment testing of our non-amortizing intangible assets.

**6. Debt**

On January 4, 2011, we entered into a \$400 million credit agreement (the "Revolver"), which amended and restated our prior credit agreement entered into in October 2005. The Revolver provides for a five-year, \$400 million asset-based facility, including a \$50 million letter of credit sublimit, secured by substantially all of the Company's and its domestic subsidiaries' assets. We have the ability to increase the facility, which matures in January 2016, by \$150 million under certain circumstances. The extension of the Revolver to 2016 reduces our exposure to potential tightening or other adverse changes in the credit markets.

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**GAMESTOP CORP.**

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

The availability under the Revolver is limited to a borrowing base which allows us to borrow up to 90% of the appraisal value of the inventory, in each case plus 90% of eligible credit card receivables, net of certain reserves. Letters of credit reduce the amount available to borrow by their face value. Our ability to pay cash dividends, redeem options and repurchase shares is generally permitted, except under certain circumstances, including if Revolver excess availability is less than 20%, or is projected to be within 12 months after such payment. In addition, if Revolver usage is projected to be equal to or greater than 25% of total commitments during the prospective 12-month period, we are subject to meeting a fixed charge coverage ratio of 1.1:1.0 prior to making such payments. In the event that excess availability under the Revolver is at any time less than the greater of (1) \$40.0 million or (2) 12.5% of the lesser of the total commitment or the borrowing base, we will be subject to a fixed charge coverage ratio covenant of 1.1:1.0.

The Revolver places certain restrictions on us and our subsidiaries, including limitations on asset sales, additional liens, investments, loans, guarantees, acquisitions and the incurrence of additional indebtedness. Absent consent from our lenders, we may not incur more than \$750 million of additional unsecured indebtedness to be limited to \$250 million in general unsecured obligations and \$500 million in unsecured obligations to finance acquisitions valued at \$500 million or more.

The per annum interest rate under the Revolver is variable and is calculated by applying a margin (1) for prime rate loans of 1.25% to 1.50% above the highest of (a) the prime rate of the administrative agent, (b) the federal funds effective rate plus 0.50% or (c) the London Interbank Offered ( LIBO ) rate for a 30-day interest period as determined on such day plus 1.00%, and (2) for LIBO rate loans of 2.25% to 2.50% above the LIBO rate. The applicable margin is determined quarterly as a function of our average daily excess availability under the facility. In addition, we are required to pay a commitment fee of 0.375% or 0.50%, depending on facility usage, for any unused portion of the total commitment under the Revolver. As of November 2, 2013, the applicable margin was 1.25% for prime rate loans and 2.25% for LIBO rate loans, while the required commitment fee was 0.50% for the unused portion of the Revolver.

The Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, any material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting us or our subsidiaries, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of the Company or certain of its subsidiaries. During the 39 weeks ended November 2, 2013, we borrowed and repaid \$130.0 million under the Revolver. During the 39 weeks ended October 27, 2012, we borrowed and repaid \$81.0 million under the Revolver. Average borrowings under the Revolver for the 13 weeks and 39 weeks ended November 2, 2013 were \$12.6 million and \$18.9 million, respectively. Our average interest rates on those outstanding borrowings for the 13 weeks and 39 weeks ended November 2, 2013 were 2.6% and 2.8%, respectively. As of November 2, 2013, total availability under the Revolver was \$391.0 million, there were no borrowings outstanding and standby letters of credit outstanding totaled \$9.0 million. We are currently in compliance with the requirements of the Revolver.

In September 2007, our 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 is available to our 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 November 2, 2013, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled \$4.4 million.

**Table of Contents****GAMESTOP CORP.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Income Taxes**

We file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Internal Revenue Service ( IRS ) is currently examining the Company's U.S. income tax returns for fiscal years ended February 2, 2013, January 28, 2012, January 29, 2011, January 30, 2010 and January 31, 2009. We do not anticipate any adjustments that would result in a material impact on our condensed consolidated financial statements as a result of these audits.

We accrue for the effects of uncertain tax positions and the related potential penalties and interest. Our recorded liability for unrecognized tax benefits increased by \$4.9 million during the 13 weeks ended November 2, 2013 and decreased by \$13.0 million during the 39 weeks ended November 2, 2013. The decrease in the liability for unrecognized tax benefits during the 39 weeks ended November 2, 2013 was primarily the result of payments made to settle certain U.S. federal income tax items and did not have a material impact on our income tax provision. There were no material adjustments to our recorded liability for unrecognized tax benefits during the 13 and 39 weeks ended October 27, 2012. It is reasonably possible that the amount of the unrecognized tax benefit with respect to certain of our unrecognized tax positions could significantly increase or decrease during the next 12 months. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

The income tax provisions for the 13 weeks and 39 weeks ended November 2, 2013 and October 27, 2012 are based upon management's estimate of our annualized effective income tax rate. The effective income tax rates for the 13 weeks and 39 weeks ended October 27, 2012 were impacted by the recognition of the goodwill impairment charge that was not tax deductible and the recording of valuation allowances against certain deferred tax assets.

**8. Commitments and Contingencies**

In the ordinary course of business, we are, from time to time, subject to various legal proceedings, including matters involving wage and hour employee class actions and consumer class actions. We may enter into discussions regarding settlement of these and other types of lawsuits, and may enter into settlement agreements, if we believe settlement is in the best interest of our stockholders. We do not believe that any such existing legal proceedings or settlements, individually or in the aggregate, will have a material effect on our financial condition, results of operations or liquidity.

**9. Significant Products**

The following table sets forth net sales (in millions) and percentage of total net sales by significant product category for the periods indicated:

|                               | 13 Weeks Ended      |                     |                     |                     | 39 Weeks Ended      |                     |                     |                     |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                               | November 2,<br>2013 |                     | October 27,<br>2012 |                     | November 2,<br>2013 |                     | October 27,<br>2012 |                     |
|                               | Net<br>Sales        | Percent<br>of Total | Net<br>Sales        | Percent<br>of Total | Net<br>Sales        | Percent<br>of Total | Net<br>Sales        | Percent<br>of Total |
| <b>Net Sales:</b>             |                     |                     |                     |                     |                     |                     |                     |                     |
| New video game hardware       | \$ 181.8            | 8.6%                | \$ 184.8            | 10.4%               | \$ 571.4            | 10.7%               | \$ 716.6            | 13.4%               |
| New video game software       | 1,133.1             | 53.8%               | 769.8               | 43.4%               | 2,266.1             | 42.3%               | 1,974.7             | 37.1%               |
| Pre-owned video game products | 486.6               | 23.1%               | 496.3               | 28.0%               | 1,587.9             | 29.6%               | 1,677.7             | 31.5%               |
| Other <sup>1</sup>            | 305.2               | 14.5%               | 321.9               | 18.2%               | 930.3               | 17.4%               | 956.2               | 18.0%               |
| <b>Total</b>                  | <b>\$ 2,106.7</b>   | <b>100.0%</b>       | <b>\$ 1,772.8</b>   | <b>100.0%</b>       | <b>\$ 5,355.7</b>   | <b>100.0%</b>       | <b>\$ 5,325.2</b>   | <b>100.0%</b>       |



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

1 Primarily includes video game accessories, digital content and currency, new and pre-owned tablets, smartphones and other mobile products and services, PC entertainment software, revenues associated with *Game Informer* magazine and membership fees related to the PowerUp Rewards loyalty program.

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

|                               | 13 Weeks Ended      |                            |                     |                            | 39 Weeks Ended      |                            |                     |                            |
|-------------------------------|---------------------|----------------------------|---------------------|----------------------------|---------------------|----------------------------|---------------------|----------------------------|
|                               | November 2,<br>2013 |                            | October 27,<br>2012 |                            | November 2,<br>2013 |                            | October 27,<br>2012 |                            |
|                               | Gross<br>Profit     | Gross<br>Profit<br>Percent | Gross<br>Profit     | Gross<br>Profit<br>Percent | Gross<br>Profit     | Gross<br>Profit<br>Percent | Gross<br>Profit     | Gross<br>Profit<br>Percent |
| <b>Gross Profit:</b>          |                     |                            |                     |                            |                     |                            |                     |                            |
| New video game hardware       | \$ 13.7             | 7.5%                       | \$ 18.8             | 10.2%                      | \$ 49.4             | 8.6%                       | \$ 58.1             | 8.1%                       |
| New video game software       | 249.1               | 22.0%                      | 174.9               | 22.7%                      | 496.2               | 21.9%                      | 432.6               | 21.9%                      |
| Pre-owned video game products | 216.6               | 44.5%                      | 239.9               | 48.3%                      | 738.0               | 46.5%                      | 813.7               | 48.5%                      |
| Other <sup>1</sup>            | 119.0               | 39.0%                      | 123.8               | 38.5%                      | 374.5               | 40.3%                      | 372.2               | 38.9%                      |
| Total                         | \$ 598.4            | 28.4%                      | \$ 557.4            | 31.4%                      | \$ 1,658.1          | 31.0%                      | \$ 1,676.6          | 31.5%                      |

1 Primarily includes video game accessories, digital content and currency, new and pre-owned tablets, smartphones and other mobile products and services, PC entertainment software, revenues associated with *Game Informer* magazine and membership fees related to the PowerUp Rewards loyalty program.

**10. Segment Information**

We operate our business in the following segments: United States, Canada, Australia and Europe. Segment results for the United States include retail operations in all 50 states, the District of Columbia, Guam and Puerto Rico, the electronic commerce Web site [www.gamestop.com](http://www.gamestop.com), *Game Informer* magazine, the online video gaming Web site [www.kongregate.com](http://www.kongregate.com), a digital PC game distribution platform available at [www.gamestop.com/pcgames](http://www.gamestop.com/pcgames), the streaming technology company Spawn Labs, and an online consumer electronics marketplace available at [www.buymytronics.com](http://www.buymytronics.com). Segment results for Canada include retail and e-commerce operations in Canada and segment results for Australia include retail and e-commerce operations in Australia and New Zealand. Segment results for Europe include retail store operations in 11 European countries and e-commerce operations in six countries. We measure segment profit using operating earnings, which is defined as income (loss) from continuing operations before intercompany royalty fees, net interest expense and income taxes. There has been no material change in total assets by segment since February 2, 2013. Transactions between reportable segments consist primarily of royalties, management fees, intersegment loans and related interest. Information on segments appears in the following tables:

Net sales by segment were as follows (in millions):

|  | 13 Weeks Ended      |                     | 39 Weeks Ended      |                     |
|--|---------------------|---------------------|---------------------|---------------------|
|  | November 2,<br>2013 | October 27,<br>2012 | November 2,<br>2013 | October 27,<br>2012 |



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|               |            |            |            |            |
|---------------|------------|------------|------------|------------|
| United States | \$ 1,434.8 | \$ 1,204.3 | \$ 3,730.1 | \$ 3,722.1 |
| Canada        | 125.4      | 101.3      | 281.1      | 275.8      |
| Australia     | 137.3      | 125.7      | 363.8      | 361.1      |
| Europe        | 409.2      | 341.5      | 980.7      | 966.2      |
| Total         | \$ 2,106.7 | \$ 1,772.8 | \$ 5,355.7 | \$ 5,325.2 |

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

Operating earnings (loss) by segment were as follows (in millions):

|   | 13 Weeks Ended      |                     | 39 Weeks Ended      |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | November 2,<br>2013 | October 27,<br>2012 | November 2,<br>2013 | October 27,<br>2012 |
| United States                             | \$ 70.3             | \$ 51.1             | \$ 206.5            | \$ 206.8            |
| Canada                                    | 11.2                | (96.1)              | 13.0                | (93.2)              |
| Australia                                 | 10.1                | (102.6)             | 12.7                | (100.3)             |
| Europe                                    | 17.5                | (455.9)             | (17.1)              | (467.2)             |
| Total operating earnings (loss)           | 109.1               | (603.5)             | 215.1               | (453.9)             |
| Interest income                           | (0.3)               | (0.2)               | (0.5)               | (0.6)               |
| Interest expense                          | 1.0                 | 1.2                 | 3.4                 | 2.9                 |
| Earnings (loss) before income tax expense | \$ 108.4            | \$ (604.5)          | \$ 212.2            | \$ (456.2)          |

**11. Supplemental Cash Flow Information**

|  | 39 Weeks Ended      |                     |
|--|---------------------|---------------------|
|  | November 2,<br>2013 | October 27,<br>2012 |
| Cash paid (in millions) during the period for: |                     |                     |
| Interest                                       | \$ 2.1              | \$ 1.9              |
| Income taxes                                   | \$ 212.3            | \$ 211.5            |

**12. Subsequent Events*****Dividend***

On November 19, 2013, the Board of Directors of the Company approved a quarterly cash dividend to its stockholders of \$0.275 per share of Class A Common Stock payable on December 19, 2013 to stockholders of record at the close of business on December 4, 2013. Future dividends will be subject to approval by our Board of Directors.

***Share Repurchase***

On November 19, 2013, our Board of Directors authorized us to use \$500 million to repurchase shares of our Class A Common Stock, replacing the remaining \$209.9 million authorization. As of December 4, 2013, we have purchased an additional 0.4 million shares of our Class A Common Stock for an average price per share of \$50.75 since November 2, 2013.

***Acquisition***

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On November 3, 2013, we completed the acquisition of Spring Communications, Inc., a wireless solutions retailer, for a purchase price of \$62.6 million and the assumption of \$34.5 million in term loans and a line of credit, of which \$31.9 million was repaid on November 15, 2013. We funded the acquisition on November 1, 2013. The investment is included in our United States reporting segment in other long-term assets and is not expected to have a material impact to our financial position or results of operations in fiscal 2013.

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**ITEM 2. 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 condensed 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. See our Annual Report on Form 10-K for the fiscal year ended February 2, 2013 filed with the Securities and Exchange Commission (the SEC) on April 3, 2013 (the Form 10-K), including the factors disclosed under Item 1A. Risk Factors, as well as Disclosure Regarding Forward-looking Statements and Item 1A. Risk Factors below, for certain factors which may cause actual results to vary materially from these forward-looking statements.*

**General**

GameStop Corp. (together with its predecessor companies, GameStop, we, us, our, or the Company) is the world's largest multichannel game retailer. We sell new and pre-owned video game hardware, physical and digital video game software, accessories, PC entertainment software, new and pre-owned mobile and consumer electronics products and other merchandise primarily through our GameStop, EB Games and Micromania stores. As of November 2, 2013, we operated 6,488 stores in the United States, Australia, Canada and Europe. We also operate electronic commerce Web sites including [www.gamestop.com](http://www.gamestop.com), [www.ebgames.com.au](http://www.ebgames.com.au), [www.ebgames.co.nz](http://www.ebgames.co.nz), [www.gamestop.ca](http://www.gamestop.ca), [www.gamestop.it](http://www.gamestop.it), [www.gamestop.es](http://www.gamestop.es), [www.gamestop.ie](http://www.gamestop.ie), [www.gamestop.de](http://www.gamestop.de), [www.gamestop.co.uk](http://www.gamestop.co.uk) and [www.micromania.fr](http://www.micromania.fr). The network also includes: [www.kongregate.com](http://www.kongregate.com), a leading browser-based game site; *Game Informer* magazine, the leading multi-platform video game publication; Spawn Labs, a streaming technology company; a digital PC distribution platform available at [www.gamestop.com/pgames](http://www.gamestop.com/pgames); iOS and Android mobile applications; and an online consumer electronics marketplace available at [www.buymytronics.com](http://www.buymytronics.com).

Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January 31. The fiscal year ending February 1, 2014 (fiscal 2013) consists of 52 weeks and the fiscal year ended February 2, 2013 (fiscal 2012) consisted of 53 weeks.

Growth in the electronic game industry is generally driven by the introduction of new technology. Gaming consoles are typically launched in cycles as technological developments in both chip processing speeds and data storage provide significant improvements in advanced graphics, audio quality and other entertainment capabilities beyond video gaming. The previous generation of consoles (the Sony PlayStation 3, the Microsoft Xbox 360 and the Nintendo Wii) was introduced between 2005 and 2007. The Nintendo 3DS was introduced in March 2011 and the Sony PlayStation Vita was introduced in February 2012. The newest console cycle began when Nintendo launched the Wii U in November 2012 as the next generation of the Wii and Sony and Microsoft launched their next generation of consoles, the PlayStation 4 and Xbox One, in November 2013. Typically, following the introduction of new video game consoles, our sales of new video game hardware increase as a percentage of total sales in the first full year following introduction. As video game consoles 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 margin percentage in the first full year following new console releases and an increase in gross margin percentage in the years subsequent to the first full year following the launch period. The launches of the Sony PlayStation 4 and Microsoft Xbox One are anticipated to reduce our overall gross margin percentage in the fourth quarter of fiscal 2013. Unit sales of maturing video game consoles are typically also driven by manufacturer-funded retail price reductions, further driving sales of related software and accessories. We have seen declines in new hardware and software sales in fiscal 2012 and fiscal 2013 in the previous generation of consoles due to the longevity of the previous console cycle and the anticipated launch of the new consoles.

We expect that future growth in the electronic game industry will also be driven by the sale of video games delivered in digital form and the expansion of other forms of gaming. We currently sell various types of products

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that relate to the digital category, including digitally downloadable content, Xbox LIVE, PlayStation and Nintendo network points cards, as well as prepaid digital and online timecards. We expect our sales of digital products to continue to increase in the near term. We have made significant investments in e-commerce and in-store and Web site functionality to enable our customers to access digital content easily and facilitate the digital sales and delivery process. We plan to continue to invest in these types of processes and channels to grow our digital sales base and enhance our market leadership position in the electronic game industry and in the digital aggregation and distribution category. In addition, we intend to continue to invest in customer loyalty programs designed to attract and retain customers.

In fiscal 2011, we also launched our mobile business and began selling an assortment of tablets and accessories. We also sell and accept trades of pre-owned mobile devices in our stores. We currently sell mobile devices and accessories in all of our stores in the United States and in a majority of stores in our international markets.

**Critical Accounting Policies**

Our condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and do not include all disclosures required under GAAP for complete financial statements. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. For a summary of significant accounting policies and the means by which we develop estimates thereon, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K.

**Consolidated Results of Operations**

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

|   | 13 Weeks Ended   |                  | 39 Weeks Ended   |                  |
|---|------------------|------------------|------------------|------------------|
|   | November 2, 2013 | October 27, 2012 | November 2, 2013 | October 27, 2012 |
| <b>Statement of Operations Data:</b>                          |                  |                  |                  |                  |
| Net sales   | 100.0%           | 100.0%           | 100.0%           | 100.0%           |
| Cost of sales   | 71.6             | 68.6             | 69.0             | 68.5             |
| Gross profit  | 28.4             | 31.4             | 31.0             | 31.5             |
| Selling, general and administrative expenses                  | 21.3             | 24.7             | 24.6             | 24.8             |
| Depreciation and amortization                                 | 1.9              | 2.5              | 2.3              | 2.4              |
| Goodwill impairments  |                  | 35.3             |                  | 11.8             |
| Asset impairments   |                  | 2.9              |                  | 1.0              |
| Operating earnings (loss)                                     | 5.2              | (34.0)           | 4.1              | (8.5)            |
| Interest expense, net   |                  | 0.1              | 0.1              | 0.1              |
| Earnings (loss) before income tax expense                     | 5.2              | (34.1)           | 4.0              | (8.6)            |
| Income tax expense  | 1.9              | 1.1              | 1.5              | 1.4              |
| Consolidated net income (loss)                                | 3.3              | (35.2)           | 2.5              | (10.0)           |
| Net loss attributable to noncontrolling interests             |                  |                  |                  |                  |
| Consolidated net income (loss) attributable to GameStop Corp. | 3.3%             | (35.2)%          | 2.5%             | (10.0)%          |

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We include purchasing, receiving and distribution costs in selling, general and administrative expenses, rather than in cost of sales, in the statement of operations. We include processing fees associated with purchases made by credit cards in cost of sales, rather than selling, general and administrative expenses, in the statement of operations. 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 credit cards in selling, general and administrative expenses. The net effect of these classifications as a percentage of net sales has not historically been material.

The following table sets forth net sales (in millions) and percentage of total net sales by significant product category for the periods indicated:

|                               | 13 Weeks Ended                   |                                       |                                  |                                       | 39 Weeks Ended                   |                                       |                                  |                                       |
|-------------------------------|----------------------------------|---------------------------------------|----------------------------------|---------------------------------------|----------------------------------|---------------------------------------|----------------------------------|---------------------------------------|
|                               | November 2, 2013<br>Net<br>Sales | 13 Weeks Ended<br>Percent<br>of Total | October 27, 2012<br>Net<br>Sales | 13 Weeks Ended<br>Percent<br>of Total | November 2, 2013<br>Net<br>Sales | 39 Weeks Ended<br>Percent<br>of Total | October 27, 2012<br>Net<br>Sales | 39 Weeks Ended<br>Percent<br>of Total |
| <b>Net Sales:</b>             |                                  |                                       |                                  |                                       |                                  |                                       |                                  |                                       |
| New video game hardware       | \$ 181.8                         | 8.6%                                  | \$ 184.8                         | 10.4%                                 | \$ 571.4                         | 10.7%                                 | \$ 716.6                         | 13.4%                                 |
| New video game software       | 1,133.1                          | 53.8%                                 | 769.8                            | 43.4%                                 | 2,266.1                          | 42.3%                                 | 1,974.7                          | 37.1%                                 |
| Pre-owned video game products | 486.6                            | 23.1%                                 | 496.3                            | 28.0%                                 | 1,587.9                          | 29.6%                                 | 1,677.7                          | 31.5%                                 |
| Other <sup>1</sup>            | 305.2                            | 14.5%                                 | 321.9                            | 18.2%                                 | 930.3                            | 17.4%                                 | 956.2                            | 18.0%                                 |
| Total                         | \$ 2,106.7                       | 100.0%                                | \$ 1,772.8                       | 100.0%                                | \$ 5,355.7                       | 100.0%                                | \$ 5,325.2                       | 100.0%                                |

1 Primarily includes video game accessories, digital content and currency, new and pre-owned tablets, smartphones and other mobile products and services, PC entertainment software, revenues associated with *Game Informer* magazine and membership fees related to the PowerUp Rewards loyalty program.

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

|                               | 13 Weeks Ended                      |  |                                     |  | 39 Weeks Ended                      |  |                                     |  |
|-------------------------------|-------------------------------------|--|-------------------------------------|--|-------------------------------------|--|-------------------------------------|--|
|                               | November 2, 2013<br>Gross<br>Profit | 13 Weeks Ended<br>Gross<br>Profit<br>Percent | October 27, 2012<br>Gross<br>Profit | 13 Weeks Ended<br>Gross<br>Profit<br>Percent | November 2, 2013<br>Gross<br>Profit | 39 Weeks Ended<br>Gross<br>Profit<br>Percent | October 27, 2012<br>Gross<br>Profit | 39 Weeks Ended<br>Gross<br>Profit<br>Percent |
| <b>Gross Profit:</b>          |                                     |  |                                     |  |                                     |  |                                     |  |
| New video game hardware       | \$ 13.7                             | 7.5%   | \$ 18.8                             | 10.2%  | \$ 49.4                             | 8.6%   | \$ 58.1                             | 8.1%   |
| New video game software       | 249.1                               | 22.0%  | 174.9                               | 22.7%  | 496.2                               | 21.9%  | 432.6                               | 21.9%  |
| Pre-owned video game products | 216.6                               | 44.5%  | 239.9                               | 48.3%  | 738.0                               | 46.5%  | 813.7                               | 48.5%  |
| Other <sup>1</sup>            | 119.0                               | 39.0%  | 123.8                               | 38.5%  | 374.5                               | 40.3%  | 372.2                               | 38.9%  |
| Total                         | \$ 598.4                            | 28.4%  | \$ 557.4                            | 31.4%  | \$ 1,658.1                          | 31.0%  | \$ 1,676.6                          | 31.5%  |

1 Primarily includes video game accessories, digital content and currency, new and pre-owned tablets, smartphones and other mobile products and services, PC entertainment software, revenues associated with *Game Informer* magazine and membership fees related to the PowerUp Rewards loyalty program.

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*13 weeks ended November 2, 2013 compared with the 13 weeks ended October 27, 2012*

**Net Sales**

Net sales increased by \$333.9 million, or 18.8%, from \$1,772.8 million in the 13 weeks ended October 27, 2012 to \$2,106.7 million in the 13 weeks ended November 2, 2013. The increase in net sales was primarily attributable to an increase in comparable store sales of 20.5% for the third quarter of fiscal 2013, offset slightly by changes related to foreign exchange rates, which had the effect of decreasing net sales by \$1.1 million when compared to the third quarter of fiscal 2012. The increase in comparable store sales was primarily attributable to strong performance of recently released new titles, such as *Grand Theft Auto V*, *Pokemon X&Y*, *Assassin's Creed IV: Black Flag* and *Battlefield 4*. Refer to the note to the Selected Financial Data table in Item 6. Selected Financial Data in our Form 10-K for a discussion of the calculation of comparable store sales.

New video game hardware sales decreased \$3.0 million, or 1.6%, from \$184.8 million in the 13 weeks ended October 27, 2012 to \$181.8 million in the 13 weeks ended November 2, 2013. New video game hardware sales in the United States increased \$7.9 million due to increased demand for the Nintendo 3DS and the launch of the Nintendo 2DS during the 2013 period and decreased \$10.9 million in the international segments due to lower hardware unit sell-through related to being in the late stages of the current console cycle.

New video game software sales increased \$363.3 million, or 47.2%, from \$769.8 million in the 13 weeks ended October 27, 2012 to \$1,133.1 million in the 13 weeks ended November 2, 2013, primarily due to strong performance of recently released new titles as described above and a shift of one large title launch from the fourth quarter into the third quarter of fiscal 2013 as compared to fiscal 2012.

Pre-owned video game product sales decreased by \$9.7 million, or 2.0%, from \$496.3 million in the 13 weeks ended October 27, 2012 to \$486.6 million in the 13 weeks ended November 2, 2013. The decrease in pre-owned video game product sales was primarily due to a typical decline during the period when a major new title launch occurs in a non-holiday quarter, as was the case with *Grand Theft Auto V*.

Other product sales decreased \$16.7 million, or 5.2%, from \$321.9 million in the 13 weeks ended October 27, 2012 to \$305.2 million in the 13 weeks ended November 2, 2013. The decrease in other product sales was primarily due to declines in sales of PC entertainment software as the 2012 period included two strong PC title launches. Also contributing to the decrease was a decline in sales of video game accessories of \$5.1 million due to nearing the end of the previous console cycle. These declines were slightly offset by increases in sales of digital and mobile products of \$12.4 million as we continue to focus on expanding these lines of business.

As a percentage of net sales, new video game hardware sales, pre-owned video game product sales and other product sales decreased and new video game software sales increased in the 13 weeks ended November 2, 2013 compared to the 13 weeks ended October 27, 2012. The change in the mix of sales was due primarily to the substantial increase in new video game software sales discussed above.

**Cost of Sales**

Cost of sales increased by \$292.9 million, or 24.1%, from \$1,215.4 million in the 13 weeks ended October 27, 2012 to \$1,508.3 million in the 13 weeks ended November 2, 2013 as a result of the increase in sales discussed above and the changes in gross profit discussed below.

**Gross Profit**

Gross profit increased by \$41.0 million, or 7.4%, from \$557.4 million in the 13 weeks ended October 27, 2012 to \$598.4 million in the 13 weeks ended November 2, 2013. Gross profit as a percentage of net sales decreased from 31.4% in the 13 weeks ended October 27, 2012 to 28.4% in the 13 weeks ended November 2, 2013. The gross profit percentage decrease was primarily due to a shift in sales to new video game software.

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Gross profit as a percentage of sales on new video game hardware decreased from 10.2% in the 13 weeks ended October 27, 2012 to 7.5% in the 13 weeks ended November 2, 2013 due to the mix of hardware products sold. Gross profit as a percentage of sales on new video game software decreased from 22.7% in the 13 weeks ended October 27, 2012 to 22.0% in the 13 weeks ended November 2, 2013, primarily due to lower margins on new software releases. Gross profit as a percentage of sales on pre-owned video game products decreased from 48.3% in the 13 weeks ended October 27, 2012 to 44.5% in the 13 weeks ended November 2, 2013 due to an increase in promotional offers when compared to the prior year and aggressive trade offers to provide consumers with trade currency to drive new console pre-orders by making them more affordable. Gross profit as a percentage of sales on other product sales increased from 38.5% in the 13 weeks ended October 27, 2012 to 39.0% in the 13 weeks ended November 2, 2013, primarily due to changes in sales mix.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by \$10.3 million, or 2.4%, from \$438.2 million in the 13 weeks ended October 27, 2012 to \$448.5 million in the 13 weeks ended November 2, 2013. This increase was primarily attributable to the increase in variable costs associated with the new video game title launches during the 2013 period. The increase also includes changes in foreign exchange rates which had the effect of increasing expenses by \$1.0 million when compared to the third quarter of fiscal 2012. Selling, general and administrative expenses as a percentage of net sales decreased from 24.7% in the 13 weeks ended October 27, 2012 to 21.3% in the 13 weeks ended November 2, 2013. The decrease in selling, general and administrative expenses as a percentage of net sales was primarily due to leveraging of fixed costs as a result of the increase in comparable store sales during the third quarter of fiscal 2013. Included in selling, general and administrative expenses are \$5.2 million and \$5.3 million of stock-based compensation expense for the 13-week periods ended November 2, 2013 and October 27, 2012, respectively.

### **Depreciation and Amortization**

Depreciation and amortization expense decreased \$3.1 million, or 7.1%, from \$43.9 million in the 13 weeks ended October 27, 2012 to \$40.8 million in the 13 weeks ended November 2, 2013. This decrease was primarily due to a decrease in capital expenditures in recent years when compared to prior years, due in part to significant investments in our loyalty and digital initiatives in past years, as well as decreases in new store openings and investments in management information systems.

### **Goodwill and Asset Impairments Charge**

During the 13 weeks ended October 27, 2012, the Company recorded a \$678.8 million impairment charge, comprised of \$627.0 million of goodwill impairments, \$44.9 million of trade name impairment and \$6.9 million of property and equipment impairments. There were no impairments recorded during the 13 weeks ended November 2, 2013.

### **Interest Income and Expense**

Interest income from the investment of excess cash balances increased slightly from \$0.2 million in the 13 weeks ended October 27, 2012 to \$0.3 million in the 13 weeks ended November 2, 2013. Interest expense decreased slightly from \$1.2 million in the 13 weeks ended October 27, 2012 to \$1.0 million in the 13 weeks ended November 2, 2013.

### **Income Tax**

Income tax expense was \$39.8 million, or 36.7% of earnings before income tax expense, for the 13 weeks ended November 2, 2013 compared to \$19.8 million, or (3.3)% of loss before income tax expense for the 13 weeks ended October 27, 2012 and was based upon an estimate of our annualized effective tax rate. The change



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in the effective income tax rate was due primarily to the recognition of the goodwill impairment charge which was not tax deductible and the recording of valuation allowances against certain deferred tax assets in the European segment in the 13 weeks ended October 27, 2012. Without the effect of the goodwill impairments, the asset impairments and the recording of the valuation allowances, the effective income tax rate would have been 36.5% for the 13 weeks ended October 27, 2012.

**Operating Earnings (Loss) and Net Income (Loss)**

The factors described above led to an increase in operating earnings of \$712.6 million from \$603.5 million of operating loss in the 13 weeks ended October 27, 2012 to \$109.1 million of operating earnings in the 13 weeks ended November 2, 2013, and an increase in consolidated net income of \$692.9 million from \$624.3 million of consolidated net loss in the 13 weeks ended October 27, 2012 to \$68.6 million of consolidated net income in the 13 weeks ended November 2, 2013. The increase in operating earnings and consolidated net income is primarily attributable to the third quarter fiscal 2012 goodwill and asset impairments. Excluding the impact of the goodwill and other impairment charges of \$678.8 million, operating earnings would have been \$75.3 million and consolidated net income would have been \$47.2 million in the 13 weeks ended October 27, 2012.

***39 weeks ended November 2, 2013 compared with the 39 weeks ended October 27, 2012***

**Net Sales**

Net sales increased by \$30.5 million, or 0.6%, from \$5,325.2 million in the 39 weeks ended October 27, 2012 to \$5,355.7 million in the 39 weeks ended November 2, 2013. The increase in net sales was primarily attributable to an increase in comparable store sales of 1.3% for the 39 weeks ended November 2, 2013 when compared to the 39 weeks ended October 27, 2012, partially offset by changes related to foreign exchange rates, which had the effect of decreasing sales by \$5.2 million for the 39 weeks ended November 2, 2013 when compared to the 39 weeks ended October 27, 2012. The increase in comparable store sales was primarily due to strong sales performance during the 13 weeks ended November 2, 2013.

New video game hardware sales decreased \$145.2 million, or 20.3%, from \$716.6 million in the 39 weeks ended October 27, 2012 to \$571.4 million in the 39 weeks ended November 2, 2013. The decrease in new video game hardware sales is primarily due to a decrease in hardware unit sell-through related to the late stages of the previous console cycle and higher sales of the Sony PlayStation Vita in fiscal 2012 due to its launch in the first quarter of that year. These sales declines were offset partially by sales of the Nintendo Wii U which launched in the fourth quarter of fiscal 2012.

New video game software sales increased \$291.4 million, or 14.8%, from \$1,974.7 million in the 39 weeks ended October 27, 2012 to \$2,266.1 million in the 39 weeks ended November 2, 2013, primarily due to strong performance of new titles that were released during the 13 weeks ended November 2, 2013.

Pre-owned video game product sales decreased \$89.8 million, or 5.4%, from \$1,677.7 million in the 39 weeks ended October 27, 2012 to \$1,587.9 million in the 39 weeks ended November 2, 2013. The decrease in pre-owned video game product sales was primarily due to lower store traffic during the first half of fiscal 2013 related to lower video game demand due to the late stages of the previous console cycle.

Other product sales decreased by \$25.9 million, or 2.7%, from \$956.2 million in the 39 weeks ended October 27, 2012 to \$930.3 million in the 39 weeks ended November 2, 2013. The decrease in other product sales was primarily due to a decline in sales of PC entertainment software due to strong launches of PC titles during the 2012 period. Additionally, sales of video game accessories declined \$47.2 million during 2013 due to nearing the end of the previous console cycle. Offsetting the declines in sales of PC entertainment software and video game accessories were increases in sales of digital and mobile products of \$98.0 million as we continue to focus on expanding these lines of business.

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As a percentage of net sales, new video game software sales increased and new video game hardware sales, pre-owned video game product sales and other product sales decreased in the 39 weeks ended November 2, 2013 compared to the 39 weeks ended October 27, 2012. The change in the mix of sales was primarily due to the increase in new video game software sales as discussed above.

### **Cost of Sales**

Cost of sales increased by \$49.0 million, or 1.3%, from \$3,648.6 million in the 39 weeks ended October 27, 2012 to \$3,697.6 million in the 39 weeks ended November 2, 2013, primarily as a result of the increase in sales and the changes in gross profit discussed below.

### **Gross Profit**

Gross profit decreased by \$18.5 million, or 1.1%, from \$1,676.6 million in the 39 weeks ended October 27, 2012 to \$1,658.1 million in the 39 weeks ended November 2, 2013. Gross profit as a percentage of net sales decreased from 31.5% in the 39 weeks ended October 27, 2012 to 31.0% in the 39 weeks ended November 2, 2013. The gross profit percentage decrease was primarily due to the change in sales mix driven by the increase in new video game software sales as a percentage of total net sales, partially offset by the increase in gross profit as a percentage of sales on new video game hardware products and other video game products. Gross profit as a percentage of sales on new video game hardware increased from 8.1% in the 39 weeks ended October 27, 2012 to 8.6% in the 39 weeks ended November 2, 2013 primarily due to an increase in the attachment rate of product replacement plan sales on new hardware units when compared to the prior year. Gross profit as a percentage of sales on new video game software was 21.9% for both the 39 weeks ended October 27, 2012 and the 39 weeks ended November 2, 2013. Gross profit as a percentage of sales on pre-owned video game products decreased from 48.5% in the 39 weeks ended October 27, 2012 to 46.5% in the 39 weeks ended November 2, 2013 primarily due to aggressive trade offers made in the current year in order to provide consumers with trade currency to help make new consoles more affordable. Gross profit as a percentage of sales on other product sales increased from 38.9% in the 39 weeks ended October 27, 2012 to 40.3% in the 39 weeks ended November 2, 2013 primarily due to the increase in digital sales and a decrease in sales of PC entertainment software in the 39 weeks ended November 2, 2013 when compared to the 39 weeks ended October 27, 2012. New PC entertainment software has a lower gross profit percentage than accessories, mobile or digital sales.

### **Selling, General and Administrative Expenses**

Selling, general and administrative expenses decreased by \$0.1 million, from \$1,319.4 million in the 39 weeks ended October 27, 2012 to \$1,319.3 million in the 39 weeks ended November 2, 2013. This decrease was the net result of cost control activities during the first half of the current year associated with the decline in sales at the end of the previous console cycle and lower current year store counts, partially offset by higher variable costs associated with the increase in comparable store sales during the 13 weeks ended November 2, 2013. Selling, general and administrative expenses as a percentage of net sales decreased slightly from 24.8% in the 39 weeks ended October 27, 2012 to 24.6% in the 39 weeks ended November 2, 2013. Included in selling, general and administrative expenses is \$16.7 million and \$15.7 million of stock-based compensation expense for the 39 weeks ended November 2, 2013 and October 27, 2012, respectively.

### **Depreciation and Amortization**

Depreciation and amortization expense decreased \$8.6 million, or 6.5%, from \$132.3 million in the 39 weeks ended October 27, 2012 to \$123.7 million in the 39 weeks ended November 2, 2013. This decrease was primarily due to a decrease in capital expenditures in recent years when compared to prior years, which included significant investments in our loyalty and digital initiatives, as well as a decrease in new store openings and investments in management information systems.

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### **Goodwill and Asset Impairments Charge**

During the 39 weeks ended October 27, 2012, the Company recorded a \$678.8 million impairment charge, comprised of \$627.0 million of goodwill impairments, \$44.9 million of trade name impairment and \$6.9 million of property and equipment impairments. There were no impairments recorded during the 39 weeks ended November 2, 2013.

### **Interest Income and Expense**

Interest income from the investment of excess cash balances decreased slightly from \$0.6 million in the 39 weeks ended October 27, 2012 to \$0.5 million in the 39 weeks ended November 2, 2013. Interest expense increased from \$2.9 million in the 39 weeks ended October 27, 2012 to \$3.4 million in the 39 weeks ended November 2, 2013.

### **Income Tax**

Income tax expense for the 39 weeks ended October 27, 2012 and the 39 weeks ended November 2, 2013 was based upon management's estimate of the Company's annualized effective income tax rate. Income tax expense was \$74.7 million, or (16.4)%, of loss before income tax expense for the 39 weeks ended October 27, 2012 compared to \$78.5 million, or 37.0%, of earnings before income tax expense for the 39 weeks ended November 2, 2013. The change in the effective income tax rate was due primarily to the recognition of the goodwill impairment charge in the 39 weeks ended October 27, 2012 which was not tax deductible and the recording of valuation allowances against certain deferred tax assets in the European segment during the 39 weeks ended October 27, 2012. Without the effect of the goodwill impairments, the asset impairments and the recording of the valuation allowances, the effective income tax rate would have been 36.8% for the 39 weeks ended October 27, 2012.

### **Operating Earnings (Loss) and Net Income (Loss)**

The factors described above led to an increase in operating earnings of \$669.0 million from \$453.9 million of operating loss in the 39 weeks ended October 27, 2012 to \$215.1 million of operating earnings in the 39 weeks ended November 2, 2013, and an increase in consolidated net income of \$664.6 million from \$530.9 million of consolidated net loss in the 39 weeks ended October 27, 2012 to \$133.7 million of consolidated net income in the 39 weeks ended November 2, 2013. The increase in operating earnings and consolidated net income is primarily attributable to the third quarter fiscal 2012 goodwill and asset impairments. Excluding the impact of the goodwill and other impairment charges of \$678.8 million, operating earnings would have been \$224.9 million and consolidated net income would have been \$140.7 million in the 39 weeks ended October 27, 2012.

### **Noncontrolling Interests**

The \$0.1 million net loss attributable to noncontrolling interests for the 39 weeks ended October 27, 2012, represents the portion of the minority interest stockholders' net loss of our non-wholly owned subsidiaries included in our consolidated net income (loss). The remaining noncontrolling interests were purchased during the second quarter of fiscal 2012.

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We operate our business in the following segments: United States, Australia, Canada and Europe. The following tables provide a summary of our net sales and operating earnings (loss) by reportable segment:

Net sales by operating segment are as follows (in millions):

|               | 13 Weeks Ended      |                     | 39 Weeks Ended      |                     |
|---------------|---------------------|---------------------|---------------------|---------------------|
|               | November 2,<br>2013 | October 27,<br>2012 | November 2,<br>2013 | October 27,<br>2012 |
| United States | \$ 1,434.8          | \$ 1,204.3          | \$ 3,730.1          | \$ 3,722.1          |
| Canada        | 125.4               | 101.3               | 281.1               | 275.8               |
| Australia     | 137.3               | 125.7               | 363.8               | 361.1               |
| Europe        | 409.2               | 341.5               | 980.7               | 966.2               |
| <b>Total</b>  | <b>\$ 2,106.7</b>   | <b>\$ 1,772.8</b>   | <b>\$ 5,355.7</b>   | <b>\$ 5,325.2</b>   |

Operating earnings (loss) by segment are as follows (in millions):

|               | 13 Weeks Ended      |                     | 39 Weeks Ended      |                     |
|---------------|---------------------|---------------------|---------------------|---------------------|
|               | November 2,<br>2013 | October 27,<br>2012 | November 2,<br>2013 | October 27,<br>2012 |
| United States | \$ 70.3             | \$ 51.1             | \$ 206.5            | \$ 206.8            |
| Canada        | 11.2                | (96.1)              | 13.0                | (93.2)              |
| Australia     | 10.1                | (102.6)             | 12.7                | (100.3)             |
| Europe        | 17.5                | (455.9)             | (17.1)              | (467.2)             |
| <b>Total</b>  | <b>\$ 109.1</b>     | <b>\$ (603.5)</b>   | <b>\$ 215.1</b>     | <b>\$ (453.9)</b>   |

**United States**

Segment results for the United States include retail operations in all 50 states, the District of Columbia, Puerto Rico and Guam, the electronic commerce Web site [www.gamestop.com](http://www.gamestop.com), *Game Informer* magazine, [www.kongregate.com](http://www.kongregate.com), a digital PC game distribution platform available at [www.gamestop.com/pcgames](http://www.gamestop.com/pcgames), Spawn Labs and an online consumer electronics marketplace available at [www.buymytronics.com](http://www.buymytronics.com). As of November 2, 2013, the United States segment included 4,272 stores, compared to 4,471 stores on October 27, 2012.

Net sales for the 13 weeks ended November 2, 2013 increased \$230.5 million, or 19.1%, compared to the 13 weeks ended October 27, 2012 due primarily to a 23.1% increase in comparable store sales. The increase in comparable store sales was primarily due to the launch of new release video game titles and an increase in Nintendo handheld hardware sales during the quarter. Net sales for the 39 weeks ended November 2, 2013 increased \$8.0 million, or 0.2%, compared to the 39 weeks ended October 27, 2012 due primarily to a 1.8% increase in comparable store sales. The increase in comparable store sales was primarily due to strong performance of new video game title releases during the 13 weeks ended November 2, 2013, which more than offset the declines that had been experienced during the first half of the year.

Segment operating earnings for the 13 weeks ended November 2, 2013 increased by \$19.2 million compared to the 13 weeks ended October 27, 2012, driven primarily by the current year increase in net sales. Segment operating earnings for the 39 weeks ended November 2, 2013 decreased slightly by \$0.3 million compared to the 39 weeks ended October 27, 2012. During the fiscal 2012 period, \$4.4 million in property and equipment impairments was recognized.

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Segment results for Canada include retail operations in Canada and their e-commerce site. As of November 2, 2013, the Canadian segment had 334 stores, compared to 339 stores at October 27, 2012. Net sales in the Canadian segment in the 13 and 39 weeks ended November 2, 2013 increased 23.8% and 1.9%, respectively, compared to the 13 and 39 weeks ended October 27, 2012. The increase in net sales was primarily due to an increase in comparable store sales of 33.3% and 7.3%, respectively, partially offset by the impact of changes in exchange rates, which had the effect of decreasing sales by \$6.6 million and \$9.6 million, respectively, in the 13 and 39 weeks ended November 2, 2013 when compared to the same periods in fiscal 2012. Excluding the impact of changes in exchange rates, net sales in the Canadian segment increased by 30.3% and 5.4%, respectively, in the 13 and 39 weeks ended November 2, 2013 when compared to the same periods in fiscal 2012. The increase in comparable store sales was primarily due to the strength of new title releases.

Segment operating earnings for the 13 and 39 weeks ended November 2, 2013 increased by \$107.3 million and \$106.2 million, respectively, compared to the 13 and 39 weeks ended October 27, 2012, driven primarily by the goodwill and asset impairment charge of \$100.5 million during the third quarter of fiscal 2012. Excluding the impact of the goodwill and asset impairment charges in 2012, segment operating earnings were \$4.4 million and \$7.3, respectively, in the 13 and 39 weeks ended October 27, 2012 compared to \$11.2 million and \$13.0 million, respectively, in the 13 and 39 weeks ended November 2, 2013, with increases driven by sales increases.

***Australia***

Segment results for Australia include retail operations and e-commerce sites in Australia and New Zealand. As of November 2, 2013, the Australian segment included 416 stores, compared to 419 stores at October 27, 2012. Net sales for the 13 and 39 weeks ended November 2, 2013 increased by 9.2% and 0.7%, respectively, when compared to the 13 and 39 weeks ended October 27, 2012. The increase in net sales for the 13 weeks ended November 2, 2013 was primarily due to an increase in comparable store sales of 22.0%, partially offset by the impact of changes in exchange rates, which had the effect of decreasing sales by \$14.1 million when compared to the same period in fiscal 2012. The increase in comparable store sales in the third quarter of fiscal 2013 was primarily due to the new video game releases. The increase in net sales for the 39 weeks ended November 2, 2013 resulted from a 7.4% increase in comparable store sales, largely offset by the impact of exchange rates, which had the effect of decreasing sales by \$23.3 million when compared to the same period in fiscal 2012. Excluding the impact of changes in exchange rates, net sales in the Australian segment increased by 20.4% and 7.2% in the 13 and 39 weeks ended November 2, 2013, respectively, compared to the same periods in fiscal 2012.

Segment operating earnings in the 13 and 39 weeks ended November 2, 2013 increased by \$112.7 million and \$113.0 million, respectively, when compared to the 13 and 39 weeks ended October 27, 2012, driven by the goodwill and asset impairment charges of \$107.4 million during the third quarter of fiscal 2012. Excluding the impact of the goodwill and asset impairment charges in 2012, segment operating earnings were \$4.8 million and \$7.1 million, respectively, in the 13 and 39 weeks ended October 27, 2012 compared to \$10.1 million and \$12.7 million, respectively, in the 13 and 39 weeks ended November 2, 2013. Excluding the impact of the goodwill and asset impairment charges, the improvement in operating earnings was primarily the result of current year increases in comparable store sales.

***Europe***

Segment results for Europe include retail store operations in 11 European countries and e-commerce sites in six countries. As of November 2, 2013, the European segment operated 1,466 stores compared to 1,421 stores as of October 27, 2012. For the 13 and 39 weeks ended November 2, 2013, European net sales increased 19.8% and 1.5%, respectively, compared to the 13 and 39 weeks ended October 27, 2012. Excluding the impact of changes in exchange rates, net sales in the European segment increased 14.1% and decreased 1.4%, respectively, in the 13 and 39 weeks ended November 2, 2013 when compared to the prior fiscal year periods. The increase in sales in the 13 weeks ended November 2, 2013 is primarily due to an increase in comparable store sales of 9.2% as a

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result of new video game launches. The increase in sales in the 39 weeks ended November 2, 2013 is primarily due to the impact of exchange rates, which had the effect of increasing sales by \$27.7 million when compared to the same period in fiscal 2012, partially offset by a 4.3% decrease in sales at comparable stores during the period. The decrease in sales at comparable stores for the 39 weeks ended November 2, 2013 was primarily due to weak consumer traffic and a slow-down in hardware unit sell-through as a result of the late stages of the previous console cycle and a decrease in sales of PC entertainment software during the first half of the year.

The segment operating earnings in Europe for the 13 and 39 weeks ended November 2, 2013 improved by \$473.4 million and \$450.1 million, respectively, when compared to the 13 and 39 weeks ended October 27, 2012. The improvement in operating earnings was driven by the goodwill, trade name and asset impairment charges of \$466.5 million during the third quarter of fiscal 2012. Excluding the impact of the goodwill, trade name and asset impairment charges in 2012, segment operating earnings were \$10.6 million in the 13 weeks ended October 27, 2012 and segment operating loss was \$0.7 million in the 39 weeks ended October 27, 2012 compared to segment operating earnings of \$17.5 million in the 13 weeks ended November 2, 2013 and segment operating loss of \$17.1 million in the 39 weeks ended November 2, 2013. Excluding the impact of the goodwill and asset impairment charges, the improvement in operating earnings for the 13 weeks ended November 2, 2013 was primarily the result of current year increases in comparable store sales, while decreases in comparable store sales during the first half of 2013 increased the operating loss for the 39 weeks ended November 2, 2013.

### **Seasonality**

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

### **Liquidity and Capital Resources**

#### ***Cash Flows***

During the 39 weeks ended November 2, 2013, cash provided by operations was \$406.0 million, compared to cash provided by operations of \$203.7 million during the 39 weeks ended October 27, 2012. The increase in cash flow from operations of \$202.3 million was primarily due to an increase in cash provided by operations for working capital which increased \$237.6 million from a use of \$78.8 million in the 39 weeks ended October 27, 2012 to cash provided of \$158.8 million in the 39 weeks ended November 2, 2013. The increase in cash provided by operations for working capital was due primarily to the change in cash related to accounts payable and accrued liabilities. Accounts payable increased in the 39 weeks ended November 2, 2013 as compared to the 39 weeks ended October 27, 2012 from timing of payments and inventory purchases for the launch of the new consoles while accrued liabilities increased due to an increase in reservations related to the release of the new consoles. The increase in cash provided by working capital was slightly offset by a decrease in consolidated net income adjusted for non-cash items of \$21.1 million.

Cash used in investing activities was \$137.3 million and \$91.9 million during the 39 weeks ended November 2, 2013 and October 27, 2012, respectively. The \$45.4 million increase in cash used for investing activities is due to \$62.6 million of cash that was used to fund an acquisition during the 39 weeks ended November 2, 2013 slightly offset by a decrease in cash used for opening new stores and remodeling existing stores, investing in information systems and in digital initiatives.

Cash used in financing activities was \$237.7 million and \$395.4 million for the 39 weeks ended November 2, 2013 and October 27, 2012, respectively. The \$157.7 million decrease in the cash used in financing activities is mainly due to a decrease of \$123.3 million used in the purchase of treasury shares and an increase of \$51.0 million in cash provided by the issuance of shares related to stock option exercises. These decreases in cash used in financing activities were slightly offset by a \$27.3 million increase in dividends paid in the 39 weeks ended November 2, 2013 as compared to the 39 weeks ended October 27, 2012.

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### ***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 and consist primarily of time deposits with commercial banks.

On January 4, 2011, we entered into a \$400 million credit agreement (the *Revolver*), which amended and restated our prior credit agreement entered into in October 2005. The *Revolver* provides for a five-year, \$400 million asset-based facility, including a \$50 million letter of credit sublimit, secured by substantially all of the Company's and its domestic subsidiaries' assets. We have the ability to increase the facility, which matures in January 2016, by \$150 million under certain circumstances. The extension of the *Revolver* to 2016 reduces our exposure to potential tightening or other adverse changes in the credit markets.

The availability under the *Revolver* is limited to a borrowing base which allows us to borrow up to 90% of the appraisal value of the inventory, in each case plus 90% of eligible credit card receivables, net of certain reserves. Letters of credit reduce the amount available to borrow by their face value. Our ability to pay cash dividends, redeem options and repurchase shares is generally permitted, except under certain circumstances, including if *Revolver* excess availability is less than 20%, or is projected to be within 12 months after such payment. In addition, if *Revolver* usage is projected to be equal to or greater than 25% of total commitments during the prospective 12-month period, we are subject to meeting a fixed charge coverage ratio of 1.1:1.0 prior to making such payments. In the event that excess availability under the *Revolver* is at any time less than the greater of (1) \$40.0 million or (2) 12.5% of the lesser of the total commitment or the borrowing base, we will be subject to a fixed charge coverage ratio covenant of 1.1:1.0.

The *Revolver* places certain restrictions on us and our subsidiaries, including limitations on asset sales, additional liens, investments, loans, guarantees, acquisitions and the incurrence of additional indebtedness. Absent consent from our lenders, we may not incur more than \$750 million of additional unsecured indebtedness to be limited to \$250 million in general unsecured obligations and \$500 million in unsecured obligations to finance acquisitions valued at \$500 million or more.

The per annum interest rate under the *Revolver* is variable and is calculated by applying a margin (1) for prime rate loans of 1.25% to 1.50% above the highest of (a) the prime rate of the administrative agent, (b) the federal funds effective rate plus 0.50% or (c) the London Interbank Offered (*LIBO*) rate for a 30-day interest period as determined on such day plus 1.00%, and (2) for *LIBO* rate loans of 2.25% to 2.50% above the *LIBO* rate. The applicable margin is determined quarterly as a function of our average daily excess availability under the facility. In addition, we are required to pay a commitment fee of 0.375% or 0.50%, depending on facility usage, for any unused portion of the total commitment under the *Revolver*. As of November 2, 2013, the applicable margin was 1.25% for prime rate loans and 2.25% for *LIBO* rate loans, while the required commitment fee was 0.50% for the unused portion of the *Revolver*.

The *Revolver* provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, any material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting us or our subsidiaries, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of the Company or certain of its subsidiaries. During the 39 weeks ended November 2, 2013, we borrowed and repaid \$130.0 million under the *Revolver*. During the 39 weeks ended October 27, 2012, we borrowed and repaid \$81.0 million under the *Revolver*. Average borrowings under the *Revolver* for the 13 weeks and 39 weeks ended November 2, 2013 were \$12.6 million and \$18.9 million, respectively. Our average interest rates on those outstanding borrowings for the 13 weeks and 39 weeks ended November 2, 2013 were 2.6% and 2.8%, respectively. As of November 2, 2013, total availability under the *Revolver* was \$391.0 million, there were no borrowings outstanding and standby letters of credit outstanding totaled \$9.0 million. We are currently in compliance with the requirements of the *Revolver*.

In September 2007, our 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*

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and Bank of America may withdraw the facility at any time without notice. The Line of Credit is available to our 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 November 2, 2013, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled \$4.4 million.

### ***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, as well as the investments we will make in e-commerce, digital and other strategic initiatives. We opened 93 stores in the 39 weeks ended November 2, 2013 and we expect to open approximately 100 stores in fiscal 2013, including the 44 stores acquired in France during the first quarter. Capital expenditures for fiscal 2013 are projected to be approximately \$135 million, to be used primarily to fund continued digital initiatives, new store openings, store remodels and invest in distribution and information systems in support of operations.

Since 2010, our Board of Directors has from time to time authorized the repurchase of our common stock. During the 39 weeks ended November 2, 2013, we repurchased 5.2 million shares for an average price per share of \$39.81, leaving \$216.5 million available under the November 2012 authorization of \$500 million. On November 19, 2013, the Board of Directors authorized a new \$500 million share repurchase plan, replacing the \$209.9 million remaining under the November 2012 authorization. As of December 4, 2013, we have purchased an additional 0.4 million shares of our Class A Common Stock for an average price per share of \$50.75 since November 2, 2013, leaving \$487.0 million available under the November 2013 authorization. The amounts, timing and prices of share repurchases that are effected under the Company's share repurchase programs, pursuant to such authorizations, are directed by our senior management.

During the first quarter of fiscal 2012, our Board of Directors approved the initiation of a quarterly cash dividend to our stockholders of Class A Common Stock. During the 39 week periods ended November 2, 2013 and October 27, 2012, we paid \$98.7 million and \$71.4 million, respectively, in dividends. During the first and second quarters of fiscal 2012, we declared cash dividends of \$0.15 per share for each quarter. During the third quarter of fiscal 2012, we declared cash dividends of \$0.25 per share. During the first, second and third quarters of fiscal 2013, we declared cash dividends of \$0.275 per share for each quarter. In addition, our Board of Directors approved a quarterly cash dividend to our stockholders of \$0.275 per Class A common share payable on December 19, 2013 to stockholders of record at the close of business on December 4, 2013. Future dividends will be subject to approval by our Board of Directors.

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, digital initiatives, store openings and remodeling activities and corporate capital expenditure programs, including the payment of dividends declared by the Board of Directors, for at least the next 12 months.

### **Recent Accounting Pronouncements**

In July 2013, accounting standards update ( ASU ) 2013-11 *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists* was issued requiring an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as either a reduction to a deferred tax asset or separately as a liability depending on the existence, availability and/or use of an operating loss carryforward, a similar tax loss, or a tax credit carryforward. This ASU will be effective for us beginning the first quarter of 2014. We do not expect that this ASU will have an impact on our condensed consolidated financial statements as we currently do not have any unrecognized tax benefits in the same jurisdictions in which we have tax loss or credit carryovers.

In March 2013, ASU 2013-05 *Foreign Currency Matters (Topic 830)* was issued providing guidance with respect to the release of cumulative translation adjustments into net income when a parent company sells either a



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part or all of an investment in a foreign entity. The ASU requires the release of cumulative translation adjustments when a company no longer holds a controlling financial interest in a foreign subsidiary or a group of assets that constitutes a business within a foreign entity. This ASU will be effective for us beginning the first quarter of 2014. We are evaluating the effect of this ASU, but do not expect it to have a significant impact on our condensed consolidated financial statements.

In February 2013, ASU 2013-02 *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income* was issued regarding disclosure of amounts reclassified out of accumulated other comprehensive income by component. An entity is required to present either on the face of the statement of operations or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. For amounts not reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional detail about those amounts. This ASU was effective for our annual and interim periods beginning in fiscal 2013. The ASU had no effect on our condensed consolidated financial statements.

## **Disclosure Regarding Forward-looking Statements**

This report on Form 10-Q 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, 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 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:

the introduction of next-generation consoles, the current or future features of such consoles, including any restrictions or conditions that may adversely affect our pre-owned business, and the impact on demand for existing products;

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 Europe, the video game industry and the retail industry;

alternate sources of distribution of video game software and content;

alternate means to play video games;

the competitive environment in the video game industry;

the growth of mobile, social and browser gaming;

our ability to open and operate new stores and to efficiently close underperforming stores;

our ability to attract and retain qualified personnel;

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the failure to achieve the anticipated benefits from new ventures and transactions and our ability to effectively integrate and operate acquired companies, including digital gaming, technology-based or mobile companies that are outside of the Company's historical operating expertise;

the impact and costs of litigation and regulatory compliance;

unanticipated litigation results, including third-party litigation;

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the amounts, timing and prices of any share repurchases made by the Company under its share repurchase programs;

the risks involved with our international operations, including continued efforts to consolidate back-office support and close under-performing stores; and

other factors described in the 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, pro forma, seeks, should, will or similar expressions. These statements are 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-Q. In light of these risks and uncertainties, the forward-looking events and circumstances contained in this Form 10-Q may not occur, causing actual results to differ materially from those anticipated or implied by our forward-looking statements.

**ITEM 3. *Quantitative and Qualitative Disclosures About Market Risk***  
**Interest Rate Exposure**

Our Revolver's per annum interest rate is variable and is based on one of (i) the U.S. prime rate, (ii) the LIBO rate or (iii) the U.S. federal funds rate. We do not use derivative financial instruments to hedge interest rate exposure. We limit our interest rate risk by investing our excess cash balances in short-term, highly-liquid instruments with a maturity of one year or less. 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**

We use 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. The 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. For the 13 and 39 week periods ended November 2, 2013, we recognized gains (losses) of \$2.5 million and (\$7.8) million, respectively, in selling, general and administrative expenses related to the trading of derivative instruments. These gains (losses) were offset by gains (losses) related to the re-measurement of intercompany loans and foreign currency assets and liabilities of (\$2.6) million and \$10.8 million, respectively, for the 13 and 39 week periods ended November 2, 2013. The aggregate fair value of the Foreign Currency Contracts as of November 2, 2013 was a net liability of \$13.6 million as measured by observable inputs obtained from Bloomberg 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 November 2, 2013 would result in a gain or loss in value of the forwards, options and swaps of \$10.3 million.

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We do not use derivative financial instruments for trading or speculative purposes. We are exposed to counterparty credit risk on all of our derivative financial instruments and cash equivalent investments. We manage counterparty risk according to the guidelines and controls established under comprehensive risk management and investment policies. We continuously monitor our counterparty credit risk and utilize a number of different counterparties to minimize our exposure to potential defaults. We do not require collateral under derivative or investment agreements.

**ITEM 4. 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) at the reasonable assurance level. 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 designed to provide reasonable assurance of achieving their objectives and that the Company's disclosure controls and procedures are effective at the reasonable assurance level. 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) Changes in Internal Control Over Financial Reporting

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.

**PART II OTHER INFORMATION**

**ITEM 1. Legal Proceedings**

In the ordinary course of the Company's business, the Company is, from time to time, subject to various legal proceedings, including matters involving wage and hour employee class actions and consumer class actions. The Company may enter into discussions regarding settlement of these and other types of lawsuits, and may enter into settlement agreements, if we believe settlement is in the best interest of the Company's stockholders. Management does not believe that any such existing legal proceedings or settlements, individually or in the aggregate, will have a material effect on the Company's financial condition, results of operations or liquidity.

**ITEM 1A. Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Item 1A. Risk Factors in our Form 10-K for the fiscal year ended February 2, 2013 filed with the SEC on April 3, 2013. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K have not changed materially other than as set forth below:

***The introduction of next-generation consoles could negatively impact the demand for existing products or our pre-owned business.***

The introduction of next-generation consoles, the features of such consoles, including any future restrictions or conditions that may adversely affect our pre-owned business or the ability to play prior generation video games on such consoles, and the impact on demand for existing products could have a negative impact on our sales and earnings.

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These are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Purchases of our equity securities during the fiscal quarter ended November 2, 2013 were as follows:

**ISSUER PURCHASES OF EQUITY SECURITIES**

|                                     | (a)<br>Total<br>Number of<br>Shares<br>Purchased | (b)<br>Average<br>Price Paid per<br>Share | (c)<br>Total Number of<br>Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced Plans<br>or Programs | (d)<br>Approximate<br>Dollar<br>Value of Shares<br>that<br>May Yet Be Purchased<br>Under the Plans<br>or<br>Programs <sup>(1)</sup><br>(In millions of dollars) |
|-------------------------------------|--|---|---|---|
| August 4 through August 31, 2013    | 198,400  | \$ 50.31                                  | 198,400   | \$ 300.9  |
| September 1 through October 5, 2013 | 939,000  | \$ 50.54                                  | 939,000   | \$ 253.4  |
| October 6 through November 2, 2013  | 699,600  | \$ 52.79                                  | 699,600   | \$ 216.5  |
| Total                               | 1,837,000  | \$ 51.37                                  | 1,837,000   |   |

(1) In November 2012, the Board of Directors authorized \$500 million to be used for share repurchases. In November 2013, the Board of Directors authorized \$500 million to be used for share repurchases, replacing the November 2012 authorization. The November 2013 \$500 million authorization has no expiration date.

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**ITEM 6. Exhibits**

Exhibits

| Exhibit |  |
|---------|--|
| Number  | Description  |
| 3.1     | Third Amended and Restated Certificate of Incorporation.(1)  |
| 3.2     | Third Amended and Restated Bylaws.(1)  |
| 10.1    | Amended and Restated 2011 Incentive Plan.(2)   |
| 10.2    | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and Daniel A. DeMatteo.(3)  |
| 10.3    | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and J. Paul Raines.(3)  |
| 10.4    | Executive Employment Agreement between GameStop Corp. and J. Paul Raines, as amended on November 13, 2013.(4)  |
| 10.5    | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and Tony D. Bartel.(3)  |
| 10.6    | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and Robert A. Lloyd.(3)   |
| 10.7    | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and Michael K. Mauler.(3)   |
| 16.1    | Letter of BDO USA LLP, dated July 18, 2013, to the Securities and Exchange Commission regarding statements included in the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2013.(5) |
| 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.              |
| 101.INS | XBRL Instance Document   |
| 101.SCH | XBRL Taxonomy Extension Schema   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase  |

(1) Incorporated by reference to the Registrant's Form 10-Q filed with the Securities and Exchange Commission on September 11, 2013.

(2) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on June 27, 2013.

(3) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 13, 2013.

(4) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on November 15, 2013.

(5) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on July 19, 2013.

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**SIGNATURES**

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

GAMESTOP CORP.

By: /s/ ROBERT A. LLOYD  
ROBERT A. LLOYD  
*Executive Vice President and Chief Financial Officer*  
*(Principal Financial Officer)*

Date: December 11, 2013

GAMESTOP CORP.

By: /s/ TROY W. CRAWFORD  
TROY W. CRAWFORD  
*Senior Vice President and Chief Accounting Officer*  
*(Principal Accounting Officer)*

Date: December 11, 2013

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| <b>Exhibit</b> |  |
|----------------|--|
| <b>Number</b>  | <b>Description</b>   |
| 3.1            | Third Amended and Restated Certificate of Incorporation.(1)  |
| 3.2            | Third Amended and Restated Bylaws.(1)  |
| 10.1           | Amended and Restated 2011 Incentive Plan.(2)   |
| 10.2           | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and Daniel A. DeMatteo.(3)  |
| 10.3           | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and J. Paul Raines.(3)  |
| 10.4           | Executive Employment Agreement between GameStop Corp. and J. Paul Raines, as amended on November 13, 2013.(4)  |
| 10.5           | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and Tony D. Bartel.(3)  |
| 10.6           | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and Robert A. Lloyd.(3)   |
| 10.7           | Executive Employment Agreement, dated as of May 10, 2013, between GameStop Corp. and Michael K. Mauler.(3)   |
| 16.1           | Letter of BDO USA LLP, dated July 18, 2013, to the Securities and Exchange Commission regarding statements included in the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2013.(5) |
| 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.              |
| 101.INS        | XBRL Instance Document   |
| 101.SCH        | XBRL Taxonomy Extension Schema   |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase   |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase  |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase   |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase  |

(1) Incorporated by reference to the Registrant's Form 10-Q filed with the Securities and Exchange Commission on September 11, 2013.

(2) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on June 27, 2013.



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- (3) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on May 13, 2013.
- (4) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on November 15, 2013.
- (5) Incorporated by reference to the Registrant's Form 8-K filed with the Securities and Exchange Commission on July 19, 2013.