GameStop Corp.
Form 10-Q
December 08, 2010

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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 30, 2010**
	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 Smaller reporting company o
(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 o No þ

Number of shares of $.001 par value Class A Common Stock outstanding as of November 24, 2010: 151,396,983

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PART I FINANCIAL INFORMATION

ITEM 1. *Financial Statements*

GAMESTOP CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

	October 30, 2010 (Unaudited)	October 31, 2009 (Unaudited)	January 30, 2010
	(In thousands, except per share data)		
ASSETS:			
Current assets:			
Cash and cash equivalents	$ 181,062	$ 292,027	$ 905,418
Receivables, net	58,845	52,543	64,006
Merchandise inventories, net	1,942,416	1,733,962	1,053,553
Deferred income taxes current	21,808	24,503	21,229
Prepaid taxes	11,466	13,073	
Prepaid expenses	70,728	61,514	59,434
Other current assets	13,722	16,472	23,664
Total current assets	2,300,047	2,194,094	2,127,304
Property and equipment:			
Land	24,328	11,819	11,569
Buildings and leasehold improvements	564,943	516,492	522,965
Fixtures and equipment	785,748	692,660	711,477
Total property and equipment	1,375,019	1,220,971	1,246,011
Less accumulated depreciation and amortization	768,951	629,276	661,810
Net property and equipment	606,068	591,695	584,201
Goodwill, net	2,004,636	1,978,987	1,946,513
Other intangible assets	263,218	279,567	259,860
Other noncurrent assets	41,096	38,980	37,449
Total noncurrent assets	2,915,018	2,889,229	2,828,023
Total assets	$ 5,215,065	$ 5,083,323	$ 4,955,327
LIABILITIES AND STOCKHOLDERS EQUITY:			
Current liabilities:			
Accounts payable	$ 1,514,627	$ 1,328,041	$ 961,673

Accrued liabilities	564,283	510,296	632,103
Taxes payable			61,900
Total current liabilities	2,078,910	1,838,337	1,655,676
Senior notes payable, long-term portion, net	248,903	447,121	447,343
Deferred taxes	17,949	6,792	25,466
Other long-term liabilities	100,094	104,335	103,831
Total long-term liabilities	366,946	558,248	576,640
Total liabilities	2,445,856	2,396,585	2,232,316
Commitments and Contingencies (Note 8)			
Stockholders equity:			
Preferred stock authorized 5,000 shares; no shares issued or outstanding			
Class A common stock $.001 par value; authorized 300,000 shares; 151,369, 164,752 and 158,662 shares outstanding, respectively	151	165	159
Additional paid-in-capital	1,034,858	1,334,481	1,210,539
Accumulated other comprehensive income	167,624	170,259	114,704
Retained earnings	1,567,978	1,181,833	1,397,755
Equity attributable to GameStop Corp. stockholders	2,770,611	2,686,738	2,723,157
Equity (deficit) attributable to noncontrolling interest	(1,402)		(146)
Total equity	2,769,209	2,686,738	2,723,011
Total liabilities and stockholders equity	$ 5,215,065	$ 5,083,323	$ 4,955,327

See accompanying notes to condensed consolidated financial statements.

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GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	13 Weeks Ended		39 Weeks Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
	(In thousands, except per share data) (Unaudited)			
Sales	$ 1,899,152	$ 1,834,727	$ 5,780,942	$ 5,553,984
Cost of sales	1,352,835	1,311,643	4,147,018	3,993,381
Gross profit	546,317	523,084	1,633,924	1,560,603
Selling, general and administrative expenses	408,854	391,210	1,217,654	1,151,815
Depreciation and amortization	44,670	41,605	129,418	119,109
Operating earnings	92,793	90,269	286,852	289,679
Interest income	(297)	(480)	(1,352)	(1,459)
Interest expense	9,966	10,946	30,633	34,881
Debt extinguishment expense	5,966	2,461	5,966	5,323
Earnings before income tax expense	77,158	77,342	251,605	250,934
Income tax expense	22,846	25,117	82,626	89,591
Consolidated net income	54,312	52,225	168,979	161,343
Net loss attributable to noncontrolling interests	396		1,244	
Consolidated net income attributable to GameStop	$ 54,708	$ 52,225	$ 170,223	$ 161,343
Basic net income per common share(1)	$ 0.36	$ 0.32	$ 1.12	$ 0.98
Diluted net income per common share(1)	$ 0.36	$ 0.31	$ 1.10	$ 0.96
Weighted average shares of common stock basic	150,709	164,702	151,841	164,604
Weighted average shares of common stock diluted	153,276	168,113	154,638	167,981

(1) Basic net income per share and diluted net income per share are calculated based on consolidated net income attributable to GameStop.

See accompanying notes to condensed consolidated financial statements.

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GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	GameStop Corp. Stockholders						
	Class A Common Stock						
	Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Noncontrolling Interest	Total
				(In thousands) (Unaudited)			
Balance at January 30, 2010	158,662	$ 159	$ 1,210,539	$ 114,704	$ 1,397,755	$ (146)	$ 2,723,011
Comprehensive income:							
Net income (loss) for the 39 weeks ended October 30, 2010					170,223	(1,244)	168,979
Foreign currency translation				52,920		(12)	52,908
Total comprehensive income							221,887
Stock-based compensation			22,142				22,142
Purchase of treasury stock	(11,660)	(12)	(226,378)				(226,390)
Exercise of stock options and issuance of shares upon vesting of restricted stock grants (including tax benefit of $18,504)	4,367	4	28,555				28,559
Balance at October 30, 2010	151,369	$ 151	$ 1,034,858	$ 167,624	$ 1,567,978	$ (1,402)	$ 2,769,209

See accompanying notes to condensed consolidated financial statements.

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GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	39 Weeks Ended	
	October 30, 2010	October 31, 2009
	(In thousands) (Unaudited)	
Cash flows from operating activities:		
Consolidated net income	$ 168,979	$ 161,343
Adjustments to reconcile net income to net cash flows used in operating activities:		
Depreciation and amortization (including amounts in cost of sales)	130,894	120,315
Amortization and retirement of deferred financing fees and issue discounts	4,289	4,176
Stock-based compensation expense	22,142	23,226
Deferred income taxes	(8,480)	(5,325)
Excess tax (benefits) expense realized from exercise of stock-based awards	(18,432)	453
Loss on disposal of property and equipment	4,452	4,713
Changes in other long-term liabilities	(3,521)	5,475
Changes in operating assets and liabilities, net		
Receivables, net	7,005	17,012
Merchandise inventories	(873,238)	(578,288)
Prepaid expenses and other current assets	(2,318)	753
Prepaid income taxes and accrued income taxes payable	(53,836)	(30,159)
Accounts payable and accrued liabilities	537,719	201,876
Net cash flows used in operating activities	(84,345)	(74,430)
Cash flows from investing activities:		
Purchase of property and equipment	(141,525)	(122,122)
Acquisitions, net of cash acquired	(38,132)	(5,208)
Other	(3,891)	(13,242)
Net cash flows used in investing activities	(183,548)	(140,572)
Cash flows from financing activities:		
Repurchase of notes payable	(200,000)	(100,000)
Purchase of treasury shares	(286,825)	
Borrowings from the revolver		115,000
Repayments of revolver borrowings		(115,000)
Issuance of shares relating to stock options	10,054	4,208
Excess tax benefits (expense) realized from exercise of stock-based awards	18,432	(453)
Other		(57)
Net cash flows used in financing activities	(458,339)	(96,302)
Exchange rate effect on cash and cash equivalents	1,876	25,190

Net decrease in cash and cash equivalents	(724,356)	(286,114)
Cash and cash equivalents at beginning of period	905,418	578,141
Cash and cash equivalents at end of period	$ 181,062	$ 292,027

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 PC 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 condensed 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 condensed consolidated financial statements should be read in conjunction with the Company s annual report on Form 10-K for the 52 weeks ended January 30, 2010 (fiscal 2009). 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 a significant impact on the Company s financial results. Actual results could differ from those estimates. The financial statements included herein for the 13 weeks ended October 30, 2010 include the results of Kongregate Inc., the online video gaming company acquired by the Company on August 1, 2010.

Due to the seasonal nature of the business, the results of operations for the 39 weeks ended October 30, 2010 are not indicative of the results to be expected for the 52 weeks ending January 29, 2011 (fiscal 2010).

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

2. 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 30, 2010 and October 31, 2009. The options to purchase common stock granted during the 39 weeks ended October 30, 2010 and October 31, 2009 were 1,177 and 1,419, respectively, with a weighted-average fair value estimated at $7.88 and $9.45 per share, respectively, using the following assumptions:

	39 Weeks Ended	
	October 30, 2010	October 31, 2009
Volatility	51.6%	47.9%
Risk-free interest rate	1.6%	1.5%
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 30, 2010 and October 31, 2009, the Company included compensation expense relating to stock option grants of $3,059 and $3,030, respectively, in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations. In the 39 weeks ended October 30, 2010 and October 31, 2009, the Company included compensation expense relating to stock option grants of $9,083 and $8,472, respectively, in selling, general and administrative expenses. As of October 30, 2010, the unrecognized compensation expense related to the unvested portion of our stock options was $12,358, which is expected to be recognized over a weighted average period of 1.7 years. The total intrinsic values of options exercised during the 13 weeks ended October 30, 2010 and October 31, 2009 were $57,965 and $648, respectively. The total intrinsic values of options exercised during the 39 weeks ended October 30, 2010 and October 31, 2009 were $59,198 and $3,375, respectively.

During the 13 weeks ended October 30, 2010, the Company had no restricted share grants. During the 13 weeks ended October 31, 2009, the Company granted 43 shares of restricted stock which had a fair market value of $23.43 per share. The restricted shares vest in equal annual installments over three years. During the 39 weeks ended October 30, 2010 and October 31, 2009, the Company granted 743 shares and 614 shares, respectively, of restricted stock which had a weighted-average fair market value of $20.43 and $25.84 per share, respectively. The restricted shares vest in equal annual installments over three years. During the 13 weeks ended October 30, 2010 and October 31, 2009, the Company included compensation expense relating to the restricted share grants in the amount of $4,412 and $4,946, respectively, in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations. During the 39 weeks ended October 30, 2010 and October 31, 2009, the Company included compensation expense relating to the restricted share grants in the amount of $13,060 and $14,754, respectively, in selling, general and administrative expenses. As of October 30, 2010, there was $19,788 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.

3. Computation of Net Income per Common Share

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

	13 Weeks Ended		39 Weeks Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
	(In thousands, except per share data)			
Net income attributable to GameStop	$ 54,708	$ 52,225	$ 170,223	$ 161,343
Weighted average common shares outstanding	150,709	164,702	151,841	164,604
Dilutive effect of options and restricted shares on common stock	2,567	3,411	2,797	3,377
Common shares and dilutive potential common shares	153,276	168,113	154,638	167,981
Net income per common share:				
Basic	$ 0.36	$ 0.32	$ 1.12	$ 0.98

Diluted	$ 0.36	$ 0.31	$ 1.10	$ 0.96

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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 30, 2010	5,329	$ 20.32 - 49.95	2011 - 2020
13 Weeks Ended October 31, 2009	3,641	$ 26.02 - 49.95	2010 - 2019

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, in thousands:

	October 30, 2010 Level 2	October 31, 2009 Level 2	January 30, 2010 Level 2
Assets			
Foreign Currency Contracts	$ 12,584	$ 12,648	$ 20,062

Company-owned life insurance		2,894		2,530		2,584
Total assets	$	15,478	$	15,178	$	22,646
Liabilities						
Foreign Currency Contracts	$	15,494	$	28,461	$	8,991
Nonqualified deferred compensation		863		1,008		762
Total liabilities	$	16,357	$	29,469	$	9,753

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

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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, in thousands:

	October 30, 2010	October 31, 2009	January 30, 2010
Assets			
Foreign Currency Contracts			
Other current assets	$ 10,113	$ 12,648	$ 20,062
Other noncurrent assets	2,471		
Liabilities			
Foreign Currency Contracts			
Accrued liabilities	(13,949)	(27,857)	(8,991)
Other long-term liabilities	(1,545)	(604)	
Total derivatives	$ (2,910)	$ (15,813)	$ 11,071

As of October 30, 2010, the Company had a series of Forward Currency Contracts outstanding, with a gross notional value of $446,659 and a net notional value of $211,462. For the 13 and 39 week periods ended October 30, 2010, the Company recognized losses of $10,983 and $6,851, respectively, in selling, general and administrative expenses related to the trading of derivative instruments. 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.

The Company s carrying value of financial instruments approximates their fair value, except for differences with respect to the senior notes. The fair value of the Company s senior notes payable in the accompanying consolidated balance sheets is estimated based on recent quotes from brokers. As of October 30, 2010, the senior notes payable had a carrying value of $248,903 and a fair value of $255,625. As of October 31, 2009, the senior notes payable had a carrying value of $447,121 and a fair value of $463,725.

5. 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.

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

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 30, 2010, 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 30, 2010, there were no borrowings outstanding under the Revolver and letters of credit outstanding totaled $8,017.

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 30, 2010, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled $6,555.

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

The Senior Notes bear interest at 8.0% per annum, mature on October 1, 2012 and were priced at 98.688%, resulting in a discount at the time of issue of $8,528. The discount is being amortized using the effective interest method. As of October 30, 2010, the unamortized original issue discount was $1,097. The Issuers pay interest on the Senior Notes semi-annually, in arrears, every April 1 and October 1, to holders of record on the immediately preceding March 15 and September 15, and at maturity.

The Indenture contains affirmative and negative covenants customary for such financings, including, among other things, limitations on (1) the incurrence of additional debt, (2) restricted payments, (3) liens, (4) sale and leaseback transactions and (5) asset sales. Events of default provided for in the Indenture include, among other things, failure to pay interest or principal on the Notes, other breaches of covenants in the Indenture, and certain events of bankruptcy and insolvency. As of October 30, 2010, the Company was in compliance with all covenants associated with the Revolver and the Indenture.

Under certain conditions, the Issuers may on any one or more occasions prior to maturity redeem up to 100% of the aggregate principal amount of Senior Notes issued under the Indenture at redemption prices at or in excess of 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date. The circumstances which would limit the percentage of the Notes which may be redeemed or which would require the Company to pay a premium in excess of 100% of the principal amount are defined in the Indenture. Upon a Change of Control (as defined in the Indenture), the Issuers are required to offer to purchase all of the Notes then outstanding at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase. The Issuers may acquire Senior Notes by means other than redemption, whether by tender offer, open market purchases,

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

negotiated transactions or otherwise, in accordance with applicable securities laws, so long as such acquisitions do not otherwise violate the terms of the Indenture.

Between May 2006 and September 2009, the Company repurchased and redeemed the $300,000 of Senior Floating Rate Notes and $200,000 of Senior Notes under previously announced buybacks authorized by the Company s Board of Directors. All of the authorized amounts were repurchased or redeemed and the repurchased Notes were delivered to the Trustee for cancellation. The associated loss on the retirement of debt was $5,323 for the 39-week period ended October 31, 2009, 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.

In September 2010, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional $200,000 of the Senior Notes. As of October 30, 2010, the Company had repurchased or redeemed all $200,000 of the Senior Notes pursuant to this authorization. The associated loss on retirement of debt was $5,966, which consisted of the premium paid to retire the Senior Notes and the write-off of the deferred financing fees and the original issue discount on the Senior Notes.

As of October 31, 2009 and October 30, 2010, the only long-term debt outstanding was $450,000 and $250,000, respectively, of the Senior Notes. The maturity on the Senior Notes, gross of the unamortized original issue discount of $1,097, occurs in the fiscal year ending January 2013.

6. 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 no longer subject to U.S. federal income tax examination by the Internal Revenue Service for years before and including the fiscal year ended January 28, 2006.

We accrue for the effects of uncertain tax positions and the related potential penalties and interest. The net decrease to our recorded liability for unrecognized tax benefits during the 13 and 39 weeks ended October 30, 2010 was attributable to the closure of open tax years. 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 during the next 12 months. 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 30, 2010 and October 31, 2009 are based upon management s estimate of the Company s annualized effective tax rate.

7. 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 30, 2010 and October 31, 2009, these charges amounted to $200 and $227, respectively. During the 39 weeks ended October 30, 2010 and October 31, 2009, these charges amounted to $637 and $688, respectively.

In May 2005, the Company entered into an arrangement with Barnes & Noble under which www.gamestop.com became the exclusive specialty video game retailer listed on www.bn.com, Barnes & Noble s e-commerce site. Under the terms of this agreement, the Company pays a fee to Barnes & Noble for sales of video game or PC entertainment products sold through www.bn.com. The fee to Barnes & Noble was $24 and $40 for the 13 weeks ended October 30, 2010 and October 31, 2009, respectively, and $129 and $160 for the 39 weeks ended October 30, 2010 and October 31, 2009, respectively.

Until June 2005, GameStop participated in Barnes & Noble s workers compensation, property and general liability insurance programs. Although GameStop secured its own insurance coverage, costs will likely continue to

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

be incurred by Barnes & Noble on insurance claims which were incurred under its programs prior to June 2005 and any such costs applicable to insurance claims against GameStop will be allocated to the Company. During the 13 weeks ended October 30, 2010 and October 31, 2009, these charges amounted to $14 and $25, respectively. During the 39 weeks ended October 30, 2010 and October 31, 2009, these charges amounted to $43 and $130, respectively.

8. Commitments and Contingencies

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

Plaintiffs counsel named an expert who plaintiffs indicated would testify that violent video games were a substantial factor in causing the murders. The testimony of plaintiffs psychologist expert was heard by the Court on October 30, 2008, and the motion to exclude that testimony was argued on December 12, 2008. On July 30, 2009, the trial court entered its Order granting summary judgment for all defendants, dismissing the case with prejudice on the grounds that plaintiffs expert s testimony did not satisfy the Frye standard for expert admissibility. Subsequent to the entry of the Order, the plaintiffs filed a notice of appeal. The plaintiffs filed their appellate brief in support of their appeal and the defendants filed their consolidated appellate brief in opposition to the appeal.

On September 24, 2010, the Alabama Supreme Court issued an Order affirming the judgment in the Company s favor. On October 13, 2010, the final judgment was entered by the Court and the matter is now resolved with no liability to the Company.

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

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. In June 2008, the Company purchased shares representing approximately 16% of GameStop Group Limited, and in July 2009, the Company purchased shares representing an additional 16% of GameStop Group Limited, 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)

9. Significant Products

The Company is principally engaged in the sale of new and used video game systems and software, PC entertainment software and related accessories. The following table sets forth sales (in millions) by significant product category for the periods indicated:

	13 Weeks Ended				39 Weeks Ended			
	October 30, 2010		October 31, 2009		October 30, 2010		October 31, 2009	
	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total
	(Unaudited)							
Sales:								
New video game hardware	$ 276.0	14.5%	$ 321.4	17.5%	$ 938.5	16.2%	$ 1,018.6	18.3%
New video game software	839.1	44.2%	769.4	41.9%	2,375.3	41.1%	2,169.7	39.1%
Used video game products	528.0	27.8%	507.7	27.7%	1,664.3	28.8%	1,617.0	29.1%
Other	256.1	13.5%	236.2	12.9%	802.8	13.9%	748.7	13.5%
Total	$ 1,899.2	100.0%	$ 1,834.7	100.0%	$ 5,780.9	100.0%	$ 5,554.0	100.0%

Other products include PC entertainment and other software, accessories and magazines.

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			
	October 30, 2010		October 31, 2009		October 30, 2010		October 31, 2009	
	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent
	(Unaudited)							
Gross Profit:								

New video game hardware	$ 21.7	7.9%	$ 26.8	8.3%	$ 68.7	7.3%	$ 72.6	7.1%
New video game software	182.4	21.7%	173.8	22.6%	498.6	21.0%	472.8	21.8%
Used video game products	250.2	47.4%	240.0	47.3%	784.7	47.1%	760.5	47.0%
Other	92.0	35.9%	82.5	34.9%	281.9	35.1%	254.7	34.0%
Total	$ 546.3	28.8%	$ 523.1	28.5%	$ 1,633.9	28.3%	$ 1,560.6	28.1%

10. Segment Information

The Company operates its 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, *Game Informer* magazine, and the online video gaming Web site www.kongregate.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 operations in 13 European countries and e-commerce operations in five countries. The Company measures segment profit using operating earnings, which is defined as income from continuing operations before intercompany royalty fees, net interest expense and income taxes. There has been no material change in total assets by segment since January 30, 2010. Transactions between reportable segments

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

consist primarily of royalties, management fees, intersegment loans and related interest. Information on segments appears in the following tables:

	13 Weeks Ended		39 Weeks Ended	
	October 30, 2010	October 31, 2009	October 30, 2010	October 31, 2009
	(In millions) (Unaudited)			
Sales by operating segment were as follows:				
United States	$ 1,300.3	$ 1,200.9	$ 4,112.0	$ 3,857.8
Canada	109.5	115.4	307.4	303.3
Australia	117.9	114.2	344.3	328.7
Europe	371.5	404.2	1,017.2	1,064.2
Total	$ 1,899.2	$ 1,834.7	$ 5,780.9	$ 5,554.0
Operating earnings by operating segment were as follows:				
United States	$ 70.3	$ 69.0	$ 260.7	$ 245.3
Canada	3.8	7.8	7.6	16.0
Australia	6.8	6.6	14.3	21.1
Europe	11.9	6.9	4.3	7.3
Total	$ 92.8	$ 90.3	$ 286.9	$ 289.7

11. Supplemental Cash Flow Information

	39 Weeks Ended	
	October 30, 2010	October 31, 2009
	(In thousands) (Unaudited)	
Cash paid during the period for:		
Interest	$ 36,225	$ 43,793
Income taxes	$ 150,912	$ 119,886
Other non-cash financing activities:		
Treasury stock repurchases settled in Nov. 2010	$ 4,180	$

12. Consolidating Financial Statements

In order to finance the EB merger, as described in Note 5, on September 28, 2005, the Company, along with GameStop, Inc. as co-issuer, completed the offering of the Notes. The direct and indirect U.S. wholly-owned subsidiaries of the Company, excluding GameStop, Inc., as co-issuer, have guaranteed the Senior Notes on a senior unsecured basis with unconditional guarantees.

The following condensed consolidating financial statements present the financial position of the Company as of October 30, 2010, October 31, 2009 and January 30, 2010 and results of operations for the 13 and 39 weeks ended October 30, 2010 and October 31, 2009 and cash flows for the 39 weeks ended October 30, 2010 and October 31, 2009 of the Company s guarantor and non-guarantor subsidiaries.

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Balance Sheet

	Issuers and Guarantor Subsidiaries October 30, 2010	Non-Guarantor Subsidiaries October 30, 2010	Eliminations	Consolidated October 30, 2010
	(Amounts in thousands, except per share amounts) (Unaudited)			
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 45,502	$ 135,560	$	$ 181,062
Receivables, net	122,486	631,221	(694,862)	58,845
Merchandise inventories, net	1,290,253	652,163		1,942,416
Deferred income taxes current	18,198	3,610		21,808
Prepaid taxes	(7,569)	19,035		11,466
Prepaid expenses	40,452	30,276		70,728
Other current assets	5,869	7,853		13,722
Total current assets	1,515,191	1,479,718	(694,862)	2,300,047
Property and equipment:				
Land	4,670	19,658		24,328
Buildings and leasehold improvements	316,723	248,220		564,943
Fixtures and equipment	630,086	155,662		785,748
Total property and equipment	951,479	423,540		1,375,019
Less accumulated depreciation and amortization	564,273	204,678		768,951
Net property and equipment	387,206	218,862		606,068
Investment	2,122,662	595,033	(2,717,695)	
Goodwill, net	1,125,109	879,527		2,004,636
Other intangible assets	12,024	251,194		263,218
Other noncurrent assets	7,024	34,072		41,096
Total noncurrent assets	3,654,025	1,978,688	(2,717,695)	2,915,018
Total assets	$ 5,169,216	$ 3,458,406	$ (3,412,557)	$ 5,215,065

LIABILITIES AND STOCKHOLDERS EQUITY:

Current liabilities:				
Accounts payable	$ 1,084,593	$ 430,034	$	$ 1,514,627
Accrued liabilities	995,084	264,061	(694,862)	564,283
Total current liabilities	2,079,677	694,095	(694,862)	2,078,910
Senior notes payable, long-term portion, net	248,903			248,903
Deferred taxes	(13,933)	31,882		17,949
Other long-term liabilities	83,958	16,136		100,094
Total long-term liabilities	318,928	48,018		366,946
Total liabilities	2,398,605	742,113	(694,862)	2,445,856
Stockholders equity:				
Preferred stock authorized 5,000 shares; no shares issued or outstanding				
Class A common stock $.001 par value; authorized 300,000 shares; 151,369 shares outstanding	151			151
Additional paid-in-capital	1,034,858	2,427,336	(2,427,336)	1,034,858
Accumulated other comprehensive income	167,624	42,888	(42,888)	167,624
Retained earnings	1,567,978	247,471	(247,471)	1,567,978
Equity attributable to GameStop Corp. stockholders	2,770,611	2,717,695	(2,717,695)	2,770,611
Equity (deficit) attributable to noncontrolling interest		(1,402)		(1,402)
Total equity	2,770,611	2,716,293	(2,717,695)	2,769,209
Total liabilities and stockholders equity	$ 5,169,216	$ 3,458,406	$ (3,412,557)	$ 5,215,065

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Balance Sheet

	Issuers and Guarantor Subsidiaries October 31, 2009	Non-Guarantor Subsidiaries October 31, 2009	Eliminations	Consolidated October 31, 2009
	(Amounts in thousands, except per share amounts) (Unaudited)			
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 151,629	$ 140,398	$	$ 292,027
Receivables, net	241,452	683,089	(871,998)	52,543
Merchandise inventories, net	1,049,944	684,018		1,733,962
Deferred income taxes current	21,645	2,858		24,503
Prepaid taxes	(3,654)	16,727		13,073
Prepaid expenses	39,866	21,648		61,514
Other current assets	1,398	15,074		16,472
Total current assets	1,502,280	1,563,812	(871,998)	2,194,094
Property and equipment:				
Land	2,670	9,149		11,819
Buildings and leasehold improvements	290,335	226,157		516,492
Fixtures and equipment	548,581	144,079		692,660
Total property and equipment	841,586	379,385		1,220,971
Less accumulated depreciation and amortization	472,216	157,060		629,276
Net property and equipment	369,370	222,325		591,695
Investment	2,032,792		(2,032,792)	
Goodwill, net	1,096,622	882,365		1,978,987
Other intangible assets	4,345	275,222		279,567
Other noncurrent assets	10,058	28,922		38,980
Total noncurrent assets	3,513,187	1,408,834	(2,032,792)	2,889,229
Total assets	$ 5,015,467	$ 2,972,646	$ (2,904,790)	$ 5,083,323

LIABILITIES AND STOCKHOLDERS EQUITY:

Current liabilities:

Accounts payable	$ 868,770	$ 459,271	$	$ 1,328,041
Accrued liabilities	1,004,792	377,502	(871,998)	510,296
Total current liabilities	1,873,562	836,773	(871,998)	1,838,337
Senior notes payable, long-term portion, net	447,121			447,121
Deferred taxes	(32,461)	39,253		6,792
Other long-term liabilities	87,822	16,513		104,335
Total long-term liabilities	502,482	55,766		558,248
Total liabilities	2,376,044	892,539	(871,998)	2,396,585
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 shares issued and outstanding	165			165
Additional paid-in-capital	1,334,481	1,757,782	(1,757,782)	1,334,481
Accumulated other comprehensive income	122,944	111,930	(64,615)	170,259
Retained earnings	1,181,833	210,395	(210,395)	1,181,833
Total equity	2,639,423	2,080,107	(2,032,792)	2,686,738
Total liabilities and stockholders equity	$ 5,015,467	$ 2,972,646	$ (2,904,790)	$ 5,083,323

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Balance Sheet

	Issuers and Guarantor Subsidiaries January 30, 2010	Non-Guarantor Subsidiaries January 30, 2010	Eliminations	Consolidated January 30, 2010
	(Amounts in thousands, except per share amounts)			
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 652,965	$ 252,453	$	$ 905,418
Receivables, net	203,122	627,889	(767,005)	64,006
Merchandise inventories, net	570,259	483,294		1,053,553
Deferred income taxes current	18,076	3,153		21,229
Prepaid expenses	37,750	21,684		59,434
Other current assets	6,007	17,657		23,664
Total current assets	1,488,179	1,406,130	(767,005)	2,127,304
Property and equipment:				
Land	2,670	8,899		11,569
Buildings and leasehold improvements	296,348	226,617		522,965
Fixtures and equipment	569,924	141,553		711,477
Total property and equipment	868,942	377,069		1,246,011
Less accumulated depreciation and amortization	498,534	163,276		661,810
Net property and equipment	370,408	213,793		584,201
Investment	2,062,823	596,289	(2,659,112)	
Goodwill, net	1,096,622	849,891		1,946,513
Other intangible assets	3,376	256,484		259,860
Other noncurrent assets	9,466	27,983		37,449
Total noncurrent assets	3,542,695	1,944,440	(2,659,112)	2,828,023
Total assets	$ 5,030,874	$ 3,350,570	$ (3,426,117)	$ 4,955,327
LIABILITIES AND STOCKHOLDERS EQUITY:				
Current liabilities:				
Accounts payable	$ 684,256	$ 277,417	$	$ 961,673

Accrued liabilities	1,039,840	359,268	(767,005)	632,103
Taxes payable	63,988	(2,088)		61,900
Total current liabilities	1,788,084	634,597	(767,005)	1,655,676
Senior notes payable, long-term portion, net	447,343			447,343
Deferred taxes	(15,432)	40,898		25,466
Other long-term liabilities	87,722	16,109		103,831
Total long-term liabilities	519,633	57,007		576,640
Total liabilities	2,307,717	691,604	(767,005)	2,232,316
Stockholders equity:				
Preferred stock authorized 5,000 shares; no shares issued or outstanding				
Class A common stock $.001 par value; authorized 300,000 shares; 158,662 shares outstanding	159			159
Additional paid-in-capital	1,210,539	2,391,781	(2,391,781)	1,210,539
Accumulated other comprehensive income (loss)	114,704	17,754	(17,754)	114,704
Retained earnings	1,397,755	249,577	(249,577)	1,397,755
Equity attributable to GameStop Corp. stockholders	2,723,157	2,659,112	(2,659,112)	2,723,157
Equity (deficit) attributable to noncontrolling interest		(146)		(146)
Total equity	2,723,157	2,658,966	(2,659,112)	2,723,011
Total liabilities and stockholders equity	$ 5,030,874	$ 3,350,570	$ (3,426,117)	$ 4,955,327

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 13 Weeks Ended October 30, 2010	Issuers and Guarantor Subsidiaries October 30, 2010	Non-Guarantor Subsidiaries October 30, 2010	Eliminations	Consolidated October 30, 2010
	(Amounts in thousands) (Unaudited)			
Sales	$ 1,300,201	$ 598,951	$	$ 1,899,152
Cost of sales	921,460	431,375		1,352,835
Gross profit	378,741	167,576		546,317
Selling, general and administrative expenses	277,773	131,081		408,854
Depreciation and amortization	29,445	15,225		44,670
Operating earnings	71,523	21,270		92,793
Interest income	(8,553)	(4,011)	12,267	(297)
Interest expense	9,709	12,524	(12,267)	9,966
Debt extinguishment expense	5,966			5,966
Earnings before income tax expense	64,401	12,757		77,158
Income tax expense	18,717	4,129		22,846
Consolidated net income	45,684	8,628		54,312
Net loss attributable to noncontrolling interests		396		396
Consolidated net income attributable to GameStop	$ 45,684	$ 9,024	$	$ 54,708

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 13 Weeks Ended October 31, 2009	Issuers and Guarantor Subsidiaries October 31, 2009	Non-Guarantor Subsidiaries October 31, 2009	Eliminations	Consolidated October 31, 2009
	(Amounts in thousands) (Unaudited)			

Sales	$ 1,200,873	$ 633,854	$	$ 1,834,727
Cost of sales	841,623	470,020		1,311,643
Gross profit	359,250	163,834		523,084
Selling, general and administrative expenses	264,599	126,611		391,210
Depreciation and amortization	25,586	16,019		41,605
Operating earnings	69,065	21,204		90,269
Interest income	(10,902)	(6,274)	16,696	(480)
Interest expense	10,630	17,012	(16,696)	10,946
Debt extinguishment expense	2,461			2,461
Earnings before income tax expense	66,876	10,466		77,342
Income tax expense	19,425	5,692		25,117
Consolidated net income	47,451	4,774		52,225
Net loss attributable to noncontrolling interests				
Consolidated net income attributable to GameStop	$ 47,451	$ 4,774	$	$ 52,225

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 39 Weeks Ended October 30, 2010	Issuers and Guarantor Subsidiaries October 30, 2010	Non-Guarantor Subsidiaries October 30, 2010	Eliminations	Consolidated October 30, 2010
		(Amounts in thousands) (Unaudited)		
Sales	$ 4,111,643	$ 1,669,299	$	$ 5,780,942
Cost of sales	2,936,398	1,210,620		4,147,018
Gross profit	1,175,245	458,679		1,633,924
Selling, general and administrative expenses	826,161	391,493		1,217,654
Depreciation and amortization	84,383	45,035		129,418
Operating earnings	264,701	22,151		286,852
Interest income	(26,336)	(11,845)	36,829	(1,352)
Interest expense	29,783	37,679	(36,829)	30,633
Debt extinguishment expense	5,966			5,966
Earnings before income tax expense	255,288	(3,683)		251,605
Income tax expense	90,813	(8,187)		82,626
Consolidated net income	164,475	4,504		168,979
Net loss attributable to noncontrolling interests		1,244		1,244
Consolidated net income attributable to GameStop	$ 164,475	$ 5,748	$	$ 170,223

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 39 Weeks Ended October 31, 2009	Issuers and Guarantor Subsidiaries October 31, 2009	Non-Guarantor Subsidiaries October 31, 2009	Eliminations	Consolidated October 31, 2009
		(Amounts in thousands) (Unaudited)		

Sales	$ 3,857,808	$ 1,696,176	$	$ 5,553,984
Cost of sales	2,741,355	1,252,026		3,993,381
Gross profit	1,116,453	444,150		1,560,603
Selling, general and administrative expenses	795,758	356,057		1,151,815
Depreciation and amortization	75,337	43,772		119,109
Operating earnings	245,358	44,321		289,679
Interest income	(33,108)	(7,433)	39,082	(1,459)
Interest expense	34,111	39,852	(39,082)	34,881
Debt extinguishment expense	5,323			5,323
Earnings before income tax expense	239,032	11,902		250,934
Income tax expense	79,354	10,237		89,591
Consolidated net income	159,678	1,665		161,343
Net loss attributable to noncontrolling interests				
Consolidated net income attributable to GameStop	$ 159,678	$ 1,665	$	$ 161,343

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Statement of Cash Flows

For the 39 Weeks Ended October 30, 2010	Issuers and Guarantor Subsidiaries October 30, 2010	Non-Guarantor Subsidiaries October 30, 2010	Eliminations	Consolidated October 30, 2010
		(Amounts in thousands) (Unaudited)		
Cash flows from operating activities:				
Consolidated net income	$ 164,475	$ 4,504	$	$ 168,979
Adjustments to reconcile net income to net cash flows used in operating activities:				
Depreciation and amortization (including amounts in cost of sales)	85,741	45,153		130,894
Amortization and retirement of deferred financing fees and issue discounts	4,289			4,289
Stock-based compensation expense	22,142			22,142
Deferred income taxes	(260)	(8,220)		(8,480)
Excess tax benefits realized from exercise of stock-based awards	(18,432)			(18,432)
Loss on disposal of property and equipment	1,952	2,500		4,452
Changes in other long-term liabilities	4,144	(7,665)		(3,521)
Changes in operating assets and liabilities, net				
Receivables, net	5,787	1,218		7,005
Merchandise inventories	(719,994)	(153,244)		(873,238)
Prepaid expenses and other current assets	(2,563)	245		(2,318)
Prepaid income taxes and accrued income taxes payable	(46,127)	(7,709)		(53,836)
Accounts payable and accrued liabilities	491,408	46,311		537,719
Net cash flows used in operating activities	(7,438)	(76,907)		(84,345)
Cash flows from investing activities:				
Purchase of property and equipment	(103,248)	(38,277)		(141,525)
Acquisitions, net of cash acquired	(38,132)			(38,132)
Other	(306)	(3,585)		(3,891)
Net cash flows used in investing activities	(141,686)	(41,862)		(183,548)
Cash flows from financing activities:				

Repurchase of notes payable	(200,000)			(200,000)
Purchase of treasury shares	(286,825)			(286,825)
Issuance of shares relating to stock options	10,054			10,054
Excess tax benefits realized from exercise of stock-based awards	18,432			18,432
Net cash flows used in financing activities	(458,339)			(458,339)
Exchange rate effect on cash and cash equivalents		1,876		1,876
Net decrease in cash and cash equivalents	(607,463)	(116,893)		(724,356)
Cash and cash equivalents at beginning of period	652,965	252,453		905,418
Cash and cash equivalents at end of period	$ 45,502	$ 135,560	$	$ 181,062

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Statement of Cash Flows

For the 39 Weeks Ended October 31, 2009	Issuers and Guarantor Subsidiaries October 31, 2009	Non-Guarantor Subsidiaries October 31, 2009	Eliminations	Consolidated October 31, 2009
	(Amounts in thousands) (Unaudited)			
Cash flows from operating activities:				
Consolidated net income	$ 159,678	$ 1,665	$	$ 161,343
Adjustments to reconcile net income to net cash flows used in operating activities:				
Depreciation and amortization (including amounts in cost of sales)	76,483	43,832		120,315
Amortization and retirement of deferred financing fees and issue discounts	4,176			4,176
Stock-based compensation expense	23,226			23,226
Deferred income taxes	(557)	(4,768)		(5,325)
Excess tax expense realized from exercise of stock-based awards	453			453
Loss on disposal of property and equipment	1,936	2,777		4,713
Changes in other long-term liabilities	8,354	(2,879)		5,475
Changes in operating assets and liabilities, net				
Receivables, net	12,947	4,065		17,012
Merchandise inventories	(412,687)	(165,601)		(578,288)
Prepaid expenses and other current assets	5,956	(5,203)		753
Prepaid income taxes and accrued income taxes payable	278	(30,437)		(30,159)
Accounts payable and accrued liabilities	83,111	118,765		201,876
Net cash flows used in operating activities	(36,646)	(37,784)		(74,430)
Cash flows from investing activities:				
Purchase of property and equipment	(88,388)	(33,734)		(122,122)
Acquisitions, net of cash acquired		(5,208)		(5,208)
Other	(213)	(13,029)		(13,242)
Net cash flows used in investing activities	(88,601)	(51,971)		(140,572)
Cash flows from financing activities:				

Repurchase of notes payable	(100,000)	(100,000)
Borrowings from the revolver	115,000	115,000
Repayments of revolver borrowings	(115,000)	(115,000)
Issuance of shares relating to stock options	4,208	4,208
Excess tax expense realized from exercise of stock-based awards	(453)	(453)
Other	(57)	