

GameStop Corp.  
Form 10-K  
March 27, 2012  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended January 28, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from to

**Commission File No. 1-32637**

**GameStop Corp.**

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

**Delaware**  
*(State or other jurisdiction of  
incorporation or organization)*  
**625 Westport Parkway**  
**Grapevine, Texas**  
*(Address of principal executive offices)*

**20-2733559**  
*(I.R.S. Employer  
Identification No.)*  
**76051**  
*(Zip Code)*

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Registrant's telephone number, including area code:

(817) 424-2000

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

(Title of Class)	(Name of Exchange on Which Registered)
Class A Common Stock, \$.001 par value per share	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock, \$.001 par value per share	New York Stock Exchange

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

None

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer <input type="checkbox"/>	Accelerated Filer <input checked="" type="checkbox"/>	Non-accelerated Filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
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(Do not check if a smaller reporting company)

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

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately \$3,307,000,000, based upon the closing market price of \$23.58 per share of Class A Common Stock on the New York Stock Exchange as of July 29, 2011.

Number of shares of \$.001 par value Class A Common Stock outstanding as of March 22, 2012: 133,980,946

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement of the registrant to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, for the 2011 Annual Meeting of Stockholders are incorporated by reference into Part III.

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**PART I**

**Item 1. *Business***  
**General**

GameStop Corp. (together with its predecessor companies, GameStop, we, us, our, or the Company ) is the world's largest multichannel game retailer. We sell new and used video game hardware, physical and digital video game software, accessories, as well as PC entertainment software and other merchandise. As of January 28, 2012, GameStop's retail network and family of brands include 6,683 Company-operated stores in the United States, Australia, Canada and Europe, primarily under the names GameStop, EB Games and Micromania. We also operate electronic commerce Web sites under the names [www.gamestop.com](http://www.gamestop.com), [www.ebgames.com.au](http://www.ebgames.com.au), [www.gamestop.ca](http://www.gamestop.ca), [www.gamestop.it](http://www.gamestop.it), [www.gamestop.es](http://www.gamestop.es), [www.gamestop.ie](http://www.gamestop.ie), [www.gamestop.de](http://www.gamestop.de), [www.gamestop.co.uk](http://www.gamestop.co.uk) and [www.micromania.fr](http://www.micromania.fr). The network also includes: [www.kongregate.com](http://www.kongregate.com), a leading browser-based game site; *Game Informer* magazine, the leading multi-platform video game publication; Spawn Labs, a streaming technology company; and a digital PC distribution platform available at [www.gamestop.com/pcgames](http://www.gamestop.com/pcgames).

In the fiscal year ended January 28, 2012, we operated our business in the following segments: United States, Canada, Australia and Europe. Of our 6,683 stores, 4,503 stores are included in the United States segment and 346, 411 and 1,423 stores are included in the Canadian, Australian and European segments, respectively. Each of the segments consists primarily of retail operations, with all stores engaged in the sale of new and used video game systems, software and accessories, which we refer to as video game products, and PC entertainment software and related accessories. Our used video game products provide a unique value proposition to our customers, and our purchasing of used video game products provides our customers with an opportunity to trade in their used video game products for store credits and apply those credits towards other merchandise, which in turn, increases sales. We also sell various types of digital products, including network point cards, prepaid digital and online timecards and digitally downloadable software. Our products are substantially the same regardless of geographic location, with the primary differences in merchandise carried being the timing of release of new products in the various segments, language translations and the timing of roll-outs of newly developed technology enabling the sale of new products, such as digitally downloadable content. Stores in all segments are similar in size at an average of approximately 1,400 square feet. Our corporate office and one of our distribution facilities are housed in a 519,000 square foot facility in Grapevine, Texas.

The Company is a Delaware corporation which, through a predecessor, began operations in November 1996.

**Disclosure Regarding Forward-looking Statements**

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

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

general economic conditions in the U.S. and internationally, and specifically, economic conditions affecting Europe, the electronic game industry and the retail industry;

alternate sources and means of distribution of video game software and content;

alternate means to play video games;

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the competitive environment in the electronic game industry;

the growth of mobile, social and browser gaming;

our ability to open and operate new stores;

our ability to attract and retain qualified personnel;

our ability to effectively integrate acquired companies, including digital gaming and technology-based companies that are outside of the Company's historical operating expertise;

the impact and costs of litigation and regulatory compliance;

unanticipated litigation results, including third party litigation;

the risks involved with our international operations, including continued efforts to consolidate back-office support and close under-performing stores; and

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

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

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

**Industry Background**

Based upon estimates compiled by various market research firms, management estimates that the combined market for video game products and PC entertainment software exceeded \$33 billion in 2011 in the parts of the world in which we operate. According to NPD Group, Inc., a market research firm (the NPD Group), the electronic game industry was an approximately \$17.0 billion market in the United States in 2011, the majority of which was attributable to video game products, excluding sales of used video game products. International Development Group, a market research firm (IDG), estimates that retail sales of video game hardware and software and PC entertainment software totaled approximately \$13.5 billion in Europe in 2011. For 2011, the NPD Group reported that video game retail sales were approximately \$1.5 billion in Canada and \$1.5 billion in the Australian market.

Based on internal estimates compiled from a group of expert third-party sources, we believe the North American market for digital game sales, including mobile, social, console and PC games, was approximately \$6 billion in 2011 and this market is expected to grow to approximately \$10.6 billion by 2015.

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*New Video Game Products.* The Entertainment Software Association ( ESA ) estimates that 65% of all American households play video or computer games. We expect the following trends in sales of video game products:

*Video Game Hardware.* Today s gaming consoles include the Sony PlayStation 3, the Nintendo Wii and Microsoft Xbox 360, which all launched between 2005 and 2007. These console technologies have

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evolved considerably through several generations since the introduction of video game consoles in the 1980s. The typical cycle for hardware consoles lasts approximately five years and during each cycle it is typical for the price of the hardware consoles to decline over time. This cycle of consoles is longer than previous cycles and as a result sales have declined in recent years and there is uncertainty regarding future consumer demand for existing products. At this time, Nintendo has announced that the Wii U will be launched in late 2012 as the next generation of the Wii. The Company does not have definitive information regarding plans by Microsoft or Sony to introduce new consoles. Given this uncertainty, the Company expects that demand for new console hardware will continue to decline until new consoles are introduced.

In addition, portable handheld video game devices have evolved to the Nintendo 3DS, which was introduced in March 2011, and the Sony PlayStation Vita, which was introduced in February 2012. The market for handheld devices has declined in recent years as the proliferation of smart phones and other mobile devices and digitally downloadable mobile video games offer video game players alternative ways to play games.

*Video Game Software.* Sales of video game software generally increase as next-generation platforms mature and gain wider acceptance. Sales of video game software are dependent upon manufacturers and third-party publishers developing and releasing game titles for existing game platforms. In recent years the number of new games introduced each year has declined and the market for video game sales has also declined each year. This trend is expected to continue until new consoles are introduced.

*Used Video Game Products.* As the installed base of video game hardware platforms has increased and new hardware platforms are introduced, a considerable market for used video game hardware and software has developed. Based on reports published by the NPD Group, we believe that, as of December 2011, the installed base of video game hardware systems in the United States, based on original sales, totaled over 275 million units of handheld and console video game systems and grew by 26 million units in 2011. According to IDG, the installed base of hardware systems as of November 2011 in Europe was approximately 173 million units and grew by 20 million units in 2011. Hardware manufacturers and third-party software publishers have produced a wide variety of software titles for each of these hardware platforms. Based on internal Company estimates, we believe that the installed base of video game software units in the United States currently exceeds 2.2 billion units. As the substantial installed base of video game hardware and software continues to expand, there is a growing demand for used video game products.

*PC Entertainment Software.* PC entertainment software is generally played on multimedia PCs featuring fast processors, expanded memories, and enhanced graphics and audio capabilities. Trends in sales of PC entertainment software are largely dependent upon introductions of hit titles, which are typically limited to one or two per year.

*Casual Games.* The casual game market consists primarily of digital games and has grown rapidly over the last few years. Casual games are generally defined as simple, easy-to-use, free or very low-priced games played through the internet in Web browsers, on dedicated gaming Web sites or on mobile phones or other mobile devices. Casual games cost less to develop and distribute than a traditional console video game and are often supported by in-game advertising or user-purchased premium content. The typical casual gamer is predominantly female and older than a traditional console video game player.

**Business and Growth Strategy**

Our goal is to continue to be the world's largest multichannel retailer of new and used video game products and PC entertainment software and expand our business into the mobile device category to provide the best video game content to our customers anytime, anywhere and on any device. We plan to strengthen that position by executing the following strategies:

*Increase Market Share and Expand our Market Leadership Position.* We plan to increase our sales by increasing market share by increasing awareness of the GameStop brand and membership in our loyalty program,

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expanding our sales of used video game products and expanding our market leadership position by focusing on the launch of new hardware platforms as well as physical and digital software titles.

*Increase GameStop Brand Awareness and Loyalty Membership.* Substantially all of GameStop's U.S. and European stores are operated under the GameStop name, with the exception of the Micromania stores acquired in France. In 2007, GameStop introduced its new brand tagline "Power to the Players" and launched a television, radio and newspaper advertising campaign to increase awareness of the GameStop brand. Building the GameStop brand has enabled us to leverage brand awareness and to capture advertising and marketing efficiencies. Our branding strategy is further supported by the GameStop PowerUp Rewards loyalty program and our Web sites. The PowerUp Rewards loyalty program was launched in 2010 and offers our customers the ability to sign-up for a free or paid membership that offers points earned on purchases which can be redeemed for discounts or merchandise. Through PowerUp Rewards, our customers have access to unique, video-game related rewards unavailable through any other retailer. The program's paid membership also includes a subscription to *Game Informer* magazine, additional discounts on used merchandise in our stores and additional credit on trade-ins of used games. As of January 28, 2012, we had 15.9 million members in the PowerUp Rewards program, approximately half of which were paid members. In total, our loyalty programs around the world had over 22 million members. Our Web sites allow our customers to buy games online, reserve or pick-up merchandise in our stores and to learn about the latest video game products and PC entertainment software and their availability in our stores. We intend to increase customer awareness of our brands. In connection with our brand-building efforts, in each of the last three fiscal years, we increased the amount of media advertising in targeted markets. In the 53 weeks ending February 2, 2013 (fiscal 2012), we plan to continue to aggressively promote the GameStop PowerUp Rewards loyalty program and increase brand awareness over a broader demographic area in order to promote our unique buying experience in-store for new and used hardware and software, trade-ins of used video game products and to leverage our Web sites at [www.gamestop.com](http://www.gamestop.com), [www.ebgames.com.au](http://www.ebgames.com.au), [www.gamestop.ca](http://www.gamestop.ca), [www.gamestop.it](http://www.gamestop.it), [www.gamestop.es](http://www.gamestop.es), [www.gamestop.ie](http://www.gamestop.ie), [www.gamestop.de](http://www.gamestop.de), [www.gamestop.co.uk](http://www.gamestop.co.uk), [www.micromania.fr](http://www.micromania.fr) and [www.gameinformer.com](http://www.gameinformer.com), the online video gaming Web site [www.kongregate.com](http://www.kongregate.com) and our digital PC distribution platform available at [www.gamestop.com/pcgames](http://www.gamestop.com/pcgames).

*Increase Sales of Used Video Game Products.* We believe we are the largest retailer of used video game products in the world and carry the broadest selection of used video game products for both current and previous generation platforms, giving us a unique advantage in the video game retail industry. The opportunity to trade in and purchase used video game products offers our customers a unique value proposition generally unavailable at most mass merchants, toy stores and consumer electronics retailers. We obtain most of our used video game products from trade-ins made in our stores by our customers. We will continue to expand the selection and availability of used video game products in our stores. Used video game products generate significantly higher gross margins than new video game products. Our strategy consists of increasing consumer awareness of the benefits of trading in and buying used video game products at our stores through increased marketing activities and the use of both broad and targeted marketing to our PowerUp Rewards members. We expect the continued sale of new platform technology and software to drive trade-ins of older video game products, thereby expanding our supply of used video game products.

*Expand our Digital Growth Strategy to Protect and Expand our Market Leadership Position.* We expect that future growth in the video game industry will be driven by the sale of video games delivered in digital form and the expansion of other forms of gaming. We currently sell various types of products that relate to the digital category, including Xbox Live, PlayStation and Nintendo network point cards, as well as prepaid digital and online timecards and digitally downloadable software. We operate an online video game platform called Kongregate.com and we acquired a digital PC distribution platform, Impulse, and a streaming technology company, Spawn Labs, during the 52 weeks ended January 28, 2012 (fiscal 2011). We continue to make significant investments in e-commerce, digital delivery systems, online video game aggregation, digital kiosks and in-store and Web site functionality to enable our customers to access digital content and eliminate friction in the digital sales and delivery process. We plan to continue



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to invest in these types of processes and channels to grow our digital sales base and enhance our market leadership position in the video game industry and in the digital aggregation and distribution category. In fiscal 2011, we grew our digital product receipts by 57%.

*Store Opening/Closing Strategy.* The Company has an analysis-driven approach to store opening and closing decisions. We intend to continue to open new stores in targeted markets where we do not currently have a presence and can take market-share from uncontested competitors, as well as in markets in which we already operate where we have a demonstrated track record of successful new store openings and have realized returns on invested capital that have exceeded our internal targets. We analyze each market relative to target population and other demographic indices, real estate availability, competitive factors and past operating history, if available. In some cases, these new stores may adversely impact sales at existing stores, but our goal is to minimize the impact. On average, our new stores opened in the past three fiscal years have had a return of original investment of less than two years. We will be aggressive in the analysis of our existing store base to determine optimal levels of profitability and close stores where profitability goals are not being met or where we can attempt to transfer sales to other nearby existing stores and increase overall profits. We utilize our PowerUp Rewards loyalty program information to determine areas that are currently underserved and also utilize our database to ensure a high customer transfer rate from closing locations to existing locations. We opened 285 new stores and closed 272 stores in fiscal 2011, decreasing the number of stores we opened and significantly increasing the number of stores we closed compared to previous years. We opened 359 new stores and closed 139 stores in the 52 weeks ended January 29, 2011 ( fiscal 2010 ). We opened 388 new stores and closed 145 stores in the 52 weeks ended January 30, 2010 ( fiscal 2009 ). We plan to open approximately 150 new stores and close approximately 200 stores in fiscal 2012.

*Targeting a Broad Audience of Game Players.* We have created store and online environments targeting a broad audience, including the electronic game enthusiast, the casual gamer and the seasonal gift giver. Our stores focus on the electronic game enthusiast who demands the latest merchandise featuring the hottest technology immediately on the day of release and the value-oriented customer who wants a wide selection of value-priced used video game products. Our stores offer the opportunity to trade in used video game products in exchange for store credits applicable to future purchases, which, in turn, drives more sales. Our online properties, including e-commerce sites and Kongregate.com, continue to evolve to meet the needs of consumers looking to research or buy traditional boxed product video games, download the latest PC games or play browser and casual games on their PCs or mobile devices.

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

Kongregate.com serves as a destination for gamers seeking the latest in online game play with over 50,000 games from over 14,000 developers in a social environment in which gamers can connect with their friends and compare achievements. Many of the favorite Kongregate games are available through the Kongregate app for use on mobile devices.

*Consistently Achieving High New Release Market Share.* We focus marketing efforts and store associates on driving the sale of new release video game products, both physical and digital. We employ a variety of

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rapid-response distribution methods in our efforts to be the first-to-market and consistently in stock for new physical and digital video game products and PC entertainment software. This highly efficient distribution network is essential, as a significant portion of a new title's sales will be generated in the first few days and weeks following its release. As the world's largest retailer of video game products and PC entertainment software with a proven capability to distribute new releases to our customers quickly and capture significant market share immediately following new product launches, we believe that we regularly receive a large allocation of popular new video game products and PC entertainment software. On a daily basis, we actively monitor sales trends, customer reservations and store manager feedback to ensure a high in-stock position for each store. To assist our customers in obtaining immediate access to new releases, we offer our customers the opportunity to pre-order products in our stores or through our Web sites prior to their release.

*Expand our Mobile Business.* In 2011, we began a new category of business which we refer to as Mobile. We define the mobile category as buy-sell-trade of mobile devices, including gaming tablets, and related services for those devices. We began to take trades of pre-owned iPods®, iPhones® and iPads® (which we refer to collectively as iDevices®) in our U.S. stores and in certain stores in other markets. We believe taking trades of used iDevices is a logical extension of our expertise in buying, selling and trading of used video game products. We use our centralized refurbishment center to refurbish these devices and then re-sell them in our stores. As of January 28, 2012, we were selling used iDevices in approximately 460 U.S. stores and on our Web site at [www.gamestop.com](http://www.gamestop.com). We also began selling a small variety of tablets in 200 of our U.S. stores which come preloaded with several digital games designed for play on tablets. As the proliferation of smart phones and tablets continues and those devices are increasingly used for playing digital games, the market for such devices and the marketing of related games provides us opportunities to grow our revenues and profits.

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

## **Operating Segments**

We identified our four operating segments based on a combination of geographic areas, the methods with which we analyze performance, the way in which our sales and profits are derived and how we divide management responsibility. Our sales and profits are driven through our physical stores which are highly integrated with our e-commerce, digital and mobile businesses. Due to this integration, our physical stores are the basis for our segment reporting. Segment results for the United States include retail operations in the 50 states, the District of Columbia, Guam and Puerto Rico, the electronic commerce Web site [www.gamestop.com](http://www.gamestop.com), *Game Informer* magazine, [www.kongregate.com](http://www.kongregate.com), and a digital PC game distribution platform available at [www.gamestop.com/pcgames](http://www.gamestop.com/pcgames). Segment results for Canada include retail and e-commerce operations in stores throughout Canada and segment results for Australia include retail and e-commerce operations in Australia and New Zealand. Segment results for Europe include retail and e-commerce operations in 13 European countries.

Our U.S. segment is supported by distribution centers in Texas and Kentucky, and further supported by the use of third-party distribution centers for new release titles. We distribute merchandise to our Canadian segment

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from distribution centers in Ontario. We have a distribution center near Brisbane, Australia which supports our Australian operations and a small distribution facility in New Zealand which supports the stores in New Zealand. European segment operations are supported by six regionally-located distribution centers.

All of our segments purchase products from many of the same vendors, including Sony Corporation ( Sony ) and Electronic Arts. Products from certain other vendors such as Microsoft and Nintendo are obtained either directly from the manufacturer or publisher or through distributors depending upon the particular market in which we operate.

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

## **Merchandise**

Substantially all of our revenues are derived from the sale of tangible products; however, we also sell downloadable software and subscription, time and points cards which do not involve physical product. Our product offerings consist of new and used video game products, PC entertainment software, and related products, such as video game accessories and strategy guides, as well as new and used mobile devices such as tablets, phones and music players. Our in-store inventory generally consists of a constantly changing selection of over 4,500 SKUs. We have buying groups in each of our segments that negotiate terms, discounts and cooperative advertising allowances for the stores in their respective geographic areas. We use customer requests and feedback, advance orders, industry magazines and product reviews to determine which new releases are expected to be hits. Advance orders are tracked at individual stores to distribute titles and capture demand effectively. This merchandise management is essential because a significant portion of a game's sales are usually generated in the first days and weeks following its release.

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

*Video Game Software.* We purchase new video game software from the leading manufacturers, including Sony, Nintendo and Microsoft, as well as over 50 third-party game publishers, such as Electronic Arts and Activision. We are one of the largest customers of video game titles sold by these publishers. We generally carry over 800 SKUs of new video game software at any given time across a variety of genres, including Sports, Action, Strategy, Adventure/Role Playing and Simulation. In 2010, we began selling digitally downloadable add-on content developed by publishers for existing games.

*Used Video Game Products.* We believe we are the largest retailer of used video games in the world. We provide our customers with an opportunity to trade in their used video game products in our stores in exchange for store credits which can be applied towards the purchase of other products, primarily new merchandise. We have the largest selection (approximately 3,100 SKUs) of used video game titles which have an average price of \$18 as compared to an average price of \$39 for new video game titles and which generate significantly higher gross margins than new video game products. Our trade-in program provides our customers with a unique value proposition which is generally unavailable at mass merchants, toy stores and consumer electronics retailers. This program provides us with an inventory of used video game products which we resell to our more value-oriented

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customers. In addition, our highly-customized inventory management system allows us to actively manage the pricing and product availability of our used video game products across our store base and to reallocate our inventory as necessary. Our trade-in program also allows us to be one of the only suppliers of previous generation platforms and related video games. We also operate refurbishment centers in the U.S., Canada, Australia and Europe where defective video game products can be tested, repaired, relabeled, repackaged and redistributed back to our stores.

*PC Entertainment and Other Software.* We purchase PC entertainment software from over 20 publishers, including Electronic Arts, Microsoft and Activision. We offer PC entertainment software across a variety of genres, including Sports, Action, Strategy, Adventure/Role Playing and Simulation.

*Downloadable Content and Subscription, Time and Points Cards.* The proliferation of online game play through Microsoft Xbox Live, the PlayStation Network and online PC gaming sites has led to consumer demand for subscription, time and points cards (which we call digital currency) and digitally downloadable content for existing video games. We sell a wide variety of digital currency and we have developed technology to sell downloadable content in our stores and on our U.S. Web site. We believe we are the leading retailer for the sale of digital currency and downloadable content for Xbox Live and the PlayStation Network.

*Accessories and Other Products.* Video game accessories consist primarily of controllers, memory cards and other add-ons and, since September 2010, the Sony Move motion controller. We also carry strategy guides, magazines and trading cards. We carry over 300 SKUs of accessories and other products. In general, this category has higher margins than new video game and PC entertainment products.

*Mobile Products.* In 2011, we began a new category of business which we refer to as Mobile. We began to take trades of pre-owned iPods®, iPhones® and iPads® in our U.S. stores and in certain stores in other markets. We also began selling a small variety of tablets in 200 of our U.S. stores which come preloaded with several digital games designed for play on tablets.

## **Store Operations**

As of January 28, 2012, we operated 6,683 stores, primarily under the names GameStop, EB Games and Micromania. We design our stores to provide an electronic gaming atmosphere with an engaging and visually captivating layout. Our stores are typically equipped with several video game sampling areas, which provide our customers the opportunity to play games before purchase, as well as equipment to play video game clips. We use store configuration, in-store signage and product demonstrations to produce marketing opportunities both for our vendors and for us.

Our stores average approximately 1,400 square feet and carry a balanced mix of new and used video game products and PC entertainment software. Our stores are generally located in high-traffic power strip centers, local neighborhood strip centers, high-traffic shopping malls and pedestrian areas, primarily in major metropolitan areas. These locations provide easy access and high frequency of visits and, in the case of strip centers and high-traffic pedestrian stores, high visibility. We target strip centers that are conveniently located, have a mass merchant or supermarket anchor tenant and have a high volume of customers.

## **Site Selection and Locations**

*Site Selection.* Site selections for new stores are made after an extensive review of demographic data, including data from our PowerUp Rewards loyalty program, and other information relating to market potential, competitor access and visibility, compatible nearby tenants, accessible parking, location visibility, lease terms and the location of our other stores. Most of our stores are located in highly visible locations within malls and strip centers. In each of our geographic segments, we have a dedicated staff of real estate personnel experienced in selecting store locations.

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*Locations.* The table below sets forth the number of our stores located in the U.S., Canada, Europe and Australia as of January 28, 2012:

	<b>Number of Stores</b>
<b>United States</b>	
Alabama	74
Alaska	7
Arizona	86
Arkansas	35
California	469
Colorado	67
Connecticut	56
Delaware	16
District of Columbia	3
Florida	294
Georgia	136
Guam	2
Hawaii	24
Idaho	17
Illinois	194
Indiana	96
Iowa	33
Kansas	37
Kentucky	74
Louisiana	72
Maine	13
Maryland	107
Massachusetts	102
Michigan	126
Minnesota	58
Mississippi	46
Missouri	75
Montana	9
Nebraska	20
Nevada	44
New Hampshire	27
New Jersey	156
New Mexico	26
New York	262
North Carolina	140
North Dakota	7
Ohio	186
Oklahoma	49
Oregon	37
Pennsylvania	221
Puerto Rico	46
Rhode Island	15
South Carolina	71
South Dakota	9
Tennessee	101
Texas	384
Utah	29

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	<b>Number of Stores</b>
<b>United States</b>	
Vermont	5
Virginia	151
Washington	82
West Virginia	34
Wisconsin	65
Wyoming	8
 Sub-total for United States	 4,503

	<b>Number of Stores</b>
<b>International</b>	
Canada	346
Australia	372
New Zealand	39
 Sub-total for Australia	 411
 Austria	 27
Denmark	42
Finland	19
France	391
Germany	208
Ireland	51