

GameStop Corp.  
Form 10-K  
April 02, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

- b ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended February 2, 2008**
- OR**
- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to**

**Commission File No. 1-32637**

**GameStop Corp.**

*(Exact name of registrant as specified in its Charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**20-2733559**

*(I.R.S. Employer  
Identification No.)*

**625 Westport Parkway  
Grapevine, Texas**

*(Address of principal executive offices)*

**76051**

*(Zip Code)*

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

**Securities registered pursuant to Section 12(b) of the Act:**

**(Title of Class)**

**(Name of Exchange on Which Registered)**

Class A Common Stock, \$.001 par value per share  
Rights to Purchase Series A Junior Participating Preferred  
Stock, \$.001 par value per share

New York Stock Exchange  
New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
		(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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately \$6,288,000,000, based upon the closing market prices of \$39.55 per share of Class A Common Stock on the New York Stock Exchange as of August 3, 2007.

Number of shares of \$.001 par value Class A Common Stock outstanding as of March 24, 2008: 161,708,708

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement of the registrant to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, for the 2008 Annual Meeting of Stockholders are incorporated by reference into Part III.

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**PART I**

**Item 1. Business**

**General**

GameStop Corp. ( GameStop, we, us, our, or the Company ) is the world's largest retailer of video game products and PC entertainment software. We sell new and used video game hardware, video game software and accessories, as well as PC entertainment software, and related accessories and other merchandise. As of February 2, 2008, we operated 5,264 stores in the United States, Australia, Canada and Europe, primarily under the names GameStop and EB Games. We also operate the electronic commerce websites [www.gamestop.com](http://www.gamestop.com) and [www.ebgames.com](http://www.ebgames.com) and publish *Game Informer*, the industry's largest multi-platform video game magazine in the United States based on circulation, with approximately 2.9 million subscribers.

In the fiscal year ended February 2, 2008, we operated our business in the following segments: United States, Canada, Australia and Europe. Of our 5,264 stores, 4,061 stores are included in the United States segment and 287, 280 and 636 stores are included in the Canadian, Australian and European segments, respectively. Each of the segments consists primarily of retail operations, with all stores engaged in the sale of new and used video game systems, software and accessories which we refer to as video game products and PC entertainment software and related accessories. Our used video game products provide a unique value proposition to our customers, and our purchasing of used video game products provides our customers with an opportunity to trade in their used video game products for store credits and apply those credits towards other merchandise, which in turn, increases sales. These products are substantially the same regardless of geographic location, with the primary differences in merchandise carried being the timing of release of new products in the various segments. Stores in all segments are similar in size at an average of approximately 1,500 square feet each.

The Company began operations in November 1996. In October 1999, the Company was acquired by, and became a wholly-owned subsidiary of, Barnes & Noble, Inc. ( Barnes & Noble ). In June 2000, Barnes & Noble acquired Funco, Inc. ( Funco ), a 400-store retailer of video game products in the U.S. In February 2002, GameStop completed an initial public offering of its Class A common stock and was a majority-owned subsidiary of Barnes & Noble until November 2004, when Barnes & Noble distributed its holdings of outstanding GameStop Class B common stock to its stockholders. In October 2005, GameStop acquired the operations of Electronics Boutique Holdings Corp. ( EB or Electronics Boutique ), a 2,300-store video game retailer in the U.S. and 12 other countries, by merging its existing operations with EB under GameStop Corp. (the mergers ).

On February 7, 2007, all outstanding Class B common stock of the Company was converted into Class A common stock of the Company on a one-for-one basis and the Company no longer has any Class B common stock. On March 16, 2007, the Company completed a two-for-one stock split of its Class A common stock (the Stock Split ). As of February 2, 2008, our Class A common stock traded on the New York Stock Exchange ( NYSE ) under the symbol GME.

Our corporate office and one of our distribution facilities are housed in a 510,000 square foot facility in Grapevine, Texas.

**Recent Developments**

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On February 7, 2008, the Board of Directors of the Company authorized a buyback of the Company's senior notes in the amount of \$130 million. The timing and amount of the repurchases will be determined by the Company's management based on their evaluation of market conditions and other factors. In addition, the repurchases may be suspended or discontinued at any time. At the time of filing, the Company had repurchased \$24.7 million of its senior notes pursuant to this new authorization and delivered the senior notes to the trustee for cancellation. The associated loss on the retirement of debt is \$1.9 million, which consists of the premium paid to retire the senior notes and the write-off of the deferred financing fees and the original issue discount on the senior notes.

On March 28, 2008, the Company entered into a stock purchase agreement with Free Record Shop Holding B.V., a Dutch company, to purchase all of the outstanding stock of Free Record Shop Norway AS, a Norwegian

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private limited liability company ( FRS ). FRS operates approximately 50 record stores in Norway and also operates office and warehouse facilities in Oslo, Norway. During fiscal 2008, the Company intends to convert these stores into video game stores with an inventory assortment similar to its other stores in Norway. The Company will include the results of operations of FRS, which are not expected to be material, in its financial statements beginning on the closing date of the acquisition, which is expected to be April 5, 2008.

## **Disclosure Regarding Forward-looking Statements**

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

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

economic conditions affecting the electronic game industry and the markets in which GameStop operates;

the competitive environment in the electronic game industry;

our ability to open and operate new stores;

our ability to attract and retain qualified personnel;

the impact and costs of litigation and regulatory compliance;

unanticipated litigation results;

the risks involved with our international operations;

alternate sources of distribution of video game software; and

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

In some cases, forward-looking statements can be identified by the use of terms such as anticipates, believes, continues, could, estimates, expects, intends, may, plans, potential, predicts, will, should, see 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-K. In light of these risks and uncertainties, the forward-looking events and circumstances contained in this Form 10-K may not occur, causing actual results to differ materially from those

anticipated or implied by our forward-looking statements.

### **Industry Background**

Based upon estimates compiled by various market research firms, management estimates that the combined market for video game products and PC entertainment software exceeded \$36 billion in 2007 in the countries in which we operate. According to NPD Group, Inc., a market research firm ( the NPD Group ), the electronic game industry was an approximately \$18.6 billion market in the United States in 2007. Of this \$18.6 billion market, approximately \$17.7 billion was attributable to video game products, excluding sales of used video game products, and approximately \$910 million was attributable to PC entertainment software. International Development Group,



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a market research firm, estimates that retail sales of video game hardware and software and PC entertainment software totaled approximately \$15.6 billion in Europe in 2007. The NPD Group has reported that video game retail sales in Canada were approximately \$1.5 billion in 2007. According to the independent market research group GfK, the Australian market for video game products was approximately \$1.1 billion in 2007.

*New Video Game Products.* The Entertainment Software Association, or ESA, estimates that 67% of all American heads of households play video or computer games. We expect the following trends to result in increased sales of video game products:

*Hardware Platform Technology Evolution.* Video game hardware has evolved significantly from the early products launched in the 1980s. The processing speed of video game hardware has increased from 8-bit speeds in the 1980s to high speed processors in next-generation systems, such as the Sony PlayStation 3 launched in November 2006 in North America and the first quarter of fiscal 2007 in Australia and Europe, the Nintendo Wii launched in November 2006 worldwide, and Microsoft Xbox 360, launched in the fourth quarter of 2005 in North America and Europe and the first quarter of 2006 in Australia. In addition, portable handheld video game devices have evolved from the 8-bit Nintendo Game Boy to the 128-bit Nintendo DS, which was introduced in November 2004 in North America and the first quarter of 2005 in Australia and Europe, and the Sony PlayStation Portable (the PSP), which was introduced in March 2005 in North America and September 2005 in Australia and Europe. Technological developments in both chip processing speed and data storage have provided significant improvements in advanced graphics and audio quality, which allow software developers to create more advanced games, encourage existing players to upgrade their hardware platforms and attract new video game players to purchase an initial system. As general computer technology advances, we expect video game technology to make similar advances.

*Next-Generation Systems Provide Multiple Capabilities Beyond Gaming.* Many next-generation hardware platforms, including the Sony PlayStation 2 and 3 and Microsoft Xbox and Xbox 360, utilize a DVD software format and have the potential to serve as multi-purpose entertainment centers by doubling as a player for DVD movies and compact discs. In addition, the Sony PlayStation 3 and PSP, the Nintendo DS and Wii and Microsoft Xbox 360 all provide internet connectivity and the Sony PlayStation 3 plays Blu-ray discs.

*Backward Compatibility.* The Sony PlayStation 2 and 3, the Nintendo DS and Wii and Microsoft Xbox 360 are, to some extent, backward compatible, meaning that titles produced for the earlier version of the hardware platform may be used on the new hardware platform. We believe that during the initial launch phase of next-generation platforms, backward compatibility results in more stable industry growth because the decrease in consumer demand for products associated with existing hardware platforms that typically precedes the release of next-generation hardware platforms is diminished.

*Introduction of Next-Generation Hardware Platforms Drives Software Demand.* Sales of video game software generally increase as next-generation platforms mature and gain wider acceptance. Historically, when a new platform is released, a limited number of compatible game titles are immediately available, but the selection grows rapidly as manufacturers and third-party publishers develop and release game titles for that new platform.

*Broadening Demographic Appeal.* While the typical electronic game enthusiast is male between the ages of 14 and 35, the electronic game industry is broadening its appeal. More females are playing electronic video games, in part due to the development of video game products that appeal to them. According to ESA, approximately 38% of all electronic game players are female. ESA also states that 36% of parents say they play computer and video games and that 80% of gamer parents play video games with their kids. According to ESA, the average game player is 33 years old; however, the video game market also includes approximately 24% of

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Americans over the age of 50. In addition, the availability of used video game products for sale has enabled a lower-economic demographic, that may not have been able to afford the considerably more expensive new video game products, to participate in the video game industry.

*Used Video Game Products.* As the installed base of video game hardware platforms has increased and new hardware platforms are introduced, a considerable market for used video game hardware and software has

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developed. Based on reports published by NPD Group, we believe that, as of December 2006, the installed base of video game hardware systems in the United States, based on original sales, totaled over 150 million units of recent generation technology, including approximately 3.2 million Sony PlayStation 3 units, 7.3 million Nintendo Wii units, 9.1 million Microsoft Xbox 360 units, 10.5 million Sony PSP units, 41 million Sony PlayStation 2 units, 14 million Microsoft Xbox units, 12 million Nintendo GameCube units, 17.5 million Nintendo DS units and 36 million Game Boy Advance SP and Game Boy Advance units. Hardware manufacturers and third-party software publishers have produced a wide variety of software titles for each of these hardware platforms. Based on internal company estimates, we believe that the installed base of video game software units in the United States exceeds 1.2 billion units. According to the International Development Group, the installed base of hardware systems in Europe is approximately 101 million units. As the substantial installed base of video game hardware and software continues to grow, there is a growing demand for used video game products.

*PC Entertainment Software.* PC entertainment software is generally sold in the form of CD-ROMs and played on multimedia PCs featuring fast processors, expanded memories, and enhanced graphics and audio capabilities.

## **Business Strategy**

Our goal is to strengthen our position as the world's largest retailer of new and used video game products and PC entertainment software by focusing on the following strategies:

*Continuing to Execute Our Proven Growth Strategies.* We intend to continue to execute our proven growth strategies, including:

Continuing to open new stores in our domestic and international target markets; and

Increasing our comparable store sales and operating earnings by capitalizing on industry growth and increasing sales of used video game products.

*Targeting a Broad Audience of Game Players.* We have created a store environment targeting a broad audience including the electronic game enthusiast, the casual gamer and the seasonal gift giver. Our stores focus on the electronic game enthusiast who demands the latest merchandise featuring the hottest technology immediately on the day of release and the value-oriented customer who wants a wide selection of value-priced used video game products. Our stores offer the opportunity to trade in used video game products in exchange for store credits applicable to future purchases, which, in turn, drives more sales.

*Enhancing our Image as a Destination Location.* Our stores serve as destination locations for game players and gift givers due to our broad selection of products, knowledgeable sales associates, game-oriented environment and unique pricing proposition. We offer all major video game platforms, provide a broad assortment of video game products and offer a larger and more current selection of merchandise than other retailers. We provide a high level of customer service by hiring game enthusiasts and providing them with ongoing sales training, as well as training in the latest technical and functional elements of our products and services. Our stores are equipped with several video game sampling areas, which provide our customers the opportunity to play games before purchase, as well as equipment to play video game clips.

*Offering the Largest Selection of Used Video Game Products.* We believe we are the largest retailer of used video games in the world and carry the broadest selection of used video game products for both current and previous generation platforms. We are one of the only retailers that provides video game software for previous generation platforms, giving us a unique advantage in the video game retail industry. The opportunity to trade in and purchase used video game products offers our customers a unique value proposition generally unavailable at most mass

merchants, toy stores and consumer electronics retailers. We obtain most of our used video game products from trade-ins made in our stores by our customers. Used video game products generate significantly higher gross margins than new video game products.

*Building the GameStop Brand.* Substantially all of GameStop's U.S. and European stores are operated under the GameStop name, including stores acquired from EB. Building the GameStop brand has enabled us to leverage brand awareness and to capture advertising and marketing efficiencies. Our branding strategy is further supported

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by the GameStop Edge loyalty card and our website. The GameStop loyalty card, which is obtained as a bonus with a paid subscription to our *Game Informer* magazine, offers customers discounts on selected merchandise in our stores. Our websites allow our customers to buy games on-line and to learn about the latest video game products and PC entertainment software and their availability in our stores. In 2007, GameStop introduced its new brand tagline Power to the Players and launched a T.V., radio and newspaper advertising campaign to increase brand awareness of the GameStop brand.

*Providing a First-to-Market Distribution Network.* We employ a variety of rapid-response distribution methods in our efforts to be the first-to-market for new video game products and PC entertainment software. We strive to deliver popular new releases to selected stores within hours of release and to all of our stores by the next morning. This highly efficient distribution network is essential, as a significant portion of a new title's sales will be generated in the first few days and weeks following its release. As the world's largest retailer of video game products and PC entertainment software with a proven capability to distribute new releases to our customers quickly, we believe that we regularly receive a large allocation of popular new video game products and PC entertainment software. On a daily basis, we actively monitor sales trends, customer reservations and store manager feedback to ensure a high in-stock position for each store. To assist our customers in obtaining immediate access to new releases, we offer our customers the opportunity to pre-order products in our stores or through our website prior to their release.

*Investing in our Information Systems and Distribution Capabilities.* We employ sophisticated and fully-integrated inventory management, store-level point of sale and financial systems and state-of-the-art distribution facilities. These systems enable us to maximize the efficiency of the flow of over 4,500 SKUs, improve store efficiency, optimize store in-stock positions and carry a broad selection of inventory. Our proprietary inventory management system enables us to maximize sales of new release titles and avoid markdowns as titles mature and utilizes electronic point-of-sale equipment that provides corporate headquarters with daily information regarding store-level sales and available inventory levels to automatically generate replenishment shipments to each store at least twice a week. In addition, our highly-customized inventory management system allows us to actively manage the pricing and product availability of our used video game products across our store base and to reallocate our inventory as necessary. Our systems enable each store to carry a merchandise assortment uniquely tailored to its own sales mix and customer needs. Our ability to react quickly to consumer purchasing trends has resulted in a target mix of inventory, reduced shipping and handling costs for overstocks and reduced our need to discount products.

## **Growth Strategy**

*Open New Stores.* We intend to continue to open new stores in our targeted markets. We opened 586 new stores in the 52 weeks ended February 2, 2008 (fiscal 2007) and 421 new stores in the 53 weeks ended February 3, 2007 (fiscal 2006). We plan to open approximately 575 to 600 new stores in the 52 weeks ending January 31, 2009 (fiscal 2008). Our primary growth vehicles will be the expansion of our strip center store base in the United States and the expansion of our international store base. Our strategy within the U.S. is to open strip center stores in targeted major metropolitan markets and in regional shopping centers in other markets. Our international strategy is to continue our expansion in Europe and the opening of new stores in advantageous markets and locations in Canada and Australia. We analyze each market relative to target population and other demographic indices, real estate availability, competitive factors and past operating history, if available. In some cases, these new stores may adversely impact sales at existing stores, but our goal is to minimize the impact.

*Increase Comparable Store Sales.* We plan to increase our comparable store sales by capitalizing on the growth in the video game industry, expanding our sales of used video game products and increasing awareness of the GameStop brand.

*Capitalize on Growth in Demand.* Our sales of new video game hardware, new video game software and used video game products grew by approximately 113%, 62% and 63%, respectively, in fiscal 2006 primarily due to the merger with EB and by 55%, 39% and 21%, respectively, in fiscal 2007, due primarily to new store growth and the increase in comparable store sales. In fiscal 2007, our comparable store sales increased 24.7%, driven in large measure by the continued popularity of the Nintendo Wii following its

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worldwide launch in November 2006, the launch of the Sony PlayStation 3 in Australia and Europe in March 2007 and the release of several strong software titles in the fall of 2007, including *Halo 3* by Microsoft, *Guitar Hero III* and *Call of Duty 4* by Activision, Inc. and *Rock Band* by Electronic Arts, Inc. In addition, Microsoft Xbox 360 and Nintendo DS hardware, software and accessories continued their strong sales trend. During fiscal 2006, despite facing limited supplies of the newly launched Sony PlayStation 3 and Nintendo Wii, we capitalized on the demand for these new video game systems and the related video game software and accessories that followed these launches. Over the next few years, we expect to continue to capitalize on the increasing installed base for these latest generation platforms and the related growth in video game software and accessories sales.

*Increase Sales of Used Video Game Products.* We will continue to expand the selection and availability of used video game products in our stores. Our strategy consists of increasing consumer awareness of the benefits of trading in and buying used video game products at our stores through increased marketing activities. We expect the continued growth of new platform technology to drive trade-ins of previous generation products, as well as next generation platforms, thereby expanding the supply of used video game products.

*Increase GameStop Brand Awareness.* We intend to increase customer awareness of the GameStop brand. In connection with our brand-building efforts, in each of the last three fiscal years, we increased the amount of media advertising in targeted markets. In fiscal 2008, we plan to continue to increase media advertising to increase brand awareness over a broader demographic area, to expand our GameStop loyalty card program, to aggressively promote trade-ins of used video game products in our stores and to leverage our websites at [www.gamestop.com](http://www.gamestop.com) and [www.ebgames.com](http://www.ebgames.com).

## **Operating Segments**

We identified our four operating segments based on a combination of geographic areas, the methods with which we analyze performance and the division of management responsibility. Segment results for the United States include retail operations in the 50 states, the District of Columbia, Guam and Puerto Rico, the electronic commerce websites [www.gamestop.com](http://www.gamestop.com) and [www.ebgames.com](http://www.ebgames.com) and *Game Informer* magazine. Segment results for Canada include retail operations in stores throughout Canada and segment results for Australia include retail operations in Australia and New Zealand. Segment results for Europe include retail operations in 12 European countries.

Our U.S. segment is supported by distribution centers in Texas and Kentucky, and further supported through the use of third-party distribution centers for new release titles. We distribute merchandise to our Canadian segment from a distribution center in Ontario. We have a distribution center near Brisbane, Australia which supports our Australian operations and a small distribution facility in New Zealand which supports the stores in New Zealand. European segment operations are supported by five regionally-located distribution centers.

Our international segments purchase products from many of the same vendors as the U.S., including Sony and Electronic Arts. Products from certain other vendors such as Microsoft and Nintendo are obtained through distributors operating in the various countries in which we operate.

Additional information, including financial information, regarding our operating segments can be found in Management's Discussion and Analysis of Financial Condition and Results of Operations elsewhere in this Annual Report on Form 10-K and in Note 17 of Notes to Consolidated Financial Statements.

## **Merchandise**

Substantially all of our revenues are derived from the sale of tangible products. Our product offerings consist of new and used video game products, PC entertainment software, and related products, such as trading cards and strategy guides. Our in-store inventory generally consists of a constantly changing selection of over 4,500 SKUs. We have buying groups in the U.S., Canada, Australia and Europe that negotiate terms, discounts and cooperative advertising allowances for the stores in their respective geographic areas. We use customer requests and feedback, advance orders, industry magazines and product reviews to determine which new releases are expected to be hits. Advance orders are tracked at individual stores to distribute titles and capture demand effectively. This merchandise



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management is essential because a significant portion of a game's sales are usually generated in the first days and weeks following its release.

*Video Game Software.* We purchase new video game software directly from the leading manufacturers, including Sony, Nintendo and Microsoft, as well as over 40 third-party game publishers, such as Electronic Arts and Activision. We are one of the largest customers of video game titles sold by these publishers. We generally carry over 1,000 SKUs of new video game software at any given time across a variety of genres, including Sports, Action, Strategy, Adventure/Role Playing and Simulation.

*Used Video Game Products.* We believe we are the largest retailer of used video games in the world. We provide our customers with an opportunity to trade in their used video game products in our stores in exchange for store credits which can be applied towards the purchase of other products, primarily new merchandise. We have the largest selection (approximately 3,000 SKUs) of used video game titles which have an average price of \$16 as compared to an average price of \$42 for new video game titles and which generate significantly higher gross margins than new video game products. Our trade-in program provides our customers with a unique value proposition which is generally unavailable at mass merchants, toy stores and consumer electronics retailers. This program provides us with an inventory of used video game products which we resell to our more value-oriented customers. In addition, our highly-customized inventory management system allows us to actively manage the pricing and product availability of our used video game products across our store base and to reallocate our inventory as necessary. Our trade-in program also allows us to be one of the only suppliers of previous generation platforms and related video games. We also operate refurbishment centers in the U.S., Canada, Australia and Europe where defective video game products can be tested, repaired, relabeled, repackaged and redistributed back to our stores.

*Video Game Hardware.* We offer the video game platforms of all major manufacturers, including the Sony PlayStation 2 and 3 and PSP, Microsoft Xbox 360, the Nintendo Wii and DS. We also offer extended service agreements on video game hardware and software. In support of our strategy to be the destination location for electronic game players, we aggressively promote the sale of video game platforms. Video game hardware sales are generally driven by the introduction of new platform technology and the reduction in price points as platforms mature. Due to our strong relationships with the manufacturers of these platforms, we often receive disproportionately large allocations of new release hardware products, which is an important component of our strategy to be the destination of choice for electronic game players. We believe that selling video game hardware increases store traffic and promotes customer loyalty, leading to increased sales of video game software and accessories, which have higher gross margins than video game hardware.

*PC Entertainment and Other Software.* We purchase PC entertainment software from over 45 publishers, including Electronic Arts, Microsoft and Vivendi Universal. We offer PC entertainment software across a variety of genres, including Sports, Action, Strategy, Adventure/Role Playing and Simulation.

*Accessories and Other Products.* Video game accessories consist primarily of controllers, memory cards and other add-ons. PC entertainment accessories consist primarily of joysticks. We also carry strategy guides and magazines, as well as trading cards. We carry over 300 SKUs of accessories and other products. In general, this category has higher margins than new video game and PC entertainment products.

## **Store Operations**

As of February 2, 2008, we operated 5,264 stores, primarily under the GameStop name. Each of our stores typically carries over 4,500 SKUs. We design our stores to provide an electronic gaming atmosphere with an engaging and visually captivating layout. Our stores are equipped with several video game sampling areas, which provide our customers the opportunity to play games before purchase, as well as equipment to play video game clips. We use store

configuration, in-store signage and product demonstrations to produce marketing opportunities both for our vendors and for us.

Our stores, which average approximately 1,500 square feet, carry a balanced mix of new and used video game products and PC entertainment software. Our stores are generally located in high-traffic power strip centers, local neighborhood strip centers, high-traffic shopping malls and pedestrian areas, primarily in major metropolitan areas.

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These locations provide easy access and high frequency of visits and, in the case of strip centers and high-traffic pedestrian stores, high visibility. We target strip centers that are conveniently located, have a mass merchant or supermarket anchor tenant and have a high volume of customers.

**Site Selection and Locations**

*Site Selection.* In the U.S., we have a dedicated staff of real estate personnel experienced in selecting store locations. International locations are selected by the management in each region or country. Site selections for new stores are made after an extensive review of demographic data and other information relating to market potential, competitor access and visibility, compatible nearby tenants, accessible parking, location visibility, lease terms and the location of our other stores. Most of our stores are located in highly visible locations within malls and strip centers.

*Locations.* The table below sets forth the number of our stores located in the U.S., Canada, Europe and Australia as of February 2, 2008:

<b>United States</b>	<b>Number of Stores</b>
Alabama	75
Alaska	4
Arizona	77
Arkansas	28
California	439
Colorado	59
Connecticut	57
Delaware	19
District of Columbia	2
Florida	287
Georgia	130
Guam	2
Hawaii	20
Idaho	9
Illinois	179
Indiana	77
Iowa	31
Kansas	33
Kentucky	59
Louisiana	63
Maine	10
Maryland	99
Massachusetts	85
Michigan	120
Minnesota	54
Mississippi	38
Missouri	66
Montana	7
Nebraska	20
Nevada	37

New Hampshire	22
New Jersey	148
New Mexico	26
New York	217
North Carolina	125

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	<b>Number of Stores</b>
<b>United States</b>	
North Dakota	8
Ohio	175
Oklahoma	46
Oregon	30
Pennsylvania	199
Puerto Rico	45
Rhode Island	14
South Carolina	62
South Dakota	4
Tennessee	81
Texas	355
Utah	28
Vermont	7
Virginia	130
Washington	74
West Virginia	25
Wisconsin	47
Wyoming	7
Sub-total for United States	4,061
<b>International</b>	<b>Number of Stores</b>
Canada	287
Australia	250
New Zealand	30
Sub-total for Australia	280
Austria	11
Denmark	31
Finland	13
Germany	137
Ireland	44
Italy	218
Norway	16
Portugal	10
Spain	93
Sweden	47
Switzerland	10
United Kingdom	6

Sub-total for Europe	636
Sub-total for International	1,203
Total stores	5,264

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### **Game Informer**

We publish *Game Informer*, a monthly video game magazine featuring reviews of new title releases, tips and secrets about existing games and news regarding current developments in the electronic game industry. The magazine is sold through subscription and through displays in our United States, Canada and Ireland stores. For its February 2008 issue, the magazine had approximately 2.9 million paid subscriptions. According to *Mediaweek* magazine, *Game Informer* is the 23rd largest consumer publication in the U.S. *Game Informer* revenues are also generated through the sale of advertising space. In addition, we offer the GameStop loyalty card as a bonus with each paid subscription, providing our subscribers with a discount on selected merchandise. *Game Informer* operations are included in the United States segment where the majority of subscriptions and sales are generated.

### **E-Commerce**

We operate electronic commerce websites at [www.gamestop.com](http://www.gamestop.com) and [www.ebgames.com](http://www.ebgames.com) that allow our customers to buy video game products and other merchandise on-line. The sites also offer customers information and content about available games, release dates for upcoming games, and access to store information, such as location and product availability. In 2005, we entered into an arrangement with Barnes & Noble under which [www.gamestop.com](http://www.gamestop.com) is the exclusive specialty video game retailer listed on [www.bn.com](http://www.bn.com), Barnes & Noble's e-commerce site. E-commerce results are included in the United States segment where the majority of the sales originate.

### **Advertising**

Our stores are primarily located in high traffic, high visibility areas of regional shopping malls and strip centers. Given the high foot traffic drawn past the stores themselves, we use in-store marketing efforts such as window displays and "coming soon" signs to attract customers, as well as to promote used video game products. Inside the stores, we feature selected products through the use of vendor displays, "coming soon" or preview videos, signs, catalogs, point-of-purchase materials and end-cap displays. These advertising efforts are designed to increase the initial sales of new titles upon their release.

On a global basis, we receive cooperative advertising and market development funds from manufacturers, distributors, software publishers and accessory suppliers to promote their respective products. Generally, vendors agree to purchase advertising space in one of our advertising vehicles. Once we run the advertising, the vendor pays to us an agreed amount.

In the last three years, as part of our brand-building efforts and targeted growth strategies, we expanded our advertising and promotional activities in certain targeted markets at certain key times of the year. In addition, we expanded our use of television and radio advertising in certain markets to promote brand awareness and store openings.