GameStop Corp.
Form 10-Q
December 09, 2009

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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 OCTOBER 31, 2009**

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO**

COMMISSION FILE NO. 1-32637

GameStop Corp.
(Exact name of registrant as specified in its Charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**20-2733559** *(I.R.S. Employer Identification No.)*
625 Westport Parkway, Grapevine, Texas *(Address of principal executive offices)*	**76051** *(Zip Code)*

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

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 þ No o

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 þ No o

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

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

Number of shares of $.001 par value Class A Common Stock outstanding as of November 27, 2009: 164,767,330

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PART I FINANCIAL INFORMATION

ITEM 1. *Financial Statements*

GAMESTOP CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 31, 2009 (Unaudited)	November 1, 2008 (Unaudited)	January 31, 2009
	(In thousands, except per share data)		
ASSETS:			
Current assets:			
Cash and cash equivalents	$ 292,027	$ 478,056	$ 578,141
Receivables, net	52,543	50,730	65,981
Merchandise inventories, net	1,733,962	1,424,249	1,075,792
Deferred income taxes current	24,503	29,200	23,615
Prepaid taxes	13,073	68,222	
Prepaid expenses	61,514	56,759	59,101
Other current assets	16,472	45,690	15,411
Total current assets	2,194,094	2,152,906	1,818,041
Property and equipment:			
Land	11,819	10,229	10,397
Buildings and leasehold improvements	516,492	404,660	454,651
Fixtures and equipment	692,660	590,565	619,845
Total property and equipment	1,220,971	1,005,454	1,084,893
Less accumulated depreciation and amortization	629,276	502,348	535,639
Net property and equipment	591,695	503,106	549,254
Goodwill, net	1,931,672	1,443,782	1,862,107
Other intangible assets	279,567	13,388	247,790
Deferred taxes		28,681	
Other noncurrent assets	38,980	21,838	35,398
Total noncurrent assets	2,841,914	2,010,795	2,694,549
Total assets	$ 5,036,008	$ 4,163,701	$ 4,512,590

LIABILITIES AND STOCKHOLDERS EQUITY:

Current liabilities:

Accounts payable	$ 1,328,041	$ 1,102,639	$ 1,047,963
Accrued liabilities	510,296	366,147	498,253
Taxes payable			16,495
Total current liabilities	1,838,337	1,468,786	1,562,711
Senior notes payable, long-term portion, net	447,121	545,462	545,712
Other long-term liabilities	111,127	85,273	104,486
Total long-term liabilities	558,248	630,735	650,198
Total liabilities	2,396,585	2,099,521	2,212,909
Commitments and Contingencies (Note 11)			
Stockholders equity:			
Preferred stock authorized 5,000 shares; no shares issued or outstanding			
Class A common stock $.001 par value; authorized 300,000 shares; 164,752, 163,776 and 163,843 shares issued and outstanding, respectively	165	164	164
Additional paid-in-capital	1,334,481	1,299,721	1,307,453
Accumulated other comprehensive income (loss)	122,944	(23,870)	(28,426)
Retained earnings	1,181,833	788,165	1,020,490
Total stockholders equity	2,639,423	2,064,180	2,299,681
Total liabilities and stockholders equity	$ 5,036,008	$ 4,163,701	$ 4,512,590

See accompanying notes to condensed consolidated financial statements.

GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
	(In thousands, except per share data) (Unaudited)			
Sales	$ 1,834,727	$ 1,695,746	$ 5,553,984	$ 5,313,783
Cost of sales	1,311,643	1,222,317	3,993,381	3,882,825
Gross profit	523,084	473,429	1,560,603	1,430,958
Selling, general and administrative expenses	391,210	335,722	1,151,815	1,012,134
Depreciation and amortization	41,605	35,767	119,109	106,912
Merger-related expenses		16,605		16,605
Operating earnings	90,269	85,335	289,679	295,307
Interest income	(480)	(3,672)	(1,459)	(10,242)
Interest expense	10,946	12,479	34,881	36,748
Debt extinguishment expense	2,461		5,323	2,331
Earnings before income tax expense	77,342	76,528	250,934	266,470
Income tax expense	25,117	29,859	89,591	100,513
Net earnings	$ 52,225	$ 46,669	$ 161,343	$ 165,957
Net earnings per common share-basic	$ 0.32	$ 0.29	$ 0.98	$ 1.02
Weighted average shares of common stock-basic	164,702	163,736	164,604	162,983
Net earnings per common share-diluted	$ 0.31	$ 0.28	$ 0.96	$ 0.99
Weighted average shares of common stock-diluted	168,113	167,995	167,981	167,813

See accompanying notes to condensed consolidated financial statements.

GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	Class A Common Stock Shares	Class A Common Stock Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
			(In thousands) (Unaudited)			
Balance at January 31, 2009	163,843	$ 164	$ 1,307,453	$ (28,426)	$ 1,020,490	$ 2,299,681
Comprehensive income:						
Net earnings for the 39 weeks ended October 31, 2009					161,343	161,343
Foreign currency translation				151,370		151,370
Total comprehensive income						312,713
Stock-based compensation			23,226			23,226
Exercise of stock options and issuance of shares upon vesting of restricted stock grants (including tax expense of $405)	909	1	3,802			3,803
Balance at October 31, 2009	164,752	$ 165	$ 1,334,481	$ 122,944	$ 1,181,833	$ 2,639,423

See accompanying notes to condensed consolidated financial statements.

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GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	39 Weeks Ended	
	October 31, 2009	November 1, 2008
	(In thousands) (Unaudited)	
Cash flows from operating activities:		
Net earnings	$ 161,343	$ 165,957
Adjustments to reconcile net earnings to net cash flows used in operating activities:		
Depreciation and amortization (including amounts in cost of sales)	120,315	107,913
Amortization and retirement of deferred financing fees and issue discounts	4,176	2,814
Stock-based compensation expense	23,226	28,433
Deferred income taxes	(5,325)	(8,285)
Excess tax (benefits) expense realized from exercise of stock-based awards	453	(33,925)
Loss on disposal of property and equipment	4,713	3,960
Changes in other long-term liabilities	6,524	10,612
Change in the value of foreign exchange contracts	2,835	(22,027)
Changes in operating assets and liabilities, net		
Receivables, net	17,012	2,736
Merchandise inventories	(578,288)	(688,441)
Prepaid expenses and other current assets	478	(14,364)
Prepaid income taxes and accrued income taxes payable	(30,159)	(39,359)
Accounts payable and accrued liabilities	198,848	280,391
Net cash flows used in operating activities	(73,849)	(203,585)
Cash flows from investing activities:		
Purchase of property and equipment	(122,122)	(132,758)
Acquisitions, net of cash acquired	(5,208)	(50,800)
Other	(13,823)	2,429
Net cash flows used in investing activities	(141,153)	(181,129)
Cash flows from financing activities:		
Repurchase of notes payable	(100,000)	(30,000)
Borrowings from the revolver	115,000	
Repayments of revolver borrowings	(115,000)	
Issuance of shares relating to stock options	4,208	28,432
Excess tax benefits (expense) realized from exercise of stock-based awards	(453)	33,925
Other	(57)	(1,500)
Net cash flows provided by (used in) financing activities	(96,302)	30,857

Exchange rate effect on cash and cash equivalents	25,190	(25,501)
Net decrease in cash and cash equivalents	(286,114)	(379,358)
Cash and cash equivalents at beginning of period	578,141	857,414
Cash and cash equivalents at end of period	$ 292,027	$ 478,056

See accompanying notes to condensed consolidated financial statements.

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)
(Unaudited)

1. Basis of Presentation

GameStop Corp. (together with its predecessor companies, GameStop, we, our, or the Company), a Delaware corporation, is the world s largest retailer of video games and entertainment software. The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. All dollar and share amounts in the consolidated financial statements and notes to the consolidated financial statements are stated in thousands of U.S. dollars unless otherwise indicated.

The unaudited consolidated financial statements included herein reflect all adjustments (consisting only of normal, recurring adjustments) which are, in the opinion of the Company s management, necessary for a fair presentation of the information for the periods presented. These unaudited condensed consolidated interim financial statements of the Company 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 financial statements. These consolidated financial statements should be read in conjunction with the Company s annual report on Form 10-K for the 52 weeks ended January 31, 2009 (fiscal 2008). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by management could have significant impact on the Company s financial results. Actual results could differ from those estimates.

Due to the seasonal nature of the business, the results of operations for the 39 weeks ended October 31, 2009 are not indicative of the results to be expected for the 52 weeks ending January 30, 2010 (fiscal 2009).

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

The Company evaluated subsequent events through the time of filing this Quarterly Report on Form 10-Q on December 9, 2009. No significant events occurred subsequent to the balance sheet date but prior to the filing of this report that would have a material impact on our condensed consolidated financial statements.

2. New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) codified accounting literature into a single source of authoritative principles, except for certain authoritative rules and interpretive releases issued by the Securities and Exchange Commission (SEC) which are also sources of authoritative GAAP for SEC registrants, which became effective for our Company in August 2009. Since the codification did not alter existing U.S. GAAP, it did not have an impact on our condensed consolidated financial statements. All references to pre-codified U.S. GAAP have been removed from this Form 10-Q.

In May 2009, the FASB issued new accounting and disclosure guidance for recognized and non-recognized subsequent events that occur after the balance sheet date but before financial statements are issued. The new guidance also requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The new guidance was effective for our Company beginning with our Quarterly Report on Form 10-Q for the period ended August 1, 2009, and is being applied prospectively. This change in accounting policy had no impact on our consolidated financial statements.

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In April 2009, the FASB issued updated accounting guidance that requires disclosures about fair value of financial instruments for interim reporting periods and requires those disclosures in summarized financial information for publicly traded companies at interim reporting periods. The updated accounting guidance was effective for the Company for the period ended August 1, 2009. See Note 4.

In March 2008, the FASB amended existing disclosure requirements related to derivative and hedging activities, which became effective for the Company on February 1, 2009 and is being applied prospectively. As a result of the amended disclosure requirements, the Company is required to provide expanded qualitative and quantitative disclosures about derivatives and hedging activities in each interim and annual period. The adoption of the new disclosure requirements had no impact on our consolidated financial statements.

In December 2007, the FASB amended its guidance on accounting for business combinations. The new accounting guidance amends the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. It also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The new accounting guidance for business combinations was effective for our Company on February 1, 2009, and we will apply it prospectively to all business combinations subsequent to the effective date. The adoption of this new accounting policy did not have a significant impact on our consolidated financial statements and the impact that its adoption will have on our consolidated financial statements in future periods will depend on the nature and size of business combinations completed subsequent to the date of adoption.

In December 2007, the FASB issued new accounting and disclosure guidance related to noncontrolling interests in subsidiaries (previously referred to as minority interests). The updated accounting guidance requires all entities to report noncontrolling interests in subsidiaries as a component of equity in the consolidated financial statements and also establishes disclosure requirements that clearly identify and distinguish between controlling and noncontrolling interests and requires the separate disclosure of income attributable to controlling and noncontrolling interests. The new accounting guidance was effective for our Company on February 1, 2009. The adoption of this new accounting policy did not have a significant impact on our consolidated financial statements.

In September 2006, the FASB issued new accounting guidance which defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. However, in February 2008, the FASB delayed the effective date of the new accounting guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of this new accounting guidance for our nonfinancial assets and nonfinancial liabilities on February 1, 2009 did not have a significant impact on our consolidated financial statements.

3. Business Combinations and Goodwill

On November 17, 2008, GameStop France SAS, a wholly-owned subsidiary of the Company, completed the acquisition of substantially all of the outstanding capital stock of Micromania for $580,407, net of cash acquired. Micromania is a leading retailer of video and computer games in France with 361 locations, 328 of which were operating on the date of the acquisition. The purpose of the acquisition was to expand the Company s presence in Europe.

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

		November 17, 2008 (In thousands)
Current assets	$	187,661
Property, plant & equipment		34,164
Goodwill		412,325
Intangible assets:		
Tradename		131,560
Leasehold rights and interests		103,955
Total intangible assets		235,515
Other long-term assets		7,786
Current liabilities		(220,237)
Long-term liabilities		(76,807)
Total purchase price	$	580,407

In determining the preliminary purchase price allocation, management considered, among other factors, the Company s intention to use the acquired assets. Revisions to the preliminary purchase price allocation may result as additional information becomes available. The total weighted-average amortization period for the intangible assets, excluding goodwill and the Micromania tradename, is approximately ten years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized, with no expected residual value. None of the goodwill is deductible for income tax purposes.

The acquisition of Micromania is an important part of the Company s European and overall growth strategy and gave the Company an immediate entrance into the second largest video game market in Europe. The amount the Company paid in excess of the fair value of the net assets acquired was primarily for (i) the expected future cash flows derived from the existing business and its infrastructure, (ii) the geographical benefits from adding stores in a new large growing market without cannibalizing existing sales, (iii) expanding the Company s expertise in the European video game market as a whole, and (iv) increasing the Company s impact on the European market, including increasing its purchasing power.

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

In 2003, the Company purchased a 51% controlling interest in GameStop Group Limited, which operates stores in Ireland and the United Kingdom. Under the terms of the purchase agreement, the minority interest owners have the ability to require the Company to purchase their remaining shares in incremental percentages at a price to be determined based partially on the Company s price to earnings ratio and GameStop Group Limited s earnings. Shares representing approximately 16% were purchased in June 2008 for $27,383 and in July 2009 an additional 16% was purchased for $4,667, bringing the Company s total interest in GameStop Group Limited to approximately 84%. The Company already consolidates the results of GameStop Group Limited; therefore, any additional amounts acquired will not have a material effect on the Company s financial statements.

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During July 2008, the Company purchased certain assets and Web site operations from The Gamesman Limited, a video game and entertainment software retailer, including eight stores in New Zealand for $1,910. The acquisition was accounted for using the purchase method of accounting, with the excess of the purchase price over the net assets acquired, in the amount of $605, recorded as goodwill.

The pro forma effect assuming the acquisitions of Micromania, FRS and The Gamesman Limited at the beginning of fiscal 2008 is not material to the Company s consolidated financial statements.

4. Fair Value Measurements and Financial Instruments

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

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

	October 31, 2009 Level 2	November 1, 2008 Level 2	January 31, 2009 Level 2
		(In thousands)	
Assets			
Foreign Currency Contracts	$ 12,648	$ 42,862	$ 12,104
Company-owned life insurance	2,530	2,408	2,134

Total assets	$ 15,178	$ 45,270	$ 14,238
Liabilities			
Foreign Currency Contracts	$ 28,461	$ 12,418	$ 11,766
Nonqualified deferred compensation	1,008	1,019	905
Total liabilities	$ 29,469	$ 13,437	$ 12,671

The Company uses 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. We do not use derivative financial instruments for trading or

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

speculative purposes. We are exposed to counterparty credit risk on all of our derivative financial instruments and cash equivalent investments. The Company manages 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.

The fair values of derivative instruments not receiving hedge accounting treatment in the condensed consolidated balance sheets presented herein were as follows:

	October 31, 2009	November 1, 2008	January 31, 2009
		(In thousands)	
Assets			
Foreign Currency Contracts			
Other current assets	$ 12,648	$ 42,460	$ 12,104
Other noncurrent assets		402	
Liabilities			
Foreign Currency Contracts			
Accrued liabilities	(27,857)	(10,411)	(10,164)
Other long-term liabilities	(604)	(2,007)	(1,602)
Total derivatives	$ (15,813)	$ 30,444	$ 338

As of October 31, 2009, the Company had a series of Forward Currency Contracts outstanding, with a gross notional value of $540,998 and a net notional value of $242,267. For the 13 and 39 week periods ended October 31, 2009, the Company recognized losses of $2,156 and $14,997, respectively, in selling, general and administrative expenses related to the trading of derivative instruments. As of November 1, 2008, the Company had a series of Forward Currency Contracts outstanding, with a gross notional value of $1,453,328 and a net notional value of $664,939. For the 13 and 39 week periods ended November 1, 2008, the Company recognized gains of $20,522 and $12,413, respectively, in selling, general and administrative expenses related to the trading of derivative instruments.

The Company s carrying value of financial instruments approximate their fair value, except for differences with respect to the senior notes. As of October 31, 2009, the carrying value of the senior notes was $447,121 and the fair value was $463,725.

5. Accounting for Stock-Based Compensation

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 and the expected employee forfeiture rate. The Company uses historical data to estimate the option life and the employee forfeiture rate, and uses historical volatility when estimating the stock price volatility. There were no options to purchase common stock granted during the 13 weeks ended October 31, 2009 and November 1, 2008. The options to purchase common stock granted during the 39 weeks ended October 31, 2009 and November 1, 2008 were 1,419 and 1,362, respectively, with a weighted-average fair value estimated at $9.45 and $15.45 per share, respectively, using the following assumptions:

	39 Weeks Ended	
	October 31, 2009	**November 1, 2008**
Volatility	47.9%	38.2%
Risk-free interest rate	1.5%	2.4%
Expected life (years)	3.5	3.5
Expected dividend yield	0%	0%

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the 13 weeks ended October 31, 2009 and November 1, 2008, the Company included compensation expense relating to stock option grants of $3,030 and $3,916, respectively, in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations. In the 39 weeks ended October 31, 2009 and November 1, 2008, the Company included compensation expense relating to stock option grants of $8,472 and $12,733, respectively, in selling, general and administrative expenses. As of October 31, 2009, the unrecognized compensation expense related to the unvested portion of our stock options was $16,362, which is expected to be recognized over a weighted average period of 1.8 years. The total intrinsic values of options exercised during the 13 weeks ended October 31, 2009 and November 1, 2008 were $648 and $3,236, respectively. The total intrinsic values of options exercised during the 39 weeks ended October 31, 2009 and November 1, 2008 were $3,375 and $86,981, respectively.

During the 13 weeks ended October 31, 2009 and November 1, 2008, the Company granted 43 shares and 67 shares, respectively, of restricted stock which had a fair market value of $23.43 and $43.24 per share, respectively. The restricted shares vest in equal annual installments over three years. During the 39 weeks ended October 31, 2009 and November 1, 2008, the Company granted 614 shares and 602 shares, respectively, of restricted stock which had a weighted-average fair market value of $25.84 and $49.20 per share, respectively. The restricted shares vest in equal annual installments over three years. During the 13 weeks ended October 31, 2009 and November 1, 2008, the Company included compensation expense relating to the restricted share grants in the amount of $4,946 and $4,449, respectively, in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations. During the 39 weeks ended October 31, 2009 and November 1, 2008, the Company included compensation expense relating to the restricted share grants in the amount of $14,754 and $15,700, respectively, in selling, general and administrative expenses. As of October 31, 2009, there was $24,555 of unrecognized compensation expense related to nonvested restricted stock awards that is expected to be recognized over a weighted average period of 1.8 years.

6. Computation of Net Earnings per Common Share

The Company has Class A common stock outstanding. A reconciliation of shares used in calculating basic and diluted net earnings per common share follows:

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
	(In thousands, except per share data)			
Net earnings	$ 52,225	$ 46,669	$ 161,343	$ 165,957
Weighted average common shares outstanding	164,702	163,736	164,604	162,983
Dilutive effect of options and restricted shares on common stock	3,411	4,259	3,377	4,830
Common shares and dilutive potential common shares	168,113	167,995	167,981	167,813

Net earnings per common share:								
Basic	$	0.32	$	0.29	$	0.98	$	1.02
Diluted	$	0.31	$	0.28	$	0.96	$	0.99

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Anti-Dilutive Shares	Range of Exercise Prices	Expiration Dates
	(In thousands, except per share data)		
13 Weeks Ended October 31, 2009	3,641	$ 26.02 - 49.95	2010 - 2019
13 Weeks Ended November 1, 2008	1,342	$ 49.95	2010 - 2018

7. Debt

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

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

The per annum interest rate on the Revolver is variable and, at the Company s option, is calculated by applying a margin of (1) 0.0% to 0.25% above the higher of the prime rate of the administrative agent or the federal funds effective rate plus 0.50% or (2) 1.00% to 1.50% above the LIBO rate. The applicable margin is determined quarterly as a function of the Company s consolidated leverage ratio. As of October 31, 2009, the applicable margin was 0.0% for prime rate loans and 1.00% for LIBO rate loans. In addition, the Company is required to pay a commitment fee of 0.25% for any unused portion of the total commitment under the Revolver. During the 39 weeks ended October 31, 2009, the Company borrowed and repaid $115,000 under the Revolver. As of October 31, 2009, there were no borrowings outstanding under the Revolver and letters of credit outstanding totaled $8,546.

In September 2007, the Company s Luxembourg subsidiary entered into a discretionary $20,000 Uncommitted Line of Credit (the Line of Credit) with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit will be made available to the Company s foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of October 31, 2009, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled $5,899.

In September 2005, the Company, along with GameStop, Inc. as co-issuer (together with the Company, the Issuers), completed the offering of $650,000 aggregate principal amount of Senior Notes due 2012 (the Notes). The Notes were issued under an Indenture, dated September 28, 2005 (the Indenture), by and among the Issuers, the subsidiary guarantors party thereto, and Citibank, N.A., as trustee (the Trustee).

The Notes bear interest at 8.0% per annum, mature on October 1, 2012 and were priced at 98.688%, resulting in a discount at the time of issue of $8,528. The discount is being amortized using the effective interest method. As of October 31, 2009, the unamortized original issue discount was $2,879. The Issuers pay interest on the Notes

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

semi-annually, in arrears, every April 1 and October 1, to holders of record on the immediately preceding March 15 and September 15, and at maturity.

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

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

As of November 1, 2008 and October 31, 2009, the only long-term debt outstanding was the Notes.

Between May 2006 and August 2007, the Company repurchased $70,000 of the Notes under previously announced buybacks authorized by its Board of Directors. All of the authorized amounts were repurchased and the Notes were delivered to the Trustee for cancellation.

On February 7, 2008, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional $130,000 of the Notes. The timing and amount of the repurchases was to be determined by the Company s management based on their evaluation of market conditions and other factors. In addition, the repurchases may have been suspended or discontinued at any time. As of November 1, 2008, the Company had repurchased $30,000 of the Notes pursuant to this authorization. The associated loss on retirement of debt was $2,331, which consisted of the premium paid to retire the Notes and the write-off of the deferred financing fees and the original issue discount on the Notes. The Company did not repurchase any other Notes during fiscal 2008. In the 39 weeks ended October 31, 2009, the Company repurchased $100,000 of the Notes pursuant to this authorization. The associated loss on retirement of debt was $5,323, which consisted of the premium paid to retire the Notes and the write-off of the deferred financing fees and the original issue discount on the Notes. All Notes repurchased in fiscal 2008 and fiscal 2009 were delivered to the Trustee for cancellation and no additional buybacks have been authorized. As of October 31, 2009, there were $450,000 of outstanding Notes.

8. Comprehensive income (loss)

Comprehensive income (loss) is net earnings, plus certain other items that are recorded directly to stockholders equity and consists of the following:

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
	(In thousands)			
Net earnings	$ 52,225	$ 46,669	$ 161,343	$ 165,957
Other comprehensive income:				
Foreign currency translation adjustments	34,223	(57,254)	151,370	(55,473)
Total comprehensive income (loss)	$ 86,448	$ (10,585)	$ 312,713	$ 110,484

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is currently under examination by the Internal Revenue Service for the Company s U.S. income tax returns for the fiscal years ended February 3, 2007 and February 2, 2008. The Company does not expect any material adjustments to its condensed consolidated financial statements as a result of these audits.

Our effective tax rates for the 13 weeks ended October 31, 2009 and November 1, 2008 include $251 of net tax benefit and $1,317 of net tax expense, respectively, related to amounts recorded for changes in our uncertain tax positions, including interest and penalties. Our effective tax rates for the 39 weeks ended October 31, 2009 and November 1, 2008 include $6,149 and $1,811, respectively, of net tax expense related to amounts recorded for changes in our uncertain tax positions, including interest and penalties. The components of the net change in uncertain tax positions were individually insignificant.

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

The tax provisions for the 13 weeks and 39 weeks ended October 31, 2009 and November 1, 2008 are based upon management s estimate of the Company s annualized effective tax rate.

10. Certain Relationships and Related Transactions

The Company operates departments within eight bookstores operated by Barnes & Noble, Inc. (Barnes & Noble), a related party through a common stockholder who is the Chairman of the Board of Directors of Barnes & Noble and a member of the Company s Board of Directors. The Company pays a license fee to Barnes & Noble on the gross sales of such departments. The Company deems the license fee to be reasonable and based upon terms equivalent to those that would prevail in an arm s length transaction. During the 13 weeks ended October 31, 2009 and November 1, 2008, these charges amounted to $227 and $262, respectively. During the 39 weeks ended October 31, 2009 and November 1, 2008, these charges amounted to $688 and $846, respectively.