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GameStop Corp.  
Form 10-Q  
September 08, 2014

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 AUGUST 2, 2014  
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  
(State or other jurisdiction of  
incorporation or organization)

20-2733559  
(I.R.S. Employer  
Identification No.)

625 Westport Parkway,  
Grapevine, Texas  
(Address of principal executive  
offices)

76051  
(Zip Code)

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

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

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

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

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

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

Number of shares of \$.001 par value Class A Common Stock outstanding as of August 29, 2014: 112,667,338

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## GAMESTOP CORP.

## CONDENSED CONSOLIDATED BALANCE SHEETS

|  | August 2,<br>2014                    | August 3,<br>2013 | February 1,<br>2014 |
|--|--------------------------------------|-------------------|---------------------|
|  | (In millions, except per share data) |                   |                     |
|  | (Unaudited)                          |                   |                     |
| <b>ASSETS</b>  |                                      |                   |                     |
| Current assets:  |                                      |                   |                     |
| Cash and cash equivalents  | \$ 193.0                             | \$ 127.4          | \$ 536.2            |
| Receivables, net   | 91.2                                 | 55.7              | 84.4                |
| Merchandise inventories, net   | 1,061.0                              | 1,004.4           | 1,198.9             |
| Deferred income taxes  | 59.2                                 | 55.2              | 51.7                |
| Income taxes receivable  | 83.0                                 | 50.9              | —                   |
| Prepaid expenses and other current assets  | 98.9                                 | 98.8              | 78.4                |
| Total current assets   | 1,586.3                              | 1,392.4           | 1,949.6             |
| Property and equipment:  |                                      |                   |                     |
| Land   | 21.0                                 | 20.7              | 20.4                |
| Buildings and leasehold improvements   | 621.9                                | 594.3             | 609.6               |
| Fixtures and equipment   | 864.0                                | 939.2             | 841.8               |
| Total property and equipment   | 1,506.9                              | 1,554.2           | 1,471.8             |
| Less accumulated depreciation and amortization   | 1,057.2                              | 1,074.8           | 995.6               |
| Net property and equipment   | 449.7                                | 479.4             | 476.2               |
| Goodwill   | 1,420.6                              | 1,365.1           | 1,414.7             |
| Other intangible assets, net   | 222.0                                | 144.4             | 194.3               |
| Other noncurrent assets  | 84.9                                 | 57.0              | 56.6                |
| Total noncurrent assets  | 2,177.2                              | 2,045.9           | 2,141.8             |
| Total assets   | \$3,763.5                            | \$3,438.3         | \$4,091.4           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                      |                   |                     |
| Current liabilities:   |                                      |                   |                     |
| Accounts payable   | \$460.8                              | \$315.8           | \$783.9             |
| Accrued liabilities  | 743.1                                | 812.0             | 861.7               |
| Income taxes payable   | 29.7                                 | —                 | 78.0                |
| Current portion of debt  | 214.1                                | 50.0              | 2.4                 |
| Total current liabilities  | 1,447.7                              | 1,177.8           | 1,726.0             |
| Deferred income taxes  | 58.9                                 | 27.3              | 37.4                |
| Other long-term liabilities  | 75.2                                 | 76.5              | 75.0                |
| Notes payable - long-term  | 0.3                                  | —                 | 1.6                 |
| Total long-term liabilities  | 134.4                                | 103.8             | 114.0               |
| Total liabilities  | 1,582.1                              | 1,281.6           | 1,840.0             |
| Commitments and contingencies (Note 7)   |                                      |                   |                     |
| Stockholders' equity:  |                                      |                   |                     |
| Preferred stock — authorized 5.0 shares; no shares issued or outstanding                                       | —                                    | —                 | —                   |
| Class A common stock — \$.001 par value; authorized 300.0 shares; 112.8, 127.1 and 115.3 shares issued, 112.8, | 0.1                                  | 0.1               | 0.1                 |

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117.1 and 115.3 shares outstanding, respectively

|  |           |           |           |
|--|-----------|-----------|-----------|
| Additional paid-in-capital                 | 65.8      | 286.3     | 172.9     |
| Accumulated other comprehensive income     | 104.1     | 98.3      | 82.5      |
| Retained earnings                          | 2,011.4   | 1,772.0   | 1,995.9   |
| Total stockholders' equity                 | 2,181.4   | 2,156.7   | 2,251.4   |
| Total liabilities and stockholders' equity | \$3,763.5 | \$3,438.3 | \$4,091.4 |

See accompanying notes to unaudited condensed consolidated financial statements.

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## GAMESTOP CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

|   | 13 Weeks Ended                       |                   | 26 Weeks Ended    |                   |
|---|--------------------------------------|-------------------|-------------------|-------------------|
|   | August 2,<br>2014                    | August 3,<br>2013 | August 2,<br>2014 | August 3,<br>2013 |
|   | (In millions, except per share data) |                   |                   |                   |
|   | (Unaudited)                          |                   |                   |                   |
| Net sales   | \$1,731.4                            | \$1,383.7         | \$3,727.7         | \$3,249.0         |
| Cost of sales   | 1,180.5                              | 902.3             | 2,550.4           | 2,189.3           |
| Gross profit  | 550.9                                | 481.4             | 1,177.3           | 1,059.7           |
| Selling, general and administrative expenses                  | 475.4                                | 421.6             | 956.4             | 870.8             |
| Depreciation and amortization                                 | 38.8                                 | 41.0              | 78.3              | 82.9              |
| Operating earnings  | 36.7                                 | 18.8              | 142.6             | 106.0             |
| Interest income   | (0.1                                 | ) (0.1            | ) (0.3            | ) (0.2            |
| Interest expense  | 1.2                                  | 1.4               | 2.0               | 2.4               |
| Earnings before income tax expense                            | 35.6                                 | 17.5              | 140.9             | 103.8             |
| Income tax expense  | 11.0                                 | 7.0               | 48.3              | 38.7              |
| Net income  | \$24.6                               | \$10.5            | \$92.6            | \$65.1            |
| Basic net income per common share                             | \$0.22                               | \$0.09            | \$0.81            | \$0.55            |
| Diluted net income per common share                           | \$0.22                               | \$0.09            | \$0.80            | \$0.55            |
| Dividends per common share                                    | \$0.33                               | \$0.275           | \$0.66            | \$0.55            |
| Weighted average shares of common stock outstanding — basic   | 113.6                                | 117.9             | 114.3             | 118.1             |
| Weighted average shares of common stock outstanding — diluted | 114.3                                | 119.2             | 115.1             | 119.3             |

See accompanying notes to unaudited condensed consolidated financial statements.

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GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

|   | 13 Weeks Ended    |                   | 26 Weeks Ended    |                   |   |
|---|-------------------|-------------------|-------------------|-------------------|---|
|   | August 2,<br>2014 | August 3,<br>2013 | August 2,<br>2014 | August 3,<br>2013 |   |
|   | (In millions)     |                   |                   |                   |   |
|   | (Unaudited)       |                   |                   |                   |   |
| Net income                              | \$24.6            | \$10.5            | \$92.6            | \$65.1            |   |
| Other comprehensive income (loss):      |                   |                   |                   |                   |   |
| Foreign currency translation adjustment | (7.6              | ) (48.0           | ) 21.6            | (66.1             | ) |
| Total comprehensive income (loss)       | \$17.0            | \$(37.5           | ) \$114.2         | \$(1.0            | ) |

See accompanying notes to unaudited condensed consolidated financial statements.

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## GAMESTOP CORP.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

|  | Class A<br>Common Stock      |                 | Additional         | Accumulated                      | Retained  | Total     |
|--|------------------------------|-----------------|--------------------|----------------------------------|-----------|-----------|
|  | Shares                       | Common<br>Stock | Paid-in<br>Capital | Other<br>Comprehensive<br>Income | Earnings  |           |
|  | (In millions)<br>(Unaudited) |                 |                    |                                  |           |           |
| Balance at February 2, 2014  | 115.3                        | \$0.1           | \$172.9            | \$ 82.5                          | \$1,995.9 | \$2,251.4 |
| Net income for the 26 weeks ended<br>August 2, 2014  | —                            | —               | —                  | —                                | 92.6      | 92.6      |
| Foreign currency translation   | —                            | —               | —                  | 21.6                             | —         | 21.6      |
| Dividends <sup>(1)</sup>   | —                            | —               | —                  | —                                | (77.1     | ) (77.1   |
| Stock-based compensation   | —                            | —               | 12.6               | —                                | —         | 12.6      |
| Repurchase of common shares  | (3.2                         | ) —             | (127.7             | ) —                              | —         | (127.7    |
| Exercise of stock options and issuance<br>of shares upon vesting of restricted<br>stock grants (including tax benefit of<br>\$4.4) | 0.7                          | —               | 8.0                | —                                | —         | 8.0       |
| Balance at August 2, 2014  | 112.8                        | \$0.1           | \$65.8             | \$ 104.1                         | \$2,011.4 | \$2,181.4 |

<sup>(1)</sup> Dividends declared per common share were \$0.66 in the 26 weeks ended August 2, 2014.

|   | Class A<br>Common Stock      |                 | Additional         | Accumulated                      | Retained  | Total     |
|---|------------------------------|-----------------|--------------------|----------------------------------|-----------|-----------|
|   | Shares                       | Common<br>Stock | Paid-in<br>Capital | Other<br>Comprehensive<br>Income | Earnings  |           |
|   | (In millions)<br>(Unaudited) |                 |                    |                                  |           |           |
| Balance at February 3, 2013   | 118.2                        | \$0.1           | \$ 348.3           | \$ 164.4                         | \$1,773.5 | \$2,286.3 |
| Net income for the 26 weeks ended<br>August 3, 2013   | —                            | —               | —                  | —                                | 65.1      | 65.1      |
| Foreign currency translation  | —                            | —               | —                  | (66.1                            | ) —       | (66.1     |
| Dividends <sup>(2)</sup>  | —                            | —               | —                  | —                                | (66.6     | ) (66.6   |
| Stock-based compensation  | —                            | —               | 11.5               | —                                | —         | 11.5      |
| Repurchase of common shares   | (3.4                         | ) —             | (114.4             | ) —                              | —         | (114.4    |
| Exercise of stock options and issuance<br>of shares upon vesting of restricted stock<br>grants (including tax benefit of \$1.6) | 2.3                          | —               | 40.9               | —                                | —         | 40.9      |
| Balance at August 3, 2013   | 117.1                        | \$0.1           | \$ 286.3           | \$ 98.3                          | \$1,772.0 | \$2,156.7 |

(2) Dividends declared per common share were \$0.55 in the 26 weeks ended August 3, 2013. See accompanying notes to unaudited condensed consolidated financial statements.

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GAMESTOP CORP.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | 26 Weeks Ended    |                   |
|---|-------------------|-------------------|
|   | August 2,<br>2014 | August 3,<br>2013 |
|   | (In millions)     |                   |
|   | (Unaudited)       |                   |
| Cash flows from operating activities:   |                   |                   |
| Net income  | \$92.6            | \$65.1            |
| Adjustments to reconcile net income to net cash flows used in operating activities: |                   |                   |
| Depreciation and amortization (including amounts in cost of sales)                  | 79.4              | 84.2              |
| Stock-based compensation expense  | 12.6              | 11.5              |
| Deferred income taxes   | (13.2)            | ) 1.0             |
| Excess tax benefits related to stock-based awards                                   | (4.4)             | ) (1.6)           |
| Loss on disposal of property and equipment  | 2.1               | 3.4               |
| Other   | 20.1              | (0.9)             |
| Changes in operating assets and liabilities:  |                   |                   |
| Receivables, net  | (4.8)             | ) 16.9            |
| Merchandise inventories   | 125.8             | 142.2             |
| Prepaid expenses and other current assets   | (19.9)            | ) (31.8)          |
| Income tax payable/receivable   | (115.7)           | ) (152.9)         |
| Accounts payable and accrued liabilities  | (450.1)           | ) (200.0)         |
| Changes in other long-term liabilities  | 0.2               | (22.4)            |
| Net cash flows used in operating activities   | (275.3)           | ) (85.3)          |
| Cash flows from investing activities:   |                   |                   |
| Purchase of property and equipment  | (51.5)            | ) (47.3)          |
| Acquisitions, net of cash acquired of \$2.5   | (43.1)            | ) —               |
| Other   | (0.9)             | ) 1.4             |
| Net cash flows used in investing activities   | (95.5)            | ) (45.9)          |
| Cash flows from financing activities:   |                   |                   |
| Repurchase of common shares   | (123.8)           | ) (114.4)         |
| Dividends paid  | (75.7)            | ) (66.2)          |
| Proceeds from the revolver  | 476.0             | 130.0             |
| Repayments of revolver borrowings   | (266.0)           | ) (80.0)          |
| Payments of financing costs   | (1.3)             | ) —               |
| Issuance of common stock, net of share repurchases for withholdings taxes           | (2.0)             | ) 39.3            |
| Excess tax benefits related to stock-based awards                                   | 4.4               | 3.1               |
| Net cash flows provided by (used in) financing activities                           | 11.6              | (88.2)            |
| Exchange rate effect on cash and cash equivalents                                   | 16.0              | (27.6)            |
| Net decrease in cash and cash equivalents   | (343.2)           | ) (247.0)         |
| Cash and cash equivalents at beginning of period                                    | 536.2             | 374.4             |
| Cash and cash equivalents at end of period  | \$193.0           | \$127.4           |
| See accompanying notes to unaudited condensed consolidated financial statements.    |                   |                   |

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

Background

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. As the world’s largest multichannel video game retailer, we sell new and pre-owned video game hardware, physical and digital video game software, video game accessories, as well as new and pre-owned mobile and consumer electronics products and other merchandise primarily through our GameStop, EB Games and Micromania stores. We sell consumer electronics, mobile products and wireless services primarily through our Simply Mac, Spring Mobile and Cricket Wireless stores. As of August 2, 2014, we operated 6,698 stores, in the United States, Australia, Canada and Europe, which are primarily located in major shopping malls and strip centers. We also operate electronic commerce Web sites [www.gamestop.com](http://www.gamestop.com), [www.ebgames.com.au](http://www.ebgames.com.au), [www.ebgames.co.nz](http://www.ebgames.co.nz), [www.gamestop.ca](http://www.gamestop.ca), [www.gamestop.it](http://www.gamestop.it), [www.gamestop.es](http://www.gamestop.es), [www.gamestop.ie](http://www.gamestop.ie), [www.gamestop.de](http://www.gamestop.de), [www.gamestop.co.uk](http://www.gamestop.co.uk) and [www.micromania.fr](http://www.micromania.fr). The network also includes: [www.kongregate.com](http://www.kongregate.com), a leading browser-based game site; Game Informer magazine, the world’s leading print and digital video game publication; a digital PC game distribution platform available at [www.gamestop.com/pcgames](http://www.gamestop.com/pcgames); iOS and Android mobile applications; and an online consumer electronics marketplace available at [www.buymytronics.com](http://www.buymytronics.com). We also own and operate a certified Apple reseller selling Apple products in the United States under the name Simply Mac; Spring Mobile, an authorized AT&T reseller operating AT&T branded wireless retail stores in the United States; and pre-paid wireless stores under the name Cricket Wireless (an AT&T brand) as part of our expanding relationship with AT&T. We operate our business in four Video Game Brands segments: United States, Canada, Australia and Europe, and a Technology Brands segment, which was added in the fourth quarter of the fiscal year comprised of the 52 weeks ended February 1, 2014 (“fiscal 2013”) and includes the operations of our Simply Mac, Spring Mobile and Cricket Wireless businesses.

Basis of Presentation and Consolidation

The unaudited condensed consolidated financial statements include our accounts and the accounts of our subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Additionally, certain reclassifications have been made to prior period amounts reflected in the condensed consolidated statements of cash flows to conform to the current period presentation. The unaudited condensed consolidated financial statements included herein reflect all adjustments (consisting only of normal, recurring adjustments) which are, in our opinion, necessary for a fair presentation of the information for the periods presented. These unaudited condensed consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all disclosures required under GAAP for complete consolidated financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with our annual report on Form 10-K for the 52 weeks ended February 1, 2014 (the “2013 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 13 and 26 weeks ended August 2, 2014 are not indicative of the results to be expected for the 52 weeks ending January 31, 2015 (“fiscal 2014”). We have revised the presentation of outstanding checks in our prior period financial statements as indicated in the tables below. Previously, we reduced cash and liabilities when the checks were presented for payment and cleared our

bank accounts. We now reduce cash and liabilities when the checks are released for payment. The impacts of revising our financial statements for the specified prior periods are as follows:

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

| Consolidated Balance Sheets as of August 3, 2013:                               | As Previously<br>Reported<br>(In millions) | Revision  | As Revised |
|---|--|-----------|------------|
| Cash and cash equivalents   | \$199.5                                    | \$(72.1   | ) \$127.4  |
| Total current assets  | 1,464.5                                    | (72.1     | ) 1,392.4  |
| Total assets  | 3,510.4                                    | (72.1     | ) 3,438.3  |
| Accounts payable  | 356.8                                      | (41.0     | ) 315.8    |
| Accrued liabilities   | 843.1                                      | (31.1     | ) 812.0    |
| Total current liabilities   | 1,249.9                                    | (72.1     | ) 1,177.8  |
| Total liabilities   | 1,353.7                                    | (72.1     | ) 1,281.6  |
| Consolidated Statements of Cash Flows for the 26 weeks<br>ended August 3, 2013: | As Previously<br>Reported<br>(In millions) | Revision  | As Revised |
| Changes in operating assets and liabilities:                                    |  |           |            |
| Accounts payable and accrued liabilities  | \$(389.3                                   | ) \$189.3 | \$(200.0   |
| Net cash flows provided by operating activities                                 | (274.6                                     | ) 189.3   | (85.3      |
| Cash and cash equivalents at beginning of period                                | 635.8                                      | (261.4    | ) 374.4    |
| Cash and cash equivalents at end of period                                      | 199.5                                      | (72.1     | ) 127.4    |

## Restricted Cash

Restricted cash of \$13.6 million, \$10.4 million and \$16.4 million as of August 2, 2014, August 3, 2013 and February 1, 2014, 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.

## Revenue Recognition

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

## Recently Issued Accounting Pronouncements

In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards ("IFRS"), the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 related to revenue recognition. The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization 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 standard also requires more detailed disclosures and provides additional guidance for transactions that were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is not permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements as well as the appropriate method of adoption.

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In April 2014, the FASB issued ASU 2014-08 related to reporting discontinued operations and disclosures of disposals of components of an entity. Specifically, the ASU amends the definition of a discontinued operation, expands disclosure requirements for transactions that meet the definition of a discontinued operation and requires entities to disclose additional information about individually significant components that are disposed of or held for sale and do not qualify as discontinued operations. Additionally, entities will be required to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position and to separately present certain information related to the operating and investing cash flows of the discontinued operation, for all comparative periods, in the statement of cash flows. The ASU is effective for us beginning in the first quarter of our fiscal year ending January 30, 2016 and will be adopted on a prospective basis for all disposals (except disposals classified as held for sale prior to the adoption date) or components initially classified as held for sale in periods beginning on or after the adoption date, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

## 2. Acquisitions

## Technology Brands

During the first half of fiscal 2014, in connection with the continued expansion of our Technology Brands business, Spring Mobile completed acquisitions of certain AT&T resellers and Simply Mac completed an acquisition of an authorized Apple retailer for total consideration of \$45.6 million (\$43.1 million net of cash acquired). We recorded an immaterial amount of goodwill related to these acquisitions. We continue to believe that our Spring Mobile and Simply Mac businesses represent important strategic growth opportunities for us within the specialty retail marketplace and also provide avenues for diversification relative to our core operations in the video game retail marketplace.

## 3. Accounting for Stock-Based Compensation

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

|   | 26 Weeks Ended August 2, 2014         |  | 26 Weeks Ended August 3, 2013 |  |
|---|---------------------------------------|--|-------------------------------|--|
|   | Shares                                | Weighted Average Grant Date Fair Value | Shares                        | Weighted Average Grant Date Fair Value |
|   | (In thousands, except per share data) |  |                               |  |
| Stock options – time-vested                 | 283                                   | \$ 12.37                               | 457                           | \$ 7.10                                |
| Restricted stock awards – time-vested       | 437                                   | 38.64                                  | 916                           | 24.82                                  |
| Restricted stock awards – performance-based | 182                                   | 38.52                                  | 262                           | 24.82                                  |
| Total stock-based awards                    | 902                                   |  | 1,635                         |  |

For stock options granted, we record stock-based compensation expense in earnings based on the grant-date fair value. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This valuation model requires the use of subjective assumptions, including expected option life, expected volatility, expected dividend yield and expected employee forfeiture rate. We use historical data to estimate the option life, dividend yield and the employee forfeiture rate, and use historical volatility when estimating the stock price volatility. The following assumptions were used with respect to the stock options granted:

|  | 26 Weeks Ended    |                   |
|--|-------------------|-------------------|
|  | August 2,<br>2014 | August 3,<br>2013 |
|  |                   |                   |

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|                         |      |        |   |
|-------------------------|------|--------|---|
| Volatility              | 46.5 | % 46.4 | % |
| Risk-free interest rate | 1.7  | % 1.0  | % |
| Expected life (years)   | 5.5  | 5.6    |   |
| Expected dividend yield | 3.4  | % 4.3  | % |

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

|                                  | 13 Weeks Ended    |                   | 26 Weeks Ended    |                   |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                  | August 2,<br>2014 | August 3,<br>2013 | August 2,<br>2014 | August 3,<br>2013 |
|                                  | (In millions)     |                   |                   |                   |
| Stock-based compensation expense | \$6.8             | \$6.0             | \$12.6            | \$11.5            |

As of August 2, 2014, the unrecognized compensation expense related to the unvested portion of our stock-based awards was \$43.3 million, which is expected to be recognized over a weighted average period of 2 years. The total intrinsic value of options exercised during the 13 weeks ended August 2, 2014 and the 13 weeks ended August 3, 2013 was \$5.1 million and \$10.5 million, respectively. The total intrinsic value of options exercised during the 26 weeks ended August 2, 2014 and the 26 weeks ended August 3, 2013 was \$6.3 million and \$21.1 million, respectively.

#### 4. Computation of Net Income per Common Share

Basic net income per common share is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding and potentially dilutive securities outstanding during the period. Under the treasury stock method, potentially dilutive securities include stock options and unvested restricted stock outstanding during the period. 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 the computation of basic and diluted net income per common share is as follows:

|   | 13 Weeks Ended                       |                   | 26 Weeks Ended    |                   |
|---|--------------------------------------|-------------------|-------------------|-------------------|
|   | August 2,<br>2014                    | August 3,<br>2013 | August 2,<br>2014 | August 3,<br>2013 |
|   | (In millions, except per share data) |                   |                   |                   |
| Net income  | \$24.6                               | \$10.5            | \$92.6            | \$65.1            |
| Weighted average common shares outstanding                                      | 113.6                                | 117.9             | 114.3             | 118.1             |
| Dilutive effect of options and restricted shares on common stock <sup>(1)</sup> | 0.7                                  | 1.3               | 0.8               | 1.2               |
| Common shares and dilutive potential common shares                              | 114.3                                | 119.2             | 115.1             | 119.3             |
| Net income per common share:  |                                      |                   |                   |                   |
| Basic   | \$0.22                               | \$0.09            | \$0.81            | \$0.55            |
| Diluted   | \$0.22                               | \$0.09            | \$0.80            | \$0.55            |

Excludes 1.5 million, 1.6 million, 1.6 million, and 1.8 million share-based awards for the 13 weeks ended August 2, 2014, the 13 weeks ended August 3, 2013, the 26 weeks ended August 2, 2014 and the 26 weeks ended August 3, 2013, respectively, because their effects were antidilutive.

#### 5. Fair Value Measurements and Financial Instruments

Recurring Fair Value Measurements and Derivative Financial Instruments

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



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life insurance policies with a cash surrender value and certain nonqualified deferred compensation liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition.

Fair value accounting guidance requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs. Level 3 inputs are unobservable inputs for the asset or liability reflecting our assumptions about pricing by market participants.

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

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

|                                       | August 2,<br>2014 | August 3,<br>2013 | February 1,<br>2014 |
|---------------------------------------|-------------------|-------------------|---------------------|
| <b>Assets</b>                         |                   |                   |                     |
| Foreign currency contracts            |                   |                   |                     |
| Other current assets                  | \$2.0             | \$2.6             | \$0.9               |
| Other noncurrent assets               | 3.2               | 0.3               | 0.5                 |
| Company-owned life insurance(1)       | 7.2               | 5.4               | 7.1                 |
| Total assets                          | 12.4              | 8.3               | 8.5                 |
| <b>Liabilities</b>                    |                   |                   |                     |
| Foreign currency contracts            |                   |                   |                     |
| Accrued liabilities                   | 7.6               | 12.8              | 21.3                |
| Other long-term liabilities           | 1.6               | 8.0               | 2.2                 |
| Nonqualified deferred compensation(2) | 1.1               | 1.0               | 1.1                 |
| Total liabilities                     | \$10.3            | \$21.8            | \$24.6              |

(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 foreign currency contracts to manage currency risk primarily related to intercompany loans denominated in non-functional currencies and certain foreign currency assets and liabilities. These foreign currency contracts are not designated as hedges and, therefore, changes in the fair values of these derivatives are recognized in earnings, thereby offsetting the current earnings effect of the re-measurement of related intercompany loans and foreign currency assets and liabilities. The total gross notional value of derivatives related to our foreign currency contracts was \$713.4 million, \$692.3 million and \$640.6 million as of August 2, 2014, August 3, 2013 and February 1, 2014, respectively. Activity related to the trading of derivative instruments and the offsetting impact of related intercompany loans and foreign currency assets and liabilities recognized in selling, general and administrative expense is as follows (in millions):

| 13 Weeks Ended    |                   | 26 Weeks Ended    |                   |
|-------------------|-------------------|-------------------|-------------------|
| August 2,<br>2014 | August 3,<br>2013 | August 2,<br>2014 | August 3,<br>2013 |

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|  |       |         |          |         |   |
|--|-------|---------|----------|---------|---|
| Gains (losses) on the change in fair value of derivative instruments   | \$9.1 | \$(19.7 | ) \$10.4 | \$(10.3 | ) |
| Gains (losses) on the re-measurement of related intercompany loans and foreign currency assets and liabilities | (8.4  | ) 22.2  | (9.1     | ) 13.4  |   |
| Total  | \$0.7 | \$2.5   | \$1.3    | \$3.1   |   |

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

**Nonrecurring Fair Value Measurements**

In addition to assets and liabilities that are recorded at fair value on a recurring basis, we record certain assets and liabilities at fair value on a nonrecurring basis as required by GAAP. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. We did not record any significant impairment charges related to assets measured at fair value on a nonrecurring basis during the 13 and 26 weeks ended August 2, 2014 or August 3, 2013, respectively.

**Other Fair Value Disclosures**

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

**6. Debt**

On January 4, 2011, we entered into a \$400 million credit agreement, which we amended and restated on March 25, 2014 (the "Revolver"). The Revolver is a five-year, asset-based facility that is secured by substantially all of our assets and the assets of our domestic subsidiaries. Availability under the Revolver is subject to a monthly borrowing base calculation. The Revolver includes a \$50 million letter of credit sublimit. Prior to the March 2014 amendments, the Revolver was scheduled to mature in January 2016. The amendments extended the maturity date to March 25, 2019; increased the expansion feature under the Revolver from \$150 million to \$200 million, subject to certain conditions; and revised certain other terms, including a reduction of the fee we are required to pay on the unused portion of the total commitment amount. We believe the extension of the maturity date of the Revolver to March 2019 helps to limit our exposure to potential tightening or other adverse changes in the credit markets.

Borrowing availability under the Revolver is limited to a borrowing base which allows us to borrow up to 90% of the appraisal value of the inventory, in each case plus 90% of eligible credit card receivables, net of certain reserves. The borrowing base provides for borrowing up to 92.5% of the appraisal value during the fiscal months of August through October. Letters of credit reduce the amount available to borrow under the 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 Revolver is less than 30%, or is projected to be within 12 months after such payment or 2) if excess availability under the Revolver is less than 15%, or is projected to be within 12 months after such payment, and the fixed charge coverage ratio, as calculated on a pro-forma basis for the prior 12 months is 1.1:1.0 or less. In the event that excess availability under the 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 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 Revolver is variable and is calculated by applying a margin (1) for prime rate loans of 0.25% to 0.75% above the highest of (a) the prime rate of the administrative agent, (b) the federal funds effective rate plus 0.50% or (c) the London Interbank Offered ("LIBO") rate for a 30-day interest period as determined on such day plus 1.00%, and (2) for LIBO rate loans of 1.25% to 1.75% 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 Revolver. As of August 2, 2014, the applicable margin was 0.25% for prime rate loans and 1.25% for LIBO rate loans.

The Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, any material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting us or our subsidiaries, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of the Company or certain of its subsidiaries. During the 26 weeks ended August 2, 2014, we borrowed \$476 million and subsequently

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repaid \$266 million under the Revolver. During the 26 weeks ended August 3, 2013, we had borrowings of \$130 million and repayments of \$80 million under the Revolver. Average borrowings under the Revolver for the 26 weeks ended August 2, 2014 were \$91.1 million. Our average interest rate on those outstanding borrowings for the 26 weeks ended August 2, 2014 was 1.7%. As of August 2, 2014, total availability under the Revolver was \$181.4 million, with outstanding borrowings of \$210 million and outstanding standby letters of credit of \$8.3 million. We are currently in compliance with the requirements of the Revolver.

In September 2007, our Luxembourg subsidiary entered into a discretionary \$20.0 million Uncommitted Line of Credit (the "Line of Credit") with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit is available to our foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of August 2, 2014, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled \$4.1 million.

7. Commitments and Contingencies

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

8. Significant Products

Beginning with our 2013 Annual Report on Form 10-K, we expanded the categories included in our disclosures on sales and gross profit by category to reflect recent changes in our business, the expansion of categories previously included in Other and our management emphasis as we operate in the future. Our previous categories of New Video Game Hardware and New Video Game Software remain unchanged.

We have expanded our previous category of Pre-owned Video Game Products to include value-priced, or closeout, products and this category is now referred to as the Pre-owned and Value Video Game Products category. We believe there is an opportunity to purchase closeout and overstocked inventory from publishers, distributors and other retailers which is older new product but can be acquired for less than typical new release product costs. This product can then be resold in our Video Game Brands stores and on our websites as value-priced product. Our sales of this product in the past have yielded significantly higher margins than new video game products, yet lower margins than pre-owned video game products.

In the past, all other products we sold were categorized into "Other," which included video game accessories, digital products, new and pre-owned mobile products, consumer electronics, revenues from our PowerUp Rewards program and Game Informer subscription sales, strategy guides, toys and PC entertainment software. We are separating our historical Other category into the following new categories:

- Video Game Accessories, which includes new accessories for use with video game consoles and hand-held devices and software, such as controllers, gaming headsets and memory cards;

- Digital, which includes revenues from the sale of DLC, full game downloads, Xbox Live, PlayStation Plus and Nintendo network points and subscription cards, other prepaid digital currencies and time cards, Kongregate, Game Informer digital subscriptions and PC digital downloads;

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• Mobile and Consumer Electronics, which includes revenues from selling new and pre-owned mobile devices and consumer electronics in Video Game Brands stores and all revenues from our Technology Brands stores;

• Other, which includes revenues from the sales of PC entertainment software, toys, strategy guides and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in physical form.

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

|   | 13 Weeks Ended    |                     |                   |                     | 26 Weeks Ended    |                     |                   |                     |   |  |
|---|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|-------------------|---------------------|---|--|
|   | August 2,<br>2014 |                     | August 3,<br>2013 |                     | August 2,<br>2014 |                     | August 3,<br>2013 |                     |   |  |
|   | Net<br>Sales      | Percent<br>of Total | Net<br>Sales      | Percent<br>of Total | Net<br>Sales      | Percent<br>of Total | Net<br>Sales      | Percent<br>of Total |   |  |
| Net Sales:                              |                   |                     |                   |                     |                   |                     |                   |                     |   |  |
| New video game hardware                 | \$332.3           | 19.2                | % \$147.8         | 10.7                | % \$770.3         | 20.7                | % \$389.6         | 12.0                | % |  |
| New video game software                 | 497.0             | 28.7                | % 429.8           | 31.1                | % 1,056.9         | 28.4                | % 1,133.0         | 34.9                | % |  |
| Pre-owned and value video game products | 558.0             | 32.2                | % 528.7           | 38.2                | % 1,160.9         | 31.1                | % 1,101.3         | 33.9                | % |  |
| Video game accessories                  | 107.5             | 6.2                 | % 92.0            | 6.6                 | % 252.6           | 6.8                 | % 218.4           | 6.7                 | % |  |
| Digital                                 | 52.3              | 3.0                 | % 49.4            | 3.6                 | % 108.4           | 2.9                 | % 105.6           | 3.3                 | % |  |
| Mobile and consumer electronics         | 112.1             | 6.5                 | % 60.6            | 4.4                 | % 214.3           | 5.7                 | % 111.6           | 3.4                 | % |  |
| Other                                   | 72.2              | 4.2                 | % 75.4            | 5.4                 | % 164.3           | 4.4                 | % 189.5           | 5.8                 | % |  |
| Total                                   | \$1,731.4         | 100.0               | % \$1,383.7       | 100.0               | % \$3,727.7       | 100.0               | % \$3,249.0       | 100.0               | % |  |

|   | 13 Weeks Ended    |                            |                   |                            | 26 Weeks Ended    |                            |                   |                            |   |  |
|---|-------------------|----------------------------|-------------------|----------------------------|-------------------|----------------------------|-------------------|----------------------------|---|--|
|   | August 2,<br>2014 |                            | August 3,<br>2013 |                            | August 2,<br>2014 |                            | August 3,<br>2013 |                            |   |  |
|   | Gross<br>Profit   | Gross<br>Profit<br>Percent | Gross<br>Profit   | Gross<br>Profit<br>Percent | Gross<br>Profit   | Gross<br>Profit<br>Percent | Gross<br>Profit   | Gross<br>Profit<br>Percent |   |  |
| Gross Profit:                           |                   |                            |                   |                            |                   |                            |                   |                            |   |  |
| New video game hardware                 | \$31.6            | 9.5                        | % \$15.5          | 10.5                       | % \$76.2          | 9.9                        | % \$35.7          | 9.2                        | % |  |
| New video game software                 | 115.7             | 23.3                       | % 98.9            | 23.0                       | % 242.9           | 23.0                       | % 247.1           | 21.8                       | % |  |
| Pre-owned and value video game products | 262.1             | 47.0                       | % 250.6           | 47.4                       | % 560.5           | 48.3                       | % 521.4           | 47.3                       | % |  |
| Video game accessories                  | 41.9              | 39.0                       | % 38.4            | 41.7                       | % 96.9            | 38.4                       | % 88.3            | 40.4                       | % |  |
| Digital                                 | 34.0              | 65.0                       | % 35.1            | 71.1                       | % 69.8            | 64.4                       | % 72.4            | 68.6                       | % |  |
| Mobile and consumer electronics         | 40.5              | 36.1                       | % 16.3            | 26.9                       | % 77.6            | 36.2                       | % 28.9            | 25.9                       | % |  |
| Other                                   | 25.1              | 34.8                       | % 26.6            | 35.3                       | % 53.4            | 32.5                       | % 65.9            | 34.8                       | % |  |
| Total                                   | \$550.9           | 31.8                       | % \$481.4         | 34.8                       | % \$1,177.3       | 31.6                       | % \$1,059.7       | 32.6                       | % |  |

## 9. Segment Information

We operate our business in four Video Game Brands segments: United States, Canada, Australia and Europe, and a Technology Brands segment, which was added in the fourth quarter of fiscal 2013 and includes the operations of our Simply Mac, Spring Mobile and Cricket Wireless businesses. 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 systems and software and related accessories and Technology Brand stores engaged in the sale of consumer electronics and wireless products and

services. 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](http://www.gamestop.com); Game Informer magazine; the online video gaming Web site [www.kongregate.com](http://www.kongregate.com); a digital PC game distribution platform available at [www.gamestop.com/pcgames](http://www.gamestop.com/pcgames); and an online consumer electronics marketplace available at [www.buymytronics.com](http://www.buymytronics.com). Segment results for Canada include retail and e-commerce operations in Canada and segment results for Australia include retail and e-commerce operations in Australia and New Zealand. Segment results for Europe include retail operations in 11 European countries and e-commerce operations in six countries. The Technology Brands segment includes retail operations in the United States. We measure segment profit using operating earnings, which is defined as income from continuing operations before intercompany



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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 intersegment sales during the 13 weeks ended August 2, 2014 and August 3, 2013 or the 26 weeks ended August 2, 2014 and August 3, 2013.

The reconciliation of segment profit to earnings before income taxes for the 13 weeks ended August 2, 2014 and August 3, 2013, respectively, is as follows (in millions):

| 13 weeks ended August 2, 2014     | United States | Canada | Australia | Europe  | Technology Brands | Consolidated |
|-----------------------------------|---------------|--------|-----------|---------|-------------------|--------------|
| Net sales                         | \$1,101.0     | \$82.9 | \$142.1   | \$335.3 | \$70.1            | \$ 1,731.4   |
| Segment operating earnings (loss) | 35.6          | 1.2    | 4.8       | (12.0)  | 7.1               | 36.7         |
| Interest income                   |               |        |           |         |                   | 0.1          |
| Interest expense                  |               |        |           |         |                   | (1.2)        |
| Earnings before income taxes      |               |        |           |         |                   | 35.6         |

| 13 weeks ended August 3, 2013     | United States | Canada | Australia | Europe  | Technology Brands | Consolidated |
|-----------------------------------|---------------|--------|-----------|---------|-------------------|--------------|
| Net sales                         | \$942.4       | \$67.7 | \$112.4   | \$261.2 | \$—               | \$ 1,383.7   |
| Segment operating earnings (loss) | 43.4          | (0.7)  | 1.1       | (25.0)  | —                 | 18.8         |
| Interest income                   |               |        |           |         |                   | 0.1          |
| Interest expense                  |               |        |           |         |                   | (1.4)        |
| Earnings before income taxes      |               |        |           |         |                   | 17.5         |

The reconciliation of segment profit to earnings before income taxes for the 26 weeks ended August 2, 2014 and August 3, 2013, respectively, is as follows (in millions):

| 26 weeks ended August 2, 2014     | United States | Canada  | Australia | Europe  | Technology Brands | Consolidated |
|-----------------------------------|---------------|---------|-----------|---------|-------------------|--------------|
| Net sales                         | \$2,498.7     | \$173.2 | \$258.6   | \$667.0 | \$130.2           | \$ 3,727.7   |
| Segment operating earnings (loss) | 142.2         | 3.6     | 6.5       | (22.8)  | 13.1              | 142.6        |
| Interest income                   |               |         |           |         |                   | 0.3          |
| Interest expense                  |               |         |           |         |                   | (2.0)        |
| Earnings before income taxes      |               |         |           |         |                   | 140.9        |

| 26 weeks ended August 3, 2013     | United States | Canada  | Australia | Europe  | Technology Brands | Consolidated |
|-----------------------------------|---------------|---------|-----------|---------|-------------------|--------------|
| Net sales                         | \$2,295.3     | \$155.7 | \$226.5   | \$571.5 | \$—               | \$ 3,249.0   |
| Segment operating earnings (loss) | 136.2         | 1.8     | 2.6       | (34.6)  | —                 | 106.0        |
| Interest income                   |               |         |           |         |                   | 0.2          |
| Interest expense                  |               |         |           |         |                   | (2.4)        |
| Earnings before income taxes      |               |         |           |         |                   | 103.8        |

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10. Subsequent Events

Dividend

On August 19, 2014, our Board of Directors approved a quarterly cash dividend to our stockholders of \$0.33 per share of Class A Common Stock payable on September 16, 2014 to stockholders of record at the close of business on September 3, 2014. Future dividends will be subject to approval by our Board of Directors.

Share Repurchases

As of August 29, 2014, we have purchased an additional 0.1 million shares of our Class A Common Stock for an average price per share of \$41.48 since August 2, 2014.

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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 unaudited condensed consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management's plans and objectives, and any statements concerning assumptions related to the foregoing contained in Management's Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. See our Annual Report on Form 10-K for the fiscal year ended February 1, 2014 filed with the Securities and Exchange Commission (the "SEC") on April 2, 2014 (the "2013 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 which may cause actual results to vary materially from these forward-looking statements.

## General

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. As the world's largest multichannel video game retailer, we sell new and pre-owned video game hardware, physical and digital video game software, video game accessories, as well as new and pre-owned mobile and consumer electronics products and other merchandise primarily through our GameStop, EB Games and Micromania stores. We sell consumer electronics, mobile products and wireless services primarily through our Simply Mac, Spring Mobile and Cricket Wireless stores. As of August 2, 2014, we operated 6,698 stores in the United States, Australia, Canada and Europe, which are primarily located in major shopping malls and strip centers. We also operate electronic commerce Web sites [www.gamestop.com](http://www.gamestop.com), [www.ebgames.com.au](http://www.ebgames.com.au), [www.ebgames.co.nz](http://www.ebgames.co.nz), [www.gamestop.ca](http://www.gamestop.ca), [www.gamestop.it](http://www.gamestop.it), [www.gamestop.es](http://www.gamestop.es), [www.gamestop.ie](http://www.gamestop.ie), [www.gamestop.de](http://www.gamestop.de), [www.gamestop.co.uk](http://www.gamestop.co.uk) and [www.micromania.fr](http://www.micromania.fr). The network also includes: [www.kongregate.com](http://www.kongregate.com), a leading browser-based game site; Game Informer magazine, the world's leading print and digital video game publication; a digital PC game distribution platform available at [www.gamestop.com/pcgames](http://www.gamestop.com/pcgames); iOS and Android mobile applications; and an online consumer electronics marketplace available at [www.buymytronics.com](http://www.buymytronics.com). We also operate a certified Apple reseller selling Apple products in the United States under the name Simply Mac; Spring Mobile, an authorized AT&T reseller operating AT&T branded wireless retail stores in the United States; and pre-paid wireless stores under the name Cricket Wireless (an AT&T brand) as part of our expanding relationship with AT&T. Our Simply Mac, Spring Mobile and Cricket Wireless business comprise our Technology Brands segment.

Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January 31. The fiscal year ending January 31, 2015 ("fiscal 2014") and the fiscal year ended February 1, 2014 ("fiscal 2013") each consists of 52 weeks. Growth in the electronic game industry is generally driven by the introduction of new technology. Gaming consoles are typically launched in cycles as technological developments provide significant improvements in graphics, audio quality, game play, Internet connectivity and other entertainment capabilities beyond video gaming. The current generation of consoles (the Sony PlayStation 4, the Microsoft Xbox One and the Nintendo Wii U) was introduced between November 2012 and November 2013. The previous generation of consoles (the Sony PlayStation 3, the Microsoft Xbox 360 and the Nintendo Wii) were introduced between 2005 and 2007. The Nintendo 3DS was introduced in March 2011, the Sony PlayStation Vita was introduced in February 2012 and the Nintendo 2DS was introduced in October 2013. 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 margin percent in the first full year following new platform releases and an increase in gross margin percent in the years subsequent to the first full year following the launch period; therefore, the launch of the current-generation Sony PlayStation 4 and the Microsoft Xbox One could negatively impact our overall gross margin percentage in fiscal 2014. Unit sales of maturing video game platforms, like the Sony PlayStation 3 and the Microsoft Xbox 360, are typically also driven by manufacturer-funded retail price reductions, further driving sales of related software and accessories. With the introduction of the new consoles in the fourth quarter of fiscal 2013, sales of new hardware have increased.

We expect that future growth in the electronic game industry will also be driven by the sale of video games delivered in digital form and the expansion of other forms of gaming. We currently sell various types of products 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 online timecards. We have made significant investments in e-commerce and in-store and Web site functionality to enable our customers to access digital content easily and facilitate the digital sales and delivery process. We plan to continue to invest in these types of processes and channels to grow our digital sales base and enhance our market leadership position in the electronic game industry and in the digital aggregation and distribution category. We currently sell tablets and accessories in most of our video game stores. We also sell and accept trades of pre-owned mobile devices in our stores. In addition, we intend to continue to invest in customer loyalty programs designed to attract and retain customers.

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Over the last year, we have acquired two authorized Apple resellers selling Apple products and services in 33 stores. Additionally, we acquired Spring Mobile, an authorized AT&T reseller currently operating 238 stores selling wireless services and products. We also operate 48 stores under the Cricket Wireless brand (formerly operated under the Aio Wireless name prior to AT&T's acquisition of Leap Wireless). Cricket Wireless is an AT&T brand selling pre-paid wireless services and products. Collectively these businesses comprise our Technology Brands segment. We expect to expand the number of Technology Brands stores which we operate in future years.

Recent Developments

Acquisition activity. During the first half of fiscal 2014, in connection with the continued expansion of our Technology Brands business, Spring Mobile and Simply Mac completed acquisitions of certain AT&T resellers and authorized Apple retailers for total consideration of \$45.6 million (\$43.1 million net of cash acquired). We continue to seek out opportunities to extend our core competencies to other products and retail categories in order to continue to grow and to help mitigate the financial impact from the cyclical nature of the video game console cycle. As a result of our acquisition activity in the Technology Brands segment over the past two fiscal quarters, we are currently experiencing higher gross margins in that segment in comparison to the margins in our Video Game Brands segments, which has had the impact of offsetting potential margin erosion associated with the recent launch of the current generation video game consoles. We continue to seek avenues for growth in our Technology Brands business, and we expect to pursue similar acquisitions moving forward.

Additionally, as part of our efforts to drive long-term shareholder value, we have accomplished the following return of capital activities in the first half of fiscal 2014:

Quarterly cash dividend. On March 4, 2014, our Board of Directors authorized an increase in our annual cash dividend from \$1.10 to \$1.32 per share of Class A Common Stock, which represents an increase of 20%. On March 25, 2014 and June 17, 2014, we made quarterly dividend payments of \$0.33 per share of Class A Common Stock to stockholders of record on March 17, 2014 and June 4, 2014, respectively. Additionally, on August 19, 2014, our Board of Directors declared a quarterly cash dividend of \$0.33 per common share payable on September 16, 2014, to shareholders of record as of the close of business on September 3, 2014.

Share repurchase activity. During the first two quarters of fiscal 2014, we repurchased 3.2 million shares of our Class A Common Stock at an average price per share of \$39.51 for a total of \$127.7 million. Between August 3, 2014 and August 29, 2014, we repurchased an additional 0.1 million shares of our Class A Common Stock for an average price per share of \$41.48.

Critical Accounting Policies

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and do not include all disclosures required under GAAP for complete financial statements. Preparation of these statements requires us 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 "Part 2 - Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2013 Annual Report on Form 10-K. There have been no material changes to our critical accounting policies from those included in our 2013 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 net sales for the periods indicated:

|  | 13 Weeks Ended    |                   | 26 Weeks Ended    |                   |   |
|--|-------------------|-------------------|-------------------|-------------------|---|
|  | August 2,<br>2014 | August 3,<br>2013 | August 2,<br>2014 | August 3,<br>2013 |   |
| Statement of Operations Data:                |                   |                   |                   |                   |   |
| Net sales                                    | 100.0             | % 100.0           | % 100.0           | % 100.0           | % |
| Cost of sales                                | 68.2              | 65.2              | 68.4              | 67.4              |   |
| Gross profit                                 | 31.8              | 34.8              | 31.6              | 32.6              |   |
| Selling, general and administrative expenses | 27.5              | 30.5              | 25.7              | 26.8              |   |
| Depreciation and amortization                | 2.2               | 2.9               | 2.1               | 2.5               |   |
| Operating earnings                           | 2.1               | 1.4               | 3.8               | 3.3               |   |
| Interest expense, net                        | 0.1               | 0.1               | —                 | 0.1               |   |
| Earnings before income tax expense           | 2.0               | 1.3               | 3.8               | 3.2               |   |
| Income tax expense                           | 0.6               | 0.5               | 1.3               | 1.2               |   |
| Net income                                   | 1.4               | % 0.8             | % 2.5             | % 2.0             | % |

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

Beginning with our 2013 Annual Report on Form 10-K, we expanded the categories included in our disclosures on sales and gross profit by category to reflect recent changes in our business, the expansion of categories previously included in Other and our management emphasis as we operate in the future. Our previous categories of New Video Game Hardware and New Video Game Software remain unchanged.

We have expanded our previous category of Pre-owned Video Game Products to include value-priced, or closeout, products and this category is now referred to as the Pre-owned and Value Video Game Products category. We believe there is an opportunity to purchase closeout and overstocked inventory from publishers, distributors and other retailers which is older new product but can be acquired for less than typical new release product costs. This product can then be resold in our Video Game Brands stores and on our Web sites as value-priced product. Our limited sales of this product in the past have yielded significantly higher margins than new video game products, yet slightly lower margins than pre-owned video game products.

In the past, all other products we sold were categorized into "Other," which included video game accessories, digital products, new and pre-owned mobile products, consumer electronics, revenues from our PowerUp Rewards program and Game Informer subscription sales, strategy guides, toys and PC entertainment software. We are separating our historical Other category into the following new categories:

- Video Game Accessories, which includes new accessories for use with video game consoles and hand-held devices and software, such as controllers, gaming headsets and memory cards;
- Digital, which includes revenues from the sale of DLC, full game downloads, Xbox Live, PlayStation Plus and Nintendo network points and subscription cards, other prepaid digital currencies and time cards, Kongregate, Game

Informer digital subscriptions and PC digital downloads;

• Mobile and Consumer Electronics, which includes revenues from selling new and pre-owned mobile devices and consumer electronics in Video Game Brands stores and all revenues from our Technology Brands stores;

• Other, which includes revenues from the sales of PC entertainment software, toys, strategy guides and revenues from PowerUp Pro loyalty members receiving Game Informer magazine in physical form.

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

|   | 13 Weeks Ended |                  |                |                  | 26 Weeks Ended |                  |                |                  |  |  |
|---|----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|--|--|
|   | August 2, 2014 |                  | August 3, 2013 |                  | August 2, 2014 |                  | August 3, 2013 |                  |  |  |
|   | Net Sales      | Percent of Total | Net Sales      | Percent of Total | Net Sales      | Percent of Total | Net Sales      | Percent of Total |  |  |
| Net Sales:                              |                |                  |                |                  |                |                  |                |                  |  |  |
| New video game hardware                 | \$332.3        | 19.2 %           | \$147.8        | 10.7 %           | \$770.3        | 20.7 %           | \$389.6        | 12.0 %           |  |  |
| New video game software                 | 497.0          | 28.7 %           | 429.8          | 31.1 %           | 1,056.9        | 28.4 %           | 1,133.0        | 34.9 %           |  |  |
| Pre-owned and value video game products | 558.0          | 32.2 %           | 528.7          | 38.2 %           | 1,160.9        | 31.1 %           | 1,101.3        | 33.9 %           |  |  |
| Video game accessories                  | 107.5          | 6.2 %            | 92.0           | 6.6 %            | 252.6          | 6.8 %            | 218.4          | 6.7 %            |  |  |
| Digital                                 | 52.3           | 3.0 %            | 49.4           | 3.6 %            | 108.4          | 2.9 %            | 105.6          | 3.3 %            |  |  |
| Mobile and consumer electronics         | 112.1          | 6.5 %            | 60.6           | 4.4 %            | 214.3          | 5.7 %            | 111.6          | 3.4 %            |  |  |
| Other                                   | 72.2           | 4.2 %            | 75.4           | 5.4 %            | 164.3          | 4.4 %            | 189.5          | 5.8 %            |  |  |
| Total                                   | \$1,731.4      | 100.0 %          | \$1,383.7      | 100.0 %          | \$3,727.7      | 100.0 %          | \$3,249.0      | 100.0 %          |  |  |

|   | 13 Weeks Ended |                      |                |                      | 26 Weeks Ended |                      |                |                      |  |  |
|---|----------------|----------------------|----------------|----------------------|----------------|----------------------|----------------|----------------------|--|--|
|   | August 2, 2014 |                      | August 3, 2013 |                      | August 2, 2014 |                      | August 3, 2013 |                      |  |  |
|   | Gross Profit   | Gross Profit Percent | Gross Profit   | Gross Profit Percent | Gross Profit   | Gross Profit Percent | Gross Profit   | Gross Profit Percent |  |  |
| Gross Profit:                           |                |                      |                |                      |                |                      |                |                      |  |  |
| New video game hardware                 | \$31.6         | 9.5 %                | \$15.5         | 10.5 %               | \$76.2         | 9.9 %                | \$35.7         | 9.2 %                |  |  |
| New video game software                 | 115.7          | 23.3 %               | 98.9           | 23.0 %               | 242.9          | 23.0 %               | 247.1          | 21.8 %               |  |  |
| Pre-owned and value video game products | 262.1          | 47.0 %               | 250.6          | 47.4 %               | 560.5          | 48.3 %               | 521.4          | 47.3 %               |  |  |
| Video game accessories                  | 41.9           | 39.0 %               | 38.4           | 41.7 %               | 96.9           | 38.4 %               | 88.3           | 40.4 %               |  |  |
| Digital                                 | 34.0           | 65.0 %               | 35.1           | 71.1 %               | 69.8           | 64.4 %               | 72.4           | 68.6 %               |  |  |
| Mobile and consumer electronics         | 40.5           | 36.1 %               | 16.3           | 26.9 %               | 77.6           | 36.2 %               | 28.9           | 25.9 %               |  |  |
| Other                                   | 25.1           | 34.8 %               | 26.6           | 35.3 %               | 53.4           | 32.5 %               | 65.9           | 34.8 %               |  |  |
| Total                                   | \$550.9        | 31.8 %               | \$481.4        | 34.8 %               | \$1,177.3      | 31.6 %               | \$1,059.7      | 32.6 %               |  |  |

13 weeks ended August 2, 2014 compared with the 13 weeks ended August 3, 2013

## Net Sales

Net sales increased by \$347.7 million, or 25.1%, from \$1,383.7 million in the 13 weeks ended August 3, 2013 to \$1,731.4 million in the 13 weeks ended August 2, 2014. The increase in net sales was primarily attributable to increases in comparable store sales of 21.9% for the 13 weeks ended August 2, 2014 when compared to the 13 weeks ended August 3, 2013. The increase in comparable store sales was primarily due to strong sales performance during the 13 weeks ended August 2, 2014 associated with the new video game console launches and related video game accessories, as well as strong new video game software sales. In addition, our Technology Brands segment added \$70.1 million in net sales in the 13 weeks ended August 2, 2014. The increase in sales also included a favorable impact of \$9.8 million from foreign exchange rate fluctuations for the 13 weeks ended August 2, 2014 when compared to the 13 weeks ended August 3, 2013.

New video game hardware sales increased \$184.5 million, or 124.8%, from \$147.8 million in the 13 weeks ended August 3, 2013 to \$332.3 million in the 13 weeks ended August 2, 2014. The increase in new video game hardware sales is primarily attributable to an increase in hardware unit sell-through as a result of the launches of the Microsoft Xbox One and the Sony PlayStation 4 in November 2013. These increases were partially offset by declines in sales of previous generation hardware. New video game software sales increased by \$67.2 million, or 15.6%, from \$429.8



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million in the 13 weeks ended August 3, 2013 to \$497.0 million in the 13 weeks ended August 2, 2014, due to a stronger lineup of new releases such as Ubisoft's Watch Dogs, Nintendo's Mario Kart 8 and The Last of Us Remastered for PlayStation 4. Pre-owned and value video game product sales increased \$29.3 million, or 5.5%, from \$528.7 million in the 13 weeks ended August 3, 2013 to \$558.0 million in the 13 weeks ended August

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2, 2014. This increase was primarily attributable to an increase in store traffic related to higher video game demand due to the launch of the new consoles. Sales of video game accessories increased \$15.5 million, or 16.8% from the 13 weeks ended August 3, 2013 to the 13 weeks ended August 2, 2014 due to sales of accessories for use with the recently launched consoles. Digital revenues increased by 5.9%, or \$2.9 million, when comparing the 13 weeks ended August 3, 2013 to the 13 weeks ended August 2, 2014. Mobile and consumer electronics sales increased \$51.5 million, or 85.0%, from the 13 weeks ended August 3, 2013 to the 13 weeks ended August 2, 2014, due to continued growth from our Technology Brands, both organically and from acquisitions during the second quarter. Sales of other product categories decreased by \$3.2 million, or 4.2%, from the 13 weeks ended August 3, 2013 to the 13 weeks ended August 2, 2014.

Our new video game hardware and mobile and consumer electronics categories increased as a percentage of net sales while all other product categories declined as a percentage of net sales for the 13 weeks ended August 2, 2014 in comparison to the 13 weeks ended August 3, 2013. The change in mix of sales was primarily due to the launch of the new consoles and the related increased traffic in our stores, as well as meaningful contributions from our Technology Brands segment in the mobile category.

Cost of Sales

Cost of sales increased by \$278.2 million, or 30.8%, from \$902.3 million in the 13 weeks ended August 3, 2013 to \$1,180.5 million in the 13 weeks ended August 2, 2014, primarily as a result of the increase in sales and the changes in gross profit discussed below.

Gross Profit

Gross profit increased by \$69.5 million, or 14.4%, from \$481.4 million in the 13 weeks ended August 3, 2013 to \$550.9 million in the 13 weeks ended August 2, 2014; however, gross profit as a percentage of net sales decreased from 34.8% in the 13 weeks ended August 3, 2013 to 31.8% in the 13 weeks ended August 2, 2014. The gross profit percentage decrease was primarily driven by the changes in sales mix discussed above and, specifically, the growth in sales of new video game hardware associated with the new consoles, which carry lower margins, as a percentage of total sales. Additionally, our digital gross profit percentage declined in the 13 weeks ended August 2, 2014 in comparison to the 13 weeks ended August 3, 2013 due to the mix of underlying products. Gross profit as a percentage of sales on video game accessories decreased from 41.7% in the 13 weeks ended August 3, 2013 to 39.0% in the 13 weeks ended August 2, 2014 primarily due to the mix of current generation accessories sales, which carry lower gross margins relative to the total video game accessories category. These decreases were partially offset by the sales and gross profit percentage growth in the mobile and consumer electronics category related to our Technology Brands segment.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by \$53.8 million, from \$421.6 million in the 13 weeks ended August 3, 2013 to \$475.4 million in the 13 weeks ended August 2, 2014. This increase was primarily due to \$26.1 million of additional costs associated with our Technology Brands segment, as well as the higher variable costs associated with the increase in comparable store sales during the 13 weeks ended August 2, 2014. Selling, general and administrative expenses as a percentage of net sales decreased from 30.5% in the 13 weeks ended August 3, 2013 to 27.5% in the 13 weeks ended August 2, 2014 due to our ability to effectively leverage the increase in sales in the Video Game Brands segments. These improvements were partially offset by the Technology Brands segment, which generally has higher selling, general and administrative expenses as a percentage of net sales. Included in selling, general and administrative expenses is \$6.8 million and \$6.0 million of stock-based compensation expense for the 13 weeks ended August 2, 2014 and 13 weeks ended August 3, 2013, respectively.

Depreciation and Amortization

Depreciation and amortization expense decreased \$2.2 million, or 5.4%, from \$41.0 million in the 13 weeks ended August 3, 2013 to \$38.8 million in the 13 weeks ended August 2, 2014. This decrease was primarily due to a decrease in new store openings and lower overall store count in our Video Game Brands segments.

Interest Income and Expense

Interest income from the investment of excess cash balances remained the same at \$0.1 million for both the 13 weeks ended August 3, 2013 and the 13 weeks ended August 2, 2014. Interest expense decreased from \$1.4 million in the 13

weeks ended August 3, 2013 to \$1.2 million in the 13 weeks ended August 2, 2014.

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## Income Tax

Income tax expense for the 13 weeks ended August 3, 2013 and the 13 weeks ended August 2, 2014 was based upon an estimate of our annualized effective income tax rate. Income tax expense was \$7.0 million, or 40.0% of earnings before income tax expense, for the 13 weeks ended August 3, 2013 compared to \$11.0 million, or 30.9% of earnings before income tax expense, for the 13 weeks ended August 2, 2014. Generally, our effective tax rate varies primarily based on our profitability level and the relative mix of earnings across the jurisdictions in which we operate. Our effective tax rate for the 13 weeks ended August 2, 2014 was further impacted by the release of a reserve related to an uncertain tax position.

## Operating Earnings and Net Income

The factors described above led to an increase in operating earnings of \$17.9 million from \$18.8 million in the 13 weeks ended August 3, 2013 to \$36.7 million in the 13 weeks ended August 2, 2014, and an increase in net income of \$14.1 million from \$10.5 million in the 13 weeks ended August 3, 2013 to \$24.6 million in the 13 weeks ended August 2, 2014. The increase in operating earnings and net income is primarily attributable to the launch of the new console systems, which has driven year-over-year gross profit growth in our new video game hardware and video game accessories categories, as well as continued growth in our pre-owned and value category. Additionally, our Technology Brands segment generated \$7.1 million of operating earnings in the 13 weeks ended August 2, 2014. 26 weeks ended August 2, 2014 compared with the 26 weeks ended August 3, 2013

## Net Sales

Net sales increased by \$478.7 million, or 14.7%, from \$3,249.0 million in the 26 weeks ended August 3, 2013 to \$3,727.7 million in the 26 weeks ended August 2, 2014. The increase in net sales was primarily attributable to an increase in comparable store sales of 12.7% for the 26 weeks ended August 2, 2014 when compared to the 26 weeks ended August 3, 2013, which was primarily due to strong sales performance during the 26 weeks ended August 2, 2014 associated with the new video game console launches and related video game accessories. In addition, our Technology Brands segment added \$130.2 million in net sales in the 26 weeks ended August 2, 2014. These increases were partially offset by the impact of foreign exchange rate fluctuations, which had the effect of decreasing net sales by \$4.1 million for the 26 weeks ended August 2, 2014 when compared to the 26 weeks ended August 3, 2013. New video game hardware sales increased \$380.7 million, or 97.7%, from \$389.6 million in the 26 weeks ended August 3, 2013 to \$770.3 million in the 26 weeks ended August 2, 2014. The increase in new video game hardware sales is primarily attributable to an increase in hardware unit sell-through as a result of the launches of the Microsoft Xbox One and the Sony PlayStation 4 in November 2013. These increases were partially offset by declines in sales of previous generation hardware. New video game software sales decreased \$76.1 million, or 6.7%, from \$1,133.0 million in the 26 weeks ended August 3, 2013 to \$1,056.9 million in the 26 weeks ended August 2, 2014, primarily due to fewer new titles that were released during the 26 weeks ended August 2, 2014 versus the comparable prior year period. Pre-owned and value video game product sales increased \$59.6 million, or 5.4%, from \$1,101.3 million in the 26 weeks ended August 3, 2013 to \$1,160.9 million in the 26 weeks ended August 2, 2014. The increase in pre-owned and value video game product sales was primarily due to increased store traffic during the quarter related to higher video game demand due to the launch of the new consoles. Sales of video game accessories increased \$34.2 million, or 15.7% from the 26 weeks ended August 3, 2013 to the 26 weeks ended August 2, 2014 due to sales of accessories for use with the recently launched consoles. Digital revenues in the 26 weeks ended August 2, 2014 increased \$2.8 million, or 2.7%, as compared to the 26 weeks ended August 3, 2013, driven primarily by growth in PC digital. Mobile and consumer electronics sales increased \$102.7 million, or 92.0%, from the 26 weeks ended August 3, 2013 to the 26 weeks ended August 2, 2014, due to the Technology Brands stores acquired or opened in the fourth quarter of fiscal 2013 and the first half of fiscal 2014. Sales of other product categories decreased \$25.2 million, or 13.3%, from the 26 weeks ended August 3, 2013 to the 26 weeks ended August 2, 2014, primarily due to fewer new titles of PC entertainment software released during the 26 weeks ended August 2, 2014 versus the comparable prior year period.

As a percentage of net sales, sales of new video game hardware, video game accessories and mobile and consumer electronics increased, and sales of new video game software, pre-owned and value video game products, digital and other products decreased in the 26 weeks ended August 2, 2014 in comparison to the 26 weeks ended August 3, 2013.

The change in the mix of sales was primarily due to the launch of the new consoles, as well as meaningful contributions from our Technology Brands segment as described above.

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Cost of sales increased by \$361.1 million, or 16.5%, from \$2,189.3 million in the 26 weeks ended August 3, 2013 to \$2,550.4 million in the 26 weeks ended August 2, 2014, primarily as a result of the increase in sales and the changes in gross profit discussed below.

**Gross Profit**

Gross profit increased by \$117.6 million, or 11.1%, from \$1,059.7 million in the 26 weeks ended August 3, 2013 to \$1,177.3 million in the 26 weeks ended August 2, 2014. Gross profit as a percentage of net sales decreased from 32.6% in the 26 weeks ended August 3, 2013 to 31.6% in the 26 weeks ended August 2, 2014. The gross profit percentage decrease was primarily driven by the changes in sales mix discussed above and specifically the growth in sales of new video game hardware associated with the new consoles, which carry lower margins, as a percentage of total net sales. Gross profit as a percentage of sales on pre-owned and value video game products increased from 47.3% in the 26 weeks ended August 3, 2013 to 48.3% in the 26 weeks ended August 2, 2014, primarily due to the increase in gross profit percentage that occurs as prior generation hardware and software matures. Gross profit as a percentage of sales on video game accessories decreased from 40.4% in the 26 weeks ended August 3, 2013 to 38.4% in the 26 weeks ended August 2, 2014 primarily due to the mix of current generation accessories sales, which carry lower gross margins relative to the total video game accessories category. Gross profit as a percentage of sales on digital decreased from 68.6% in the 26 weeks ended August 3, 2013 to 64.4% in the 26 weeks ended August 2, 2014 primarily due to the mix of underlying products we sell. Gross profit as a percentage of sales on mobile and consumer electronics increased from 25.9% in the 26 weeks ended August 3, 2013 to 36.2% in the 26 weeks ended August 2, 2014 primarily due to the addition of Technology Brands beginning in November 2013 and the gross margin percentage in that segment, which is higher than in the Video Game Brands segments. Gross profit as a percentage of sales on other product sales decreased from 34.8% in the 26 weeks ended August 3, 2013 to 32.5% in the 26 weeks ended August 2, 2014 primarily due to a change in sales mix in this category, and the relative gross margins associated with those sales.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased by \$85.6 million, from \$870.8 million in the 26 weeks ended August 3, 2013 to \$956.4 million in the 26 weeks ended August 2, 2014. This increase was primarily due to \$47.6 million of additional costs associated with our Technology Brands segment, as well as the higher variable costs associated with the increase in comparable store sales in our Video Game Brands segments during the 26 weeks ended August 2, 2014. Selling, general and administrative expenses as a percentage of net sales decreased from 26.8% for the 26 weeks ended August 3, 2013 to 25.7% in the 26 weeks ended August 2, 2014 due to our ability to effectively leverage the increase in sales in the Video Game Brands segments, offset by the Technology Brands segment, which generally has higher selling, general and administrative expenses as a percentage of net sales. Included in selling, general and administrative expenses is \$12.6 million and \$11.5 million of stock-based compensation expense for the 26 weeks ended August 2, 2014 and August 3, 2013, respectively.

**Depreciation and Amortization**

Depreciation and amortization expense decreased \$4.6 million, or 5.5%, from \$82.9 million in the 26 weeks ended August 3, 2013 to \$78.3 million in the 26 weeks ended August 2, 2014. This decrease was primarily due to a decrease in new store openings and lower overall store count in our Video Game Brands segments.

**Interest Income and Expense**

Interest income from the investment of excess cash balances increased from \$0.2 million in the 26 weeks ended August 3, 2013 to \$0.3 million in the 26 weeks ended August 2, 2014. Interest expense decreased from \$2.4 million in the 26 weeks ended August 3, 2013 to \$2.0 million in the 26 weeks ended August 2, 2014.

**Income Tax**

Income tax expense for the 26 weeks ended August 3, 2013 and the 26 weeks ended August 2, 2014 was based upon management's estimate of the Company's annualized effective income tax rate. Income tax expense was \$38.7 million, or 37.3% of earnings before income tax expense, for the 26 weeks ended August 3, 2013 compared to \$48.3 million, or 34.3% of earnings before income tax expense, for the 26 weeks ended August 2, 2014. Generally, our effective tax rate varies primarily based on our profitability level and the relative mix of earnings across the jurisdictions in which

we operate.

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## Operating Earnings and Net Income

The factors described above led to an increase in operating earnings of \$36.6 million from \$106.0 million in the 26 weeks ended August 3, 2013 to \$142.6 million in the 26 weeks ended August 2, 2014, and an increase in net income of \$27.5 million from \$65.1 million in the 26 weeks ended August 3, 2013 to \$92.6 million in the 26 weeks ended August 2, 2014. The increase in operating earnings and net income is primarily attributable to the launch of the new console systems, which has driven year-over-year gross profit growth in our new video game hardware and video game accessories categories, as well as continued growth in our pre-owned and value category. Additionally, our Technology Brands segment generated operating earnings of \$13.1 million in the 26 weeks ended August 2, 2014.

## Segment Performance

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

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

|                    | 13 Weeks Ended    |                   | 26 Weeks Ended    |                   |
|--------------------|-------------------|-------------------|-------------------|-------------------|
|                    | August 2,<br>2014 | August 3,<br>2013 | August 2,<br>2014 | August 3,<br>2013 |
| Video Game Brands: |                   |                   |                   |                   |
| United States      | \$1,101.0         | \$942.4           | \$2,498.7         | \$2,295.3         |
| Canada             | 82.9              | 67.7              | 173.2             | 155.7             |
| Australia          | 142.1             | 112.4             | 258.6             | 226.5             |
| Europe             | 335.3             | 261.2             | 667.0             | 571.5             |
| Technology Brands  | 70.1              | —                 | 130.2             | —                 |
| Total              | \$1,731.4         | \$1,383.7         | \$3,727.7         | \$3,249.0         |

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

|                    | 13 Weeks Ended    |                   | 26 Weeks Ended    |                   |
|--------------------|-------------------|-------------------|-------------------|-------------------|
|                    | August 2,<br>2014 | August 3,<br>2013 | August 2,<br>2014 | August 3,<br>2013 |
| Video Game Brands: |                   |                   |                   |                   |
| United States      | \$35.6            | \$43.4            | \$142.2           | \$136.2           |
| Canada             | 1.2               | (0.7              | ) 3.6             | 1.8               |
| Australia          | 4.8               | 1.1               | 6.5               | 2.6               |
| Europe             | (12.0             | ) (25.0           | ) (22.8           | ) (34.6           |
| Technology Brands  | 7.1               | —                 | 13.1              | —                 |
| Total              | \$36.7            | \$18.8            | \$142.6           | \$106.0           |

## Video Game Brands

## United States

Results for the United States Video Game Brands segment include retail operations in all 50 states, the District of Columbia, Puerto Rico and Guam, the electronic commerce Web site [www.gamestop.com](http://www.gamestop.com), Game Informer magazine, [www.kongregate.com](http://www.kongregate.com), a digital PC game distribution platform available at [www.gamestop.com/pcgames](http://www.gamestop.com/pcgames) and an online consumer electronics marketplace available at [www.buymytronics.com](http://www.buymytronics.com). As of August 2, 2014, the United States Video Game Brands segment included 4,197 stores, compared to 4,290 stores on August 3, 2013.

Net sales for the 13 weeks ended August 2, 2014 increased \$158.6 million, or 16.8%, compared to the 13 weeks ended August 3, 2013 due primarily to a 19.7% increase in comparable store sales. The increase in comparable store sales was primarily due to the launch of the Microsoft Xbox One and the Sony PlayStation 4 in the fourth quarter of fiscal 2013, along with a stronger line-up of new software titles. Net sales were also positively impacted by an increase in pre-owned sales, driven by an increase in the number of trades and higher in-store traffic associated with the new console launch. Net sales for the 26 weeks ended August 2, 2014 increased \$203.4 million, or 8.9%, compared to the 26 weeks ended August 3, 2013 due primarily to an 11.4% increase in comparable store sales. The increase in comparable store sales was primarily due to the launch of the Microsoft Xbox One and





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the Sony PlayStation 4 in the fourth quarter of fiscal 2013. Segment operating earnings for the 13 weeks ended August 2, 2014 decreased by \$7.8 million compared to the 13 weeks ended August 3, 2013. Operating earnings for the second quarter of fiscal 2014 were negatively impacted by lower overall gross margins resulting from the change in sales mix and the relative gross margins associated with those sales, as well as incremental selling, general and administrative expenses associated with the increase in comparable store sales. Segment operating earnings for the 26 weeks ended August 2, 2014 increased by \$6.0 million in comparison to the 26 weeks ended August 3, 2013, driven primarily by the current year increase in net sales and our ability to effectively leverage the increase in net sales relative to the selling, general and administrative expenses for this segment.

## Canada

Results for the Canadian segment include retail operations in Canada and their e-commerce site. As of August 2, 2014, the Canadian segment had 333 stores, compared to 334 stores at August 3, 2013. Net sales in the Canadian segment in the 13 and 26 weeks ended August 2, 2014 increased 22.5% and 11.2%, respectively compared to the 13 and 26 weeks ended August 3, 2013. The increase in net sales was primarily due to an increase in comparable store sales of 28.7% and 19.1%, respectively, for the current quarter and year-to-date periods versus the prior year, partially offset by the impact of changes in exchange rates, which had the effect of decreasing sales by \$5.3 million and \$15.4 million, respectively, in the 13 and 26 week periods ended August 2, 2014 when compared to the same periods in fiscal 2013. The increase in comparable store sales was primarily due to the launch of the Microsoft Xbox One and the Sony PlayStation 4 in the fourth quarter of fiscal 2013, along with a stronger line-up of new software titles. Net sales were also positively impacted by an increase in pre-owned sales, driven by an increase in the number of trades and higher in-store traffic associated with the new console launch. Segment operating earnings for Canada increased by \$1.9 million and \$1.8 million in the 13 weeks ended August 2, 2014 and the 26 weeks ended August 2, 2014, respectively, when compared to the same periods in fiscal 2013, driven by the launch of the new consoles.

## Australia

Results for the Australian segment include retail operations and e-commerce sites in Australia and New Zealand. As of August 2, 2014, the Australian segment included 415 stores, compared to 414 stores at August 3, 2013. Net sales for the 13 and 26 weeks ended August 2, 2014 increased by 26.4% and 14.2%, respectively, compared to the 13 and 26 weeks ended August 3, 2013. The increase in net sales for the 13 and 26 weeks ended August 2, 2014 was primarily due to an increase in comparable store sales of 25.5% and 20.2%, respectively, for the current quarter and year-to-date periods versus the prior year, partially offset by the impact of changes in exchange rates, which had the effect of decreasing sales by \$9.4 million and \$25.9 million, respectively, in the 13 and 26 week periods ended August 2, 2014 when compared to the same periods in fiscal 2013. The increase in comparable store sales was primarily due to the launch of the Microsoft Xbox One and the Sony PlayStation 4 in the fourth quarter of fiscal 2013, along with a stronger line-up of new software titles. Net sales were also positively impacted by an increase in pre-owned sales, driven by an increase in the number of trades and higher in-store traffic associated with the new console launch. Segment operating earnings for Australia increased by \$3.7 million and \$3.9 million in the 13 weeks ended August 2, 2014 and the 26 weeks ended August 2, 2014, respectively, when compared to the same periods in fiscal 2013, driven by the launch of the new consoles.

## Europe

Results for the European segment include retail store operations in 11 European countries and e-commerce sites in six countries. As of August 2, 2014, the European segment operated 1,434 stores compared to 1,467 stores as of August 3, 2013. For the 13 and 26 weeks ended August 2, 2014, European net sales increased 28.4% and 16.7%, respectively, compared to the 13 and 26 weeks ended August 3, 2013. The increase in net sales was primarily due to an increase in comparable store sales of 25.9% and 13.0%, respectively, for the current quarter and year-to-date periods versus the prior year. The increase in comparable store sales was primarily due to the launch of the Microsoft Xbox One and the Sony PlayStation 4 in the fourth quarter of fiscal 2013, along with a stronger line-up of new software titles. Net sales were also positively impacted by an increase in pre-owned sales, driven by an increase in the number of trades and higher in-store traffic associated with the new console launch. Additionally, net sales were favorably impacted by changes in exchange rates, which had the effect of increasing sales by \$24.5 million and \$37.1 million, respectively, in the 13 and 26 week periods ended August 2, 2014 when compared to the same periods in fiscal 2013. The segment

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operating loss in Europe was \$12.0 million and \$22.8 million in the 13 weeks ended August 2, 2014 and 26 weeks ended August 2, 2014, respectively, compared to operating losses of \$25.0 million and \$34.6 million in the 13 weeks ended August 3, 2013 and 26 weeks ended August 3, 2013. The improvement in operating earnings was primarily attributable to the positive sales impact from continued consumer demand for the new video game consoles.

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## Technology Brands

Segment results for the Technology Brands segment include our Simply Mac, Spring Mobile and Cricket Wireless stores. As of August 2, 2014, the Technology Brands segment operated 319 stores. For the 13 and 26 weeks ended August 2, 2014, Technology Brands net sales totaled \$70.1 million and \$130.2 million, respectively, with operating earnings of \$7.1 million and \$13.1 million, respectively.

## Seasonality

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

## Liquidity and Capital Resources

## Overview

Based on our current operating plans, we believe that available cash balances, cash generated from our operating activities and funds available under our \$400 million asset-based revolving credit facility (the “Revolver”) together will provide sufficient liquidity to fund our operations, store openings and remodeling activities and corporate capital expenditure programs, including the payment of dividends declared by the Board of Directors, for at least the next 12 months. As of August 2, 2014, we had total cash on hand of \$193.0 million and an additional \$181.4 million of available borrowing capacity under the Revolver. As we continue to pursue acquisitions, divestitures and other strategic transactions to expand and grow our business, while also enhancing shareholder value through share repurchases and dividend payments, we regularly monitor capital market conditions and consider raising additional funds through secured and unsecured borrowings and public or private sales of debt securities, which may be issued in transactions registered under the Securities Act of 1933, in one or more transactions exempt from registration, or a combination of one or more of the foregoing. The amount, nature and timing of any borrowings of debt securities will depend on our operating performance and other circumstances; our then-current commitments and obligations; the amount, nature and timing of our capital requirements; any limitations imposed by our current credit arrangements; and overall market conditions.

We have revised the presentation of outstanding checks in our prior period financial statements. Previously, we reduced cash and liabilities when the checks were presented for payment and cleared our bank accounts. We now reduce cash and liabilities when the checks are released for payment.

The impact of this revision on our consolidated statements of cash flows for the 26 weeks ended August 3, 2013 are as follows:

|  | As Previously<br>Reported<br>(In millions) | Revision   | As Revised |
|--|--|------------|------------|
| Changes in operating assets and liabilities:     |  |            |            |
| Accounts payable and accrued liabilities         | \$ (389.3)                                 | ) \$ 189.3 | \$ (200.0) |
| Net cash flows provided by operating activities  | (274.6)                                    | ) 189.3    | (85.3)     |
| Cash and cash equivalents at beginning of period | 635.8                                      | (261.4)    | ) 374.4    |
| Cash and cash equivalents at end of period       | 199.5                                      | (72.1)     | ) 127.4    |

## Cash Flows

During the 26 weeks ended August 2, 2014, cash used in operations was \$275.3 million, compared to cash used in operations of \$85.3 million during the 26 weeks ended August 3, 2013. The increase in cash flow used in operations of \$190.0 million was primarily due to an increase in cash used in operations for working capital purposes, which increased \$239.1 million from a use of \$225.6 million in the 26 weeks ended August 3, 2013 to a use of \$464.7 million in the 26 weeks ended August 2, 2014. Our business is highly seasonal, with a disproportionate amount of sales occurring in the fourth quarter of each year. We purchase inventory in anticipation of these fourth quarter sales and, as a result, have higher accounts payable at year-end compared to the end of the second quarter. The increase in cash used in operations for working capital was due primarily to the increase in inventory purchases at the end of fiscal 2013 associated with the launch of the new consoles. These changes were partially offset by a decrease in cash payments for income taxes and prepaid expenses in the 26 weeks ended August 2, 2014 as compared to the 26 weeks

ended August 3, 2013 as well as consolidated net income, adjusted for non-cash items, that was \$26.5 million higher in the 26 weeks ended August 2, 2014 versus the comparable prior-year period.

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Cash used in investing activities was \$95.5 million and \$45.9 million during the 26 weeks ended August 2, 2014 and the 26 weeks ended August 3, 2013, respectively. The \$49.6 million increase in cash used for investing activities is primarily attributable to \$43.1 million of cash that was used to fund our Technology Brands acquisitions during the 26 weeks ended August 2, 2014.

Cash provided by financing activities was \$11.6 million for the 26 weeks ended August 2, 2014, in comparison to cash used in financing activities of \$88.2 million during the 26 weeks ended August 3, 2013. The \$99.8 million increase in the cash provided by financing activities is due to an increase in net cash proceeds from the revolver of \$160.0 million, partially offset by an increase of \$9.4 million used in the repurchase of common stock and an increase of \$9.5 million in cash payments for dividends. Additionally, cash provided by the issuance of shares related to stock option exercises decreased \$41.3 million during the 26 weeks ended August 2, 2014 in comparison to the 26 weeks ended August 3, 2013, which is primarily a function of fewer stock option exercises during the 26 weeks ended August 2, 2014 when compared against the 26 weeks ended August 3, 2013.

Sources of Liquidity

We utilize cash generated from operations and have funds available to us under our revolving credit facility to cover seasonal fluctuations in cash flows and to support our various growth initiatives. Our cash and cash equivalents are carried at cost and consist primarily of time deposits with commercial banks.

On January 4, 2011, we entered into a \$400 million credit agreement, which we amended and restated on March 25, 2014 (the "Revolver"). The Revolver is a five-year, asset-based facility that is secured by substantially all of our assets and the assets of our domestic subsidiaries. Availability under the Revolver is subject to a monthly borrowing base calculation. The Revolver includes a \$50 million letter of credit sublimit. Prior to the March 2014 amendments, the Revolver was scheduled to mature in January 2016. The amendments extended the maturity date to March 25, 2019; increased the expansion feature under the Revolver from \$150 million to \$200 million, subject to certain conditions; and revised certain other terms, including a reduction of the fee we are required to pay on the unused portion of the total commitment amount. We believe the extension of the maturity date of the Revolver to March 2019 helps to limit our exposure to potential tightening or other adverse changes in the credit markets.

Borrowing availability under the Revolver is limited to a borrowing base which allows us to borrow up to 90% of the appraisal value of the inventory, in each case plus 90% of eligible credit card receivables, net of certain reserves. The borrowing base provides for borrowing up to 92.5% of the appraisal value during the fiscal months of August through October. Letters of credit reduce the amount available to borrow under the 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 Revolver is less than 30%, or is projected to be within 12 months after such payment or 2) if excess availability under the Revolver is less than 15%, or is projected to be within 12 months after such payment, and the fixed charge coverage ratio, as calculated on a pro-forma basis for the prior 12 months is 1.1:1.0 or less. In the event that excess availability under the 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 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 Revolver is variable and is calculated by applying a margin (1) for prime rate loans of 0.25% to 0.75% above the highest of (a) the prime rate of the administrative agent, (b) the federal funds effective rate plus 0.50% or (c) the London Interbank Offered ("LIBO") rate for a 30-day interest period as determined on such day plus 1.00%, and (2) for LIBO rate loans of 1.25% to 1.75% 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 Revolver. As of August 2, 2014, the applicable margin was 0.25% for prime rate loans and 1.25% for LIBO rate loans.

The Revolver provides for customary events of default with corresponding grace periods, including failure to pay any principal or interest when due, failure to comply with covenants, any material representation or warranty made by us or the borrowers proving to be false in any material respect, certain bankruptcy, insolvency or receivership events affecting us or our subsidiaries, defaults relating to certain other indebtedness, imposition of certain judgments and mergers or the liquidation of the Company or certain of its subsidiaries. During the 26 weeks ended August 2, 2014, we borrowed \$476 million and subsequently repaid \$266 million under the Revolver. During the 26 weeks ended August 3, 2013, we had borrowings of \$130 million and repayments of \$80 million under the Revolver. Average borrowings under the Revolver for the 26 weeks ended August 2, 2014 were \$91.1 million. Our average interest rate on those outstanding borrowings for the 26 weeks ended August 2, 2014 was 1.7%.

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As of August 2, 2014, total availability under the Revolver was \$181.4 million, outstanding borrowings were \$210 million and standby letters of credit outstanding totaled \$8.3 million. We are currently in compliance with the requirements of the Revolver.

In September 2007, our Luxembourg subsidiary entered into a discretionary \$20.0 million Uncommitted Line of Credit (the "Line of Credit") with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit is available to our foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of August 2, 2014, there were no cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled \$4.1 million.

As we continue to pursue acquisitions, divestitures and other strategic transactions to expand and grow our business, while also enhancing shareholder value through share repurchases and dividend payments, we regularly monitor capital market conditions and consider raising additional funds through secured and unsecured borrowings and public or private sales of debt securities, which may be issued in transactions registered under the Securities Act of 1933, in one or more transactions exempt from registration, or a combination of one or more of the foregoing.

### Uses of Capital

Our future capital requirements will depend on the number of new stores we open and the timing of those openings within a given fiscal year, as well as the investments we will make in e-commerce, digital and other strategic initiatives. We opened 21 Video Game Brands stores and opened or acquired 101 Technology Brands stores in the 26 weeks ended August 2, 2014, and we expect to open or acquire approximately 350 to 450 stores in fiscal 2014, including investments in our Technology Brands business. Capital expenditures for fiscal 2014 are projected to be approximately \$160 million, to be used primarily to fund continued digital initiatives, new store openings and store remodels and invest in distribution and information systems in support of operations.

Since January 2010, our Board of Directors has authorized several share repurchase programs authorizing management to repurchase our common stock. During the 26 weeks ended August 2, 2014, we repurchased 3.2 million shares at an average price per share of \$39.51 for a total of \$127.7 million. Between August 3, 2014 and August 29, 2014, we have repurchased 0.1 million shares at an average price per share of \$41.48 for a total of \$5.4 million and we have \$324.0 million remaining under our latest authorization from November 2013.

On March 4, 2014, our Board of Directors authorized an increase in our annual cash dividend from \$1.10 to \$1.32 per share of Class A Common Stock. On March 25, 2014 and June 17, 2014, we made quarterly dividend payments of \$0.33 per share of Class A Common Stock to stockholders of record on March 17, 2014 and June 4, 2014, respectively. Additionally, on August 19, 2014, our Board of Directors declared a quarterly cash dividend of \$0.33 per common share payable on September 16, 2014, to shareholders of record as of the close of business on September 3, 2014. Future dividends will be subject to approval by our Board of Directors.

Based on our current operating plans, we believe that available cash balances, cash generated from our operating activities and funds available under the Revolver will be sufficient to fund our operations, digital initiatives, store openings and remodeling activities and corporate capital expenditure programs, including the payment of dividends declared by the Board of Directors, for at least the next 12 months.

### Contractual Obligations

There have been no material changes outside the ordinary course of business to the information provided with respect to our contractual obligations from those disclosed in our 2013 Annual Report on Form 10-K.

### Recently Issued Accounting Pronouncements

In May 2014, as part of its ongoing efforts to assist in the convergence of U.S. GAAP and International Financial Reporting Standards ("IFRS"), the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09 related to revenue recognition. The new guidance sets forth a new five-step revenue recognition model which replaces the prior revenue recognition guidance in its entirety and is intended to eliminate numerous industry-specific pieces of revenue recognition guidance that have historically existed in U.S. GAAP. The underlying principle of the new standard is that a business or other organization 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 standard also requires more detailed disclosures and provides additional guidance for transactions that



were not addressed completely in the prior accounting guidance. The ASU provides alternative methods of initial adoption and is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods. Early adoption is not permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements as well as the appropriate method of adoption.

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In April 2014, the FASB issued ASU 2014-08 related to reporting discontinued operations and disclosures of disposals of components of an entity. Specifically, the ASU amends the definition of a discontinued operation, expands disclosure requirements for transactions that meet the definition of a discontinued operation and requires entities to disclose additional information about individually significant components that are disposed of or held for sale and do not qualify as discontinued operations. Additionally, entities will be required to reclassify assets and liabilities of a discontinued operation for all comparative periods presented in the statement of financial position and to separately present certain information related to the operating and investing cash flows of the discontinued operation, for all comparative periods, in the statement of cash flows. The ASU is effective for us beginning in the first quarter of our fiscal year ending January 30, 2016 and will be adopted on a prospective basis for all disposals (except disposals classified as held for sale prior to the adoption date) or components initially classified as held for sale in periods beginning on or after the adoption date, with early adoption permitted. We are currently evaluating the impact that this standard will have on our consolidated financial statements.

Disclosure Regarding Forward-looking Statements

This Quarterly Report on Form 10-Q and other oral and written statements made by us 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 forward-looking statements involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to:

- the demand for next-generation consoles and other product releases which impact sales of new products and old products, the current or future features of such consoles, manufacturer-imposed or regulatory restrictions, changes or conditions that may adversely affect our pre-owned business;
- our ability to respond quickly to technological changes and evolving consumer preferences;
- our reliance on a limited number of suppliers and vendors for timely delivery of sufficient quantities of their products;
- our dependence on the production of new, innovative and popular product releases and enhanced video game platforms and accessories by developers and manufacturers;
- our dependence in large part on our relationship with AT&T for the continued growth of our Technology Brands segment and the impact that potential adverse changes to this relationship, including any restrictions on our ability to offer products and services in the United States that compete with AT&T in wireless and wireline communications and a variety of technology businesses, could have on this component of our business;
- general economic conditions in the U.S. and internationally, specifically Europe, which impact consumer confidence and consumer spending;
- seasonality of sales;
- the proliferation of alternate sources of distribution of video game hardware, software and content, including through digital downloads;
- the growth of alternate means to play video games, including mobile, social networking sites and browser gaming;
- the intense competition in the video game industry;
- our ability to open and operate new stores and to efficiently close underperforming stores;
- our ability to attract and retain qualified personnel;
- the failure to achieve the anticipated benefits from new ventures and transactions and our ability to effectively integrate and operate acquired companies, including digital gaming, technology-based, mobile, wireless or consumer electronics companies that are outside of our historical operating expertise;
- the impact and costs of litigation and regulatory compliance;
- the amounts, timing and prices of any share repurchases made by us under our share repurchase programs;
- the risks involved with our international operations, including depressed local economic conditions, political risks, currency risks, tax rates and regulatory risks;
- the efficiency of our management information systems and back-office functions;
- data breaches involving customer or employee data and failure of our cyber security infrastructure which could expose us to litigation;



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restrictions under our credit agreement which may impose operating and financial restrictions on us; the availability of financing on attractive terms or at all, which may adversely impact our future interest expense and our ability to pursue strategic acquisitions and divestitures, share repurchases, dividend declarations and other transactions to enhance shareholder value; and other factors described in this Form 10-Q, including those set forth under the caption “Part II - Item 1A. Risk Factors.” In some cases, forward-looking statements can be identified by the use of terms such as “anticipates,” “believes,” “continues,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “potential,” “predicts,” “pro forma,” “seeks,” “should,” 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

There have been no material changes in our quantitative and qualitative disclosures about market risk as set forth in our 2013 Annual Report on Form 10-K.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of our 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, our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives and that our 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 our periodic reports.

(b) Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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## PART II — OTHER INFORMATION

## Item 1. Legal Proceedings

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

## 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 2013 Annual Report on Form 10-K. These risks could materially and adversely affect our business, financial condition and results of operations. There have been no material changes from the risk factors disclosed in our 2013 Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of our equity securities during the fiscal quarter ended August 2, 2014 were as follows:

## ISSUER PURCHASES OF EQUITY SECURITIES

|                               | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price Paid per<br>Share | Total Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs | Approximate Dollar<br>Value of Shares that<br>May Yet Be Purchased<br>Under the Plans or<br>Programs |
|-------------------------------|---|------------------------------------|---|--|
|                               |   |                                    |   | (In millions of dollars)   |
| May 4 through May 31, 2014    | 536,759                                   | \$37.20                            | 536,759   | \$ 385.0   |
| June 1 through July 5, 2014   | 761,029                                   | 38.89                              | 761,029   | 355.4  |
| July 6 through August 2, 2014 | 606,150                                   | 42.86                              | 606,150   | 329.4  |
| Total                         | 1,903,938                                 | \$39.67                            | 1,903,938   |  |

## Item 6. Exhibits

See Index to Exhibits.

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SIGNATURES

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

GAMESTOP CORP.

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

Date: September 8, 2014

GAMESTOP CORP.

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

Date: September 8, 2014

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EXHIBIT INDEX

| Exhibit<br>Number | Description  |
|-------------------|--|
| 31.1              | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                  |
| 31.2              | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002                  |
| 32.1              | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2              | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS           | XBRL Instance Document (1)   |
| 101.SCH           | XBRL Taxonomy Extension Schema (1)   |
| 101.CAL           | XBRL Taxonomy Extension Calculation Linkbase (1)   |
| 101.DEF           | XBRL Taxonomy Extension Definition Linkbase (1)  |
| 101.LAB           | XBRL Taxonomy Extension Label Linkbase (1)   |
| 101.PRE           | XBRL Taxonomy Extension Presentation Linkbase (1)  |

(1) Submitted electronically herewith.