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GameStop Corp.  
Form 10-Q  
December 11, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED NOVEMBER 3, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 1-32637

GameStop Corp.

(Exact name of registrant as specified in its Charter)

Delaware 20-2733559  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

625 Westport Parkway, 76051  
Grapevine, Texas (Zip Code)

(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Number of shares of \$.001 par value Class A Common Stock outstanding as of December 4, 2018: 101,967,550

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## GAMESTOP CORP.

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except par value per share)

	November 3, 2018	October 28, 2017	February 3, 2018
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 454.5	\$ 454.7	\$ 864.4
Receivables, net	157.5	195.8	182.7
Merchandise inventories, net	2,027.4	1,822.5	1,366.7
Prepaid expenses and other current assets	157.7	198.0	124.9
Total current assets	2,797.1	2,671.0	2,538.7
Property and equipment:			
Land	18.6	19.2	19.9
Buildings and leasehold improvements	725.9	752.9	769.8
Fixtures and equipment	961.3	986.7	973.5
Total property and equipment	1,705.8	1,758.8	1,763.2
Less accumulated depreciation	1,312.3	1,300.9	1,330.0
Net property and equipment	393.5	457.9	433.2
Deferred income taxes	189.0	73.2	158.2
Goodwill	1,093.9	1,693.2	1,667.3
Other intangible assets, net	124.8	508.0	169.5
Other noncurrent assets	58.4	70.7	74.7
Total noncurrent assets	1,859.6	2,803.0	2,502.9
Total assets	\$ 4,656.7	\$ 5,474.0	\$ 5,041.6
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 1,468.9	\$ 1,285.1	\$ 902.0
Accrued liabilities	676.5	914.9	976.1
Income taxes payable	47.6	17.5	37.5
Current portion of debt, net	348.8	—	—
Total current liabilities	2,541.8	2,217.5	1,915.6
Deferred income taxes	0.1	22.2	5.0
Long-term debt, net	471.2	817.2	817.9
Other long-term liabilities	78.5	103.4	88.6
Total long-term liabilities	549.8	942.8	911.5
Total liabilities	3,091.6	3,160.3	2,827.1
Commitments and contingencies (Note 8)			
Stockholders' equity:			
Class A common stock — \$.001 par value; 300 shares authorized; 102.0, 101.3 and 101.3 shares issued and outstanding	0.1	0.1	0.1
Additional paid-in capital	29.8	12.8	22.1
Accumulated other comprehensive (loss) income	(54.0	) (24.3	) 12.2
Retained earnings	1,589.2	2,325.1	2,180.1
Total stockholders' equity	1,565.1	2,313.7	2,214.5
Total liabilities and stockholders' equity	\$ 4,656.7	\$ 5,474.0	\$ 5,041.6

See accompanying condensed notes to unaudited consolidated financial statements.

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## GAMESTOP CORP.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	13 Weeks Ended		39 Weeks Ended	
	November 2018	October 28, 2017	November 2018	October 28, 2017
Net sales	\$2,084.4	\$ 1,988.6	\$5,665.1	\$ 5,722.1
Cost of sales	1,393.6	1,299.2	3,720.9	3,706.5
Gross profit	690.8	689.4	1,944.2	2,015.6
Selling, general and administrative expenses	566.6	565.1	1,675.0	1,671.0
Depreciation and amortization	30.2	36.7	96.5	112.3
Goodwill impairments	557.3	—	557.3	—
Asset impairments	30.2	—	30.2	—
Operating (loss) earnings	(493.5 )	87.6	(414.8 )	232.3
Interest income	(1.1 )	(0.2 )	(2.1 )	(0.4 )
Interest expense	14.1	14.1	42.7	42.6
(Loss) earnings before income tax expense	(506.5 )	73.7	(455.4 )	190.1
Income tax (benefit) expense	(17.9 )	14.3	29.9	49.5
Net (loss) income	\$(488.6 )	\$ 59.4	\$(485.3 )	\$ 140.6
Dividends per common share	\$0.38	\$ 0.38	\$1.14	\$ 1.14
(Loss) earnings per share:				
Basic	\$(4.78 )	\$ 0.59	\$(4.76 )	\$ 1.39
Diluted	\$(4.78 )	\$ 0.59	\$(4.76 )	\$ 1.39
Weighted-average shares outstanding:				
Basic	102.2	101.5	102.0	101.4
Diluted	102.2	101.5	102.0	101.5

See accompanying condensed notes to unaudited consolidated financial statements.

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## GAMESTOP CORP.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in millions)

	13 Weeks Ended		39 Weeks Ended	
	November	October 28,	November	October 28,
	2018	2017	2018	2017
Net (loss) income	\$(488.6)	\$ 59.4	\$(485.3)	\$ 140.6
Other comprehensive (loss) income:				
Foreign currency translation adjustment	(13.6 )	(23.2 )	(66.2 )	23.0
Total comprehensive (loss) income	\$(502.2)	\$ 36.2	\$(551.5)	\$ 163.6

See accompanying condensed notes to unaudited consolidated financial statements.

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## GAMESTOP CORP.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(in millions, except for per share data)

	Class A Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at February 3, 2018	101.3	\$ 0.1	\$ 22.1	\$ 12.2	\$2,180.1	\$ 2,214.5
Adoption of ASU 2014-09 (Note 1)	—	—	—	—	11.5	11.5
Net income	—	—	—	—	28.2	28.2
Foreign currency translation	—	—	—	(35.2)	—	(35.2)
Dividends declared, \$0.38 per common share	—	—	—	—	(38.9)	(38.9)
Stock-based compensation expense	—	—	7.6	—	—	7.6
Settlement of stock-based awards	0.6	—	(4.2)	—	—	(4.2)
Balance at May 5, 2018	101.9	0.1	25.5	(23.0)	2,180.9	2,183.5
Net loss	—	—	—	—	(24.9)	(24.9)
Foreign currency translation	—	—	—	(17.4)	—	(17.4)
Dividends declared, \$0.38 per common share	—	—	—	—	(39.0)	(39.0)
Stock-based compensation expense	—	—	2.0	—	—	2.0
Balance at August 4, 2018	101.9	0.1	27.5	(40.4)	2,117.0	2,104.2
Net loss	—	—	—	—	(488.6)	(488.6)
Foreign currency translation	—	—	—	(13.6)	—	(13.6)
Dividends declared, \$0.38 per common share	—	—	—	—	(39.2)	(39.2)
Stock-based compensation expense	—	—	3.2	—	—	3.2
Settlement of stock-based awards	0.1	—	(0.9)	—	—	(0.9)
Balance at November 3, 2018	102.0	\$ 0.1	\$ 29.8	\$ (54.0)	\$1,589.2	\$ 1,565.1
	Class A Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
Balance at January 28, 2017	101.0	\$ 0.1	\$ —	\$ (47.3)	\$2,301.3	\$ 2,254.1
Net income	—	—	—	—	59.0	59.0
Foreign currency translation	—	—	—	(8.2)	—	(8.2)
Dividends declared, \$0.38 per common share	—	—	—	—	(38.6)	(38.6)
Stock-based compensation expense	—	—	5.9	—	—	5.9
Settlement of stock-based awards	0.3	—	(3.3)	—	—	(3.3)
Balance at April 29, 2017	101.3	0.1	2.6	(55.5)	2,321.7	2,268.9
Net income	—	—	—	—	22.2	22.2
Foreign currency translation	—	—	—	54.4	—	54.4
Dividends declared, \$0.38 per common share	—	—	—	—	(39.1)	(39.1)
Stock-based compensation expense	—	—	5.3	—	—	5.3
Balance at July 29, 2017	101.3	0.1	7.9	(1.1)	2,304.8	2,311.7
Net income	—	—	—	—	59.4	59.4
Foreign currency translation	—	—	—	(23.2)	—	(23.2)
Dividends declared, \$0.38 per common share	—	—	—	—	(39.1)	(39.1)
Stock-based compensation expense	—	—	5.0	—	—	5.0
Settlement of stock-based awards	—	—	(0.1)	—	—	(0.1)
Balance at October 28, 2017	101.3	\$ 0.1	\$ 12.8	\$ (24.3)	\$2,325.1	\$ 2,313.7

See accompanying condensed notes to unaudited consolidated financial statements.

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## GAMESTOP CORP.

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	39 Weeks Ended	
	November 2018	October 28, 2017
Cash flows from operating activities:		
Net (loss) income	\$(485.3)	\$ 140.6
Adjustments to reconcile net (loss) income to net cash flows from operating activities:		
Depreciation and amortization (including amounts in cost of sales)	97.4	113.2
Goodwill and asset impairments	587.5	—
Stock-based compensation expense	12.8	16.2
Deferred income taxes	(46.5 )	(14.2 )
Loss on disposal of property and equipment	1.4	3.7
Gain on divestitures	—	(7.3 )
Other	37.6	27.6
Changes in operating assets and liabilities:		
Receivables, net	20.5	20.4
Merchandise inventories	(747.7 )	(715.4 )
Prepaid expenses and other current assets	(20.1 )	(13.5 )
Prepaid income taxes and income taxes payable	(1.4 )	(100.3 )
Accounts payable and accrued liabilities	365.2	505.6
Changes in other long-term liabilities	(0.6 )	6.3
Net cash flows used in operating activities	(179.2 )	(17.1 )
Cash flows from investing activities:		
Purchase of property and equipment	(65.9 )	(85.6 )
Acquisitions, net of cash acquired	—	(8.5 )
Proceeds from divestitures	—	54.7
Other	(0.3 )	1.4
Net cash flows used in investing activities	(66.2 )	(38.0 )
Cash flows from financing activities:		
Repayment of acquisition-related debt	(12.2 )	(21.8 )
Repurchase of common shares	—	(22.0 )
Dividends paid	(118.7 )	(116.7 )
Borrowings from the revolver	154.0	373.0
Repayments of revolver borrowings	(154.0 )	(373.0 )
Issuance of common stock, net of share repurchases for withholdings taxes	(5.1 )	(3.4 )
Net cash flows used in financing activities	(136.0 )	(163.9 )
Exchange rate effect on cash and cash equivalents and restricted cash	(28.4 )	7.7
Decrease in cash and cash equivalents and restricted cash	(409.8 )	(211.3 )
Cash and cash equivalents and restricted cash at beginning of period	879.3	679.7
Cash and cash equivalents and restricted cash at end of period	\$469.5	\$ 468.4

See accompanying condensed notes to unaudited consolidated financial statements.



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GAMESTOP CORP.

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

The Company

GameStop Corp. (“GameStop,” “we,” “us,” “our,” or the “Company”) is a global family of specialty retail brands that makes the most popular technologies affordable and simple. Within our family of brands, we are the world’s largest omnichannel video game retailer, the largest AT&T® (“AT&T”) authorized retailer, the largest Apple® (“Apple”) certified products reseller, and the owner of www.thinkgeek.com, one of the world’s largest sellers of collectible pop-culture themed products. As of November 3, 2018, GameStop's retail network and family of brands included 7,173 company-operated stores in the United States, Canada, Australia and Europe.

We have five reportable segments, which are comprised of four geographic Video Game Brands segments—United States, Canada, Australia and Europe—and a Technology Brands segment. Our Technology Brands segment includes our Spring Mobile and Simply Mac businesses. Spring Mobile owns and operates our AT&T branded wireless retail stores.

On November 21, 2018, we entered into a definitive agreement to sell our Spring Mobile business, which we expect to close in the fourth quarter of fiscal 2018. As of November 3, 2018, we did not consider the sale of Spring Mobile to be probable, therefore, the assets and liabilities of Spring Mobile are classified as held for use in our unaudited consolidated balance sheets. See Note 3, "Divestitures," for additional information.

Basis of Presentation and Consolidation

The unaudited condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting only of normal, recurring adjustments) which are, in our opinion, necessary for a fair presentation of the information as of and for the periods presented. These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X.

Accordingly, they do not include all disclosures required under GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our annual report on Form 10-K for the 53 weeks ended February 3, 2018, as filed with the Securities and Exchange Commission on April 2, 2018, (the “2017 Annual Report on Form 10-K”). The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by us could have a significant impact on our financial results. Actual results could differ from those estimates. Due to the seasonal nature of our business, the results of operations for the 39 weeks ended November 3, 2018 are not indicative of the results to be expected for the 52 weeks ending February 2, 2019 (“fiscal 2018”).

Restricted Cash

Restricted cash of \$15.0 million, \$13.7 million and \$14.9 million as of November 3, 2018, October 28, 2017 and February 3, 2018, respectively, consists primarily of bank deposits serving as collateral for bank guarantees issued on behalf of our foreign subsidiaries and is included in other noncurrent assets in our unaudited condensed consolidated balance sheets.

Dividend

On November 27, 2018, our Board of Directors approved a quarterly cash dividend to our stockholders of \$0.38 per share of Class A Common Stock payable on December 21, 2018 to stockholders of record at the close of business on December 11, 2018. Future dividends, if any, will be subject to approval by our Board of Directors.

Adoption of New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update ("ASU") 2016-15, Statement of Cash Flows, Classification of Certain Cash Receipts and Cash Payments, which provides guidance on eight specific cash flow issues in regard to how cash receipts and cash payments are presented and classified in the statement of cash flows. The FASB also issued ASU 2016-18, Restricted Cash, in November 2016 that requires entities to include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented in the statement of cash flows. These updated standards are effective for fiscal years beginning after December 15, 2017, including interim periods within those years, with early adoption permitted. We adopted these new standards on a retrospective basis, which did not result in a material impact to our consolidated financial statements.

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

As required by ASU 2016-18, we include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on our condensed consolidated statement of cash flows. The following table provides a reconciliation of cash and cash equivalents in the condensed consolidated balance sheets to total cash and cash equivalents and restricted cash in the condensed consolidated statements of cash flows (in millions):

	November 3, 2018	October 28, 2017	February 3, 2018
Cash and cash equivalents	\$ 454.5	\$ 454.7	\$ 864.4
Restricted cash (included in prepaid expenses and other current assets)	2.7	—	—
Restricted cash (included in other noncurrent assets)	12.3	13.7	14.9
Total cash and cash equivalents and restricted cash in the statements of cash flows	\$ 469.5	\$ 468.4	\$ 879.3

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which sets forth a new five-step revenue recognition model that replaces the prior revenue recognition guidance in its entirety. The underlying principle of the new standard is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. The updated standard also requires additional disclosures on the nature, timing, and uncertainty of revenue and related cash flows. In 2016, the FASB issued several ASUs that further amended the new revenue standard in the areas of principal versus agent evaluation, licenses of intellectual property, identifying performance obligations, and other clarifications and technical corrections. We adopted the new revenue standard, effective February 4, 2018, by utilizing the modified retrospective transition approach.

The new revenue standard primarily impacted the accounting of our PowerUp Rewards loyalty program and the recognition of breakage associated with our gift cards liability. For our loyalty program, we previously estimated the net cost of the rewards that were issued and recorded this cost (presented as cost of sales) and the associated balance sheet liability as points were accumulated by our loyalty program members. Under the new standard, the transaction price is allocated between the product(s) and loyalty points earned based on the relative stand-alone selling prices and expected point redemption. The portion allocated to the loyalty points is initially recorded as deferred revenue and subsequently recognized as revenue upon redemption or expiration. For our gift cards liability, estimated breakage on unused gift cards and merchandise credit liabilities was previously recognized on a quarterly basis (recorded to cost of sales) to the extent that we believed the likelihood of redemption was remote, generally for balances older than two years. Under the new standard, we recognize breakage in revenue upon redemption and in proportion to historical redemption patterns, regardless of the age of the unused gift cards and merchandise credit liabilities. In addition, the new revenue standard requires presentation of our sales return reserve to be on a gross basis, consisting of a separate right of return asset and liability.

Consistent with the modified retrospective transition approach, we have applied the new revenue standard on a prospective basis, effective February 4, 2018, and recorded adjustments to our current period opening balance sheet (as of February 4, 2018) to reflect the cumulative effect of the new revenue standard. The cumulative-effect adjustment included a reduction of our gift card and customer deposit liabilities of \$44.3 million, an increase to our loyalty program liabilities of \$28.2 million and an increase to our retained earnings of \$16.1 million (\$11.5 million, net of tax). The cumulative-effect adjustment also included a \$4.4 million increase to merchandise inventories, net and accrued liabilities to present our sales return reserve on a gross basis. The adoption of the new standard resulted in expanded revenue recognition disclosures which are included below in Note 2, "Revenue."

The impact of the new revenue standard to our statements of operations for the 13 and 39 weeks ended November 3, 2018 is as follows (in millions):

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	13 Weeks Ended			39 Weeks Ended		
	November 3, 2018			November 3, 2018		
	Under	Impact of	As	Under	Impact of	As
	Prior	New	Reported	Prior	New	Reported
	Standard	Standard		Standard	Standard	
Net sales	\$2,078.4	\$ 6.0	\$2,084.4	\$5,647.2	\$ 17.9	\$5,665.1
Cost of sales	1,389.5	4.1	1,393.6	3,706.7	14.2	3,720.9
Gross profit	688.9	1.9	690.8	1,940.5	3.7	1,944.2
Operating (loss) earnings	(495.4 )	1.9	(493.5 )	(418.5 )	3.7	(414.8 )
(Loss) earnings before income taxes	(508.4 )	1.9	(506.5 )	(459.1 )	3.7	(455.4 )
Income tax (benefit) expense	(18.4 )	0.5	(17.9 )	29.0	0.9	29.9
Net (loss) income	(490.0 )	1.4	(488.6 )	(488.1 )	2.8	(485.3 )

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The impact of the new revenue standard to our balance sheet as of November 3, 2018 is as follows (in millions):

	November 3, 2018		
	Under Prior Standard	Impact of New Standard	As Reported
Merchandise inventories, net	\$2,022.0	\$ 5.4	\$ 2,027.4
Total current assets	2,791.7	5.4	2,797.1
Deferred income taxes	193.6	(4.6 )	189.0
Total noncurrent assets	1,864.2	(4.6 )	1,859.6
Total assets	4,655.9	0.8	4,656.7
Accrued liabilities	690.8	(14.3 )	676.5
Income taxes payable	46.7	0.9	47.6
Total current liabilities	2,555.2	(13.4 )	2,541.8
Total liabilities	3,105.0	(13.4 )	3,091.6
Retained earnings	1,575.0	14.2	1,589.2
Total stockholders' equity	1,550.9	14.2	1,565.1
Total liabilities and stockholders' equity	4,655.9	0.8	4,656.7

## Recently Issued Accounting Pronouncements

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The new guidance is intended to more closely align hedge accounting with entities' hedging strategies, simplify the application of hedge accounting and increase the transparency of hedging programs. In October 2018, the FASB issued ASU 2018-16, Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. This ASU expands the list of U.S. benchmark interest rates permitted in the application of hedge accounting. The provisions of ASU 2017-12 and ASU 2018-16 are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. We do not anticipate that adoption of these standards will have a material impact to our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases. This standard requires a lessee to recognize a liability related to lease payments and an offsetting right-of-use asset representing a right to use the underlying asset for the lease term on the balance sheet. Entities are required to use a modified retrospective transition approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the financial statements, with certain reliefs available. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements, which provides clarifications and improvements to ASU 2016-02 including allowing entities to elect an additional transition method with which to adopt ASU 2016-02. The approved transition method enables entities to apply the transition requirements in this ASU at the effective date of ASU 2016-02 (rather than at the beginning of the earliest comparative period presented as currently required) with the effect of initially applying ASU 2016-02 recognized as a cumulative-effect adjustment to retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the year of adoption would continue to be in accordance with ASC 840, Leases (Topic 840) ("ASC 840"), including the disclosure requirements of ASC 840. These ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the overall impact to our consolidated financial statements, though we expect the adoption to result in a material increase in the assets and liabilities reflected in our consolidated balance sheets.

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## 2. Revenue

Net sales by significant product category for the periods indicated is as follows (in millions):

	13 Weeks Ended		39 Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
New video game hardware <sup>(1)</sup>	\$ 349.0	\$ 309.5	\$ 1,006.5	\$ 947.8
New video game software	720.7	649.9	1,488.3	1,539.7
Pre-owned and value video game products	396.9	458.5	1,344.7	1,486.5
Video game accessories	180.8	136.4	567.2	456.6
Digital	45.4	37.2	128.6	127.8
Technology Brands <sup>(2)</sup>	171.1	194.2	509.0	583.9
Collectibles	154.6	138.4	438.7	375.4
Other <sup>(3)</sup>	65.9	64.5	182.1	204.4
Total	\$ 2,084.4	\$ 1,988.6	\$ 5,665.1	\$ 5,722.1

(1) Includes sales of hardware bundles, in which physical hardware and digital or physical software are sold together as a single SKU.

Includes mobile and consumer electronics sold through our Technology Brands segment, which includes the operations of our Spring Mobile managed AT&T stores, Simply Mac stores and Cricket Wireless branded stores.

(2) We sold our Cricket Wireless branded stores in January 2018 and on November 21, 2018, we entered into a definitive agreement to sell our Spring Mobile business, which we expect to close in the fourth quarter of fiscal 2018 (see Note 3, "Divestitures").

Includes sales of PC entertainment software, interactive game figures, strategy guides, mobile and consumer

(3) electronics sold through our Video Game Brands segments, and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in print form.

See Note 10, "Segments," for net sales by geographic location.

## Performance Obligations

Effective February 4, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers, which set forth a new revenue recognition model that replaced the prior revenue recognition guidance in its entirety (see Note 1 above). The core principle of the new standard is that revenue is recognized when performance obligations are satisfied by transferring goods or services to the customer in an amount that the entity expects to collect in exchange for those goods or services. The satisfaction of a performance obligation with a single customer may occur at a point in time or may occur over time. The significant majority of our revenue is recognized at a point in time, generally when a customer purchases and takes possession of merchandise through our stores or when merchandise purchased through our e-commerce websites is delivered to a customer. We have arrangements with customers where our performance obligations are satisfied over time, which primarily relate to certain commissions earned by our Spring Mobile AT&T stores, extended warranties and our Game Informer magazine. Revenues do not include sales taxes or other taxes collected from customers.

We expect to recognize revenue in future periods for remaining performance obligations we have associated with unredeemed gift cards, trade-in credits, reservation deposits and our PowerUp Rewards loyalty program (collectively, "unredeemed customer liabilities"), extended warranties, subscriptions to our Game Informer magazine and Spring Mobile AT&T dealer agreements.

Performance obligations associated with unredeemed customer liabilities are primarily satisfied at the time our customers redeem their gift cards, trade-in credits, reservation deposits or loyalty program points for products that we offer. Unredeemed customer liabilities are generally redeemed within one year of issuance. As of November 3, 2018, our unredeemed customer liabilities totaled \$293.6 million.

We offer extended warranties on certain new and pre-owned video game products with terms generally ranging from 12 to 24 months, depending on the product. Revenues for extended warranties sold are recognized on a straight-line basis over the life of the contract. As of November 3, 2018, our deferred revenue liability related to extended warranties totaled \$57.7 million.

Performance obligations associated with subscriptions to our Game Informer magazine are satisfied when monthly magazines are delivered in print form or when made available in digital format. The significant majority of our customers' subscriptions is for 12 monthly issues. As of November 3, 2018, we had deferred revenue of \$42.5 million associated with our Game Informer magazine.

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Under our Spring Mobile AT&T dealer agreements, we have an ongoing performance obligation to provide service and support to customers of our AT&T-branded stores. We earn commissions for providing this ongoing service and support, which are based on the customer accounts we have activated or acquired (through store acquisitions), and are earned and paid to us on a monthly basis, generally over a three-year period after a customer's activation date. We did not estimate the total revenues expected to be recognized in the future associated with this ongoing performance obligation since we recognize these revenues in accordance with ASC 606-10-55-18.

Significant Judgments and Estimates

We accrue PowerUp Rewards loyalty points at the estimated retail price per point, net of estimated breakage, which can be redeemed by our loyalty program members for products that we offer. The estimated retail price per point is based on the actual historical retail prices of product(s) purchased through the redemption of loyalty points. We estimate breakage of loyalty points and unredeemed gift cards based on historical redemption rates.

Contract Balances

Our contract liabilities primarily consist of unredeemed customer liabilities and deferred revenues associated with extended warranties and subscriptions to our Game Informer magazine. The opening balance, current period changes and ending balance of our contract liabilities are as follows (in millions):

	Contract Liabilities
Balance at February 3, 2018	\$ 426.0
Adoption of ASU 2014-09	(16.8 )
Increase to contract liabilities <sup>(1)</sup>	817.2
Decrease to contract liabilities <sup>(2)</sup>	(824.6 )
Other adjustments <sup>(3)</sup>	(8.0 )
Balance at November 3, 2018	\$ 393.8

(1) Includes issuances of gift cards, trade-in credits and loyalty points, new reservation deposits, new subscriptions to Game Informer and extended warranties sold.

(2) Includes redemptions of gift cards, trade-in credits, loyalty points and reservation deposits as well as revenues recognized for Game Informer and extended warranties. During the 39 weeks ended November 3, 2018, there were \$56.2 million of gift cards redeemed that were outstanding as of February 3, 2018.

(3) Primarily includes foreign currency translation adjustments.

3. Divestitures

In July 2017, we sold our ownership interest in Kongregate, a web and mobile gaming platform and publisher of mobile games, for proceeds of \$54.7 million, net of transaction costs, of which \$3.5 million was restricted cash held in escrow primarily for indemnification purposes. We recognized a gain on the sale of \$7.3 million, net of tax, which is classified in selling, general and administrative expenses in our consolidated statements of operations for the 39 weeks ended October 28, 2017. The disposed net assets of Kongregate primarily consisted of goodwill.

On November 21, 2018, we entered into a definitive agreement (the "Purchase Agreement") to sell our Spring Mobile business to Prime Communications, L.P. The Purchase Agreement provides for a cash purchase price of \$700 million, excluding transaction fees and subject to customary working capital and indebtedness adjustments. The transaction is expected to close in the fourth quarter of fiscal 2018, subject to customary closing conditions. On November 30, 2018, we received early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended. As of November 3, 2018, we did not consider the sale of Spring Mobile to be probable, therefore, the assets and liabilities of Spring Mobile are classified as held for use in our unaudited consolidated balance sheets. There can be no assurance that the transaction will be completed on the terms contained in the Purchase Agreement or at all.



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## 4. Fair Value Measurements and Financial Instruments

Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Applicable accounting standards require 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.

## Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis include our foreign currency contracts, life insurance policies we own that have a cash surrender value, and certain nonqualified deferred compensation liabilities.

We value our foreign currency contracts, our life insurance policies with cash surrender values and certain nonqualified deferred compensation liabilities based on Level 2 inputs using quotations provided by major market news services, such as Bloomberg, and industry-standard models that consider various assumptions, including quoted forward prices, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures, all of which are observable in active markets. When appropriate, valuations are adjusted to reflect credit considerations, generally based on available market evidence.

In August 2016, we acquired certain assets from Cellular World and Red Skye Wireless. The purchase price included two subsequent payments of contingent consideration. We recognized an acquisition-date liability of \$43.2 million representing the total estimated fair value of the contingent consideration. The first payment of \$20.0 million was contingent on the relocation of certain stores and was paid in August 2017. The second payment was variable based on the sales performance of certain acquired stores during calendar year 2017 and was estimated to be \$23.2 million as of the acquisition date. Based on the actual sales performance of these stores, we recognized an \$11.0 million adjustment to reduce the contingent liability to \$12.2 million during fiscal 2017, which was paid in the first quarter of fiscal 2018. The fair value was estimated based on Level 3 inputs which include future sales projections derived from our historical experience with comparable acquired stores and a discount rate commensurate with the risks and inherent uncertainty in the business.

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

	November 3, 2018		October 28, 2017		February 3, 2018	
	Level 2	Level 3	Level 2	Level 3	Level 2	Level 3
<b>Assets</b>						
Foreign currency contracts						
Other current assets	\$ 4.6	\$ —	-\$1.9	\$ —	\$ 2.4	\$ —
Other noncurrent assets	—	—	0.4	—	—	—
Company-owned life insurance <sup>(1)</sup>	14.4	—	13.0	—	13.9	—
Total assets	\$ 19.0	\$ —	-\$15.3	\$ —	\$ 16.3	\$ —
<b>Liabilities</b>						
Foreign currency contracts						
Accrued liabilities	\$ 0.5	\$ —	-\$3.6	\$ —	\$ 9.9	\$ —
Other long-term liabilities	—	—	0.5	—	—	—
Nonqualified deferred compensation <sup>(2)</sup>	1.1	—	1.1	—	1.2	—
Contingent consideration <sup>(2)</sup>	—	—	—	17.5	—	12.2
Total liabilities	\$ 1.6	\$ —	-\$5.2	\$ 17.5	\$ 11.1	\$ 12.2

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

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

We use forward exchange contracts, foreign currency options and cross-currency swaps (together, the “foreign currency contracts”) to manage currency risk primarily related to intercompany loans denominated in non-functional currencies and certain foreign currency assets and liabilities. The foreign currency contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the re-measurement of related intercompany loans and foreign currency assets and liabilities. The total gross notional value of derivatives related to our foreign currency contracts was \$319.5 million, \$419.1 million and \$563.3 million as of November 3, 2018, October 28, 2017 and February 3, 2018, respectively.

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

	13 Weeks Ended		39 Weeks Ended	
	November 3, 2018	October 28, 2017	November 3, 2018	October 28, 2017
Gains (losses) on the change in fair value of derivative instruments	\$0.6	\$ (2.5 )	\$10.0	\$ (12.6 )
(Losses) gains on the re-measurement of related intercompany loans and foreign currency assets and liabilities	(0.2 )	3.3	(7.7 )	15.8
Net gains	\$0.4	\$ 0.8	\$2.3	\$ 3.2

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

**Assets that are Measured at Fair Value on a Nonrecurring Basis**

Assets that are measured at fair value on a nonrecurring basis relate primarily to property and equipment and intangible assets, which are remeasured when the estimated fair value is below its carrying value. For these assets, we do not periodically adjust carrying value to fair value; rather, when we determine that impairment has occurred, the carrying value of the asset is reduced to its fair value.

During the 39 weeks ended November 3, 2018, we recognized impairment charges totaling \$30.2 million related to intangible assets. We recognized impairment charges of \$19.0 million and \$5.3 million associated with our Micromania and ThinkGeek trade names, respectively, to reflect their fair values of \$19.0 million and \$2.8 million, respectively. We also recognized an impairment charge of \$5.9 million associated with other ThinkGeek intangible assets, to reflect their fair values of zero. We did not record any impairment charges related to assets measured at fair value on a nonrecurring basis during the 39 weeks ended October 28, 2017.

The fair value estimates of the dealer agreements, trade names, customer relationship intangible assets and store-level property and equipment are based on significant unobservable inputs (Level 3) developed using company-specific information. These assets were valued using variations of the discounted cash flow method, which require assumptions associated with, among others, projected sales and cost estimates, capital expenditures, royalty rates, discount rates, terminal values and remaining useful lives. See Note 5, "Goodwill and Intangible Assets," for further information related to our valuation methods.

**Other Fair Value Disclosures**

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

As of November 3, 2018, our unsecured 5.50% senior notes due in 2019 had a net carrying value of \$348.8 million and a fair value of \$350.6 million, and our unsecured 6.75% senior notes due in 2021 had a net carrying value of \$471.2 million and a fair value of \$485.5 million. The fair values of our senior notes were determined based on quoted market prices obtained through an external pricing source which derives its price valuations from daily marketplace transactions, with adjustments to reflect the spreads of benchmark bonds, credit risk and certain other variables. We have determined this to be a Level 2 measurement as all significant inputs into the quote provided by our pricing source are observable in active markets.



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## 5. Goodwill and Intangible Assets

Goodwill represents the excess purchase price over tangible net assets and identifiable intangible assets acquired. Intangible assets are recorded apart from goodwill if they arise from a contractual right and are capable of being separated from the entity and sold, transferred, licensed, rented or exchanged individually. We are required to evaluate goodwill and other intangible assets not subject to amortization for impairment at least annually. This annual test is completed at the beginning of the fourth quarter of each fiscal year or when circumstances indicate the carrying value of the goodwill or other intangible assets might be impaired. Goodwill has been assigned to reporting units for the purpose of impairment testing. We have five operating segments, including Video Game Brands in the United States, Canada, Australia and Europe, and Technology Brands in the United States, which also define our reporting units based upon the similar economic characteristics of operations within each segment, including the nature of products, product distribution and the type of customer and separate management within these businesses.

During the 13 weeks ended November 3, 2018, we determined that a triggering event occurred as a result of a sustained decline in our market capitalization; therefore, we performed an interim impairment test for all of our reporting units and indefinite-lived intangible assets. As a result of the interim impairment testing, we recognized goodwill impairment charges totaling \$557.3 million and intangible asset impairment charges totaling \$30.2 million.

## Goodwill

The changes in the carrying amount of goodwill, by reportable segment, for fiscal 2018 were as follows (in millions):

	United States	Canada	Australia	Europe	Technology Brands	Total
Balance at February 3, 2018	\$ 1,159.5	\$ 30.3	\$ 73.6	\$ 87.1	\$ 316.8	\$ 1,667.3
Foreign currency translation adjustment	—	(1.4 )	(7.5 )	(7.2 )	—	(16.1 )
Impairment charge	(477.5 )	(9.7 )	(31.5 )	(38.6 )	—	(557.3 )
Balance at November 3, 2018	\$ 682.0	\$ 19.2	\$ 34.6	\$ 41.3	\$ 316.8	\$ 1,093.9

In order to test goodwill for impairment, we compare a reporting unit's carrying amount to its estimated fair value. If the reporting unit's carrying value exceeds its estimated fair value, then an impairment charge is recorded in the amount of the excess. The estimated fair value of a reporting unit is determined based on its discounted cash flows, which are derived from our long-term financial forecasts. The discounted cash flows analysis requires significant assumptions including, among others, a discount rate and a terminal value. During the 13 weeks ended November 3, 2018, we recognized goodwill impairment charges totaling \$557.3 million, all of which related to our Video Game Brands segments. The impairment charges were the result of an increase in the discount rates and a decrease in terminal values utilized in the valuations of our Video Game Brands segments in order to align with market-based assumptions.

As of November 3, 2018, cumulative goodwill impairment charges were \$1,230.6 million, of which \$491.0 million, \$110.0 million, \$138.6 million, \$458.2 million and \$32.8 million were attributable to our United States, Canada, Australia, Europe and Technology Brands segments, respectively.

## Intangible Assets

The gross carrying amount and accumulated amortization of our intangible assets other than goodwill as of November 3, 2018 and February 3, 2018 were as follows (in millions):

	November 3, 2018			February 3, 2018		
	Gross Carrying Amount (1)	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets with indefinite lives:						
Trade names	\$21.6	\$ —	\$ 21.6	\$49.3	\$ —	\$ 49.3
Dealer agreements	77.0	—	77.0	77.0	—	77.0
Intangible assets with finite lives:						

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Leasehold rights	91.5	(65.6	)	25.9	100.4	(67.0	)	33.4
Customer relationships	—	—		—	14.5	(6.8	)	7.7
Other	32.5	(32.2	)	0.3	33.5	(31.4	)	2.1
Total	\$222.6	\$ (97.8	)	\$ 124.8	\$274.7	\$ (105.2	)	\$ 169.5

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(1) The change in the gross carrying amount of intangible assets from February 3, 2018 to November 3, 2018 is due to impairments and the impact of exchange rate fluctuations.

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Our indefinite-lived intangible assets consist of dealer agreements and trade names. The fair value of our dealer agreements are estimated using a discounted cash flow analysis known as the Greenfield Method, which assumes that a business, at its inception, owns only dealer agreements and must make capital expenditure, working capital and other investments to ramp up its operations to a level that is comparable to its current operations. The fair value of our trade names is estimated by using a relief-from-royalty approach, which assumes the value of the trade name is the discounted cash flows of the amount that would be paid by a hypothetical market participant had they not owned the trade name and instead licensed the trade name from another company.

Our definite-lived intangible assets consist primarily of customer relationships, leasehold rights, advertising relationships and amounts attributed to favorable leasehold interests recorded as a result of business acquisitions. The estimated useful life and amortization methodology of intangible assets are determined based on the period in which they are expected to contribute directly to cash flows. Intangible assets that are determined to have a definite life are amortized over that period.

During the 13 weeks ended November 3, 2018, we recognized impairment charges of \$19.0 million and \$5.3 million related to our Micromania trade name and ThinkGeek trade name, respectively. The impairment charges were primarily the result of increases in discount rate assumptions, consistent with those utilized in the valuation of our Video Game Brands segments for goodwill impairment testing.

In addition, as the result of lower-than-expected profitability of our ThinkGeek website and our recent decision to exit the ThinkGeek wholesale business, we fully impaired the remaining carrying value of \$5.9 million associated with our customer relationships intangible assets during the 13 weeks ended November 3, 2018.

As of November 3, 2018 the total weighted-average amortization period for our finite-lived intangible assets was approximately 9.9 years. The intangible assets are being amortized based upon the pattern in which the economic benefits of the intangible assets are being utilized, with no expected residual value.

The estimated aggregate intangible asset amortization expense for the next five fiscal years is as follows (in millions):

Period <sup>(1)</sup>	Projected Amortization Expense
Remainder of fiscal 2018	\$ 1.6
Fiscal 2019	\$ 5.5
Fiscal 2020	\$ 4.5
Fiscal 2021	\$ 3.7
Fiscal 2022	\$ 3.2

(1) Our fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to January 31<sup>st</sup>.

## 6. Income Taxes

The Securities and Exchange Commission staff issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the immediate tax effects of the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date for companies to complete the related accounting under Accounting Standards Codification ("ASC") 740, Accounting for Income Taxes. In accordance with SAB 118, a company must reflect the income tax effects of those aspects of the Tax Act for which the accounting under ASC 740 is complete. To the extent that a company's accounting for a certain income tax effect of the Tax Act is incomplete, but it is able to determine a reasonable estimate, it must record a provisional estimate in the financial statements. If a company cannot determine a provisional estimate to be included in the financial statements, it should continue to apply ASC 740 on the basis of the provisions of the tax laws that were in effect immediately before the enactment of the Tax Act.

The financial reporting impact of the Tax Act is expected to be completed no later than the fourth quarter of fiscal 2018. The impacts of these changes were reflected in the fiscal 2017 provisional tax expense, as discussed in Note 7 to

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our consolidated financial statements included in our 2017 Annual Report on Form 10-K. During the 13 weeks ended November 3, 2018 we recorded discrete income tax items to adjust our estimated transition tax liability. However, given the complexity of the Tax Act, we are still evaluating the tax impact and obtaining the information required to complete our accounting.

During the 39 weeks ended November 3, 2018, we recorded a \$29.6 million charge to income tax expense associated with the tax dispute in France; see Note 8, "Commitments and Contingencies," for additional information.

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## 7. Debt

## Senior Notes

The carrying value of our long-term debt, net is comprised as follows (in millions):

	November 3, 2018	October 28, 2017	February 3, 2018
2019 Senior Notes principal amount	\$ 350.0	\$ 350.0	\$ 350.0
2021 Senior Notes principal amount	475.0	475.0	475.0
Less: Unamortized debt financing costs	(5.0 )	(7.8 )	(7.1 )
	\$ 820.0	\$ 817.2	\$ 817.9
Less: Current portion	(348.8 )	—	—
Long-term debt, net	\$ 471.2	\$ 817.2	\$ 817.9

2019 Senior Notes. In September 2014, we issued \$350.0 million aggregate principal amount of unsecured 5.50% senior notes due October 1, 2019 (the "2019 Senior Notes"). The 2019 Senior Notes bear interest at the rate of 5.50% per annum with interest payable semi-annually in arrears on April 1 and October 1 of each year beginning on April 1, 2015. We incurred fees and expenses related to the 2019 Senior Notes offering of \$6.3 million, which were capitalized during the third quarter of fiscal 2014 and are being amortized as interest expense over the term of the notes. As of November 3, 2018, the 2019 Senior Notes, net of unamortized debt financing costs, are classified as current in our consolidated balance sheet. The 2019 Senior Notes were sold in a private placement and are not registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"). The 2019 Senior Notes were offered in the United States to "qualified institutional buyers" pursuant to the exemption from registration under Rule 144A of the Securities Act and in exempted offshore transactions pursuant to Regulation S under the Securities Act.

2021 Senior Notes. In March 2016, we issued \$475.0 million aggregate principal amount of unsecured 6.75% senior notes due March 15, 2021 (the "2021 Senior Notes"). The 2021 Senior Notes bear interest at the rate of 6.75% per annum with interest payable semi-annually in arrears on March 15 and September 15 of each year beginning on September 15, 2016. The net proceeds from the offering were used for general corporate purposes, including acquisitions and dividends. We incurred fees and expenses related to the 2021 Senior Notes offering of \$8.1 million, which were capitalized during the first quarter of fiscal 2016 and are being amortized as interest expense over the term of the notes. The 2021 Senior Notes were sold in a private placement and are not registered under the Securities Act. The 2021 Senior Notes were offered in the United States to "qualified institutional buyers" pursuant to the exemption from registration under Rule 144A of the Securities Act and in exempted offshore transactions pursuant to Regulation S under the Securities Act.

The indentures governing the 2019 Senior Notes and the 2021 Senior Notes (together, the "Senior Notes") do not contain financial covenants but do contain covenants which place certain restrictions on us and our subsidiaries, including limitations on asset sales, additional liens, investments, stock repurchases, the incurrence of additional debt and the repurchase of debt that is junior to the Senior Notes. In addition, the indentures restrict payments of dividends to stockholders (other than dividends payable in shares of capital stock) if one of the following conditions exist: (i) an event of default has occurred, (ii) we could not incur additional debt under the general debt covenant of the indentures or (iii) the sum of the proposed dividend and all other dividends and other restricted payments made under the indentures from the date of the indentures governing the Senior Notes exceeds the sum of 50% of consolidated net income plus 100% of net proceeds from capital stock sales and other amounts set forth in and determined as provided in the indentures. These restrictions are subject to exceptions and qualifications, including that we can pay up to \$175 million in dividends to stockholders in each fiscal year and we can pay dividends and make other restricted payments in an unlimited amount if our leverage ratio on a pro forma basis after giving effect to the dividend payment and other restricted payments would be less than or equal to 1.0:1.0.

The indentures contain customary events of default, including payment defaults, breaches of covenants, failure to pay certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs and is continuing, the principal amount of the Senior Notes, plus accrued and unpaid interest, if any, may be declared

immediately due and payable. These amounts automatically become due and payable if an event of default relating to certain events of bankruptcy, insolvency or reorganization occurs.

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## Revolving Credit Facility

On November 20, 2017, we entered into a second amendment to our asset-based revolving credit facility (the “Amended Revolver”). The Amended Revolver increased the borrowing base capacity to \$420 million and extended the maturity date from March 2019 to November 2022. The Amended Revolver maintains the \$200 million expansion feature and \$50 million letter of credit sublimit, and allows for an incremental \$50 million first-in, last-out facility. The applicable margins for prime rate loans were reduced from a range of 0.25% to 0.75% to a range of 0.25% to 0.50% and, for the London Interbank Offered (“LIBO”) rate loans, reduced from a range of 1.25% to 1.75% to a range of 1.25% to 1.50%. Other terms and covenants under the Amended Revolver remain substantially unchanged. The Amended Revolver is secured by substantially all of our assets and the assets of our domestic subsidiaries.

Borrowing availability under the Amended Revolver is limited to a borrowing base which allows us to borrow up to 90% of the appraisal value of the inventory, plus 90% of eligible credit card receivables, net of certain reserves. The borrowing base provides for borrowing of up to 92.5% of the appraisal value during the period between July 15 and October 15 of each year. Letters of credit reduce the amount available to borrow under the Amended Revolver by an amount equal to the face value of the letters of credit. Our ability to pay cash dividends, redeem options and repurchase shares is generally permitted, except under certain circumstances, including if either (1) excess availability under the Amended Revolver is less than 20%, or is projected to be within six months after such payment or (2) excess availability under the Amended Revolver is less than 15%, or is projected to be within six months after such payment, and the fixed charge coverage ratio, as calculated on a pro-forma basis for the prior 12 months, is 1.0:1.0 or less. In the event that excess availability under the Amended Revolver is at any time less than the greater of (1) \$30 million or (2) 10% of the lesser of the total commitment or the borrowing base, we will be subject to a fixed charge coverage ratio covenant of 1.0:1.0.

The Amended Revolver places certain restrictions on us and our subsidiaries, including limitations on asset sales, additional liens, investments, loans, guarantees, acquisitions and the incurrence of additional indebtedness. Absent consent from our lenders, we may not incur more than \$1 billion of senior secured debt and \$750 million of additional unsecured indebtedness to be limited to \$250 million in general unsecured obligations and \$500 million in unsecured obligations to finance acquisitions valued at \$500 million or more.

The per annum interest rate under the Amended Revolver is variable and is calculated by applying a margin (1) for prime rate loans of 0.25% to 0.50% above the highest of (a) the prime rate of the administrative agent, (b) the federal funds effective rate plus 0.50% and (c) the LIBO rate for a one month interest period as determined on such day plus 1.00%, and (2) for LIBO rate loans of 1.25% to 1.50% above the LIBO rate. The applicable margin is determined quarterly as a function of our average daily excess availability under the facility. In addition, we are required to pay a commitment fee of 0.25% for any unused portion of the total commitment under the Amended Revolver. As of November 3, 2018, the applicable margin was 0.25% for prime rate loans and 1.25% for LIBO rate loans.

The Amended Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, any material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting us or our subsidiaries, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of the Company or certain of its subsidiaries. During the 39 weeks ended November 3, 2018, we cumulatively borrowed \$154.0 million and repaid \$154.0 million under our revolving credit facility. As of November 3, 2018, total availability under the Amended Revolver was \$412.8 million, with no outstanding borrowings and outstanding standby letters of credit of \$7.2 million. We are currently in compliance with the financial requirements of the Amended Revolver.

## Luxembourg Line of Credit

In September 2007, our Luxembourg subsidiary entered into a discretionary \$20.0 million Uncommitted Line of Credit (the “Line of Credit”) with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit is available to our foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank

guarantees and letters of credit to support operations. As of November 3, 2018, there were \$3.8 million in cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled \$8.9 million.



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GAMESTOP CORP.

CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

## 8. Commitments and Contingencies

## Commitments

During the 39 weeks ended November 3, 2018, there were no material changes to our commitments as disclosed in our 2017 Annual Report on Form 10-K.

## Contingencies

## Legal Proceedings

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

Certain of our French subsidiaries have been under audit by the French Tax Administration (the "FTA") for fiscal years 2008 through 2015. We received tax reassessment notices pursuant to which the FTA asserted that the French subsidiaries were ineligible to claim certain tax deductions from November 4, 2008, through January 31, 2013, which resulted in a tax collection notice received on January 16, 2018 in the amount of approximately €80.0 million. Based on the nature of the tax deductions being challenged, collection notices through fiscal year 2018 were anticipated. During the 13 weeks ended August 4, 2018, we recorded a \$29.6 million charge and subsequently settled this matter with the FTA during the 13 weeks ended November 3, 2018. No additional charge was recorded as a result of the final settlement, which covers fiscal years 2008 through 2018.

## 9. Earnings Per Share

Basic net income (loss) per common share is computed by dividing the net income (loss) available to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net income (loss) per common share is computed by dividing the net income (loss) available to common stockholders by the weighted-average number of common shares outstanding and potentially dilutive securities outstanding during the period. Potentially dilutive securities include stock options and unvested restricted stock outstanding during the period, using the treasury stock method. Potentially dilutive securities are excluded from the computations of diluted earnings per share if their effect would be antidilutive. A reconciliation of shares used in calculating basic and diluted net income (loss) per common share is as follows (in millions, except per share data):

	13 Weeks Ended		39 Weeks Ended	
	November 3,	October 28,	November 3,	October 28,
	2018	2017	2018	2017
Net (loss) income	\$(488.6)	\$ 59.4	\$(485.3)	\$ 140.6
Basic weighted average common shares outstanding	102.2	101.5	102.0	101.4
Dilutive effect of stock options and restricted stock awards	—	—	—	0.1
Diluted weighted average common shares outstanding	102.2	101.5	102.0	101.5
Basic (loss) earnings per share	\$(4.78 )	\$ 0.59	\$(4.76 )	\$ 1.39
Diluted (loss) earnings per share	\$(4.78 )	\$ 0.59	\$(4.76 )	\$ 1.39
Anti-dilutive stock options and restricted stock awards	1.7	2.0	1.7	2.1

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## 10. Segment Information

We report our business in four geographic Video Game Brands segments: United States, Canada, Australia and Europe; and a Technology Brands segment. We identify segments based on a combination of geographic areas and management responsibility. Each of the segments includes significant retail operations with all Video Game Brands stores engaged in the sale of new and pre-owned video game hardware, software, accessories and collectibles, and Technology Brands stores engaged in the sale of wireless products and services and other consumer electronics. Our Video Game Brands segments also include stand-alone collectibles stores. Segment results for the United States include retail operations in 50 states, the District of Columbia and Guam; our e-commerce websites www.gamestop.com and www.thinkgeek.com; Game Informer magazine; and Kongregate, a web and mobile gaming platform which we sold in July 2017. Segment results for Canada include retail and e-commerce operations in Canada and segment results for Australia include retail and e-commerce operations in Australia and New Zealand. Segment results for Europe include retail and e-commerce operations in 10 European countries. Our Technology Brands segment includes our Spring Mobile managed AT&T and Cricket Wireless branded stores and Simply Mac stores, all of which operate in the United States. We sold our Cricket Wireless branded stores in January 2018 and on November 21, 2018, we entered into a definitive agreement to sell our Spring Mobile business, which is expected to close in the fourth quarter of fiscal 2018.

We measure segment profit using operating earnings, which is defined as income from continuing operations before intercompany royalty fees, net interest expense and income taxes. Transactions between reportable segments consist primarily of royalties, management fees, intersegment loans and related interest. There were no material intersegment sales during the 13 and 39 weeks ended November 3, 2018 and October 28, 2017. The reconciliation of segment operating earnings (loss) to earnings (loss) before income taxes for 13 and 39 weeks ended November 3, 2018 and October 28, 2017 is as follows (in millions):

	United States	Canada	Australia	Europe	Technology Brands	Consolidated
13 weeks ended November 3, 2018						
Net sales	\$1,304.3	\$107.0	\$147.4	\$354.6	\$171.1	\$2,084.4
Operating (loss) earnings	(426.1)	(7.1)	(30.4)	(53.2)	23.3	(493.5)
Interest income						1.1
Interest expense						(14.1)
Loss before income taxes						\$(506.5)
13 weeks ended October 28, 2017						
Net sales	\$1,188.0	\$97.1	\$156.2	\$353.1	\$194.2	\$1,988.6
Operating earnings	52.2	3.2	5.3	8.9	18.0	87.6
Interest income						0.2
Interest expense						(14.1)
Earnings before income taxes						\$73.7
39 weeks ended November 3, 2018						
Net sales	\$3,594.9	\$263.4	\$405.9	\$891.9	\$509.0	\$5,665.1
Operating (loss) earnings	(334.7)	(10.7)	(37.5)	(85.3)	53.4	(414.8)
Interest income						2.1
Interest expense						(42.7)
Loss before income taxes						\$(455.4)
39 weeks ended October 28, 2017						
Net sales	\$3,545.3	\$256.9	\$438.2	\$897.8	\$583.9	\$5,722.1
Operating earnings (loss)	175.3	5.1	10.2	(2.4)	44.1	232.3

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Interest income	0.4	
Interest expense	(42.6	)
Earnings before income taxes	\$ 190.1	

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ITEM MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS

The following discussion should be read in conjunction with the information contained in our unaudited condensed consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management's plans and objectives, our Board of Directors' review of strategic and financial alternatives, as announced on September 6, 2018, and any statements concerning assumptions related to the foregoing contained in Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. See our Annual Report on Form 10-K, for the fiscal year ended February 3, 2018 filed with the Securities and Exchange Commission on April 2, 2018 (the "2017 Annual Report on Form 10-K"), including the factors disclosed under "Item 1A. Risk Factors," as well as "Disclosure Regarding Forward-looking Statements" and "Item 1A. Risk Factors" below, for certain factors that may cause actual results to vary materially from these forward-looking statements.

OVERVIEW

GameStop Corp. ("GameStop," "we," "us," "our," or the "Company") is a global family of specialty retail brands that makes the most popular technologies affordable and simple. Within our family of brands, we are the world's largest omnichannel video game retailer, the largest AT&T® ("AT&T") authorized retailer, the largest Apple® ("Apple") certified products reseller, and the owner of www.thinkgeek.com, one of the world's largest sellers of collectible pop-culture themed products. As of November 3, 2018, GameStop's retail network and family of brands included 7,173 company-operated stores in the United States, Canada, Australia and Europe.

We have five reportable segments, which are comprised of four geographic Video Game Brands segments—United States, Canada, Australia and Europe—and a Technology Brands segment. Our Technology Brands segment includes our Spring Mobile and Simply Mac businesses. Spring Mobile owns and operates our AT&T branded wireless retail stores.

On November 21, 2018, we entered into a definitive agreement to sell our Spring Mobile business for \$700 million, excluding transaction fees and subject to customary working capital and indebtedness adjustments. The transaction is expected to close in the fourth quarter of fiscal 2018, subject to customary closing conditions.

Our fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. The fiscal year ending February 2, 2019 ("fiscal 2018") consists of 52 weeks and the fiscal year ended February 3, 2018 ("fiscal 2017") consists of 53 weeks. Our business, like that of many retailers, is seasonal, with the major portion of the net sales realized during the fourth fiscal quarter, which includes the holiday selling season.

Growth in the video game industry is generally driven by the introduction of new technology. Gaming consoles are typically launched in cycles as technological developments provide significant improvements in graphics, audio quality, game play, internet connectivity and other entertainment capabilities beyond video gaming. The current generation of consoles include the Sony PlayStation 4 (2013), Microsoft Xbox One (2013) and the Nintendo Switch (March 2017). In 2016, Sony and Microsoft released refreshes to the PlayStation 4 and Xbox One, respectively, and Sony also released the PlayStation VR. In November 2017, Microsoft released a further enhanced version of its current generation console, the Xbox One X.

The sale of video games delivered through digital channels and other forms of gaming continue to grow and take an increasing percentage of physical video game sales. We currently sell various types of products that relate to the digital category, including digitally downloadable content ("DLC"), full game downloads, Xbox LIVE, PlayStation Plus and Nintendo network points cards, as well as prepaid digital and prepaid subscription cards. We have made significant investments in e-commerce and in-store and website functionality to enable our customers to access digital content easily and facilitate the digital sales and delivery process. We plan to continue to invest in these types of processes and channels to grow our digital sales base and enhance our market leadership position in the video game industry and in the digital aggregation and distribution category.

In our discussion of the results of operations, we refer to comparable store sales, which is a measure commonly used in the retail industry and indicates store performance by measuring the growth or decline in sales for certain stores for a particular period over the corresponding period in the prior year. Our comparable store sales are comprised of sales from our Video Game Brands stores, including stand-alone collectible stores, operating for at least 12 full months as well as sales related to our websites and sales we earn from sales of pre-owned merchandise to wholesalers or dealers.

Comparable store sales for our international operating segments exclude the effect of changes in foreign currency exchange rates. The calculation of comparable store sales for 13 weeks and 39 weeks ended November 3, 2018 compares those periods to the most closely comparable weeks for the prior year. The method of calculating comparable store sales varies across the retail industry. As a result, our method of calculating comparable store sales may not be the same as other retailers' methods. We believe our calculation of comparable store sales best represents our strategy as an omnichannel retailer that provides its consumers several ways to access its products.

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Our Technology Brands stores are excluded from the calculation of comparable store sales. We do not consider comparable store sales to be a meaningful metric in evaluating the performance of our Technology Brands stores due to the frequently changing nature of revenue streams and commission structures associated with this segment of our business. Instead, we measure the performance of our Technology Brands stores by using comparable store gross profit, which is calculated using a similar methodology as comparable stores sales, but replacing sales with gross profit in the calculation. Our method of calculating comparable store gross profit may not be the same as other retailers' methods.

**CONSOLIDATED RESULTS OF OPERATIONS**

The following table sets forth certain statement of operations items (in millions) and as a percentage of net sales, for the periods indicated:

	13 Weeks Ended				39 Weeks Ended			
	November 3, 2018		October 28, 2017		November 3, 2018		October 28, 2017	
	Amount	Percent of Net Sales	Amount	Percent of Net Sales	Amount	Percent of Net Sales	Amount	Percent of Net Sales
Net sales	\$2,084.4	100.0 %	\$1,988.6	100.0 %	\$5,665.1	100.0 %	\$5,722.1	100.0 %
Cost of sales	1,393.6	66.9	1,299.2	65.3	3,720.9	65.7	3,706.5	64.8
Gross profit	690.8	33.1	689.4	34.7	1,944.2	34.3	2,015.6	35.2
Selling, general and administrative expenses	566.6	27.2	565.1	28.5	1,675.0	29.6	1,671.0	29.1
Depreciation and amortization	30.2	1.4	36.7	1.8	96.5	1.7	112.3	2.0
Goodwill impairments	557.3	26.7	—	—	557.3	9.8	—	—
Asset impairments	30.2	1.5	—	—	30.2	0.5	—	—
Operating (loss) earnings	(493.5 )	(23.7 )	87.6	4.4	(414.8 )	(7.3 )	232.3	4.1
Interest expense, net	13.0	0.6	13.9	0.7	40.6	0.7	42.2	0.7
(Loss) earnings before income tax expense	(506.5 )	(24.3 )	73.7	3.7	(455.4 )	(8.0 )	190.1	3.4
Income tax (benefit) expense	(17.9 )	(0.9 )	14.3	0.7	29.9	0.6	49.5	0.9
Net (loss) income	\$(488.6 )	(23.4 )%	\$59.4	3.0 %	\$(485.3 )	(8.6 )%	\$140.6	2.5 %

We include purchasing, receiving and distribution costs in selling, general and administrative expenses ("SG&A") in the statement of operations. We include processing fees associated with purchases made by check and credit cards in cost of sales in the statement of operations. As a result of these classifications, our gross margins are not comparable to those retailers that include purchasing, receiving and distribution costs in cost of sales and include processing fees associated with purchases made by check and credit cards in SG&A. The net effect of these classifications as a percentage of sales has not historically been material.

The following tables set forth, by significant product category, net sales and gross profit information for the periods indicated (dollars in millions):

	13 Weeks Ended				39 Weeks Ended			
	November 3, 2018		October 28, 2017		November 3, 2018		October 28, 2017	
	Net Sales	Percent of Total	Net Sales	Percent of Total	Net Sales	Percent of Total	Net Sales	Percent of Total
New video game hardware <sup>(1)</sup>	\$349.0	16.7 %	\$309.5	15.6 %	\$1,006.5	17.8 %	\$947.8	16.6 %
New video game software	720.7	34.6	649.9	32.7	1,488.3	26.3	1,539.7	26.9
Pre-owned and value video game products	396.9	19.0	458.5	23.0	1,344.7	23.7	1,486.5	26.0
Video game accessories	180.8	8.7	136.4	6.9	567.2	10.0	456.6	8.0
Digital	45.4	2.2	37.2	1.9	128.6	2.3	127.8	2.2

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Technology Brands <sup>(2)</sup>	171.1	8.2	194.2	9.8	509.0	9.0	583.9	10.2
Collectibles	154.6	7.4	138.4	6.9	438.7	7.7	375.4	6.6
Other <sup>(3)</sup>	65.9	3.2	64.5	3.2	182.1	3.2	204.4	3.5
Total	\$2,084.4	100.0%	\$1,988.6	100.0%	\$5,665.1	100.0%	\$5,722.1	100.0%

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	13 Weeks Ended				39 Weeks Ended			
	November 3, 2018		October 28, 2017		November 3, 2018		October 28, 2017	
	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent
New video game hardware <sup>(1)</sup>	\$36.5	10.5 %	\$36.8	11.9 %	\$106.3	10.6 %	\$101.6	10.7 %
New video game software	159.0	22.1	155.9	24.0	325.7	21.9	351.4	22.8
Pre-owned and value video game products	171.1	43.1	199.7	43.6	589.2	43.8	679.0	45.7
Video game accessories	65.0	36.0	48.5	35.6	195.2	34.4		