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

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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.

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GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	Class A Common Stock		Additional	Accumulated Other		
	Shares	Common Stock	Paid-in Capital	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.

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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

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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

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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 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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GAMESTOP CORP.

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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GAMESTOP CORP.

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.

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 $40 and $70 for the 13 weeks ended October 31, 2009 and November 1, 2008, respectively, and $160 and $213 for the 39 weeks ended October 31, 2009 and November 1, 2008, respectively.

Until June 2005, the Company participated in Barnes & Noble s workers compensation, property and general liability insurance programs. The costs incurred by Barnes & Noble under these programs were allocated to the Company based upon total payroll expense, property and equipment, and insurance claim history of the Company. Although the Company secured its own insurance coverage, costs will likely continue to be incurred by Barnes & Noble on

insurance claims which were incurred under its programs prior to June 2005 and any such costs applicable to insurance claims against the Company will be allocated to the Company. During the 13 weeks ended October 31, 2009 and November 1, 2008, these charges amounted to $25 and $16, respectively. During the 39 weeks ended October 31, 2009 and November 1, 2008, these charges amounted to $130 and $120, respectively.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. 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 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, a psychologist who testified at the criminal trial on behalf of the criminal defendant, who plaintiffs indicated would testify that violent video games were a substantial factor in causing the murders. This same testimony from this same expert was excluded in the criminal trial from the same judge hearing this case. The testimony of plaintiffs psychologist expert was heard by the Court on October 30, 2008, and the motion to exclude that testimony was argued on December 12, 2008.

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 Company does not believe there is sufficient information to estimate the amount of the possible loss, if any, resulting from the lawsuit if the plaintiffs appeal is successful.

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

12. Significant Product Information

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 31, 2009		November 1, 2008		October 31, 2009		November 1, 2008	
	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total
	(Unaudited)							

Sales:								
New video game hardware	$ 321.4	17.5%	$ 328.4	19.3%	$ 1,018.6	18.3%	$ 1,047.1	19.7%
New video game software	769.4	41.9%	703.3	41.5%	2,169.7	39.1%	2,201.1	41.4%
Used video game products	507.7	27.7%	425.1	25.1%	1,617.0	29.1%	1,312.4	24.7%
Other	236.2	12.9%	238.9	14.1%	748.7	13.5%	753.2	14.2%
Total	$ 1,834.7	100.0%	$ 1,695.7	100.0%	$ 5,554.0	100.0%	$ 5,313.8	100.0%

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

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	13 Weeks Ended				39 Weeks Ended			
	October 31, 2009		November 1, 2008		October 31, 2009		November 1, 2008	
	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	$ 26.8	8.3%	$ 25.4	7.7%	$ 72.6	7.1%	$ 68.4	6.5%
New video game software	173.8	22.6%	158.5	22.5%	472.8	21.8%	460.4	20.9%
Used video game products	240.0	47.3%	204.8	48.2%	760.5	47.0%	643.0	49.0%
Other	82.5	34.9%	84.7	35.5%	254.7	34.0%	259.2	34.4%
Total	$ 523.1	28.5%	$ 473.4	27.9%	$ 1,560.6	28.1%	$ 1,431.0	26.9%

13. 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 50 states, the District of Columbia, Guam and Puerto Rico, the electronic commerce Web site www.gamestop.com and *Game Informer* magazine. Segment results for Canada include retail operations in Canada and segment results for Australia include retail operations in Australia and New Zealand. Segment results for Europe include retail operations in 13 European countries. The fiscal 2009 results of the European segment include Micromania s results.

The Company measures segment profit using operating earnings before merger-related expenses, which is defined as income from continuing operations before intercompany royalty fees, net interest expense and income taxes. The basis of segmentation and the measurement of segment profit or loss have not changed since the end of fiscal 2008 and there has been no material change in total assets by segment since January 31, 2009. Transactions between reportable segments 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 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008

	(In thousands) (Unaudited)			
Sales by operating segment were as follows:				
United States	$ 1,200,873	$ 1,278,351	$ 3,857,808	$ 3,972,394
Canada	115,399	116,125	303,266	359,753
Australia	114,190	97,906	328,707	349,314
Europe	404,265	203,364	1,064,203	632,322
Total	$ 1,834,727	$ 1,695,746	$ 5,553,984	$ 5,313,783
Segment operating earnings excluding merger-related expenses were as follows:				
United States	$ 69,014	$ 86,260	$ 245,327	$ 261,428
Canada	7,801	7,377	16,004	18,849
Australia	6,629	6,898	21,056	28,445
Europe	6,825	1,405	7,292	3,190
Total	$ 90,269	$ 101,940	$ 289,679	$ 311,912

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. Supplemental Cash Flow Information

	39 Weeks Ended	
	October 31, 2009	November 1, 2008
	(In thousands) (Unaudited)	
Cash paid during the period for:		
Interest	$ 43,793	$ 43,892
Income taxes	$ 119,886	$ 143,877

15. Consolidating Financial Statements

As described in Note 7, 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 Notes on a senior unsecured basis with unconditional guarantees.

The following condensed consolidating financial statements present the financial position of the Company s guarantor and non-guarantor subsidiaries as of October 31, 2009, November 1, 2008 and January 31, 2009 and results of operations for the 13 and 39 weeks ended October 31, 2009 and November 1, 2008 and cash flows for the 39 weeks ended October 31, 2009 and November 1, 2008.

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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	835,050		1,931,672
Other intangible assets	4,345	275,222		279,567
Other noncurrent assets	10,058	28,922		38,980
Total noncurrent assets	3,513,187	1,361,519	(2,032,792)	2,841,914
Total assets	$ 5,015,467	$ 2,925,331	$ (2,904,790)	$ 5,036,008

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
Other long-term liabilities	55,361	55,766		111,127
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	64,615	(64,615)	122,944
Retained earnings	1,181,833	210,395	(210,395)	1,181,833
Total stockholders equity	2,639,423	2,032,792	(2,032,792)	2,639,423
Total liabilities and stockholders equity	$ 5,015,467	$ 2,925,331	$ (2,904,790)	$ 5,036,008

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Balance Sheet

	Issuers and Guarantor Subsidiaries November 1, 2008	Non-Guarantor Subsidiaries November 1, 2008	Eliminations	Consolidated November 1, 2008
	(Amounts in thousands, except per share amounts) (Unaudited)			
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 233,472	$ 244,584	$	$ 478,056
Receivables, net	388,226	15,186	(352,682)	50,730
Merchandise inventories, net	981,171	443,078		1,424,249
Deferred income taxes current	26,478	2,722		29,200
Prepaid taxes	72,885	(4,663)		68,222
Prepaid expenses	43,132	13,627		56,759
Other current assets	38,364	7,326		45,690
Total current assets	1,783,728	721,860	(352,682)	2,152,906
Property and equipment:				
Land	2,670	7,559		10,229
Buildings and leasehold improvements	273,320	131,340		404,660
Fixtures and equipment	486,274	104,291		590,565
Total property and equipment	762,264	243,190		1,005,454
Less accumulated depreciation and amortization	410,639	91,709		502,348
Net property and equipment	351,625	151,481		503,106
Investment	539,949		(539,949)	
Goodwill, net	1,096,621	347,161		1,443,782
Other intangible assets	9,370	4,018		13,388
Deferred taxes	7,378	21,303		28,681
Other noncurrent assets	12,020	9,818		21,838
Total noncurrent assets	2,016,963	533,781	(539,949)	2,010,795
Total assets	$ 3,800,691	$ 1,255,641	$ (892,631)	$ 4,163,701

LIABILITIES AND STOCKHOLDERS EQUITY:

Current liabilities:				
Accounts payable	$ 822,089	$ 280,550	$	$ 1,102,639
Accrued liabilities	295,161	423,668	(352,682)	366,147
Total current liabilities	1,117,250	704,218	(352,682)	1,468,786
Senior notes payable, long-term portion, net	545,462			545,462
Other liabilities	73,799	11,474		85,273
Total long-term liabilities	619,261	11,474		630,735
Total liabilities	1,736,511	715,692	(352,682)	2,099,521
Stockholders equity:				
Preferred stock authorized 5,000 shares; no shares issued or outstanding				
Class A common stock $.001 par value; authorized 300,000 shares; 163,776 shares issued and outstanding	164			164
Additional paid-in-capital	1,299,721	402,844	(402,844)	1,299,721
Accumulated other comprehensive income (loss)	(23,870)	(29,494)	29,494	(23,870)
Retained earnings	788,165	166,599	(166,599)	788,165
Total stockholders equity	2,064,180	539,949	(539,949)	2,064,180
Total liabilities and stockholders equity	$ 3,800,691	$ 1,255,641	$ (892,631)	$ 4,163,701

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Balance Sheet

	Issuers and Guarantor Subsidiaries January 31, 2009	Non-Guarantor Subsidiaries January 31, 2009	Eliminations	Consolidated January 31, 2009
	(Amounts in thousands, except per share amounts)			
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 373,178	$ 204,963	$	$ 578,141
Receivables, net	195,677	678,203	(807,899)	65,981
Merchandise inventories, net	637,257	438,535		1,075,792
Deferred income taxes current	21,088	2,527		23,615
Prepaid expenses	40,957	18,144		59,101
Other current assets	6,262	9,149		15,411
Total current assets	1,274,419	1,351,521	(807,899)	1,818,041
Property and equipment:				
Land	2,670	7,727		10,397
Buildings and leasehold improvements	281,481	173,170		454,651
Fixtures and equipment	509,585	110,260		619,845
Total property and equipment	793,736	291,157		1,084,893
Less accumulated depreciation and amortization	436,068	99,571		535,639
Net property and equipment	357,668	191,586		549,254
Investment	1,870,083		(1,870,083)	
Goodwill, net	1,096,622	765,485		1,862,107
Other intangible assets		247,790		247,790
Other noncurrent assets	5,621	29,777		35,398
Total noncurrent assets	3,329,994	1,234,638	(1,870,083)	2,694,549
Total assets	$ 4,604,413	$ 2,586,159	$ (2,677,982)	$ 4,512,590
LIABILITIES AND STOCKHOLDERS EQUITY:				
Current liabilities:				

Accounts payable	$ 736,805	$ 311,158	$	$ 1,047,963
Accrued liabilities	985,240	320,912	(807,899)	498,253
Taxes payable	2,971	13,524		16,495
Total current liabilities	1,725,016	645,594	(807,899)	1,562,711
Senior notes payable, long-term portion, net	545,712			545,712
Other long-term liabilities	34,004	70,482		104,486
Total long-term liabilities	579,716	70,482		650,198
Total liabilities	2,304,732	716,076	(807,899)	2,212,909
Stockholders equity:				
Preferred stock authorized 5,000 shares; no shares issued or outstanding				
Class A common stock $.001 par value; authorized 300,000 shares; 163,843 shares issued and outstanding	164			164
Additional paid-in-capital	1,307,453	1,699,630	(1,699,630)	1,307,453
Accumulated other comprehensive income (loss)	(28,426)	(33,800)	33,800	(28,426)
Retained earnings	1,020,490	204,253	(204,253)	1,020,490
Total stockholders equity	2,299,681	1,870,083	(1,870,083)	2,299,681
Total liabilities and stockholders equity	$ 4,604,413	$ 2,586,159	$ (2,677,982)	$ 4,512,590

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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 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
Net earnings	$ 47,451	$ 4,774	$	$ 52,225

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 13 Weeks Ended November 1, 2008	Issuers and Guarantor Subsidiaries November 1, 2008	Non-Guarantor Subsidiaries November 1, 2008	Eliminations	Consolidated November 1, 2008
		(Amounts in thousands) (Unaudited)		
Sales	$ 1,278,351	$ 417,395	$	$ 1,695,746
Cost of sales	913,079	309,238		1,222,317

Gross profit	365,272	108,157		473,429
Selling, general and administrative expenses	252,449	83,273		335,722
Depreciation and amortization	26,563	9,204		35,767
Merger-related expenses	16,605			16,605
Operating earnings	69,655	15,680		85,335
Interest income	(6,420)	(5,117)	7,865	(3,672)
Interest expense	12,072	8,272	(7,865)	12,479
Earnings before income tax expense	64,003	12,525		76,528
Income tax expense	24,640	5,219		29,859
Net earnings	$ 39,363	$ 7,306	$	$ 46,669

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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 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
Net earnings	$ 159,678	$ 1,665	$	$ 161,343

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 39 Weeks Ended November 1, 2008	Issuers and Guarantor Subsidiaries November 1, 2008	Non-Guarantor Subsidiaries November 1, 2008	Eliminations	Consolidated November 1, 2008
		(Amounts in thousands) (Unaudited)		
Sales	$ 3,972,394	$ 1,341,389	$	$ 5,313,783
Cost of sales	2,879,882	1,002,943		3,882,825

Gross profit	1,092,512	338,446		1,430,958
Selling, general and administrative expenses	752,554	259,580		1,012,134
Depreciation and amortization	78,530	28,382		106,912
Merger-related expenses	16,605			16,605
Operating earnings	244,823	50,484		295,307
Interest income	(19,294)	(18,639)	27,691	(10,242)
Interest expense	36,753	27,686	(27,691)	36,748
Debt extinguishment expense	2,331			2,331
Earnings before income tax expense	225,033	41,437		266,470
Income tax expense	83,961	16,552		100,513
Net earnings	$ 141,072	$ 24,885	$	$ 165,957

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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:				
Net earnings	$ 159,687	$ 1,656	$	$ 161,343
Adjustments to reconcile net earnings to net cash flows provided by (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	7,750	(1,226)		6,524
Change in the value of foreign exchange contracts	2,336	499		2,835
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	1,092	(614)		478
Prepaid income taxes and accrued income taxes payable	278	(30,437)		(30,159)
Accounts payable and accrued liabilities	86,775	112,073		198,848
Net cash flows used in operating activities	(36,105)	(37,744)		(73,849)
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	(754)	(13,069)		(13,823)
Net cash flows used in investing activities	(89,142)	(52,011)		(141,153)

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)			(57)
Net cash flows used in financing activities	(96,302)			(96,302)
Exchange rate effect on cash and cash equivalents		25,190		25,190
Net decrease in cash and cash equivalents	(221,549)	(64,565)		(286,114)
Cash and cash equivalents at beginning of period	373,178	204,963		578,141
Cash and cash equivalents at end of period	$ 151,629	$ 140,398	$	$ 292,027

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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 November 1, 2008	Issuers and Guarantor Subsidiaries November 1, 2008	Non-Guarantor Subsidiaries November 1, 2008	Eliminations	Consolidated November 1, 2008
		(Amounts in thousands) (Unaudited)		
Cash flows from operating activities:				
Net earnings	$ 141,072	$ 24,885	$	$ 165,957
Adjustments to reconcile net earnings to net cash flows provided by (used in) operating activities:				
Depreciation and amortization (including amounts in cost of sales)	79,477	28,436		107,913
Amortization and retirement of deferred financing fees and issue discounts	2,814			2,814
Stock-based compensation expense	28,433			28,433
Deferred income taxes	(2,324)	(5,961)		(8,285)
Excess tax benefits realized from exercise of stock-based awards	(33,925)			(33,925)
Loss on disposal of property and equipment	1,569	2,391		3,960
Changes in other long-term liabilities	8,451	2,161		10,612
Change in the value of foreign exchange contracts	(22,239)	212		(22,027)
Changes in operating assets and liabilities, net				
Receivables, net	(2,141)	4,877		2,736
Merchandise inventories	(479,311)	(209,130)		(688,441)
Prepaid expenses and other current assets	(9,017)	(5,347)		(14,364)
Prepaid income taxes and accrued income taxes payable	(29,659)	(9,700)		(39,359)
Accounts payable and accrued liabilities	(68,353)	348,744		280,391
Net cash flows provided by (used in) operating activities	(385,153)	181,568		(203,585)
Cash flows from investing activities:				
Purchase of property and equipment	(85,355)	(47,403)		(132,758)
Acquisitions, net of cash acquired		(50,800)		(50,800)
Other	1,790	639		2,429

Net cash flows used in investing activities	(83,565)	(97,564)		(181,129)
Cash flows from financing activities:				
Repurchase of notes payable	(30,000)			(30,000)
Issuance of shares relating to stock options	28,432			28,432
Excess tax benefits realized from exercise of stock-based awards	33,925			33,925
Other	(1,500)			(1,500)
Net cash flows provided by (used in) financing activities	30,857			30,857
Exchange rate effect on cash and cash equivalents		(25,501)		(25,501)
Net increase (decrease) in cash and cash equivalents	(437,861)	58,503		(379,358)
Cash and cash equivalents at beginning of period	671,333	186,081		857,414
Cash and cash equivalents at end of period	$ 233,472	$ 244,584	$	$ 478,056

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ITEM 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read in conjunction with the information contained in our consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management s plans and objectives, and any statements concerning assumptions related to the foregoing contained in Management s Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. Certain factors, which may cause actual results to vary materially from these forward-looking statements, accompany such statements or appear in GameStop s Annual Report on Form 10-K for the fiscal year ended January 31, 2009 filed with the Securities and Exchange Commission (the SEC) on April 1, 2009 (the Form 10-K), including the factors disclosed under Item 1A. Risk Factors.

General

GameStop Corp. (together with its predecessor companies, GameStop, we, our, or the Company) is the world s lar retailer of video game products and PC entertainment software. We sell new and used video game hardware, video game software and accessories, as well as PC entertainment software and related accessories and other merchandise. As of October 31, 2009, we operated 6,391 stores in the United States, Australia, Canada and Europe, primarily under the names GameStop and EB Games. We also operate an electronic commerce Web site under the name www.gamestop.com and publish *Game Informer*, the industry s largest multi-platform video game magazine in the United States based on circulation.

Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January 31. The fiscal years ending January 30, 2010 (fiscal 2009) and ended January 31, 2009 (fiscal 2008) consist of 52 weeks.

On November 17, 2008, GameStop France SAS, a wholly-owned subsidiary of the Company, completed the acquisition of substantially all of the outstanding capital stock of SFMI Micromania SAS (Micromania) for $580.4 million, net of cash acquired in the transaction (the Micromania acquisition). Micromania is a leading retailer of video and computer games in France with 361 locations, 328 of which were operating on the date of acquisition. The Company s operating results for the 13 and 39 week periods ended October 31, 2009 include Micromania s results, whereas the operating results of the comparable periods of fiscal 2008 exclude Micromania s results.

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

Critical Accounting Policies

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and do not include all disclosures required under GAAP for complete financial statements. Preparation of these statements requires management to make judgments and estimates. Some accounting policies have a significant impact on amounts reported in these financial statements. For a summary of significant accounting policies and the means by which we develop estimates thereon, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Annual Report on Form 10-K.

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Consolidated Results of Operations

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

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Statement of Operations Data:				
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	71.5	72.1	71.9	73.1
Gross profit	28.5	27.9	28.1	26.9
Selling, general and administrative expenses	21.3	19.8	20.7	19.0
Depreciation and amortization	2.3	2.1	2.2	2.0
Merger-related expenses		1.0		0.3
Operating earnings	4.9	5.0	5.2	5.6
Interest expense, net	0.6	0.5	0.6	0.5
Debt extinguishment expense	0.1		0.1	0.1
Earnings before income tax expense	4.2	4.5	4.5	5.0
Income tax expense	1.4	1.7	1.6	1.9
Net earnings	2.8%	2.8%	2.9%	3.1%

The Company continually reviews the financial performance of its stores and seeks to increase profitability by relocating or closing selected stores. During the 39 weeks ended October 31, 2009, the Company closed 126 stores, 28 of which were in the third quarter. The store closings included many locations in which we operated a GameStop store and a former EB Games store in very close proximity and the determination was made to close one of the locations upon the expiration of the store lease.

The Company includes purchasing, receiving and distribution costs in selling, general and administrative expenses, rather than cost of goods sold, in the statement of operations. For the 13 weeks ended October 31, 2009 and November 1, 2008, these purchasing, receiving and distribution costs amounted to $15.6 million and $12.6 million, respectively. For the 39 weeks ended October 31, 2009 and November 1, 2008, these purchasing, receiving and distribution costs amounted to $45.2 million and $38.5 million, respectively. The Company includes processing fees associated with purchases made by check and credit cards in cost of sales, rather than selling, general and administrative expenses, in the statement of operations. For the 13 weeks ended October 31, 2009 and November 1, 2008, these processing fees amounted to $12.1 million and $12.5 million, respectively. For the 39 weeks ended October 31, 2009 and November 1, 2008, these processing fees amounted to $36.7 million and $39.1 million, respectively. As a result of these classifications, our gross margins are not comparable to those retailers that include purchasing, receiving and distribution costs in cost of sales and include processing fees associated with purchases made by check and credit cards in selling, general and administrative expenses. The reclassifications had a net effect of 0.2% of sales or less for all periods presented herein.

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

	13 Weeks Ended				39 Weeks Ended			
	October 31, 2009		November 1, 2008		October 31, 2009		November 1, 2008	
	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total
	(Unaudited)							
Sales:								
New video game hardware	$ 321.4	17.5%	$ 328.4	19.3%	$ 1,018.6	18.3%	$ 1,047.1	19.7%
New video game software	769.4	41.9%	703.3	41.5%	2,169.7	39.1%	2,201.1	41.4%
Used video game products	507.7	27.7%	425.1	25.1%	1,617.0	29.1%	1,312.4	24.7%
Other	236.2	12.9%	238.9	14.1%	748.7	13.5%	753.2	14.2%
Total	$ 1,834.7	100.0%	$ 1,695.7	100.0%	$ 5,554.0	100.0%	$ 5,313.8	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 31, 2009		November 1, 2008		October 31, 2009		November 1, 2008	
	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	$ 26.8	8.3%	$ 25.4	7.7%	$ 72.6	7.1%	$ 68.4	6.5%
New video game software	173.8	22.6%	158.5	22.5%	472.8	21.8%	460.4	20.9%
Used video game products	240.0	47.3%	204.8	48.2%	760.5	47.0%	643.0	49.0%
Other	82.5	34.9%	84.7	35.5%	254.7	34.0%	259.2	34.4%

Total	$ 523.1	28.5%	$ 473.4	27.9%	$ 1,560.6	28.1%	$ 1,431.0	26.9%

13 weeks ended October 31, 2009 compared with the 13 weeks ended November 1, 2008

Sales increased by $139.0 million, or 8.2%, from $1,695.7 million in the 13 weeks ended November 1, 2008 to $1,834.7 million in the 13 weeks ended October 31, 2009. The increase in sales was primarily attributable to the addition of non-comparable store sales from the 616 stores opened since August 2, 2008 combined with the additional sales from the Micromania acquisition for an approximate total of $250.7 million and increases related to changes in foreign exchange rates of $18.3 million. These increases were partially offset by the comparable store sales decrease of 7.8% for the third quarter of fiscal 2009. Stores are included in our comparable store sales base beginning in the thirteenth month of operation and exclude the effect of changes in foreign exchange rates. The decrease in comparable store sales was due primarily to a slow-down in hardware unit sell-through and the decrease in average selling prices of hardware units, as well as a decrease in consumer traffic as a result of the macroeconomic weakness during the third quarter of fiscal 2009.

New video game hardware sales decreased $7.0 million, or 2.1%, from $328.4 million in the 13 weeks ended November 1, 2008 to $321.4 million in the 13 weeks ended October 31, 2009, primarily due to the factors discussed above, offset by increases related to new and acquired stores. New video game software sales increased $66.1 million, or 9.4%, from $703.3 million in the 13 weeks ended November 1, 2008 to $769.4 million in the 13 weeks ended October 31, 2009, primarily due to increases related to new and acquired stores. Used video game product sales increased $82.6 million, or 19.4%, from $425.1 million in the 13 weeks ended November 1, 2008 to $507.7 million in the 13 weeks ended October 31, 2009. Used video game product sales increased due to an increase in store count and an increase in the availability of hardware and software associated with the current generation

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hardware platforms as those platforms age and expand. Sales of other product categories declined by 1.1%, or $2.7 million, from the 13 weeks ended November 1, 2008 to the 13 weeks ended October 31, 2009.

As a percentage of sales, new video game hardware and the other product category decreased and new video game software and used video game products increased in the 13 weeks ended October 31, 2009 compared to the 13 weeks ended November 1, 2008. This was primarily due to a slow-down in hardware unit sell-through, as well as increased used video game product sales as this business continues to expand, particularly internationally.

Cost of sales increased by $89.3 million, or 7.3%, from $1,222.3 million in the 13 weeks ended November 1, 2008 to $1,311.6 million in the 13 weeks ended October 31, 2009 as a result of the increase in sales and the changes in gross profit discussed below.

Gross profit increased by $49.7 million, or 10.5%, from $473.4 million in the 13 weeks ended November 1, 2008 to $523.1 million in the 13 weeks ended October 31, 2009. Gross profit as a percentage of sales increased from 27.9% in the 13 weeks ended November 1, 2008 to 28.5% in the 13 weeks ended October 31, 2009. The gross profit percentage increase was caused primarily by the increase in higher margin used video game product sales and new video game software as a percentage of total sales in the third quarter of fiscal 2009 and the decrease in sales from new video game hardware as a percentage of total sales. Gross profit as a percentage of sales on new video game hardware increased from 7.7% in the prior year quarter to 8.3% of sales this quarter, primarily due to an increase in sales of product replacement plans during the third quarter of fiscal 2009. Gross profit as a percentage of sales on new video game software had no significant change from the same period in the prior fiscal year. Gross profit as a percentage of sales on used video game products decreased from 48.2% in the 13 weeks ended November 1, 2008 to 47.3% in the 13 weeks ended October 31, 2009, primarily due to increased sales of used products in the international segments as a percentage of total sales. International used product sales have a lower margin due to the immaturity of the used business model in those segments.

Selling, general and administrative expenses increased by $55.5 million, or 16.5%, from $335.7 million in the 13 weeks ended November 1, 2008 to $391.2 million in the 13 weeks ended October 31, 2009. This increase was primarily attributable to the increase in the number of stores in operation and the related increases in store, distribution and corporate office operating expenses. Selling, general and administrative expenses as a percent of sales increased from 19.8% in the 13 weeks ended November 1, 2008 to 21.3% in the 13 weeks ended October 31, 2009. The increase in the selling, general and administrative expenses as a percentage of sales was primarily due to deleveraging of fixed costs as a result of the decrease in comparable store sales in the third quarter of fiscal 2009. Included in selling, general and administrative expenses is $8.0 million and $8.4 million in stock-based compensation expense for the 13 weeks ended October 31, 2009 and November 1, 2008, respectively.

Depreciation and amortization expense increased $5.8 million from $35.8 million in the 13 weeks ended November 1, 2008 to $41.6 million in the 13 weeks ended October 31, 2009. This increase was primarily due to the acquisition of Micromania, capital expenditures associated with the opening of 86 new stores during the third quarter of fiscal 2009 and investments in management information systems.

The Company s results of operations for the 13 weeks ended November 1, 2008 include $16.6 million in expenses associated with the Micromania acquisition on November 17, 2008. The merger-related expenses consisted of losses associated with the change in foreign exchange rates related to the funding of the Micromania acquisition.

Interest income resulting from the investment of excess cash balances decreased from $3.7 million in the 13 weeks ended November 1, 2008 to $0.5 million in the 13 weeks ended October 31, 2009 due primarily to lower invested cash balances and lower interest rates. Interest expense decreased from $12.5 million in the 13 weeks ended November 1, 2008 to $10.9 million in the 13 weeks ended October 31, 2009, primarily due to the retirement of $100.0 million of

the Company s senior notes since November 1, 2008. Debt extinguishment expense of $2.5 million was recognized in the 13 weeks ended October 31, 2009 as a result of premiums paid related to debt retirement and the recognition of deferred financing fees and unamortized original issue discount.

Income tax expense for the 13 weeks ended November 1, 2008 and the 13 weeks ended October 31, 2009 was based upon management s estimate of the Company s annualized effective tax rate. Income tax expense was $29.9 million, or 39.0%, of earnings before income tax expense for the 13 weeks ended November 1, 2008

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compared to $25.1 million, or 32.5% for the 13 weeks ended October 31, 2009. The decrease in the effective income tax rate in the 13 weeks ended October 31, 2009 was due to variability in the accounting related to the Company s uncertain tax positions.

The factors described above led to an increase in operating earnings of $5.0 million, or 5.9%, from $85.3 million in the 13 weeks ended November 1, 2008 to $90.3 million in the 13 weeks ended October 31, 2009, and an increase in net earnings of $5.5 million, or 11.8%, from $46.7 million in the 13 weeks ended November 1, 2008 to $52.2 million in the 13 weeks ended October 31, 2009.

39 weeks ended October 31, 2009 compared with the 39 weeks ended November 1, 2008

Sales increased by $240.2 million, or 4.5%, from $5,313.8 million in the 39 weeks ended November 1, 2008 to $5,554.0 million in the 39 weeks ended October 31, 2009. The increase in sales was attributable to the addition of non-comparable store sales from the 951 stores opened since February 2, 2008, combined with additional sales from the Micromania acquisition for an approximate total of $736.2 million, offset by a decrease in comparable store sales of 7.8% and decreases related to changes in foreign exchange rates of $129.2 million for the 39-week period ended October 31, 2009 when compared to the 39-week period ended November 1, 2008. The decrease in comparable store sales was due primarily to weaker new title releases in fiscal 2009 when compared to fiscal 2008, which included several strong video game titles, as well as weak consumer traffic worldwide and a slow-down in hardware unit sell-through.

New video game hardware sales decreased $28.5 million, or 2.7%, from $1,047.1 million in the 39 weeks ended November 1, 2008 to $1,018.6 million in the 39 weeks ended October 31, 2009, primarily due to a decrease in consumer traffic as a result of the continued macroeconomic weakness, partially offset by the additional sales at the new stores added since last year through growth and acquisition. New video game software sales decreased $31.4 million, or 1.4%, from $2,201.1 million in the 39 weeks ended November 1, 2008 to $2,169.7 million in the 39 weeks ended October 31, 2009, primarily due to a decrease in consumer traffic and a lack of new video game titles released in fiscal 2009, compared to fiscal 2008, offset by sales from new and acquired stores added since last year. Used video game product sales increased $304.6 million, or 23.2%, from $1,312.4 million in the 39 weeks ended November 1, 2008 to $1,617.0 million in the 39 weeks ended October 31, 2009. Used video game product sales increased due to the additional sales at new stores added since last year through growth and acquisition, as well as an increase in the availability of hardware and software associated with the current generation hardware platforms as those platforms age and expand. Sales of other product categories declined slightly by 0.6%, or $4.5 million, from the 39 weeks ended November 1, 2008 to the 39 weeks ended October 31, 2009.

As a percentage of sales, used video game products increased and new video game hardware, new video game software and other product sales decreased in the 39 weeks ended October 31, 2009 compared to the 39 weeks ended November 1, 2008. This was primarily due to a decrease in sales of new video game software due to a lack of new software titles released in fiscal 2009 when compared to fiscal 2008, a slow-down in hardware unit sell-through, as well as an increase in sales of used video game products as this business continues to expand, particularly internationally.

Cost of sales increased by $110.6 million, or 2.8%, from $3,882.8 million in the 39 weeks ended November 1, 2008 to $3,993.4 million in the 39 weeks ended October 31, 2009 primarily as a result of the increase in sales and the changes in gross profit discussed below.

Gross profit increased by $129.6 million, or 9.1%, from $1,431.0 million in the 39 weeks ended November 1, 2008 to $1,560.6 million in the 39 weeks ended October 31, 2009. Gross profit as a percentage of sales increased from 26.9% in the 39 weeks ended November 1, 2008 to 28.1% in the 39 weeks ended October 31, 2009. The gross profit

percentage increase was caused primarily by the increase in higher margin used video game product sales as a percentage of total sales in the 39 weeks ended October 31, 2009 when compared to the 39 weeks ended November 1, 2008. Gross profit as a percentage of sales on new video game hardware increased from 6.5% of sales for the 39 weeks ended November 1, 2008 to 7.1% for the 39 weeks ended October 31, 2009, primarily due to an increase in sales of product replacement plans during fiscal 2009. Gross profit as a percentage of sales on new video game software increased from 20.9% for the 39 weeks ended November 1, 2008 to 21.8% for the 39 weeks ended October 31, 2009, primarily due to the mix of software sales and margin in the various countries in which we

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operate. Gross profit as a percentage of sales on used video game products decreased from 49.0% for the 39 weeks ended November 1, 2008 to 47.0% for the 39 weeks ended October 31, 2009, primarily due to increased sales of used products in the international segments as a percentage of total sales. International used product sales have a lower margin due to the immaturity of the used business model in those segments. Gross profit as a percentage of sales on the other product sales category decreased slightly in fiscal 2009 when compared to fiscal 2008.

Selling, general and administrative expenses increased by $139.7 million, or 13.8%, from $1,012.1 million in the 39 weeks ended November 1, 2008 to $1,151.8 million in the 39 weeks ended October 31, 2009. This increase was primarily attributable to the increase in the number of stores in operation and related increases in store, distribution and corporate office operating expenses during fiscal 2009. Selling, general and administrative expenses as a percentage of sales increased from 19.0% in the 39 weeks ended November 1, 2008 to 20.7% in the 39 weeks ended October 31, 2009. The increase in selling, general and administrative expenses as a percentage of sales was primarily due to deleveraging of fixed costs as a result of the decrease in comparable store sales in fiscal 2009. Selling, general and administrative expenses include $23.2 million and $28.4 million in stock-based compensation expense for the 39 weeks ended October 31, 2009 and November 1, 2008, respectively.

Depreciation and amortization expense increased $12.2 million from $106.9 million for the 39 weeks ended November 1, 2008 to $119.1 million in the 39 weeks ended October 31, 2009. This increase was primarily due to the acquisition of Micromania, capital expenditures associated with the opening of 310 new stores during the 39 weeks ended October 31, 2009 and investments in management information systems.

As discussed previously, the Company s results of operations for the 39 weeks ended November 1, 2008 include $16.6 million in merger-related expenses associated with the acquisition of Micromania.

Interest income resulting from the investment of excess cash balances decreased from $10.2 million in the 39 weeks ended November 1, 2008 to $1.5 million in the 39 weeks ended October 31, 2009, due primarily to lower invested cash balances and lower interest rates during fiscal 2009. Interest expense decreased from $36.7 million in the 39 weeks ended November 1, 2008 to $34.9 million in the 39 weeks ended October 31, 2009, primarily due to the retirement of $100.0 million of the Company s senior notes since November 1, 2008 offset by short term borrowings on the revolver. Debt extinguishment expense of $5.3 million and $2.3 million was recognized in the 39 weeks ended October 31, 2009 and November 1, 2008, respectively, as a result of premiums paid related to debt retirement and the recognition of deferred financing fees and unamortized original issue discount.

Income tax expense for the 39 weeks ended November 1, 2008 and the 39 weeks ended October 31, 2009 was based upon management s estimate of the Company s annualized effective tax rate. Income tax expense was $100.5 million for the 39 weeks ended November 1, 2008 compared to $89.6 million for the 39 weeks ended October 31, 2009.

The factors described above led to a decrease in operating earnings of $5.6 million, or 1.9%, from $295.3 million in the 39 weeks ended November 1, 2008 to $289.7 million in the 39 weeks ended October 31, 2009, and a decrease in net earnings of $4.7 million, or 2.8%, from $166.0 million in the 39 weeks ended November 1, 2008 to $161.3 million in the 39 weeks ended October 31, 2009.

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Segment Performance

The Company operates its business in the following segments: United States, Australia, Canada and Europe. The following tables provide a summary of our sales and operating earnings by reportable segment and do not include merger-related expenses:

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
	(In millions) (Unaudited)			
Sales by operating segment are as follows:				
United States	$ 1,200.9	$ 1,278.4	$ 3,857.8	$ 3,972.4
Canada	115.4	116.1	303.3	359.8
Australia	114.2	97.9	328.7	349.3
Europe	404.2	203.3	1,064.2	632.3
Total	$ 1,834.7	$ 1,695.7	$ 5,554.0	$ 5,313.8
Operating earnings by operating segment excluding merger-related expenses are as follows:				
United States	$ 69.0	$ 86.2	$ 245.3	$ 261.4
Canada	7.8	7.4	16.0	18.9
Australia	6.6	6.9	21.1	28.4
Europe	6.9	1.4	7.3	3.2
Total	$ 90.3	$ 101.9	$ 289.7	$ 311.9

United States

Segment results for the United States include retail operations in 50 states, the District of Columbia, Guam and Puerto Rico, the electronic commerce Web site www.gamestop.com and *Game Informer* magazine. As of October 31, 2009, the United States segment included 4,403 GameStop stores, compared to 4,264 stores on November 1, 2008. Sales for the 13 and 39 weeks ended October 31, 2009 decreased 6.1% and 2.9%, respectively, compared to the 13 and 39 weeks ended November 1, 2008 as a result of decreased sales at existing stores offset by the opening of 333 stores since August 2, 2008 and 487 stores since February 2, 2008, including 48 and 172 stores in the 13 and 39 weeks ended October 31, 2009, respectively. Sales at existing stores decreased partially due to a decrease in consumer traffic as a result of the continued macroeconomic weakness and a slow-down in hardware unit sales, offset by an increase in used video game product sales due to an increase in the availability of hardware and software associated with the current generation hardware platforms as those platforms age and expand. Segment operating income for the 13 and 39 weeks ended October 31, 2009 decreased by 20.0% and 6.2%, respectively, compared to the 13 and 39 weeks ended November 1, 2008 due to the impact of lower revenues and the deleveraging of selling, general and administrative expenses for fiscal 2009.

Canada

As of October 31, 2009, the Canadian segment had 340 stores compared to 318 stores as of November 1, 2008. Sales in the Canadian segment in the 13 and 39 weeks ended October 31, 2009 decreased 0.6% and 15.7%, respectively, compared to the 13 and 39 weeks ended November 1, 2008. The decrease in sales was primarily attributable to decreased sales at existing stores offset by the additional sales at the 24 and 53 stores opened since August 2, 2008 and February 2, 2008, respectively. The decrease in sales at existing stores was primarily due to weak consumer traffic and a slow-down in hardware unit sell-through. Segment operating income for the 13 weeks ended October 31, 2009 increased by 5.4% compared to the 13 weeks ended November 1, 2008, primarily due to the increase in higher margin used video game product sales as a percentage of total sales for the 13 weeks ended October 31, 2009 when compared to the prior year, offset by decreases in sales discussed above and the related

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margins. Segment operating income for the 39 weeks ended October 31, 2009 decreased by 15.3% compared to the 39 weeks ended November 1, 2008 primarily due to decreases in sales as discussed above, as well as the unfavorable impact of changes in exchange rates which had the effect of decreasing operating earnings by $1.5 million for the 39 weeks ended October 31, 2009 when compared to the prior year.

Australia

Segment results for Australia include retail operations in Australia and New Zealand. As of October 31, 2009, the Australian segment included 379 stores, compared to 337 at November 1, 2008. Sales for the 13 weeks ended October 31, 2009 increased by 16.6% when compared to the 13 weeks ended November 1, 2008, and decreased 5.9% in the 39 weeks ended October 31, 2009 when compared to the 39 weeks ended November 1, 2008. The increase in sales for the 13 weeks ended October 31, 2009 was primarily due to additional sales at the 65 stores opened since August 2, 2008 and the favorable impact of changes in exchange rates, which had the effect of increasing sales by $10.6 million for the 13 weeks ended October 31, 2009 when compared to the prior year. The decrease in sales for the 39 weeks ended October 31, 2009 was primarily due to the unfavorable impact of changes in exchange rates, which had the effect of decreasing sales by $47.4 million for the 39 weeks ended October 31, 2009 when compared to the prior year, offset by the additional sales at the 102 stores opened since February 2, 2008. Segment operating income in the 13 and 39 weeks ended October 31, 2009 decreased by 4.3% and 25.7%, respectively, when compared to the 13 and 39 weeks ended November 1, 2008. The decrease in operating income in the 13 weeks ended October 31, 2009 was primarily due to the lower gross margin percentage as a result of the costs of promotional programs conducted during the quarter and higher selling, general and administrative expenses associated with the increase in the number of stores in operation, offset by the favorable impact of changes in foreign currency exchange rates of $0.8 million. The decrease in operating earnings for the 39 weeks ended October 31, 2009 was due to the decrease in sales at existing stores and the increase in selling, general and administrative expenses associated with the increase in the number of stores in operation, as well as the unfavorable impact of changes in exchange rates which had the effect of decreasing operating earnings by $2.9 million for the 39-week period ended October 31, 2009 when compared to the prior year.

Europe

Segment results for Europe include retail operations in 13 European countries. As of October 31, 2009, the European segment operated 1,269 stores compared to 815 stores as of November 1, 2008. For the 13 and 39 weeks ended October 31, 2009, European sales increased 98.8% and 68.3%, respectively, compared to the 13 and 39 weeks ended November 1, 2008. The increase in sales was primarily due to the additional sales at the 555 and 670 stores opened since August 2, 2008 and February 2, 2008, respectively, including 328 stores from the Micromania acquisition. Also contributing to the increase in sales for the 13 weeks ended October 31, 2009 was the favorable impact of changes in exchange rates recognized in the 13 weeks ended October 31, 2009 compared to the prior year period, which had the effect of increasing sales by $7.0 million. The increase in sales for the 39 weeks ended October 31, 2009 was due to the additional sales at the new and acquired stores discussed above, offset by the unfavorable exchange rates recognized in the 39 weeks ended October 31, 2009 compared to the prior year period, which had the effect of decreasing sales by $58.1 million, as well as a decrease in sales at existing stores. The decrease in sales at existing stores was primarily driven by weak consumer traffic due to continued macroeconomic weakness, a slow-down in hardware unit sell-through and a lack of new video game title releases in fiscal 2009.

The segment operating income in Europe for the 13 and 39 weeks ended October 31, 2009 increased to $6.9 million and $7.3 million, respectively, compared to the 13 and 39 weeks ended November 1, 2008 of $1.4 million and $3.2 million, respectively. The increase in operating earnings was primarily driven by the operating results contributed by Micromania. In addition, for the 13 and 39 weeks ended October 31, 2009, changes in exchange rates when compared to the prior year had the effect of increasing operating earnings by $0.7 million and $2.4 million,

respectively.

Seasonality

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

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Liquidity and Capital Resources

Cash Flows

During the 39 weeks ended October 31, 2009, cash used in operations was $73.8 million, compared to cash used in operations of $203.6 million during the 39 weeks ended November 1, 2008. The decrease in cash used in operations of $129.8 million from the 39 weeks ended November 1, 2008 to the 39 weeks ended October 31, 2009 was primarily due to a decrease in cash used for working capital purposes of $67.0 million, primarily driven by the decrease in inventory net of the decrease in accounts payable and accrued liabilities. This decrease in cash used was a result of decreased purchases in fiscal 2009 compared to fiscal 2008, primarily due to a decrease in hardware sales as a result of the continued macroeconomic weakness and the lack of new titles available this year. Inventory turnover also decreased in fiscal 2009 compared to fiscal 2008, primarily due to the growth in the international segments which have lower inventory turns compared to the United States segment due to their lower overall store count and multiple warehouse facilities. In addition, net cash flows used in operations decreased due to an increase in cash provided by net earnings, including the non-cash adjustments to net earnings of $28.4 million and an increase in the operating activities adjustment related to the excess tax benefits realized from the exercise of stock-based awards of $34.4 million.

Cash used in investing activities was $141.2 million and $181.1 million during the 39 weeks ended October 31, 2009 and November 1, 2008, respectively. During the 39 weeks ended October 31, 2009, $122.1 million and $13.8 million of cash was used primarily to open new stores in the U.S. and internationally and to invest in information systems. In addition, during the 39 weeks ended October 31, 2009, the Company used $5.2 million for acquisitions, primarily related to the purchase of an increased ownership interest in GameStop Group Limited. During the 39 weeks ended November 1, 2008, $132.8 million of cash was used primarily to open new stores in the U.S. and internationally and to invest in information systems. In addition, the Company used $50.8 million, net of cash acquired, to acquire Free Record Shop Norway AS, a Norwegian private limited liability company (FRS), The Gamesman Limited and an increased ownership interest in GameStop Group Limited.

Cash used in financing activities was $96.3 million for the 39 weeks ended October 31, 2009 and cash provided by financing activities for the 39 weeks ended November 1, 2008 was $30.9 million. The cash used in financing activities for the 39 weeks ended October 31, 2009 was primarily due to the repurchase of $100.0 million of principal value of the Company s senior notes. The cash provided by financing activities for the 39 weeks ended November 1, 2008 was primarily due to the issuance of shares relating to stock option exercises of $28.4 million and $33.9 million for the realization of tax benefits relating to the stock option exercises and vested restricted stock, respectively, offset by the repurchase of $30.0 million of principal value of the Company s senior notes.

Sources of Liquidity

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

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

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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 million under the Revolver. As of October 31, 2009, there were no borrowings outstanding under the Revolver and letters of credit outstanding totaled $8.5 million.

In September 2007, the Company s Luxembourg subsidiary entered into a discretionary $20 million Uncommitted Line of Credit (the Line of Credit) with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit will be made available to the Company s foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of October 31, 2009, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled $5.9 million.

In September 2005, the Company, along with GameStop, Inc. as co-issuer (together with the Company, the Issuers), completed the offering of $650 million 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 $8.5 million. The discount is being amortized using the effective interest method. As of October 31, 2009, the unamortized original issue discount was $2.9 million. The Issuers pay interest on the 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 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.

Uses of Capital

Our future capital requirements will depend on the number of new stores opened and the timing of those openings within a given fiscal year. The Company opened 310 stores in the 39 weeks ended October 31, 2009 and expects to open approximately 400 stores in total during fiscal 2009. Capital expenditures for fiscal 2009 are

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projected to be approximately $175 million, which will be used primarily to fund new store openings and invest in distribution and information systems in support of operations.

Between May 2006 and August 2007, the Company repurchased $70 million 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 million 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 million of the Notes pursuant to this authorization. The associated loss on retirement of debt was $2.3 million, 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 million of the Notes pursuant to this authorization. The associated loss on retirement of debt was $5.3 million, 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 million of outstanding Notes.

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

In 2003, the Company purchased a 51% controlling interest in GameStop Group Limited which operates stores in Ireland and the United Kingdom. Under the terms of the purchase agreement, the minority interest owners 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 minority interest owners exercised their right to sell one-third of their shares, or approximately 16% of GameStop Group Limited, to the Company under the terms of the original purchase agreement for $27.4 million. In July 2009, an additional 16% was purchased for $4.7 million, bringing the Company s total interest in GameStop Group Limited to approximately 84%.

On November 17, 2008, GameStop France SAS, a wholly owned subsidiary of GameStop, completed the acquisition of substantially all of the outstanding capital stock of SFMI Micromania from L Capital, LV Capital, Europ@web and other shareholders of Micromania for approximately $580.4 million, net of cash acquired. Micromania is a leading retailer of video and computer games in France with 361 locations as of October 31, 2009. The Company funded the transaction with cash on hand, a draw on the Revolver totaling $275.0 million, and a $150.0 million junior term loan facility (the Term Loans). As of January 31, 2009, the Revolver and the Term Loans were repaid in full.

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

Recent Accounting Policies

In May 2009, the Financial Accounting Standards Board (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.

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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 our Company for the period ended August 1, 2009 and has been reflected in Note 4 of our Notes to Condensed Consolidated Financial Statements.

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.

Disclosure Regarding Forward-looking Statements

This report on Form 10-Q and other oral and written statements made by the Company to the public contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The forward-looking statements involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to:

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

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

the competitive environment in the electronic game industry;

our ability to open and operate new stores;

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alternate sources of distribution of video game software;

our ability to attract and retain qualified personnel;

the impact and costs of litigation and regulatory compliance;

unanticipated litigation results;

the risks involved with our international operations; and

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

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

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

ITEM 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Interest Rate Exposure

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

Foreign Currency Risk

The Company uses forward exchange contracts, foreign currency options and cross-currency swaps (together, the Foreign Currency Contracts) to manage currency risk primarily related to intercompany loans denominated in non-functional currencies and certain foreign currency assets and liabilities. The Foreign Currency Contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the re-measurement of related intercompany loans and foreign currency assets and liabilities. For the 13 and 39 week periods ended October 31, 2009, the Company recognized a $2.2 million and $15.0 million loss, respectively, in selling, general and administrative expenses related to the trading of derivative instruments. The aggregate fair value of the Foreign Currency Contracts as of October 31, 2009 was a liability of $15.8 million as measured by observable inputs obtained from market news reporting services, such as Bloomberg and The Wall Street Journal, and industry-standard models that consider various assumptions, including quoted

forward prices, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures. A hypothetical strengthening or weakening of 10% in the foreign exchange rates underlying the Foreign Currency Contracts from the market rate as of October 31, 2009 would result in a (loss) or gain in value of the forwards, options and swaps of ($26.3 million) or $26.3 million, respectively.

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

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

ITEM 4. ***Controls and Procedures***

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control Over Financial Reporting

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

PART II OTHER INFORMATION

ITEM 1. ***Legal Proceedings***

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

Plaintiffs counsel named an expert, a psychologist who testified at the criminal trial on behalf of the criminal defendant, who plaintiffs indicated would testify that violent video games were a substantial factor in causing the murders. This same testimony from this same expert was excluded in the criminal trial from the same judge hearing this case. The testimony of plaintiffs psychologist expert was heard by the Court on October 30, 2008, and the motion to exclude that testimony was argued on December 12, 2008.

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 Company does not believe there is sufficient information to estimate the amount of the possible loss, if any, resulting from the lawsuit if the plaintiffs appeal is successful.

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

There have been no other material developments in previously reported legal proceedings during the fiscal quarter covered by this Form 10-Q.

ITEM 1A. ***Risk Factors***

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Item 1A. Risk Factors in our Form 10-K for the fiscal year ended January 31, 2009 filed with the SEC on April 1, 2009. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K have not changed materially, however, they are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

ITEM 6. ***Exhibits***

Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of April 17, 2005, among GameStop Corp. (f/k/a GSC Holdings Corp.), Electronics Boutique Holdings Corp., GameStop, Inc., GameStop Holdings Corp. (f/k/a GameStop Corp.), Cowboy Subsidiary LLC and Eagle Subsidiary LLC.(1)
2.2	Sale and Purchase Agreement, dated September 30, 2008, between EB International Holdings, Inc. and L Capital, LV Capital, Europ@Web and other Micromania shareholders.(2)
2.3	Amendment, dated November 17, 2008, to Sale and Purchase Agreement for Micromania Acquisition listed as Exhibit 2.2 above.(3)
3.1	Second Amended and Restated Certificate of Incorporation.(4)
3.2	Amended and Restated Bylaws.(5)
4.1	Indenture, dated September 28, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), GameStop, Inc., the subsidiary guarantors party thereto, and Citibank N.A., as trustee.(6)
4.2	First Supplemental Indenture, dated October 8, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), GameStop, Inc., the subsidiary guarantors party thereto, and Citibank N.A., as trustee.(7)
4.3	Rights Agreement, dated as of June 27, 2005, between GameStop Corp. (f/k/a GSC Holdings Corp.) and The Bank of New York, as Rights Agent.(5)
4.4	Form of Indenture.(8)
10.1	Insurance Agreement, dated as of January 1, 2002, between Barnes & Noble, Inc. and GameStop Holdings Corp. (f/k/a GameStop Corp.).(9)
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10.3	Fourth Amended and Restated 2001 Incentive Plan.(17)
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10.5	Form of Option Agreement.(12)
10.6	Form of Restricted Share Agreement.(13)

10.7	Credit Agreement, dated as of October 11, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A. and the other lending institutions listed in the Agreement, Bank of America, N.A. and Citicorp North America, Inc., as Issuing Banks, Bank of America, N.A., as Administrative Agent and Collateral Agent, Citicorp North America, Inc., as Syndication Agent, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Documentation Agent.(14)

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10.8	Guaranty, dated as of October 11, 2005, by GameStop Corp. (f/k/a GSC Holdings Corp.) and certain subsidiaries of GameStop Corp. in favor of the agents and lenders.(14)
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10.10	Patent and Trademark Security Agreement, dated as of October 11, 2005 by GameStop Corp. (f/k/a GSC Holdings Corp.) and certain subsidiaries of GameStop Corp. in favor of Bank of America, N.A., as Collateral Agent.(14)
10.11	Mortgage, Security Agreement, and Assignment and Deeds of Trust, dated October 11, 2005, between GameStop of Texas, L.P. and Bank of America, N.A., as Collateral Agent.(14)
10.12	Mortgage, Security Agreement, and Assignment and Deeds of Trust, dated October 11, 2005, between Electronics Boutique of America, Inc. and Bank of America, N.A., as Collateral Agent.(14)
10.13	Form of Securities Collateral Pledge Agreement, dated as of October 11, 2005.(14)
10.14	First Amendment, dated April 25, 2007, to Credit Agreement, dated as of October 11, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A. and the other lending institutions listed in the Amendment, Bank of America, N.A. and Citicorp North America, Inc., as Issuing Banks, Bank of America, N.A., as Administrative Agent and Collateral Agent, Citicorp North America, Inc., as Syndication Agent, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Documentation Agent.(15)
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10.16	Term Loan Agreement, dated November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender, Bank of America, N.A., as Administrative Agent and Collateral Agent, and Banc of America Securities LLC, as Sole Arranger and Bookrunner.(3)
10.17	Security Agreement, dated November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender and Bank of America, N.A., as Collateral Agent.(3)
10.18	Patent and Trademark Security Agreement, dated as of November 12, 2008, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A., as lender, and Bank of America, N.A., as Collateral Agent.(3)
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10.20	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and R. Richard Fontaine.(10)
10.21	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and Daniel A. DeMatteo.(10)
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	Amendment to Amended and Restated Executive Employment Agreement, dated August 24, 2009, between GameStop Corp. and David W. Carlson.(16)
10.24	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and Tony Bartel.(10)
10.25	Amended and Restated Executive Employment Agreement, dated December 31, 2008, between GameStop Corp. and J. Paul Raines.(10)

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10.26	Executive Employment Agreement, dated August 24, 2009, between GameStop Corp. and Catherine Smith.(16)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

(1) Incorporated by reference to GameStop Holdings Corp. s Form 8-K filed with the Securities and Exchange Commission on April 18, 2005.

(2) Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on October 2, 2008.

(3) Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on November 18, 2008.

(4) Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on February 7, 2007.

(5) Incorporated by reference to the Registrant s Amendment No. 1 to Form S-4 filed with the Securities and Exchange Commission on July 8, 2005.

(6) Incorporated by reference to GameStop Holdings Corp. s Form 8-K filed with the Securities and Exchange Commission on September 30, 2005.

(7) Incorporated by reference to the Registrant s Form 10-Q for the fiscal quarter ended October 29, 2005 filed with the Securities and Exchange Commission on December 8, 2005.

(8) Incorporated by reference to the Registrant s Form S-3ASR filed with the Securities and Exchange Commission on April 10, 2006.

(9)

Incorporated by reference to GameStop Holdings Corp. s Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on January 24, 2002.

(10) Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on January 7, 2009.

(11) Incorporated by reference to Appendix A to the Registrant s Proxy Statement for 2008 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on May 23, 2008.

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(17) Incorporated by reference to Appendix A to the Registrant s Proxy Statement for 2009 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on May 22, 2009.

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SIGNATURES

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

GAMESTOP CORP.

By: /s/ Catherine R. Smith

Catherine R. Smith
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: December 9, 2009

GAMESTOP CORP.

By: /s/ Robert A. Lloyd

Robert A. Lloyd
Senior Vice President and Chief Accounting Officer
(Principal Accounting Officer)

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