GameStop Corp.
Form 10-Q
December 11, 2008

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

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED NOVEMBER 1, 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	**20-2733559**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
625 Westport Parkway, Grapevine, Texas	**76051**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

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

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

Number of shares of $.001 par value Class A Common Stock outstanding as of November 21, 2008: 163,776,078

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PART I FINANCIAL INFORMATION

ITEM 1. ***Financial Statements***

GAMESTOP CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

	November 1, 2008 (Unaudited)	November 3, 2007 (Unaudited)	February 2, 2008
	(In thousands, except per share data)		
ASSETS:			
Current assets:			
Cash and cash equivalents	$ 478,056	$ 277,808	$ 857,414
Receivables, net	50,730	47,443	56,019
Merchandise inventories, net	1,424,249	1,164,229	801,025
Deferred income taxes current	29,200	38,458	27,481
Prepaid expenses	56,759	52,351	48,915
Prepaid taxes	68,222	73,257	
Other current assets	45,690	7,264	3,863
Total current assets	2,152,906	1,660,810	1,794,717
Property and equipment:			
Land	10,229	12,026	11,870
Buildings and leasehold improvements	404,660	358,445	378,611
Fixtures and equipment	590,565	516,767	538,738
Total property and equipment	1,005,454	887,238	929,219
Less accumulated depreciation and amortization	502,348	386,658	417,550
Net property and equipment	503,106	500,580	511,669
Goodwill, net	1,443,782	1,402,845	1,402,440
Deferred taxes	28,681	9,496	26,332
Other noncurrent assets	35,226	41,109	40,733
Total noncurrent assets	2,010,795	1,954,030	1,981,174
Total assets	$ 4,163,701	$ 3,614,840	$ 3,775,891
LIABILITIES AND STOCKHOLDERS EQUITY:			
Current liabilities:			
Accounts payable	$ 1,102,639	$ 977,830	$ 844,376

Accrued liabilities	366,147	313,844	416,181
Total current liabilities	1,468,786	1,291,674	1,260,557
Senior notes payable, long-term portion, net	545,462	574,229	574,473
Other liabilities	85,273	78,692	78,415
Total long-term liabilities	630,735	652,921	652,888
Total liabilities	2,099,521	1,944,595	1,913,445
Commitments and Contingencies (Note 10)			
Stockholders equity:			
Preferred stock authorized 5,000 shares; no shares issued or outstanding			
Class A common stock $.001 par value; authorized 300,000 shares; 163,776, 160,959 and 161,007 shares issued and outstanding, respectively	164	161	161
Additional paid-in-capital	1,299,721	1,200,586	1,208,474
Accumulated other comprehensive income (loss)	(23,870)	37,091	31,603
Retained earnings	788,165	432,407	622,208
Total stockholders equity	2,064,180	1,670,245	1,862,446
Total liabilities and stockholders equity	$ 4,163,701	$ 3,614,840	$ 3,775,891

See accompanying notes to condensed consolidated financial statements.

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GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
	(In thousands, except per share data) (Unaudited)			
Sales	$ 1,695,746	$ 1,611,201	$ 5,313,783	$ 4,228,377
Cost of sales	1,222,317	1,191,637	3,882,825	3,098,745
Gross profit	473,429	419,564	1,430,958	1,129,632
Selling, general and administrative expenses	335,722	288,954	1,012,134	824,504
Depreciation and amortization	35,767	33,705	106,912	96,858
Merger-related expenses	16,605		16,605	
Operating earnings	85,335	96,905	295,307	208,270
Interest income	(3,672)	(2,627)	(10,242)	(9,191)
Interest expense	12,479	14,549	36,748	48,575
Debt extinguishment expense		3,840	2,331	12,591
Earnings before income tax expense	76,528	81,143	266,470	156,295
Income tax expense	29,859	29,186	100,513	57,805
Net earnings	$ 46,669	$ 51,957	$ 165,957	$ 98,490
Net earnings per common share-basic	$ 0.29	$ 0.32	$ 1.02	$ 0.63
Weighted average shares of common stock-basic	163,736	160,048	162,983	157,308
Net earnings per common share-diluted	$ 0.28	$ 0.31	$ 0.99	$ 0.60
Weighted average shares of common stock-diluted	167,995	166,357	167,813	164,128

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

	Class A Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Retained	
	Shares	Common Stock	Capital	(Loss)	Earnings	Total
	(In thousands) (Unaudited)					
Balance at February 2, 2008	161,007	$ 161	$ 1,208,474	$ 31,603	$ 622,208	$ 1,862,446
Comprehensive income:						
Net earnings for the 39 weeks ended November 1, 2008					165,957	
Foreign currency translation				(55,473)		
Total comprehensive income						110,484
Stock-based compensation			28,433			28,433
Exercise of stock options and issuance of shares upon vesting of restricted stock grants (including tax benefit of $37,235)	2,769	3	62,814			62,817
Balance at November 1, 2008	163,776	$ 164	$ 1,299,721	$ (23,870)	$ 788,165	$ 2,064,180

See accompanying notes to condensed consolidated financial statements.

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GAMESTOP CORP.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	39 Weeks Ended	
	November 1, 2008	November 3, 2007
	(In thousands) (Unaudited)	
Cash flows from operating activities:		
Net earnings	$ 165,957	$ 98,490
Adjustments to reconcile net earnings to net cash flows used in operating activities:		
Depreciation and amortization (including amounts in cost of sales)	107,913	97,576
Amortization and retirement of deferred financing fees	1,825	5,198
Amortization and retirement of original issue discount on senior notes	989	918
Stock-based compensation expense	28,433	20,311
Deferred taxes	(8,285)	(4,754)
Excess tax benefits realized from exercise of stock-based awards	(33,925)	(92,628)
Loss on disposal of property and equipment	3,960	4,979
Increase in other long-term liabilities	11,256	9,305
Increase in liability to landlords for tenant allowances, net	3,394	3,810
Change in the value of foreign exchange contracts	(42,535)	3,423
Changes in operating assets and liabilities, net		
Receivables, net	2,736	(11,336)
Merchandise inventories	(688,441)	(447,307)
Prepaid expenses and other current assets	(16,538)	(14,007)
Prepaid taxes	(39,359)	38,551
Accounts payable and accrued liabilities	302,854	148,036
Net cash flows used in operating activities	(199,766)	(139,435)
Cash flows from investing activities:		
Purchase of property and equipment	(132,758)	(124,757)
Acquisitions, net of cash acquired	(50,800)	1,062
Net cash flows used in investing activities	(183,558)	(123,695)
Cash flows from financing activities:		
Repurchase of notes payable	(30,000)	(270,000)
Repayment of other debt		(12,173)
Issuance of shares relating to stock options	28,432	64,308
Excess tax benefits realized from exercise of stock-based awards	33,925	92,628
Net change in other noncurrent assets and deferred financing fees	(2,890)	6,233
Net cash flows provided by (used in) financing activities	29,467	(119,004)
Exchange rate effect on cash and cash equivalents	(25,501)	7,539

Net decrease in cash and cash equivalents	(379,358)	(374,595)
Cash and cash equivalents at beginning of period	857,414	652,403
Cash and cash equivalents at end of period	$ 478,056	$ 277,808

See accompanying notes to condensed consolidated financial statements.

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share data)
(Unaudited)

1. Basis of Presentation

GameStop Corp. (together with its predecessor companies, GameStop, we, our, or the Company), a Delaware corporation, is the world s largest retailer of video games and entertainment software. The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. All dollar and share amounts in the consolidated financial statements and notes to the consolidated financial statements are stated in thousands of U.S. dollars unless otherwise indicated.

The unaudited consolidated financial statements included herein reflect all adjustments (consisting only of normal, recurring adjustments) which are, in the opinion of the Company s management, necessary for a fair presentation of the information for the periods presented. These unaudited condensed consolidated interim financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and do not include all disclosures required under GAAP for complete financial statements. These consolidated financial statements should be read in conjunction with the Company s annual report on Form 10-K for the 52 weeks ended February 2, 2008 (fiscal 2007). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by management could have significant impact on the Company s financial results. Actual results could differ from those estimates.

Due to the seasonal nature of the business, the results of operations for the 39 weeks ended November 1, 2008 are not indicative of the results to be expected for the 52 weeks ending January 31, 2009 (fiscal 2008).

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

2. Change in Accounting Principles

Effective February 3, 2008, the Company implemented Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for its measurement and expands disclosures about fair value measurements. The Company elected to implement this Statement with the one-year deferral permitted by FASB Staff Position (FSP) 157-2 for nonfinancial assets and nonfinancial liabilities measured at fair value, except those that are recognized or disclosed on a recurring basis (at least annually). We do not expect any significant impact to our consolidated financial statements when we implement SFAS 157 for these assets and liabilities.

Due to our election under FSP 157-2, for fiscal 2008, SFAS 157 applies to our foreign exchange contracts, foreign currency options and cross-currency swaps (together, the Foreign Currency Contracts), Company-owned life insurance policies with a cash surrender value and certain nonqualified deferred compensation liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition. The implementation of

SFAS 157 did not result in a significant change in the method of calculating fair value of assets or liabilities. The primary impact from adoption was additional disclosures.

In October 2008, the FASB issued FSP 157-3, *Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active* (FSP 157-3), to clarify how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our financial statements for the period ended November 1, 2008. The application of the provisions of FSP 157-3 did not materially impact our consolidated financial

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

statements for the period ended November 1, 2008. The Company does not currently own any securities, including cash equivalents, for which a dislocated market or other problem exists.

SFAS 157 requires disclosures that categorize assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are observable inputs other than quoted prices included within Level 1 for the asset or liability, either directly or indirectly through market-corroborated inputs. Level 3 inputs are unobservable inputs for the asset or liability reflecting our assumptions about pricing by market participants.

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

The following table provides the fair value of our financial assets and liabilities measured on a recurring basis and recorded on our condensed consolidated balance sheet as of November 1, 2008:

	November 1, 2008 Level 2 (In thousands)	
Assets		
Foreign Currency Contracts	$	42,862
Company-owned life insurance		2,408
Total assets	$	45,270
Liabilities		
Foreign Currency Contracts	$	12,418
Non-qualified deferred compensation		1,019
Total liabilities	$	13,437

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). This Statement permits entities the option to measure many financial instruments and certain other items at fair value at specific election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 was effective for our Company on February 3, 2008. The adoption of SFAS 159 did not have a material impact on our consolidated financial statements.

3. Business Combinations and Goodwill

On April 5, 2008, the Company purchased all the outstanding stock of Free Record Shop Norway AS, a Norwegian private limited liability company (FRS), for $21,006, net of cash acquired. FRS operates 49 record stores in Norway and also operates office and warehouse facilities in Oslo, Norway. The Company is converting these stores into video game stores with an inventory assortment similar to its other stores in Norway. The acquisition was accounted for using the purchase method of accounting, with the excess of the purchase price over the net assets acquired, in the amount of $17,871, recorded as goodwill.

In 2003, the Company purchased a 51% controlling interest in GameStop Group Limited which operates stores in Ireland and the United Kingdom. Under the terms of the purchase agreement, the minority interest owners of the remaining 49% have the ability to require the Company to purchase their remaining shares in incremental

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

percentages at a price to be determined based partially on the Company s price to earnings ratio and GameStop Group Limited s earnings. On May 21, 2008, the minority interest owners exercised their right to sell one-third of their shares, or approximately 16% of GameStop Group Limited, to the Company under the terms of the original purchase agreement for $27,383. The transaction was completed in June 2008 and recorded in accordance with the provisions of Statement of Financial Accounting Standards No. 141, *Business Acquisitions*.

During July 2008, the Company purchased certain assets and website operations from The Gamesman Limited, a video game and entertainment software retailer including eight stores in New Zealand, for $1,910. The acquisition was accounted for using the purchase method of accounting, with the excess of the purchase price over the net assets acquired, in the amount of $605, recorded as goodwill.

The pro forma effect assuming the above acquisitions were made at the beginning of fiscal 2007 is not material to the Company s consolidated financial statements.

4. Accounting for Stock-Based Compensation

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. This valuation model requires the use of subjective assumptions, including expected option life, expected volatility and the expected employee forfeiture rate. The Company uses historical data to estimate the option life and the employee forfeiture rate, and uses historical volatility when estimating the stock price volatility. There were no options to purchase common stock granted during the 13 weeks ended November 1, 2008 and November 3, 2007. The options to purchase common stock granted during the 39 weeks ended November 1, 2008 and November 3, 2007 were 1,362 and 939, respectively, with a weighted-average fair value estimated at $15.45 and $10.16 per share, respectively, using the following assumptions:

	39 Weeks Ended	
	November 1, 2008	November 3, 2007
Volatility	38.2%	40.5%
Risk-free interest rate	2.4%	4.8%
Expected life (years)	3.5	4.0
Expected dividend yield	0%	0%

In the 13 weeks ended November 1, 2008 and November 3, 2007, the Company included compensation expense relating to stock option grants of $3,916 and $3,866, respectively, in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations. In the 39 weeks ended November 1, 2008 and November 3, 2007, the Company included compensation expense relating to stock option grants of $12,733 and $11,937, respectively, in selling, general and administrative expenses. As of November 1, 2008, the unrecognized compensation expense related to the unvested portion of our stock options was $18,416, which is expected to be recognized over a weighted average period of 1.9 years. The total intrinsic values of options exercised during the 13 weeks ended November 1, 2008 and November 3, 2007 were $3,236 and $84,100, respectively. The total intrinsic values of options exercised during the 39 weeks ended November 1, 2008 and November 3, 2007 were $86,981 and

$262,002, respectively.

During the 13 weeks ended November 1, 2008 and November 3, 2007, the Company granted 67 shares and 10 shares, respectively, of restricted stock which had a fair market value of $43.24 and $56.76 per share, respectively. The restricted shares vest in equal annual installments over three years. During the 39 weeks ended November 1, 2008 and November 3, 2007, the Company granted 602 shares and 974 shares, respectively, of restricted stock which had a weighted-average fair market value of $49.20 and $27.09 per share, respectively. The restricted shares vest in equal annual installments over three years. During the 13 weeks ended November 1, 2008 and November 3, 2007, the Company included compensation expense relating to the restricted share grants in the amount of $4,449 and $2,800, respectively, in selling, general and administrative expenses in the accompanying

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

condensed consolidated statements of operations. During the 39 weeks ended November 1, 2008 and November 3, 2007, the Company included compensation expense relating to the restricted share grants in the amount of $15,700 and $8,374, respectively, in selling, general and administrative expenses. As of November 1, 2008, there was $28,096 of unrecognized compensation expense related to nonvested restricted stock awards that is expected to be recognized over a weighted average period of 2.0 years.

5. Computation of Net Earnings per Common Share

On February 7, 2007, all outstanding shares of Class B common stock were converted into shares of Class A common stock on a one-for-one basis (the Conversion). In addition, as of February 9, 2007, the Board of Directors of the Company authorized a two-for-one stock split, effected by a one-for-one stock dividend to stockholders of record at the close of business on February 20, 2007, paid on March 16, 2007 (the Stock Split). The effect of the Conversion and the Stock Split has been retroactively applied to all periods presented in the condensed consolidated financial statements and notes thereto. The Company now has only Class A common stock outstanding and computes earnings per share in accordance with Statement of Financial Accounting Standards No. 128, *Earnings per Share*. A reconciliation of shares used in calculating basic and diluted net earnings per common share follows:

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
	(In thousands, except per share data)			
Net earnings	$ 46,669	$ 51,957	$ 165,957	$ 98,490
Weighted average common shares outstanding	163,736	160,048	162,983	157,308
Dilutive effect of options and restricted shares on common stock	4,259	6,309	4,830	6,820
Common shares and dilutive potential common shares	167,995	166,357	167,813	164,128
Net earnings per common share:				
Basic	$ 0.29	$ 0.32	$ 1.02	$ 0.63
Diluted	$ 0.28	$ 0.31	$ 0.99	$ 0.60

The following table contains information on restricted shares and options to purchase shares of Class A common stock which were excluded from the computation of diluted earnings per share because they were anti-dilutive:

	Anti-Dilutive	Range of Exercise	Expiration

	Shares	Prices	Dates
	(In thousands, except per share data)		
13 Weeks Ended November 1, 2008	1,342	49.95	2010 - 2018
13 Weeks Ended November 3, 2007	2		2010

6. Debt

In October 2005, in connection with the Company s merger with Electronics Boutique Holdings Corp. (EB) (the merger), the Company entered into a five-year, $400,000 Credit Agreement (the Revolver), including a $50,000 letter of credit sub-limit, secured by the assets of the Company and its U.S. subsidiaries. The Revolver places certain restrictions on the Company and its subsidiaries, including limitations on asset sales, additional liens and the incurrence of additional indebtedness. In April 2007, the Company amended the Revolver to extend the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

maturity date from October 11, 2010 to April 25, 2012, reduce the LIBO interest rate margin, reduce and fix the rate of the unused commitment fee and modify or delete certain other covenants.

The availability under the Revolver is limited to a borrowing base which allows the Company to borrow up to the lesser of (x) approximately 70% of eligible inventory and (y) 90% of the appraisal value of the inventory, in each case plus 85% of eligible credit card receivables, net of certain reserves. Letters of credit reduce the amount available to borrow by their face value. The Company s ability to pay cash dividends, redeem options and repurchase shares is generally prohibited, except that if availability under the Revolver is, or will be after any such payment, equal to or greater than 25% of the borrowing base, the Company may repurchase its capital stock and pay cash dividends. In addition, in the event that credit extensions under the Revolver at any time exceed 80% of the lesser of the total commitment or the borrowing base, the Company will be subject to a fixed charge coverage ratio covenant of 1.5:1.0.

The per annum interest rate on the Revolver is variable and, at the Company s option, is calculated by applying a margin of (1) 0.0% to 0.25% above the higher of the prime rate of the administrative agent or the federal funds effective rate plus 0.50% or (2) 1.00% to 1.50% above the LIBO rate. The applicable margin is determined quarterly as a function of the Company s consolidated leverage ratio. As of November 1, 2008, the applicable margin was 0.0% for prime rate loans and 1.00% for LIBO rate loans. In addition, the Company is required to pay a commitment fee of 0.25% for any unused portion of the total commitment under the Revolver. As of November 1, 2008, there were no borrowings outstanding under the Revolver and letters of credit outstanding totaled $7,496.

In September 2008, in connection with the acquisition of SFMI Micromania (Micromania), the Company accepted a Commitment Letter (the Commitment) from Bank of America, N.A. and Banc of America Securities LLC to provide a $150,000 junior term loan facility (the Term Loans). The Commitment provides for term loans up to an aggregate of $150,000, consisting of a $50,000 secured term loan and a $100,000 unsecured term loan, subject to the execution and delivery of definitive loan documents, an amendment to the existing Revolver permitting the Term Loans, and the completion of other documents and conditions customary for the Term Loans.

In October 2008, the Company amended the Revolver to permit both the acquisition of Micromania and the Term Loans. In addition, during any period for which the Term Loans are outstanding, the amendment increases the applicable margin under the Revolver (i) payable on LIBO rate loans to a range of 1.5% to 2.0% from the current range of 1.0% to 1.5% and (ii) payable on prime rate loans to a range of 0.5% to 0.75% from the current range of 0.0% to 0.25%. The margins applicable prior to the entry into the amendment shall apply once the Term Loans are no longer outstanding.

In September 2007, the Company s Luxembourg subsidiary entered into a discretionary, $20,000 Uncommitted Line of Credit (the Line of Credit) with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit will be made available to the Company s foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of November 1, 2008, there were $86 of cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled $4,386.

In September 2005, the Company, along with GameStop, Inc. as co-issuer (together with the Company, the Issuers), completed the offering of U.S. $300,000 aggregate principal amount of Senior Floating Rate Notes due 2011 (the Senior Floating Rate Notes) and U.S. $650,000 aggregate principal amount of Senior Notes due 2012 (the Senior

Notes and, together with the Senior Floating Rate Notes, the Notes). The Notes were issued under an Indenture, dated September 28, 2005 (the Indenture), by and among the Issuers, the subsidiary guarantors party thereto, and Citibank, N.A., as trustee (the Trustee). The net proceeds of the offering were used to pay the cash portion of the merger consideration paid to the stockholders of EB in connection with the merger.

The Senior Notes bear interest at 8.0% per annum, mature on October 1, 2012 and were priced at 98.688%, resulting in a discount at the time of issue of $8,528. The discount is being amortized using the effective interest

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

method. As of November 1, 2008, the unamortized original issue discount was $4,538. The rate of interest on the Senior Floating Rate Notes prior to their redemption on October 1, 2007 was 9.2350% per annum. The Issuers pay interest on the Senior Notes semi-annually, in arrears, every April 1 and October 1, to holders of record on the immediately preceding March 15 and September 15, and at maturity.

The Indenture contains affirmative and negative covenants customary for such financings, including, among other things, limitations on (1) the incurrence of additional debt, (2) restricted payments, (3) liens, (4) sale and leaseback transactions and (5) asset sales. Events of default provided for in the Indenture include, among other things, failure to pay interest or principal on the Notes, other breaches of covenants in the Indenture, and certain events of bankruptcy and insolvency. As of November 1, 2008, the Company was in compliance with all covenants associated with the Revolver and the Indenture.

Under certain conditions, the Issuers may on any one or more occasions prior to maturity redeem up to 100% of the aggregate principal amount of Senior Notes issued under the Indenture at redemption prices at or in excess of 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the redemption date. The circumstances which would limit the percentage of the Notes which may be redeemed or which would require the Company to pay a premium in excess of 100% of the principal amount are defined in the Indenture. Upon a Change of Control (as defined in the Indenture), the Issuers are required to offer to purchase all of the Notes then outstanding at 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase. The Issuers may acquire Senior Notes by means other than redemption, whether by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws, so long as such acquisitions do not otherwise violate the terms of the Indenture.

In May 2006, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of $100,000 of its Senior Notes and Senior Floating Rate Notes. As of February 3, 2007, the Company had repurchased the maximum authorized amount, having acquired $50,000 of its Senior Notes and $50,000 of its Senior Floating Rate Notes, and delivered the Notes to the Trustee for cancellation.

On February 9, 2007, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional $150,000 of its Senior Notes and Senior Floating Rate Notes. As of August 4, 2007, the Company had repurchased the maximum authorized amount, having acquired $20,000 of its Senior Notes and $130,000 of its Senior Floating Rate Notes, and delivered the Notes to the Trustee for cancellation. The associated loss on retirement of this debt was $8,751 for the 39 week period ended November 3, 2007, which consists of the premium paid to retire the Notes and the recognition of the deferred financing fees and the original issue discount on the Notes.

On June 28, 2007, the Company announced that its Board of Directors authorized the redemption of the remaining $120,000 of Senior Floating Rate Notes outstanding. The Company redeemed the Senior Floating Rate Notes on October 1, 2007 at the redemption price specified by the Senior Floating Rate Notes of 102.0%, plus all accrued and unpaid interest through the redemption date. The Company incurred a one-time pre-tax charge of $3,840 associated with the redemption, which represents a $2,400 redemption premium and $1,440 to recognize unamortized deferred financing costs.

On February 7, 2008, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional $130,000 of its Senior Notes. 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. As of November 1, 2008, the Company had repurchased $30,000 of its Senior Notes pursuant to this new authorization and delivered the Senior Notes to the Trustee for cancellation. The associated loss on retirement of debt is $2,331, 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.

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During October 2007, the Company paid the final principal payment of $12,173 to Barnes & Noble, Inc. (Barnes & Noble) on the promissory note that was issued in connection with the repurchase of GameStop s common stock held by Barnes & Noble, satisfying the promissory note in full. The note was unsecured and bore interest at 5.5% per annum.

7. Comprehensive income (loss)

Comprehensive income (loss) is net earnings, plus certain other items that are recorded directly to stockholders equity and consists of the following:

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
	(In thousands)			
Net earnings	$ 46,669	$ 51,957	$ 165,957	$ 98,490
Other comprehensive income:				
Foreign currency translation adjustments	(57,254)	17,732	(55,473)	33,864
Total comprehensive income (loss)	$ (10,585)	$ 69,689	$ 110,484	$ 132,354

8. Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examination by tax authorities for years before and including the fiscal year ended January 31, 2004. The Internal Revenue Service (IRS) commenced an examination of the Company s U.S. income tax returns for the fiscal years ended on January 29, 2005 and January 28, 2006 in the first quarter of fiscal 2007 that is anticipated to be completed in 2008. The Company does not anticipate any adjustments that would result in a material impact on its condensed consolidated financial statements.

For the 13 weeks ended November 1, 2008 and November 3, 2007, the Company recognized an increase of $735 and $268 in the liability for unrecognized tax benefits, respectively, and an increase of $583 and $571 for interest and penalties, respectively. For the 39 weeks ended November 1, 2008 and November 3, 2007, the Company recognized an increase of $78 and decrease of $1,418 in the liability for unrecognized tax benefits, respectively, and an increase of $1,340 and $1,688 for interest and penalties, respectively. As of November 1, 2008, the gross amount of unrecognized tax benefits, interest and penalties was $25,643. The total amount of unrecognized tax benefit that, if recognized, would affect the effective tax rate was $20,630 as of November 1, 2008. The Company had $5,013 in interest and penalties related to unrecognized tax benefits accrued as of November 1, 2008.

It is reasonably possible that the amount of the unrecognized benefit with respect to certain of our unrecognized tax positions could significantly increase or decrease within the next 12 months as a result of settling ongoing audits. At this time, an estimate of the range of the reasonably possible outcomes cannot be made.

The tax provisions for the 13 weeks and 39 weeks ended November 1, 2008 and November 3, 2007 are based upon management s estimate of the Company s annualized effective tax rate.

9. Certain Relationships and Related Transactions

The Company operates departments within eight bookstores operated by Barnes & Noble, a stockholder of the Company until November 2004 and an affiliate through a common stockholder who is the chairman of the Board of Directors of Barnes & Noble and a member of the Company s Board of Directors. The Company pays a license fee to Barnes & Noble on the gross sales of such departments. Management deems the license fee to be reasonable and based upon terms equivalent to those that would prevail in an arm s length transaction. During the 13 weeks ended

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

November 1, 2008 and November 3, 2007, these charges amounted to $262 and $289, respectively. During the 39 weeks ended November 1, 2008 and November 3, 2007, these charges amounted to $846 and $776, respectively.

Until June 2005, GameStop participated in Barnes & Noble s workers compensation, property and general liability insurance programs. The costs incurred by Barnes & Noble under these programs were allocated to GameStop based upon total payroll expense, property and equipment, and insurance claim history of GameStop. Management deemed the allocation methodology to be reasonable. Although the Company secured its own insurance coverage, costs will likely continue to be incurred by Barnes & Noble on insurance claims which were incurred under its programs prior to June 2005 and any such costs applicable to insurance claims against the Company will be allocated to the Company. During the 13 weeks ended November 1, 2008 and November 3, 2007, these charges amounted to $16 and $124, respectively. During the 39 weeks ended November 1, 2008 and November 3, 2007, these charges amounted to $120 and $259, respectively.

In May 2005, the Company entered into an arrangement with Barnes & Noble under which www.gamestop.com became the exclusive specialty video game retailer listed on www.bn.com, Barnes & Noble s e-commerce site. Under the terms of this agreement, the Company pays a fee to Barnes & Noble for sales of video game or PC entertainment products sold through www.bn.com. The fee to Barnes & Noble was $70 and $54 for the 13 weeks ended November 1, 2008 and November 3, 2007, respectively, and $213 and $153 for the 39 weeks ended November 1, 2008 and November 3, 2007, respectively.

In October 2004, the Company s Board of Directors authorized a repurchase of the common stock held by Barnes & Noble. The Company repurchased 12,214 shares of its common stock at a price equal to $9.13 per share for aggregate consideration before expenses of $111,520. The Company paid $37,500 in cash and issued a promissory note in the principal amount of $74,020, which was payable in installments and bore interest at 5.5% per annum, payable when principal installments were due. The Company s final scheduled principal payment of $12,173 was paid in October 2007. Interest expense on the promissory note for the 13 weeks and 39 weeks ended November 3, 2007 totaled $106 and $444, respectively.

10. Commitments and Contingencies

Contingencies

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

Plaintiffs counsel has named a new expert, a psychologist who testified at the criminal trial on behalf of the criminal defendant, who will opine (if allowed) that violent video games were a substantial factor in causing the murders. This same testimony from this same expert was excluded in the criminal trial from the same judge hearing this case. The

testimony of plaintiffs psychologist expert was heard by the Court on October 30, 2008, and the motion to exclude that testimony has been reset for final argument on December 12, 2008. The ruling on this motion will have an effect on whether the case is able to proceed. There is no current trial date. The Company does not believe there is sufficient information to estimate the amount of the possible loss, if any, resulting from the lawsuit.

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

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11. Significant Product Information

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

	13 Weeks Ended				39 Weeks Ended			
	November 1, 2008		November 3, 2007		November 1, 2008		November 3, 2007	
	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total
	(Unaudited)							
Sales:								
New video game hardware	$ 328.4	19.3%	$ 373.9	23.2%	$ 1,047.1	19.7%	$ 949.1	22.4%
New video game software	703.3	41.5%	636.9	39.5%	2,201.1	41.4%	1,591.7	37.7%
Used video game products	425.1	25.1%	356.3	22.1%	1,312.4	24.7%	1,040.0	24.6%
Other	238.9	14.1%	244.1	15.2%	753.2	14.2%	647.6	15.3%
Total	$ 1,695.7	100.0%	$ 1,611.2	100.0%	$ 5,313.8	100.0%	$ 4,228.4	100.0%

Other products include PC entertainment and other software and accessories, magazines and character-related merchandise.

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

	13 Weeks Ended				39 Weeks Ended			
	November 1, 2008		November 3, 2007		November 1, 2008		November 3, 2007	
	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent
	(Unaudited)							

Gross Profit:												
New video game hardware	$	25.4	7.7%	$	27.5	7.4%	$	68.4	6.5%	$	70.6	7.4%
New video game software		158.5	22.5%		132.1	20.7%		460.4	20.9%		324.1	20.4%
Used video game products		204.8	48.2%		172.6	48.5%		643.0	49.0%		510.0	49.0%
Other		84.7	35.5%		87.4	35.8%		259.2	34.4%		224.9	34.7%
Total	$	473.4	27.9%	$	419.6	26.0%	$	1,431.0	26.9%	$	1,129.6	26.7%

12. Segment Information

The Company operates its business in the following segments: United States, Canada, Australia and Europe. Segment results for the United States include retail operations in 50 states, the District of Columbia, Puerto Rico and Guam, electronic commerce websites under the names www.gamestop.com and www.ebgames.com and *Game Informer* magazine. Segment results for Canada include retail operations in Canada and segment results for Australia include retail operations in Australia and New Zealand. Segment results for Europe include retail operations in 12 European countries.

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company measures segment profit using operating earnings before merger-related expenses which is defined as income from continuing operations before intercompany royalty fees, net interest expense and income taxes. The basis of segmentation and the measurement of segment profit or loss have not changed since the end of fiscal 2007 and there has been no material change in total assets by segment since February 2, 2008. Transactions between reportable segments consist primarily of royalties, management fees, intersegment loans and related interest. Information on segments appears in the following tables:

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
	(In thousands) (Unaudited)			
Sales by operating segment were as follows:				
United States	$ 1,278,351	$ 1,241,205	$ 3,972,394	$ 3,271,940
Canada	116,125	115,867	359,753	280,557
Australia	97,906	89,418	349,314	255,517
Europe	203,364	164,711	632,322	420,363
Total	$ 1,695,746	$ 1,611,201	$ 5,313,783	$ 4,228,377
Segment operating earnings excluding merger-related expenses were as follows:				
United States	$ 86,260	$ 73,856	$ 261,428	$ 165,540
Canada	7,377	10,010	18,849	19,185
Australia	6,898	7,360	28,445	19,837
Europe	1,405	5,679	3,190	3,708
Total	$ 101,940	$ 96,905	$ 311,912	$ 208,270

13. Supplemental Cash Flow Information

	39 Weeks Ended	
	November 1, 2008	November 3, 2007
	(In thousands) (Unaudited)	
Cash paid during the period for:		
Interest	$ 43,892	$ 57,518

Income taxes	$ 143,877	$ 30,613

14. Consolidating Financial Statements

In order to finance the merger, as described in Note 6, on September 28, 2005, the Company, along with GameStop, Inc. as co-issuer, completed the offering of the Notes. As of February 2, 2008, the Senior Floating Rate Notes have been completely redeemed. The direct and indirect U.S. wholly-owned subsidiaries of the Company, excluding GameStop, Inc., as co-issuer, have guaranteed the Senior Notes on a senior unsecured basis with unconditional guarantees.

The following condensed consolidating financial statements present the financial position as of November 1, 2008, November 3, 2007 and February 2, 2008 and results of operations for the 13 and 39 weeks ended November 1, 2008 and November 3, 2007 and cash flows for the 39 weeks ended November 1, 2008 and November 3, 2007 of the Company s guarantor and non-guarantor subsidiaries.

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Balance Sheet

	Issuers and Guarantor Subsidiaries November 1, 2008	Non-Guarantor Subsidiaries November 1, 2008	Eliminations	Consolidated November 1, 2008
	(Amounts in thousands, except per share amounts) (Unaudited)			
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 233,472	$ 244,584	$	$ 478,056
Receivables, net	388,226	15,186	(352,682)	50,730
Merchandise inventories, net	981,171	443,078		1,424,249
Deferred income taxes current	26,478	2,722		29,200
Prepaid expenses	43,132	13,627		56,759
Prepaid taxes	72,885	(4,663)		68,222
Other current assets	38,364	7,326		45,690
Total current assets	1,783,728	721,860	(352,682)	2,152,906
Property and equipment:				
Land	2,670	7,559		10,229
Buildings and leasehold improvements	273,320	131,340		404,660
Fixtures and equipment	486,274	104,291		590,565
Total property and equipment	762,264	243,190		1,005,454
Less accumulated depreciation and amortization	410,639	91,709		502,348
Net property and equipment	351,625	151,481		503,106
Investment	539,949		(539,949)	
Goodwill, net	1,096,621	347,161		1,443,782
Deferred taxes	7,378	21,303		28,681
Other noncurrent assets	21,390	13,836		35,226
Total noncurrent assets	2,016,963	533,781	(539,949)	2,010,795
Total assets	$ 3,800,691	$ 1,255,641	$ (892,631)	$ 4,163,701

LIABILITIES AND STOCKHOLDERS EQUITY:

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

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Balance Sheet

	Issuers and Guarantor Subsidiaries November 3, 2007	Non-Guarantor Subsidiaries November 3, 2007	Eliminations	Consolidated November 3, 2007
	(Amounts in thousands, except per share amounts) (Unaudited)			
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 196,705	$ 81,103	$	$ 277,808
Receivables, net	181,422	13,888	(147,867)	47,443
Merchandise inventories, net	770,742	393,487		1,164,229
Deferred income taxes current	36,294	2,164		38,458
Prepaid expenses	37,701	14,650		52,351
Prepaid taxes	76,155	(2,898)		73,257
Other current assets	309	6,955		7,264
Total current assets	1,299,328	509,349	(147,867)	1,660,810
Property and equipment:				
Land	2,670	9,356		12,026
Buildings and leasehold improvements	236,468	121,977		358,445
Fixtures and equipment	411,352	105,415		516,767
Total property and equipment	650,490	236,748		887,238
Less accumulated depreciation and amortization	307,116	79,542		386,658
Net property and equipment	343,374	157,206		500,580
Investment	519,760		(519,760)	
Goodwill, net	1,097,027	305,818		1,402,845
Deferred taxes	(5,787)	15,283		9,496
Other noncurrent assets	25,920	15,189		41,109
Total noncurrent assets	1,980,294	493,496	(519,760)	1,954,030
Total assets	$ 3,279,622	$ 1,002,845	$ (667,627)	$ 3,614,840

LIABILITIES AND STOCKHOLDERS EQUITY:

Current liabilities:				
Accounts payable	$ 716,778	$ 261,052	$	$ 977,830
Accrued liabilities	249,248	212,463	(147,867)	313,844
Total current liabilities	966,026	473,515	(147,867)	1,291,674
Senior notes payable, long-term portion, net	574,229			574,229
Other liabilities	69,122	9,570		78,692
Total long-term liabilities	643,351	9,570		652,921
Total liabilities	1,609,377	483,085	(147,867)	1,944,595
Stockholders equity:				
Preferred stock authorized 5,000 shares; no shares issued or outstanding				
Class A common stock $.001 par value; authorized 300,000 shares; 160,959 shares issued and outstanding	161			161
Additional paid-in-capital	1,200,586	397,858	(397,858)	1,200,586
Accumulated other comprehensive income	37,091	16,774	(16,774)	37,091
Retained earnings	432,407	105,128	(105,128)	432,407
Total stockholders equity	1,670,245	519,760	(519,760)	1,670,245
Total liabilities and stockholders equity	$ 3,279,622	$ 1,002,845	$ (667,627)	$ 3,614,840

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Balance Sheet

	Issuers and Guarantor Subsidiaries February 2, 2008	Non-Guarantor Subsidiaries February 2, 2008	Eliminations	Consolidated February 2, 2008
	(Amounts in thousands, except per share amounts)			
ASSETS:				
Current assets:				
Cash and cash equivalents	$ 671,333	$ 186,081	$	$ 857,414
Receivables, net	198,923	22,616	(165,520)	56,019
Merchandise inventories, net	501,861	299,164		801,025
Deferred income taxes current	24,153	3,328		27,481
Prepaid expenses	36,793	12,122		48,915
Other current assets	326	3,537		3,863
Total current assets	1,433,389	526,848	(165,520)	1,794,717
Property and equipment:				
Land	2,670	9,200		11,870
Buildings and leasehold improvements	246,907	131,704		378,611
Fixtures and equipment	427,623	111,115		538,738
Total property and equipment	677,200	252,019		929,219
Less accumulated depreciation and amortization	331,176	86,374		417,550
Net property and equipment	346,024	165,645		511,669
Investment	543,088		(543,088)	
Goodwill, net	1,096,622	305,818		1,402,440
Deferred taxes	7,378	18,954		26,332
Other noncurrent assets	24,098	16,635		40,733
Total noncurrent assets	2,017,210	507,052	(543,088)	1,981,174
Total assets	$ 3,450,599	$ 1,033,900	$ (708,608)	$ 3,775,891
LIABILITIES AND STOCKHOLDERS EQUITY:				
Current liabilities:				

Accounts payable	$ 635,722	$ 208,654	$	$ 844,376
Accrued liabilities	309,472	272,229	(165,520)	416,181
Total current liabilities	945,194	480,883	(165,520)	1,260,557
Senior notes payable, long-term portion, net	574,473			574,473
Other liabilities	68,486	9,929		78,415
Total long-term liabilities	642,959	9,929		652,888
Total liabilities	1,588,153	490,812	(165,520)	1,913,445
Stockholders equity:				
Preferred stock authorized 5,000 shares; no shares issued or outstanding		57,407	(57,407)	
Class A common stock $.001 par value; authorized 300,000 shares; 161,007 shares issued and outstanding	161	31,484	(31,484)	161
Additional paid-in-capital	1,208,474	296,860	(296,860)	1,208,474
Accumulated other comprehensive income	31,603	11,262	(11,262)	31,603
Retained earnings	622,208	146,075	(146,075)	622,208
Total stockholders equity	1,862,446	543,088	(543,088)	1,862,446
Total liabilities and stockholders equity	$ 3,450,599	$ 1,033,900	$ (708,608)	$ 3,775,891

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 13 Weeks Ended November 1, 2008	Issuers and Guarantor Subsidiaries November 1, 2008	Non-Guarantor Subsidiaries November 1, 2008	Eliminations	Consolidated November 1, 2008
	(Amounts in thousands) (Unaudited)			
Sales	$ 1,278,351	$ 417,395	$	$ 1,695,746
Cost of sales	913,079	309,238		1,222,317
Gross profit	365,272	108,157		473,429
Selling, general and administrative expenses	252,449	83,273		335,722
Depreciation and amortization	26,563	9,204		35,767
Merger-related expenses	16,605			16,605
Operating earnings	69,655	15,680		85,335
Interest income	(6,420)	(5,117)	7,865	(3,672)
Interest expense	12,072	8,272	(7,865)	12,479
Earnings before income tax expense	64,003	12,525		76,528
Income tax expense	24,640	5,219		29,859
Net earnings	$ 39,363	$ 7,306	$	$ 46,669

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 13 Weeks Ended November 3, 2007	Issuers and Guarantor Subsidiaries November 3, 2007	Non-Guarantor Subsidiaries November 3, 2007	Eliminations	Consolidated November 3, 2007
	(Amounts in thousands) (Unaudited)			
Sales	$ 1,241,205	$ 369,996	$	$ 1,611,201
Cost of sales	912,910	278,727		1,191,637

Gross profit	328,295	91,269		419,564
Selling, general and administrative expenses	228,577	60,377		288,954
Depreciation and amortization	25,862	7,843		33,705
Operating earnings	73,856	23,049		96,905
Interest income	(4,988)	(4,912)	7,273	(2,627)
Interest expense	14,489	7,333	(7,273)	14,549
Debt extinguishment expense	3,840			3,840
Earnings before income tax expense	60,515	20,628		81,143
Income tax expense	22,515	6,671		29,186
Net earnings	$ 38,000	$ 13,957	$	$ 51,957

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 39 Weeks Ended November 1, 2008	Issuers and Guarantor Subsidiaries November 1, 2008	Non-Guarantor Subsidiaries November 1, 2008	Eliminations	Consolidated November 1, 2008
	(Amounts in thousands) (Unaudited)			
Sales	$ 3,972,394	$ 1,341,389	$	$ 5,313,783
Cost of sales	2,879,882	1,002,943		3,882,825
Gross profit	1,092,512	338,446		1,430,958
Selling, general and administrative expenses	752,554	259,580		1,012,134
Depreciation and amortization	78,530	28,382		106,912
Merger-related expenses	16,605			16,605
Operating earnings	244,823	50,484		295,307
Interest income	(19,294)	(18,639)	27,691	(10,242)
Interest expense	36,753	27,686	(27,691)	36,748
Debt extinguishment expense	2,331			2,331
Earnings before income tax expense	225,033	41,437		266,470
Income tax expense	83,961	16,552		100,513
Net earnings	$ 141,072	$ 24,885	$	$ 165,957

GameStop Corp.
Condensed Consolidating Statement of Operations

For the 39 Weeks Ended November 3, 2007	Issuers and Guarantor Subsidiaries November 3, 2007	Non-Guarantor Subsidiaries November 3, 2007	Eliminations	Consolidated November 3, 2007
	(Amounts in thousands) (Unaudited)			
Sales	$ 3,271,940	$ 956,437	$	$ 4,228,377

Cost of sales	2,380,285	718,460		3,098,745
Gross profit	891,655	237,977		1,129,632
Selling, general and administrative expenses	651,294	173,210		824,504
Depreciation and amortization	74,821	22,037		96,858
Operating earnings	165,540	42,730		208,270
Interest income	(15,101)	(12,931)	18,841	(9,191)
Interest expense	48,320	19,096	(18,841)	48,575
Debt extinguishment expense	12,591			12,591
Earnings before income tax expense	119,730	36,565		156,295
Income tax expense	45,439	12,366		57,805
Net earnings	$ 74,291	$ 24,199	$	$ 98,490

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Statement of Cash Flows

For the 39 Weeks Ended November 1, 2008	Issuers and Guarantor Subsidiaries November 1, 2008	Non-Guarantor Subsidiaries November 1, 2008	Eliminations	Consolidated November 1, 2008
		(Amounts in thousands) (Unaudited)		
Cash flows from operating activities:				
Net earnings	$ 141,072	$ 24,885	$	$ 165,957
Adjustments to reconcile net earnings to net cash flows provided by (used in) operating activities:				
Depreciation and amortization (including amounts in cost of sales)	79,477	28,436		107,913
Amortization and retirement of deferred financing fees	1,825			1,825
Amortization and retirement of original issue discount on senior notes	989			989
Stock-based compensation expense	28,433			28,433
Deferred taxes	(2,324)	(5,961)		(8,285)
Excess tax benefits realized from exercise of stock-based awards	(33,925)			(33,925)
Loss on disposal of property and equipment	1,569	2,391		3,960
Increase in other long-term liabilities	5,299	5,957		11,256
Increase in liability to landlords for tenant allowances, net	3,152	242		3,394
Change in the value of foreign exchange contracts	(40,233)	(2,302)		(42,535)
Changes in operating assets and liabilities, net				
Receivables, net	(2,141)	4,877		2,736
Merchandise inventories	(479,311)	(209,130)		(688,441)
Prepaid expenses and other current assets	(6,031)	(10,507)		(16,538)
Prepaid taxes	(29,659)	(9,700)		(39,359)
Accounts payable and accrued liabilities	(50,359)	353,213		302,854
Net cash flows provided by (used in) operating activities	(382,167)	182,401		(199,766)
Cash flows from investing activities:				

Purchase of property and equipment	(85,355)	(47,403)		(132,758)
Acquisitions, net of cash acquired		(50,800)		(50,800)
Net cash flows used in investing activities	(85,355)	(98,203)		(183,558)
Cash flows from financing activities:				
Repurchase of notes payable	(30,000)			(30,000)
Issuance of shares relating to stock options	28,432			28,432
Excess tax benefits realized from exercise of stock-based awards	33,925			33,925
Net change in other noncurrent assets and deferred financing fees	(2,696)	(194)		(2,890)
Net cash flows provided by (used in) financing activities	29,661	(194)		29,467
Exchange rate effect on cash and cash equivalents		(25,501)		(25,501)
Net increase (decrease) in cash and cash equivalents	(437,861)	58,503		(379,358)
Cash and cash equivalents at beginning of period	671,333	186,081		857,414
Cash and cash equivalents at end of period	$ 233,472	$ 244,584	$	$ 478,056

GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

GameStop Corp.
Condensed Consolidating Statement of Cash Flows

For the 39 Weeks Ended November 3, 2007	Issuers and Guarantor Subsidiaries November 3, 2007	Non-Guarantor Subsidiaries November 3, 2007	Eliminations	Consolidated November 3, 2007
	(Amounts in thousands) (Unaudited)			
Cash flows from operating activities:				
Net earnings	$ 74,291	$ 24,199	$	$ 98,490
Adjustments to reconcile net earnings to net cash flows provided by (used in) operating activities:				
Depreciation and amortization (including amounts in cost of sales)	75,532	22,044		97,576
Amortization and retirement of deferred financing fees	5,198			5,198
Amortization and retirement of original issue discount on senior notes	918			918
Stock-based compensation expense	20,311			20,311
Deferred taxes	(2,978)	(1,776)		(4,754)
Excess tax benefits realized from exercise of stock-based awards	(92,628)			(92,628)
Loss on disposal of property and equipment	1,013	3,966		4,979
Increase in other long-term liabilities	4,795	4,510		9,305
Increase in liability to landlords for tenant allowances, net	3,531	279		3,810
Change in the value of foreign exchange contracts	7,213	(3,790)		3,423
Changes in operating assets and liabilities, net				
Receivables, net	(8,297)	(3,039)		(11,336)
Merchandise inventories	(275,605)	(171,702)		(447,307)
Prepaid expenses and other current assets	(7,173)	(6,834)		(14,007)
Prepaid taxes	36,794	1,757		38,551
Accounts payable and accrued liabilities	(10,432)	158,468		148,036
Net cash flows provided by (used in) operating activities	(167,517)	28,082		(139,435)
Cash flows from investing activities:				
Purchase of property and equipment	(94,244)	(30,513)		(124,757)

Acquisitions, net of cash acquired	1,062			1,062
Net cash flows used in investing activities	(93,182)	(30,513)		(123,695)
Cash flows from financing activities:				
Repurchase of notes payable	(270,000)			(270,000)
Repayment of other debt	(12,173)			(12,173)
Issuance of shares relating to stock options	64,308			64,308
Excess tax benefits realized from exercise of stock-based awards	92,628			92,628
Net change in other noncurrent assets and deferred financing fees	127	6,106		6,233
Net cash flows used in financing activities	(125,110)	6,106		(119,004)
Exchange rate effect on cash and cash equivalents		7,539		7,539
Net increase (decrease) in cash and cash equivalents	(385,809)	11,214		(374,595)
Cash and cash equivalents at beginning of period	582,514	69,889		652,403
Cash and cash equivalents at end of period	$ 196,705	$ 81,103	$	$ 277,808

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GAMESTOP CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. Subsequent Events

On November 12, 2008, the Company entered into a Term Loan Agreement (the Term Loan Agreement) with Bank of America, N.A and Banc of America Securities LLC. The Term Loan Agreement provides for Term Loans in the aggregate of $150,000, consisting of a $50,000 secured term loan (Term Loan A) and a $100,000 unsecured term loan (Term Loan B). The Term Loan Agreement provides that the principal of Term Loan B will be repaid in four equal installments of $25,000 a week for four consecutive weeks, commencing on December 3, 2008. Term Loan A matures on March 31, 2009. Amounts borrowed under the Term Loan Agreement may not be reborrowed once repaid. Borrowings made pursuant to the Term Loan Agreement will bear interest, payable quarterly or, if earlier, at the end of any interest period, at a per annum rate equal to either (a) the prime loan rate, described in the Term Loan Agreement as the higher of (i) Bank of America N.A. s prime rate or (ii) the federal funds rate plus 0.50%, in each case plus 1.75%, or (b) the LIBO rate (a publicly published rate) plus 3.75%.

The Term Loan Agreement contains customary affirmative and negative covenants, including limitations on GameStop and its subsidiaries with respect to indebtedness, liens, investments, distributions, mergers and acquisitions, dispositions of assets, changes of business and transactions with affiliates. In addition, the Company will be subject to a fixed charge coverage ratio covenant of 1.5:1.0. The covenants permit the Company to use proceeds of the Term Loans for working capital, capital expenditures, payment of transaction costs and a portion of the consideration in connection with the acquisition of Micromania and for all other lawful corporate purposes.

Pursuant to the most recent amendment to the Revolver, the closing of the Term Loans increased the applicable margin under the Revolver (i) payable on LIBO rate loans to a range of 1.5% to 2.0% from the current range of 1.0% to 1.5% and (ii) payable on prime rate loans to a range of 0.5% to 0.75% from the current range of 0.0% to 0.25%. The margins applicable prior to the entry into the amendment shall apply once the Term Loans are no longer outstanding.

On November 17, 2008, GameStop France SAS, a wholly-owned subsidiary of the Company completed the acquisition of substantially all of the outstanding capital stock of Micromania for approximately $628,531. Micromania is a leading retailer of video and computer games in France with 328 locations. The Company funded the transaction with cash on hand, funds drawn against its existing Revolver totaling $275,000, and the Term Loans. The purpose of the acquisition was to expand the Company s presence in Europe. The Company has hired an independent valuation firm to provide analysis on the fair value of the assets acquired in the acquisition. It is impractical for us to provide the purchase price allocation related to Micromania at this time.

At the time of filing, the $275,000 draw against the Revolver and Term Loan B have been repaid. Term Loan A remains outstanding and bears interest at a rate of 5.75% per annum.

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

The following discussion should be read in conjunction with the information contained in our consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management s plans and objectives, and any statements concerning assumptions related to the foregoing contained in Management s Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. Certain factors, which may cause actual results to vary materially from these forward-looking statements, accompany such statements or appear in GameStop s Annual Report on Form 10-K for the fiscal year ended February 2, 2008 filed with the Securities and Exchange Commission (the SEC) on April 2, 2008 (the Form 10-K), including the factors disclosed under Item 1A. Risk Factors.

General

GameStop Corp. (together with its predecessor companies, GameStop, we, our, or the Company) is the world s lar retailer of video game products and PC entertainment software. We sell new and used video game hardware, video game software and accessories, as well as PC entertainment software and related accessories and other merchandise. As of November 1, 2008, we operated 5,734 stores in the United States, Australia, Canada and Europe, primarily under the names GameStop and EB Games. We also operate electronic commerce websites under the names www.gamestop.com and www.ebgames.com and publish *Game Informer*, the industry s largest multi-platform video game magazine in the United States based on circulation.

Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January 31. The fiscal years ending January 31, 2009 (fiscal 2008) and ended February 2, 2008 (fiscal 2007) consist of 52 weeks.

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

Critical Accounting Policies

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

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Consolidated Results of Operations

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

	13 Weeks Ended		39 Weeks Ended	
	November 1, 2008	November 3, 2007	November 1, 2008	November 3, 2007
Statement of Operations Data:				
Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	72.1	74.0	73.1	73.3
Gross profit	27.9	26.0	26.9	26.7
Selling, general and administrative expenses	19.8	17.9	19.0	19.5
Depreciation and amortization	2.1	2.1	2.0	2.3
Merger-related expenses	1.0		0.3	
Operating earnings	5.0	6.0	5.6	4.9
Interest expense, net	0.5	0.8	0.5	0.9
Debt extinguishment expense		0.2	0.1	0.3
Earnings before income tax expense	4.5	5.0	5.0	3.7
Income tax expense	1.7	1.8	1.9	1.4
Net earnings	2.8%	3.2%	3.1%	2.3%

The Company includes purchasing, receiving and distribution costs in selling, general and administrative expenses, rather than cost of goods sold, in the statement of operations. For the 13 weeks ended November 1, 2008 and November 3, 2007, these purchasing, receiving and distribution costs amounted to $12.6 million and $10.4 million, respectively. For the 39 weeks ended November 1, 2008 and November 3, 2007, these purchasing, receiving and distribution costs amounted to $38.5 million and $29.9 million, respectively. The Company includes processing fees associated with purchases made by check and credit cards in cost of sales, rather than selling, general and administrative expenses, in the statement of operations. For the 13 weeks ended November 1, 2008 and November 3, 2007, these processing fees amounted to $12.5 million and $12.1 million, respectively. For the 39 weeks ended November 1, 2008 and November 3, 2007, these processing fees amounted to $39.1 million and $31.3 million, respectively. As a result of these classifications, our gross margins are not comparable to those retailers that include purchasing, receiving and distribution costs in cost of sales and include processing fees associated with purchases made by check and credit cards in selling, general and administrative expenses. The reclassifications had a net effect of 0.1% of sales or less for all periods presented herein.

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

	13 Weeks Ended				39 Weeks Ended			
	November 1, 2008		November 3, 2007		November 1, 2008		November 3, 2007	
		Percent		Percent		Percent		Percent

	Sales	of Total	Sales	of Total	Sales	of Total	Sales	of Total
				(Unaudited)				
Sales:								
New video game hardware	$ 328.4	19.3%	$ 373.9	23.2%	$ 1,047.1	19.7%	$ 949.1	22.4%
New video game software	703.3	41.5%	636.9	39.5%	2,201.1	41.4%	1,591.7	37.7%
Used video game products	425.1	25.1%	356.3	22.1%	1,312.4	24.7%	1,040.0	24.6%
Other	238.9	14.1%	244.1	15.2%	753.2	14.2%	647.6	15.3%
Total	$ 1,695.7	100.0%	$ 1,611.2	100.0%	$ 5,313.8	100.0%	$ 4,228.4	100.0%

Other products include PC entertainment and other software and accessories, magazines and character-related merchandise.

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

	13 Weeks Ended				39 Weeks Ended			
	November 1, 2008		November 3, 2007		November 1, 2008		November 3, 2007	
	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent	Gross Profit	Gross Profit Percent
	(Unaudited)							
Gross Profit:								
New video game hardware	$ 25.4	7.7%	$ 27.5	7.4%	$ 68.4	6.5%	$ 70.6	7.4%
New video game software	158.5	22.5%	132.1	20.7%	460.4	20.9%	324.1	20.4%
Used video game products	204.8	48.2%	172.6	48.5%	643.0	49.0%	510.0	49.0%
Other	84.7	35.5%	87.4	35.8%	259.2	34.4%	224.9	34.7%
Total	$ 473.4	27.9%	$ 419.6	26.0%	$ 1,431.0	26.9%	$ 1,129.6	26.7%

13 weeks ended November 1, 2008 compared with the 13 weeks ended November 3, 2007

Sales increased by $84.5 million, or 5.2%, from $1,611.2 million in the 13 weeks ended November 3, 2007 to $1,695.7 million in the 13 weeks ended November 1, 2008. The increase in sales was attributable to the addition of non-comparable store sales from the 876 stores opened since August 4, 2007 of approximately $128.0 million offset by decreases related to changes in foreign exchange rates of $16.1 million and the comparable store sales decrease of 1.8% for the third quarter of fiscal 2008. Stores are included in our comparable store sales base beginning in the thirteenth month of operation and exclude the effect of changes in foreign exchange rates. The decline in comparable store sales was due to the difficult comparison to the 13 weeks ended November 3, 2007 that included the launch of *Halo 3*. *Halo 3*, which was the largest launch in GameStop s history, was released in September 2007 and had the effect of increasing both hardware and software sales and helped drive a 46.3% increase in comparable store sales in the prior year quarter.

New video game hardware sales decreased $45.5 million, or 12.2%, from $373.9 million in the 13 weeks ended November 3, 2007 to $328.4 million in the 13 weeks ended November 1, 2008, primarily due to the decline in sales of hardware related to the launch of *Halo 3* in the 13 weeks ended November 3, 2007, offset by an increase in sales of newer hardware systems and the increase in store count since October 2007. New video game software sales increased $66.4 million, or 10.4%, from $636.9 million in the 13 weeks ended November 3, 2007 to $703.3 million in the 13 weeks ended November 1, 2008 despite the launch of *Halo 3* in the prior year quarter. The increase in new video game software sales was primarily due to the strong sales of new video game titles released in fiscal 2008, the increased sales related to the expanding new hardware platform base and our increase in store count, offset by the impact of the *Halo 3* launch in the 13 weeks ended November 3, 2007. Used video game product sales increased $68.8 million, or 19.3%, from $356.3 million in the 13 weeks ended November 3, 2007 to $425.1 million in the 13 weeks ended November 1, 2008. Used video game product sales grew due to an increase in store count and an increase in the availability of hardware and software associated with the new hardware platforms as those platforms

age and expand. Sales of other product categories declined slightly by 2.1%, or $5.2 million, from the 13 weeks ended November 3, 2007 to the 13 weeks ended November 1, 2008.

As a percentage of sales, new video game hardware and the other product category decreased and new video game software and used video game products increased in the 13 weeks ended November 1, 2008 compared to the 13 weeks ended November 3, 2007. This was due to the strong sales of new video game software and used video game products driven by the continued expansion of the installed base of the new video game consoles mentioned earlier and a strong lineup of video game titles released in the quarter.

Cost of sales increased slightly by $30.7 million, or 2.6%, from $1,191.6 million in the 13 weeks ended November 3, 2007 to $1,222.3 million in the 13 weeks ended November 1, 2008 as a result of the increase in sales and the changes in gross profit discussed below.

Gross profit increased by $53.8 million, or 12.8%, from $419.6 million in the 13 weeks ended November 3, 2007 to $473.4 million in the 13 weeks ended November 1, 2008. Gross profit as a percentage of sales increased from 26.0% in the 13 weeks ended November 3, 2007 to 27.9% in the 13 weeks ended November 1, 2008. The gross profit percentage increase was caused primarily by the shift in sales from new video game hardware to new video game software and used video game products as a percentage of total sales in the third quarter of fiscal 2008. New video game software and used video game products typically carry a much higher gross margin than hardware sales. Gross profit as a percentage of sales on new video game hardware and new video game software increased from 7.4% and 20.7%, respectively, in the 13 weeks ended November 3, 2007 to 7.7% and 22.5%, respectively, in the 13 weeks ended November 1, 2008, due primarily to an increase in vendor allowances received in excess of advertising expenses, which are recorded as a reduction in cost of sales. Gross profit as a percentage of sales on used video game products and the other product category had no significant change from the same period in the prior fiscal year.

Selling, general and administrative expenses increased by $46.7 million, or 16.2%, from $289.0 million in the 13 weeks ended November 3, 2007 to $335.7 million in the 13 weeks ended November 1, 2008. This increase was primarily attributable to the increase in the number of stores in operation and the related increases in store, distribution and corporate office operating expenses, as well as increased costs associated with foreign currency translation, which was a loss of $7.7 million in the 13 weeks ended November 1, 2008, compared to a gain of $3.0 million in the 13 weeks ended November 3, 2007. Selling, general and administrative expenses at 17.9% percent of sales in the 13 weeks ended November 3, 2007 were primarily a result of the leveraging of expenses associated with the dramatic increase in hardware and software sales resulting from the launch of *Halo 3* in September 2007. Selling, general and administrative expenses at 19.8% percent of sales in the 13 weeks ended November 1, 2008 represented a return to normal levels of leveraging of expenses. Included in selling, general and administrative expenses is $8.4 million and $6.7 million in stock-based compensation expense for the 13 weeks ended November 1, 2008 and November 3, 2007, respectively.

Depreciation and amortization expense increased $2.1 million from $33.7 million in the 13 weeks ended November 3, 2007 to $35.8 million in the 13 weeks ended November 1, 2008. This increase was primarily due to capital expenditures associated with the opening of 191 new stores during the third quarter of fiscal 2008 and investments in management information systems.

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

Interest income increased from $2.6 million in the 13 weeks ended November 3, 2007 to $3.7 million in the 13 weeks ended November 1, 2008 due primarily to interest income earned on higher invested cash balances. Interest expense decreased from $14.5 million in the 13 weeks ended November 3, 2007 to $12.5 million in the 13 weeks ended November 1, 2008 primarily due to the retirement of $30.0 million of the Company s senior notes since November 3, 2007 and the redemption during the 13 weeks ended November 3, 2007 of $120.0 million of the Company s senior floating rate notes. Debt extinguishment expense of $3.8 million was recognized in the 13 weeks ended November 3, 2007 as a result of premiums paid related to debt retirement and the recognition of deferred financing fees and unamortized original issue discount.

Income tax expense for the 13 weeks ended November 3, 2007 and the 13 weeks ended November 1, 2008 was based upon management s estimate of the Company s annualized effective tax rate. Income tax expense was $29.2 million, or 36.0%, for the 13 weeks ended November 3, 2007 compared to $29.9 million, or 39.0% for the 13 weeks ended November 1, 2008. The increase in the effective tax rate was due primarily to the mix of tax rates on earnings and losses in our international operations and the impact of income tax expense related to unrecognized tax benefits,

interest and penalties associated with our uncertain tax positions.

The factors described above led to a decrease in operating earnings of $11.6 million, or 12.0%, from $96.9 million in the 13 weeks ended November 3, 2007 to $85.3 million in the 13 weeks ended November 1, 2008, and a decrease in net earnings of $5.3 million, or 10.2%, from $52.0 million in the 13 weeks ended November 3, 2007 to $46.7 million in the 13 weeks ended November 1, 2008.

39 weeks ended November 1, 2008 compared with the 39 weeks ended November 3, 2007

Sales increased by $1,085.4 million, or 25.7%, from $4,228.4 million in the 39 weeks ended November 3, 2007 to $5,313.8 million in the 39 weeks ended November 1, 2008. The increase in sales was attributable to the comparable store sales increase of 14.1% for the 39-week period ended November 1, 2008, the addition of non-comparable store sales from the 1,112 stores opened since February 3, 2007 of approximately $434.2 million, and increases related to changes in foreign exchange rates of $61.0 million. Stores are included in our comparable store sales base beginning in the thirteenth month of operation and exclude the effect of changes in foreign exchange rates. The comparable store sales increase was driven by strong sales of new video game software which is typical as the installed base of the new hardware platforms increases in the years following their launch.

New video game hardware sales increased $98.0 million, or 10.3%, from $949.1 million in the 39 weeks ended November 3, 2007 to $1,047.1 million in the 39 weeks ended November 1, 2008, primarily due to continued expansion of the installed base of the new hardware platforms and the increase in store count since the end of fiscal 2007. New video game software sales increased $609.4 million, or 38.3%, from $1,591.7 million in the 39 weeks ended November 3, 2007 to $2,201.1 million in the 39 weeks ended November 1, 2008, primarily due to the strong sales of new video game titles and the increased sales related to the new hardware platforms, as well as the new stores added since the end of fiscal 2007. Used video game product sales increased $272.4 million, or 26.2%, from $1,040.0 million in the 39 weeks ended November 3, 2007 to $1,312.4 million in the 39 weeks ended November 1, 2008. Used video game product sales grew primarily due to an increase in store count and an increase in the availability of hardware and software associated with the new hardware platforms as those platforms age and expand. Sales of other product categories grew 16.3%, or $105.6 million, from the 39 weeks ended November 3, 2007 to the 39 weeks ended November 1, 2008, due to the increase in store count and the increase in new hardware platform accessories sales.

As a percentage of sales, new video game hardware and the other products category decreased in the 39 weeks ended November 1, 2008 compared to the 39 weeks ended November 3, 2007. This was due to the strong sales of new video game software driven by the continued expansion of the installed base of the new video game consoles mentioned earlier and a strong lineup of video game titles in fiscal 2008.

Cost of sales increased by $784.1 million, or 25.3%, from $3,098.7 million in the 39 weeks ended November 3, 2007 to $3,882.8 million in the 39 weeks ended November 1, 2008 as a result of the increase in sales and the changes in gross profit discussed below.

Gross profit increased by $301.4 million, or 26.7%, from $1,129.6 million in the 39 weeks ended November 3, 2007 to $1,431.0 million in the 39 weeks ended November 1, 2008. Gross profit as a percentage of sales increased from 26.7% in the 39 weeks ended November 3, 2007 to 26.9% in the 39 weeks ended November 1, 2008. Gross profit as a percentage of sales on new video game hardware decreased from 7.4% of sales for the 39 weeks ended November 3, 2007 to 6.5% for the 39 weeks ended November 1, 2008 due to a change in the mix of hardware units sold and a reduction in warranty attachment sales during fiscal 2008. Gross profit as a percentage of sales on new video game software increased from 20.4% for the 39 weeks ended November 3, 2007 to 20.9% for the 39 weeks ended November 1, 2008. Gross profit as a percentage of sales on used video game products and the other product category had no significant change from the same period in the prior fiscal year.

Selling, general and administrative expenses increased by $187.6 million, or 22.8%, from $824.5 million in the 39 weeks ended November 3, 2007 to $1,012.1 million in the 39 weeks ended November 1, 2008. This increase was primarily attributable to the increase in the number of stores in operation and related increases in store, distribution and corporate office operating expenses during fiscal 2008. Selling, general and administrative expenses as a percentage of sales decreased from 19.5% in the 39 weeks ended November 3, 2007 to 19.0% in the 39 weeks ended

November 1, 2008. The decrease in selling, general and administrative expenses as a percentage of sales was primarily due to leveraging as a result of the higher sales of the new hardware platforms and their related software. Selling, general and administrative expenses include $28.4 million and $20.3 million in stock-based compensation expense for the 39 weeks ended November 1, 2008 and November 3, 2007, respectively.

Depreciation and amortization expense increased $10.0 million from $96.9 million for the 39 weeks ended November 3, 2007 to $106.9 million in the 39 weeks ended November 1, 2008. This increase was primarily due to

capital expenditures associated with the opening of 526 new stores during the 39 weeks ended November 1, 2008 and investments in management information systems.

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

Interest income increased from $9.2 million in the 39 weeks ended November 3, 2007 to $10.2 million in the 39 weeks ended November 1, 2008. Interest expense decreased from $48.6 million in the 39 weeks ended November 3, 2007 to $36.7 million in the 39 weeks ended November 1, 2008 primarily due to the retirement of $30.0 million of the Company s senior notes since November 3, 2007 and the retirement of the $270.0 million in senior notes and senior floating rate notes in the 39 week periods ended November 3, 2007. Debt extinguishment expense of $2.3 million and $12.6 million was recognized in the 39 week periods ended November 1, 2008 and November 3, 2007, respectively, as a result of premiums paid related to debt retirement and the recognition of deferred financing fees and unamortized original issue discount.

Income tax expense for the 39 weeks ended November 3, 2007 and the 39 weeks ended November 1, 2008 was based upon management s estimate of the Company s annualized effective tax rate. Income tax expense was $57.8 million for the 39 weeks ended November 3, 2007 compared to $100.5 million for the 39 weeks ended November 1, 2008.

The factors described above led to an increase in operating earnings of $87.0 million, or 41.8%, from $208.3 million in the 39 weeks ended November 3, 2007 to $295.3 million in the 39 weeks ended November 1, 2008, and an increase in net earnings of $67.5 million, or 68.5%, from $98.5 million in the 39 weeks ended November 3, 2007 to $166.0 million in the 39 weeks ended November 1, 2008.

Segment Performance

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

	13 Weeks Ended		**39 Weeks Ended**	
	November 1, 2008	**November 3, 2007**	**November 1, 2008**	**November 3, 2007**
	(In millions) (Unaudited)			
Sales by operating segment are as follows:				
United States	$ 1,278.4	$ 1,241.2	$ 3,972.4	$ 3,271.9
Canada	116.1	115.9	359.8	280.6
Australia	97.9	89.4	349.3	255.5
Europe	203.3	164.7	632.3	420.4
Total	$ 1,695.7	$ 1,611.2	$ 5,313.8	$ 4,228.4
Operating earnings by operating segment excluding merger-related expenses are as follows:				
United States	$ 86.2	$ 73.9	$ 261.4	$ 165.6
Canada	7.4	10.0	18.9	19.2

Australia	6.9	7.3	28.4	19.8
Europe	1.4	5.7	3.2	3.7
Total	$ 101.9	$ 96.9	$ 311.9	$ 208.3

United States

Segment results for the United States include retail operations in 50 states, the District of Columbia, Puerto Rico and Guam, the electronic commerce websites www.gamestop.com and www.ebgames.com and *Game Informer* magazine. As of November 1, 2008, the United States segment included 4,264 GameStop stores, compared to 4,008 stores on November 3, 2007. Sales for the 13 and 39 weeks ended November 1, 2008 increased 3.0% and 21.4%, respectively, compared to the 13 and 39 weeks ended November 3, 2007. Sales for the 13 weeks ended November 1, 2008 increased due to the opening of 428 new stores since August 4, 2007, including 94 stores in the 13 weeks ended November 1, 2008. Sales at existing stores decreased slightly in the 13 weeks ended November 1, 2008 due to the difficult comparison to the 13 weeks ended November 3, 2007 which included the launch of *Halo 3*. Sales for the 39 weeks ended November 1, 2008 increased as a result of increased sales at existing stores and the opening of 576 stores since February 3, 2007, including 248 stores in the 39 weeks ended November 1, 2008. Sales at existing stores in the 39 weeks ended November 1, 2008 increased due to strong sales of new video game software and used video game products which is typical in the years following the release of new hardware platforms. As the installed base of the new hardware platforms expands, more new software titles become available and trade-ins of used video game products applied toward the purchase of new video games lead to increased sales of new and used video game products.

Segment operating income for the 13 weeks ended November 1, 2008 increased by 16.6% compared to the 13 weeks ended November 3, 2007, driven by a higher gross margin percentage resulting from an increase in vendor allowances received in excess of advertising expenses and a shift in sales to higher margin categories as the new hardware platforms mature. Segment operating income for the 39 weeks ended November 1, 2008 increased by 57.9% compared to the 39 weeks ended November 3, 2007, driven by strong sales of new video game software and used video game products and their related accessories, as well as the leveraging of selling, general and administrative expenses.

Canada

As of November 1, 2008, the Canadian segment had 318 stores compared to 277 stores as of November 3, 2007. Sales in the Canadian segment in the 13 and 39 weeks ended November 1, 2008 increased 0.2% and 28.2%, respectively, compared to the 13 and 39 weeks ended November 3, 2007. The increase in sales in the 13 weeks ended November 1, 2008 was attributable to additional sales at the 46 stores opened since August 4, 2007, offset by a slight decline in same store sales due to the launch of *Halo 3* in September 2007. The increase in sales in the 39 weeks ended November 1, 2008 was primarily attributable to increased sales at existing stores and the additional sales at the 51 stores opened since February 3, 2007. The increase in sales at existing stores in the 39 weeks ended November 1, 2008 was driven by strong sales of new video game software related to the continued expansion of the installed base of new hardware platforms.

Segment operating income for the 13 and 39 weeks ended November 1, 2008 decreased by 26.0% and 1.6%, respectively, compared to the 13 and 39 weeks ended November 3, 2007. The decrease in operating income when compared to the prior year was due primarily to a lower gross margin percentage driven by economic and competitive issues stemming from changes in foreign exchange rates. In addition, for the 13 and 39 week periods ended November 1, 2008, changes in exchange rates when compared to the prior year had the effect of decreasing operating earnings by $0.6 million and increasing operating earnings by $0.4 million, respectively.

Australia

Segment results for Australia include retail operations in Australia and New Zealand. As of November 1, 2008, the Australian segment included 337 stores, compared to 262 at November 3, 2007. Sales for the 13 and 39 weeks ended

November 1, 2008 increased 9.5% and 36.7%, respectively, compared to the 13 and 39 weeks ended November 3, 2007. The increase in sales was due to higher sales at existing stores and the additional sales at the 95 and 119 stores opened since August 4, 2007 and February 3, 2007, respectively. The increase in sales at existing stores for the 13 weeks ended November 1, 2008 was due to higher sales of new video game software, driven by a strong software title lineup and higher sales of used video game products. The increase in sales at existing stores for the 39 weeks ended November 1, 2008 was due to a strong video game software title lineup and the availability of

the new hardware platforms in fiscal 2008 when compared to the prior fiscal year following the launch of the Sony PlayStation 3 in the first quarter of fiscal 2007. In addition, the new hardware platforms drove an increase in used product sales as the installed base of platforms increased and more software became available.

Segment operating income in the 13 weeks ended November 1, 2008 decreased by 5.5% when compared to the 13 weeks ended November 3, 2007 and increased 43.4% in the 39 weeks ended November 1, 2008 when compared to the 39 weeks ended November 3, 2007. The decrease in operating income in the 13 weeks ended November 1, 2008 was primarily due to higher selling, general and administrative expenses associated with the increase in the number of stores in operation and the impact of changes in foreign currency exchange rates. The increase in operating earnings for the 39 weeks ended November 1, 2008 was due to the higher sales and related gross margin discussed above offset by the higher selling, general and administrative expenses associated with the increase in the number of stores in operation. For the 13 and 39 week periods ended November 1, 2008, changes in exchange rates when compared to the prior year had the effect of decreasing operating earnings by $0.7 million and increasing operating earnings by $1.8 million, respectively.

Europe

Segment results for Europe include retail operations in 12 European countries. As of November 1, 2008, the European segment operated 815 stores compared to 576 stores as of November 3, 2007. For the 13 and 39 weeks ended November 1, 2008, European sales increased 23.4% and 50.4%, respectively, compared to the 13 and 39 weeks ended November 3, 2007. The increase in sales for the 13 weeks ended November 1, 2008 was primarily due to the additional sales at the 307 stores opened since August 4, 2007 including the 49 stores acquired from Free Record Shop Norway AS, a Norwegian private limited liability company (FRS), in Norway during the first quarter of fiscal 2008. The increase in sales for the 39 weeks ended November 1, 2008 was due to the increase in sales at existing stores and the additional sales at the 366 stores opened since February 3, 2007 as well as the stores acquired from FRS. The increase in sales at existing stores for the 39 weeks ended November 1, 2008 was due to strong sales of new video game software and the availability of the new hardware platforms in fiscal 2008 when compared to the prior fiscal year following the launch of the Sony PlayStation 3 in the first quarter of fiscal 2007. In addition, the new hardware platforms drove an increase in used product sales as the installed base of the platforms increased and more software became available.

The segment operating income in Europe for the 13 and 39 weeks ended November 1, 2008 decreased to $1.4 million and $3.2 million, respectively, compared to the operating earnings in the 13 and 39 weeks ended November 3, 2007 of $5.7 million and $3.7 million, respectively. The decrease in the operating earnings was driven by the increase in selling, general and administrative expenses associated with the continued expansion in stores operating in the European segment, offset by the sales and margin increases discussed previously. In addition, for the 13 and 39 weeks ended November 1, 2008, changes in exchange rates when compared to the prior year had the effect of decreasing operating earnings by $0.4 million and increasing operating earnings by $0.3 million when compared to the 13 and 39 weeks ended November 3, 2007, respectively.

Seasonality

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

Liquidity and Capital Resources

Cash Flows

During the 39 weeks ended November 1, 2008, cash used in operations was $199.8 million, compared to cash used in operations of $139.4 million during the 39 weeks ended November 3, 2007. The increase of cash used in operations of $60.3 million from the 39 weeks ended November 3, 2007 to the 39 weeks ended November 1, 2008 was primarily due to an increase in cash provided by net earnings, including the non-cash adjustments to net earnings, of $33.7 million and a decrease in the excess tax benefits realized from the exercise of stock-based awards of $58.7 million. Also contributing to the increase in cash used in operations for the 39 weeks ended November 1, 2008 compared to the same period ended November 3, 2007 was an increase in working capital of $152.7 million

primarily due to an increase in merchandise inventories of $241.1 million resulting from an increase in store count and sales levels as well as purchases made in anticipation of software launches early in November 2008 and fourth quarter seasonal activity.

Cash used in investing activities was $183.6 million and $123.7 million during the 39 weeks ended November 1, 2008 and November 3, 2007, respectively. During the 39 weeks ended November 1, 2008, $132.8 million of cash was used primarily to open new stores in the U.S. and internationally and to invest in information systems. In addition, the Company used $50.8 million, net of cash acquired, to acquire FRS, The Gamesman Limited and an increased ownership interest in GameStop Group Limited. During the 39 weeks ended November 3, 2007, $124.8 million of cash was used primarily to open 417 new stores and to invest in information systems, offset by $1.1 million of cash received related to the finalization of the purchase price of Game Brands Inc. which was acquired during the fourth fiscal quarter of the 53 weeks ended February 3, 2007.

Cash provided by financing activities was $29.5 million for the 39 weeks ended November 1, 2008 and cash used in financing activities for the 39 weeks ended November 3, 2007 was $119.0 million. The cash provided by financing activities for the 39 weeks ended November 1, 2008 was primarily due to the issuance of shares relating to stock option exercises of $28.4 million and $33.9 million for the realization of tax benefits relating to the stock option exercises and vested restricted stock, respectively. These inflows were offset by the repurchase of $30.0 million of principal value of the Company s senior notes. The cash used in financing activities for the 39 weeks ended November 3, 2007 was primarily due to the repurchase of $20.0 million and $250.0 million of principal value of the Company s senior notes and senior floating rate notes, respectively, and the $12.2 million principal payment made in October 2007 on the Barnes & Noble, Inc. (Barnes & Noble) promissory note. These cash outflows were offset by $64.3 million received for the issuance of shares relating to stock option exercises and $92.6 million for the realization of tax benefits relating to the stock option exercises and vested restricted stock.

Sources of Liquidity

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

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

The availability under the Revolver is limited to a borrowing base which allows the Company to borrow up to the lesser of (x) approximately 70% of eligible inventory and (y) 90% of the appraisal value of the inventory, in each case plus 85% of eligible credit card receivables, net of certain reserves. Letters of credit reduce the amount available to borrow by their face value. The Company s ability to pay cash dividends, redeem options, and repurchase shares is generally prohibited, except that if availability under the Revolver is or will be after any such payment equal to or greater than 25% of the borrowing base, the Company may repurchase its capital stock and pay cash dividends. In addition, in the event that credit extensions under the Revolver at any time exceed 80% of the lesser of the total commitment or the borrowing base, the Company will be subject to a fixed charge coverage ratio covenant of 1.5:1.0.

The per annum interest rate on the Revolver is variable and, at the Company s option, is calculated by applying a margin of (1) 0.0% to 0.25% above the higher of the prime rate of the administrative agent or the federal funds effective rate plus 0.50% or (2) 1.00% to 1.50% above the LIBO rate. The applicable margin is determined quarterly as a function of the Company s consolidated leverage ratio. As of November 1, 2008, the applicable margin was 0.0% for prime rate loans and 1.00% for LIBO rate loans. In addition, the Company is required to pay a commitment

fee of 0.25% for any unused portion of the total commitment under the Revolver. As of November 1, 2008, there were no borrowings outstanding under the Revolver and letters of credit outstanding totaled $7.5 million.

In September 2008, in connection with the acquisition of Micromania, the Company accepted a Commitment Letter (the Commitment) from Bank of America, N.A. and Banc of America Securities LLC to provide a $150 million junior term loan facility (the Term Loans). The Commitment provides for term loans up to an aggregate of $150 million, consisting of a $50 million secured term loan and a $100 million unsecured term loan, subject to the execution and delivery of definitive loan documents, an amendment to the existing Revolver permitting the Term Loans, and the completion of other documents and conditions customary for the Term Loans.

In October 2008, the Company amended the Revolver to permit both the acquisition of Micromania and the Term Loans. In addition, during any period for which the Term Loans are outstanding, the amendment increases the applicable margin under the Revolver (i) payable on LIBO rate loans to a range of 1.5% to 2.0% from the current range of 1.0% to 1.5% and (ii) payable on prime rate loans to a range of 0.5% to 0.75% from the current range of 0.0% to 0.25%. The margins applicable prior to the entry into the amendment shall apply once the Term Loans are no longer outstanding.

In September 2007, the Company s Luxembourg subsidiary entered into a discretionary, $20 million Uncommitted Line of Credit (the Line of Credit) with Bank of America. There is no term associated with the Line of Credit and Bank of America may withdraw the facility at any time without notice. The Line of Credit will be made available to the Company s foreign subsidiaries for use primarily as a bank overdraft facility for short-term liquidity needs and for the issuance of bank guarantees and letters of credit to support operations. As of November 1, 2008, there were $0.1 million of cash overdrafts outstanding under the Line of Credit and bank guarantees outstanding totaled $4.4 million.

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

The Senior Notes bear interest at 8.0% per annum, mature on October 1, 2012 and were priced at 98.688%, resulting in a discount at the time of issue of $8.5 million. The discount is being amortized using the effective interest method. As of November 1, 2008, the unamortized original issue discount was $4.5 million. The rate of interest on the Senior Floating Rate Notes prior to their redemption on October 1, 2007 was 9.2350% per annum. The Issuers pay interest on the Senior Notes semi-annually, in arrears, every April 1 and October 1, to holders of record on the immediately preceding March 15 and September 15, and at maturity.

The Indenture contains affirmative and negative covenants customary for such financings, including, among other things, limitations on (1) the incurrence of additional debt, (2) restricted payments, (3) liens, (4) sale and leaseback transactions and (5) asset sales. Events of default provided for in the Indenture include, among other things, failure to pay interest or principal on the Notes, other breaches of covenants in the Indenture, and certain events of bankruptcy and insolvency. As of November 1, 2008, the Company was in compliance with all covenants associated with the Revolver and the Indenture.

Under certain conditions, the Issuers may on any one or more occasions prior to maturity redeem up to 100% of the aggregate principal amount of Senior Notes issued under the Indenture at redemption prices at or in excess of 100% of

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

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

Uses of Capital

Our future capital requirements will depend on the number of new stores opened and the timing of those openings within a given fiscal year. The Company opened 526 stores in the 39 weeks ended November 1, 2008 and expects to open approximately 600 stores in total during fiscal 2008 excluding the 328 stores acquired from Micromania. Capital expenditures for fiscal 2008 are projected to be approximately $175 million, to be used primarily to fund new store openings and invest in distribution and information systems in support of operations.

In May 2006, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of $100 million of its Senior Floating Rate Notes and Senior Notes. As of February 3, 2007, the Company had repurchased the maximum authorized amount, having acquired $50 million of its Senior Notes and $50 million of its Senior Floating Rate Notes, and delivered the Notes to the Trustee for cancellation.

On February 9, 2007, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional $150 million of its Senior Notes and Senior Floating Rate Notes. As of August 4, 2007, the Company had repurchased the maximum authorized amount, having acquired $20 million of its Senior Notes and $130 million of its Senior Floating Rate Notes, and delivered the Notes to the Trustee for cancellation. The associated loss on the retirement of this debt was $8.8 million for the 39 week period ended November 3, 2007, which consists of the premium paid to retire the Notes and the recognition of the deferred financing fees and the original issue discount on the Notes.

On June 28, 2007, the Company announced that its Board of Directors authorized the redemption of the remaining $120 million of Senior Floating Rate Notes outstanding. The Company redeemed the Senior Floating Rate Notes on October 1, 2007 at the redemption price specified by the Senior Floating Rate Notes of 102.00%, plus all accrued and unpaid interest through the redemption date. The Company incurred a one-time pre-tax charge of $3.8 million associated with the redemption, which represents a $2.4 million redemption premium and $1.4 million to recognize unamortized deferred financing costs.

On February 7, 2008, the Company announced that its Board of Directors authorized the buyback of up to an aggregate of an additional $130 million of its Senior Notes. 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. As of November 1, 2008, the Company had repurchased $30 million of its Senior Notes pursuant to this new authorization and delivered the Senior Notes to the Trustee for cancellation. The associated loss on retirement of debt is $2.3 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.

During October 2007, the Company paid the final principal payment of $12.2 million to Barnes & Noble on the promissory note that was issued in connection with the repurchase of GameStop s common stock held by Barnes & Noble, satisfying the promissory note in full. The note was unsecured and bore interest at 5.5% per annum.

On April 5, 2008, the Company purchased all the outstanding stock of FRS for $21.0 million, net of cash acquired. FRS operates 49 record stores in Norway and also operates office and warehouse facilities in Oslo, Norway. The Company intends to convert these stores into video game stores with an inventory assortment similar to its other stores in Norway.

In 2003, the Company purchased a 51% controlling interest in GameStop Group Limited which operates stores in Ireland and the United Kingdom. Under the terms of the purchase agreement, the minority interest owners of the remaining 49% have the ability to require the Company to purchase their remaining shares in incremental percentages at a price to be determined based partially on the Company s price to earnings ratio and GameStop Group Limited s earnings. On May 21, 2008, the minority interest owners exercised their right to sell one-third of their shares, or approximately 16% of GameStop Group Limited, to the Company under the terms of the original purchase agreement for $27.4 million. The transaction was completed in June 2008 and recorded in accordance with the provisions of the Statement of Financial Accounting Standards No. 141, *Business Acquisitions.*

On November 17, 2008, GameStop France SAS, a wholly owned subsidiary of GameStop, completed the acquisition of substantially all of the outstanding capital stock of Micromania from L Capital, LV Capital, Europ@web and other shareholders of Micromania for approximately $628.5 million (EUR 496.9 million). Micromania is a leading retailer of video and computer games in France with 328 locations. The Company funded the transaction with cash on hand, a draw on its existing revolving credit facility totaling $275.0 million, and the Term Loans.

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, required payments on the Senior Notes, store expansion and remodeling activities and corporate capital expenditure programs for at least the next 12 months.

Recent Accounting Policies

In October 2008, the Financial Accounting Standards Board (FASB) issued FSP 157-3, *Determining the Fair Value of a Financial Asset When The Market for That Asset Is Not Active* (FSP 157-3), to clarify how an entity would determine fair value in an inactive market. FSP 157-3 is effective immediately and applies to our financial statements for the period ended November 1, 2008. The application of the provisions of FSP 157-3 did not materially impact our consolidated financial statements for the period ended November 1, 2008. The Company does not currently own any securities, including cash equivalents, for which a dislocated market or other problem exists.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and their effect on an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for the Company on February 1, 2009. The Company is currently evaluating the impact that the adoption of SFAS 161 may have on its consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)). SFAS 141(R) amends the principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141(R) also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) is effective for the Company on February 1, 2009, and the Company will apply SFAS 141(R) prospectively to all business combinations subsequent to the effective date.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of Accounting Research Bulletin No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the controlling and noncontrolling interests and requires the separate disclosure of income attributable to controlling and noncontrolling interests. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact that the adoption of SFAS 160 will have on its consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). This statement permits entities the option to measure many financial instruments and certain other items at fair value at specific election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 was effective for our Company on February 3, 2008. The adoption of SFAS 159 did not have a material impact on our consolidated

financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that

require or permit fair value measurements. The Company adopted SFAS 157 on February 3, 2008 as required for its financial assets and liabilities. However, in February 2008, the FASB issued FASB Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The adoption of SFAS 157 for our financial assets and liabilities did not have a material impact on the Company s financial condition and results of operations. We do not believe the adoption of SFAS 157 for our non-financial assets and liabilities, effective February 1, 2009, will have a material impact on our consolidated financial statements.

Disclosure Regarding Forward-looking Statements

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

- our reliance on suppliers and vendors for sufficient quantities of their products and for new product releases;
- general economic conditions in the U.S. and internationally and specifically, economic conditions affecting the electronic game industry and the retail industry and the availability of credit;
- 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 the Form 10-K, including those set forth under the caption Item 1A. Risk Factors.

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

Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no obligation to publicly

update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Form 10-Q. In light of these risks and uncertainties, the forward-looking events and circumstances contained in this Form 10-Q may not occur, causing actual results to differ materially from those anticipated or implied by our forward-looking statements.

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

Interest Rate Exposure

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

Foreign Currency Risk

The Company follows the provisions of Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended by Statement of Financial Accounting Standards No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* and Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 133 requires that all derivative instruments be recorded on the balance sheet at fair value while SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if it is, depending on the type of hedge transaction.

The Company uses forward exchange contracts, foreign currency options and cross-currency swaps, (together, the Foreign Currency Contracts) to manage currency risk primarily related to intercompany loans denominated in non-functional currencies and certain foreign currency assets and liabilities. 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 aggregate fair value of the Foreign Currency Contracts as of November 1, 2008 was an asset of $30.4 million as measured by observable inputs obtained from market news reporting services, such as Bloomberg and The Wall Street Journal, and industry-standard models that consider various assumptions, including quoted forward prices, time value, volatility factors, and contractual prices for the underlying instruments, as well as other relevant economic measures. A hypothetical strengthening or weakening of 10% in the foreign exchange rates underlying the Foreign Currency Contracts from the market rate as of November 1, 2008 would result in a gain in value of the forwards, options and swaps of $4.3 million or $7.2 million, respectively.

ITEM 4. *Controls and Procedures*

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Control over Financial Reporting

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

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PART II OTHER INFORMATION

ITEM 1. *Legal Proceedings*

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

Plaintiffs counsel has named a new expert, a psychologist who testified at the criminal trial on behalf of the criminal defendant, who will opine (if allowed) that violent video games were a substantial factor in causing the murders. This same testimony from this same expert was excluded in the criminal trial from the same judge hearing this case. The testimony of plaintiffs psychologist expert was heard by the Court on October 30, 2008, and the motion to exclude that testimony has been reset for final argument on December 12, 2008. The ruling on this motion will have an effect on whether the case is able to proceed. There is no current trial date. The Company does not believe there is sufficient information to estimate the amount of the possible loss, if any, resulting from the lawsuit.

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

ITEM 1A. *Risk Factors*

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Item 1A. Risk Factors in our Form 10-K for the fiscal year ended February 2, 2008 filed with the SEC on April 2, 2008. These risks could materially and adversely affect our business, financial condition and results of operations. The risks described in our Form 10-K have not changed materially, however, they are not the only risks we face. Our operations could also be affected by additional factors that are not presently known to us or by factors that we currently consider immaterial to our business.

ITEM 6. ***Exhibits***

Exhibits

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of April 17, 2005, among GameStop Corp. (f/k/a GSC Holdings Corp.), Electronics Boutique Holdings Corp., GameStop, Inc., GameStop Holdings Corp. (f/k/a GameStop Corp.), Cowboy Subsidiary LLC and Eagle Subsidiary LLC.(1)
2.2	Sale and Purchase Agreement, dated September 30, 2008, between EB International Holdings, Inc. and L Capital, LV Capital, Europ@Web and other Micromania shareholders.(19)
2.3	Amendment, dated November 17, 2008, to Sale and Purchase Agreement for Micromania Acquisition listed as Exhibit 2.2 above.(21)
3.1	Second Amended and Restated Certificate of Incorporation.(2)
3.2	Amended and Restated Bylaws.(3)
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10.18	First Amendment, dated April 25, 2007, to Credit Agreement, dated as of October 11, 2005, by and among GameStop Corp. (f/k/a GSC Holdings Corp.), certain subsidiaries of GameStop Corp., Bank of America, N.A. and the other lending institutions listed in the Amendment, Bank of America, N.A. and Citicorp North America, Inc., as Issuing Banks, Bank of America, N.A., as Administrative Agent and Collateral Agent, Citicorp North America, Inc., as Syndication Agent, and Merrill Lynch Capital, a division of Merrill Lynch Business Financial Services Inc., as Documentation Agent.(15)
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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.

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

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

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

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

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

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

(7) Incorporated by reference to GameStop Holdings Corp. s Amendment No. 4 to Form S-1 filed with the Securities and Exchange Commission on February 5, 2002.

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

(9) Incorporated by reference to Appendix A to the Registrant s Proxy Statement for 2007 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on May 29, 2007.

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

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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/ David W. Carlson

David W. Carlson
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Date: December 11, 2008

GAMESTOP CORP.

By: /s/ Robert A. Lloyd

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

Date: December 11, 2008

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