GAMESTOP CORP
Form 10-K/A
September 02, 2005

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

**Form 10-K/A**
**(Amendment No. 2)**
**FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)**
**OF THE SECURITIES EXCHANGE ACT OF 1934**

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended January 29, 2005**

**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. 1-31228**

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

| | |
|---|---|
| **Delaware**<br>*(State or other jurisdiction of incorporation or organization)* | **75-2951347**<br>*(I.R.S. Employer Identification No.)* |
| **625 Westport Parkway**<br>**Grapevine, Texas**<br>*(Address of principal executive offices)* | **76051**<br>*(Zip Code)* |

**Registrant s telephone number, including area code:**
**(817) 424-2000**
**Securities registered pursuant to Section 12(b) of the Act:**

| (Title of Class) | (Name of Exchange on Which Registered) |
|---|---|
| Class A Common Stock, $.001 par value per share | New York Stock Exchange |
| Class B 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 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined on Rule 12b-2 of the Act). Yes þ No o

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately $311,396,000, based upon the closing market price of $15.40 per share of Class A Common Stock on the New York Stock Exchange as of July 30, 2004.

Number of shares of $.001 par value Class A Common Stock outstanding as of August 30, 2005: 21,949,509

Number of shares of $.001 par value Class B Common Stock outstanding as of August 30, 2005: 29,901,662

**EXPLANATORY NOTE**

On April 11, 2005, GameStop Corp. (the Company ) filed its Annual Report on Form 10-K for the fiscal year ended January 29, 2005 (the Original Filing ) with the Securities and Exchange Commission (the SEC ). As a result of the Company s expectation that it would not file its definitive proxy statement within 120 days after the end of the fiscal year covered by the Original Filing, the Company filed Amendment No. 1 on Form 10-K/A (the Amended Filing ) on May 20, 2005 in order to furnish the information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K. The Company hereby amends Item 1 of Part I and Items 7 and 8 of Part II of the Amended Filing, and the Company s consolidated financial statements (including the notes thereto), to respond to comments the Company received from the SEC with respect to the Original Filing and the Amended Filing. In addition, in connection with the filing of this amendment, we are including with this amendment certain currently dated certifications and therefore we are amending Part IV solely for that purpose. Except as described above, no other amendments are being made to the Original Filing or the Amended Filing.

This report continues to speak as of the date of the Original Filing, and the Company has not updated the disclosures in this report to speak as of a later date. Updated information regarding recent developments is included in the Company s other filings with the SEC and in press releases issued by the Company.

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# PART I

## Item 1. *Business*

### General

GameStop Corp. ( GameStop or the Company ) is the largest video game and PC entertainment software specialty retailer in the United States, based on the number of U.S. stores we operate and our total U.S. revenues. We carry one of the largest assortments of new and used video game hardware, video game software and accessories, PC entertainment software, and related products, including action figures, trading cards and strategy guides. As of January 29, 2005, we operated 1,826 stores in the United States, Puerto Rico, Ireland, Northern Ireland and Guam. We operate most of our stores under the GameStop name. We carry a constantly changing selection of more than 5,000 stock keeping units ( SKUs ) of electronic game merchandise in most stores. In addition, we operate a web site at www.gamestop.com and publish *Game Informer*, the industry s largest circulation multi-platform video game magazine, with over 2,000,000 subscribers.

Of our 1,826 stores, 1,310 stores are located in strip centers and 516 stores are located in shopping malls and other locations. Our strip center stores, which average approximately 1,600 square feet, carry a balanced mix of new and used video game hardware, video game software and accessories, which we refer to as video game products, and PC entertainment software. Our mall stores, which average approximately 1,200 square feet, carry primarily new video game products and PC entertainment software, as well as used video game products. 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.

Our corporate office and distribution facilities are housed in a 250,000 square foot headquarters and distribution center in Grapevine, Texas. In March 2004, we purchased a new 420,000 square foot facility in Grapevine, Texas. We relocated some of our distribution operations to this facility in fiscal 2004 (the 52 weeks ending January 29, 2005), and intend to relocate our headquarters and remaining distribution center operations to this facility in the second quarter of fiscal 2005 (the 52 weeks ending January 28, 2006).

Prior to February 12, 2002, we were a wholly-owned subsidiary of Barnes & Noble, Inc. ( Barnes & Noble ). On February 12, 2002, we completed an initial public offering of shares of our Class A common stock raising net proceeds of approximately $347.3 million. A portion of those proceeds was used to repay $250.0 million of our $400 million indebtedness to Barnes & Noble, with Barnes & Noble contributing the remaining $150.0 million of indebtedness to us as additional paid-in-capital. Barnes & Noble owned approximately 63% of the outstanding shares of our capital stock through its ownership of 100% of our Class B common stock until October 2004. On October 1, 2004, we repurchased approximately 6.1 million shares of our Class B common stock at a price equal to $18.26 per share for aggregate consideration of approximately $111.5 million. On November 12, 2004, Barnes & Noble distributed to its shareholders its remaining 29.9 million shares of our Class B common stock in a tax-free dividend. Our Class A common stock and our Class B common stock are traded on the New York Stock Exchange under the symbols GME and GME.B, respectively.

### Disclosure Regarding Forward-looking Statements

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

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

economic conditions affecting the electronic game industry;

the competitive environment in the electronic game industry;

our ability to open and operate new stores;

our ability to attract and retain qualified personnel;

our ability to successfully and efficiently transfer our headquarters and distribution center to our new facility; and

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

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

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

**Risk Factors**

An investment in our Company involves a high degree of risk. You should carefully consider the risks below, together with the other information contained in this report, before you make an investment decision with respect to our Company. The risks described below are not the only ones facing our Company. Additional risks not presently known to us, or that we consider immaterial, may also impair our business operations. Any of the following risks could materially adversely affect our business, operating results or financial condition, and could cause a decline in the trading price of our common stock and the value of your investment.

***Risks Related to Our Business***

*We depend upon the timely delivery of products.*

We depend on major hardware manufacturers, primarily Sony Computer Entertainment of America, Nintendo of America, Inc. and Microsoft Corp., to deliver new and existing video game platforms on a timely basis and in anticipated quantities. In addition, we depend on software publishers to introduce new and updated software titles. Any material delay in the introduction or delivery of hardware platforms or software titles could result in reduced sales in one or more fiscal quarters.

*We depend upon third parties to develop products and software.*

Our business depends upon the continued development of new and enhanced video game platforms, PC hardware and video game and PC entertainment software. Our business could suffer due to the failure of

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manufacturers to develop new or enhanced video game platforms, a decline in the continued technological development and use of multimedia PCs, or the failure of software publishers to develop popular game and entertainment titles for current or future generation video game systems or PC hardware.

*Our ability to obtain favorable terms from our suppliers may impact our financial results.*

Our financial results depend significantly upon the business terms we can obtain from our suppliers, including competitive prices, unsold product return policies, advertising and market development allowances, freight charges and payment terms. We purchase substantially all of our products directly from manufacturers, software publishers and approximately five distributors. Our largest vendors are Electronic Arts, Inc., Nintendo and Microsoft, which accounted for 14%, 13% and 12%, respectively, of our new product purchases in fiscal 2004. If our suppliers do not provide us with favorable business terms, we may not be able to offer products to our customers at competitive prices.

*The video game system and software product industries are cyclical, which could cause significant fluctuation in our earnings.*

The electronic game industry has been cyclical in nature in response to the introduction and maturation of new technology. Following the introduction of new video game platforms, sales of these platforms and related software and accessories generally increase due to initial demand, while sales of older platforms and related products generally decrease as customers migrate toward the new platforms. New video game platforms have historically been introduced approximately every five years. If video game platform manufacturers fail to develop new hardware platforms, our sales of video game products could decline.

*An adverse trend in sales during the holiday selling season could impact our financial results.*

Our business, like that of many specialty retailers, is seasonal, with the major portion of our sales and operating profit realized during the fourth fiscal quarter, which includes the holiday selling season. During fiscal 2004, we generated approximately 38% of our sales and approximately 56% of our operating earnings during the fourth quarter. Any adverse trend in sales during the holiday selling season could lower our results of operations for the fourth quarter and the entire year.

*Our results of operations may fluctuate from quarter to quarter, which could result in a lower price for our common stock.*

Our results of operations may fluctuate from quarter to quarter depending upon several factors, some of which are beyond our control. These factors include:

- the timing of new product releases;
- the timing of new store openings; and
- shifts in the timing of certain promotions.

These and other factors could affect our business, financial condition and results of operations, and this makes the prediction of our financial results on a quarterly basis difficult. Also, it is possible that our quarterly financial results may be below the expectations of public market analysts and investors.

*Our failure to effectively manage new store openings could lower our sales and profitability.*

Our growth strategy is largely dependent upon opening new stores and operating them profitably. We opened 338 stores in fiscal 2004 and expect to open approximately 370 to 400 new stores in fiscal 2005. Our ability to open new stores and operate them profitably depends upon a number of factors, some of which may be beyond our control. These factors include:

- the ability to identify new store locations, negotiate suitable leases and build out the stores in a timely and cost efficient manner;
- the ability to hire and train skilled associates;
- the ability to integrate new stores into our existing operations; and
- the ability to increase sales at new store locations.

Our growth will also depend on our ability to process increased merchandise volume resulting from new store openings through our inventory management systems and distribution facility in a timely manner. If we fail to manage new store openings in a timely and cost efficient manner, our growth may decrease.

*If our management information systems fail to perform or are inadequate, our ability to manage our business could be disrupted.*

We rely on computerized inventory and management systems to coordinate and manage the activities in our distribution center in Grapevine, Texas, as well as to communicate distribution information to the off-site third-party operated distribution centers with which we work. The third-party distribution centers pick up products from our suppliers, repackage the products for each of our stores and ship those products to our stores by package carriers. We use an inventory replenishment system to track sales and inventory. Our ability to rapidly process incoming shipments of new release titles and deliver them to all of our stores, either that day or by the next morning, enables us to meet peak demand and replenish stores at least twice a week, to keep our stores in stock at optimum levels and to move inventory efficiently. If our inventory or management information systems fail to adequately perform these functions, our business could be adversely affected.

*Our failure to successfully and efficiently transfer our headquarters and distribution center to our new facility could lower our sales and profitability.*

In March 2004, we purchased a new 420,000 square foot headquarters and distribution center in Grapevine, Texas. We relocated some of our distribution operations to this facility in fiscal 2004. We intend to transfer our headquarters and remaining distribution center operations to this facility in the second quarter of fiscal 2005. If this transfer is not implemented efficiently, our sales and profitability may be adversely affected.

*Pressure from our competitors may force us to reduce our prices or increase spending, which could decrease our profitability.*

The electronic game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. We compete with mass merchants and regional chains, including Wal-Mart Stores, Inc. and Target Corporation; other video game and PC software specialty stores located in malls and other locations, including Electronics Boutique Holdings Corp.; toy retail chains, including Toys R Us, Inc.; mail-order businesses; catalogs; direct sales by software publishers; online retailers; and computer product and consumer electronics stores, including Best Buy Co., Inc. and Circuit City Stores, Inc. In addition, video games are available for rental from many video stores, some of whom, like Hollywood Entertainment Corp. and Blockbuster, Inc., have increased the availability of video game products for sale. Video game products may also be distributed through other methods which may emerge in the future. We also compete with sellers of used video game products. Some of our competitors in the electronic game industry have longer operating histories and may have greater financial resources than we do. Additionally, we compete with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers. If we lose customers to our competitors, or if we reduce our prices or increase our spending to maintain our customers, we may be less profitable.

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*International events could delay or prevent the delivery of products to our suppliers.*

Our suppliers rely on foreign sources, primarily in Asia, to manufacture a significant portion of the products we purchase from them. As a result, any event causing a disruption of imports, including the imposition of import restrictions or trade restrictions in the form of tariffs or quotas, could increase the cost and reduce the supply of products available to us, which could lower our sales and profitability.

*If we are unable to renew or enter into new leases on favorable terms, our revenue growth may decline.*

All of our retail stores are located in leased premises. If the cost of leasing existing stores increases, we cannot assure you that we will be able to maintain our existing store locations as leases expire. In addition, we may not be able to enter into new leases on favorable terms or at all, or we may not be able to locate suitable alternative sites or additional sites for new store expansion in a timely manner. Our revenues and earnings may decline if we fail to maintain existing store locations, enter into new leases, locate alternative sites or find additional sites for new store expansion.

*The ability to download video games and play video games on the Internet could lower our sales.*

While it is currently not possible to download video game software onto existing video game platforms over the Internet, at some point in the future this technology may become available. A limited selection of PC entertainment software may currently be purchased for download over the Internet, and as technology advances, a broader selection of PC entertainment software may become available for purchase and download or playing on the Internet. If advances in technology continue to expand our customers ability to access software through these and other sources, our customers may no longer choose to purchase video games or PC entertainment software in our stores. As a result, our sales and earnings could decline.

*If we fail to keep pace with changing industry technology, we will be at a competitive disadvantage.*

The interactive entertainment industry is characterized by swiftly changing technology, evolving industry standards, frequent new and enhanced product introductions and product obsolescence. These characteristics require us to respond quickly to technological changes and to understand their impact on our customers preferences. If we fail to keep pace with these changes, our business may suffer.

*The terms of our credit facility could restrict our operational flexibility.*

In the event that we had outstanding borrowings under our credit facility, we would then be subject to operational covenants and other restrictions under our revolving credit facility. The covenants place restrictions on our ability to, among other things, incur more debt or create liens on our assets, merge or consolidate with others, make acquisitions and investments, dispose of assets and enter into transactions with affiliates. In addition, in the event that we had availability under the credit facility of less than $20,000,000, we would be restricted from paying dividends or repurchasing equity securities. These covenants could limit our operational flexibility and restrict our ability to borrow additional funds, if necessary, to finance operations.

Failure to comply with these operational covenants could result in an event of default under the terms of the credit facility which, if not cured or waived, could result in the borrowed amounts becoming due and payable. In addition, our obligations under the credit facility are secured by all assets owned by us and our subsidiaries. An event of default under the credit facility would permit the lenders to proceed directly against those assets.

*We depend upon our key personnel and they would be difficult to replace.*

Our success depends upon our ability to attract, motivate and retain key management for our stores and skilled merchandising, marketing and administrative personnel at our headquarters. We depend upon the continued services of our key executive officers, R. Richard Fontaine, our Chairman of the Board and Chief Executive Officer, Daniel A. DeMatteo, our Vice Chairman and Chief Operating Officer and David W.

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Carlson, our Executive Vice President and Chief Financial Officer. The loss of services of any of our key personnel could have a negative impact on our business.

*We may engage in acquisitions which could negatively impact our business if we fail to successfully complete and integrate them.*

To enhance our efforts to grow and compete, we may engage in acquisitions. Our plans to pursue future acquisitions are subject to our ability to negotiate favorable terms for these acquisitions. Accordingly, we cannot assure you that future acquisitions will be completed. In addition, to facilitate future acquisitions, we may take actions that could dilute the equity interests of our stockholders, increase our debt or cause us to assume contingent liabilities, all of which may have a detrimental effect on the price of our common stock. Finally, if any acquisitions are not successfully integrated with our business, our ongoing operations could be adversely affected.

*Legislative actions, higher director and officer insurance costs and potential new accounting pronouncements are likely to cause our general and administrative expenses to increase and impact our future financial condition and results of operations.*

In order to comply with the Sarbanes-Oxley Act of 2002, as well as changes to the New York Stock Exchange listing standards and rules adopted by the Securities and Exchange Commission (the SEC ), we may be required to increase our expenditures on internal controls, and hire additional personnel and additional outside legal, accounting and advisory services, all of which may cause our general and administrative costs to increase. Insurers are also likely to increase premiums as a result of the high claims rates they have incurred in the past from other companies, and so our premiums for our directors and officers insurance policies are likely to increase. Changes in the accounting rules could materially increase the expenses that we report under generally accepted accounting principles ( GAAP ) and adversely affect our operating results.

*The limited voting rights of our Class A common stock could impact its attractiveness to investors and its liquidity and, as a result, its market value.*

The holders of our Class A and Class B common stock generally have identical rights, except that holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to ten votes per share on all matters to be voted on by stockholders. The difference in the voting rights of the Class A and Class B common stock could diminish the value of the Class A common stock to the extent that investors or any potential future purchasers of our Class A common stock ascribe value to the superior voting rights of the Class B common stock.

**Industry Background**

According to NPD Group, Inc., a market research firm, the electronic game industry was an approximately $11.0 billion market in the United States in 2004. Of this $11.0 billion market, approximately $10.0 billion was attributable to video game products, excluding sales of used video game products, and approximately $1.0 billion was attributable to PC entertainment software.

*New Video Game Products.* The Entertainment Software Association (formerly the Interactive Digital Software Association), or ESA, estimates that 50% of all Americans, or approximately 145 million people, play video or computer games on a regular basis. We expect the following trends to result in increased sales of video game products:

*Hardware Platform Technology Evolution.* Video game hardware has evolved significantly from the early products launched in the 1980s. The processing speed of video game hardware has increased from 8-bit speeds in the 1980s to 128-bit speeds in next-generation systems such as Sony PlayStation 2, launched in 2000, and Nintendo GameCube and Microsoft Xbox, which both launched in November 2001. In addition, portable handheld video game devices have evolved from the 8-bit Nintendo Game Boy to the 128-bit Nintendo DS, which was introduced in November 2004. Technological developments in both chip processing speed and data storage have provided significant improvements in

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advanced graphics and audio quality, which allow software developers to create more advanced games, encourage existing players to upgrade their hardware platforms and attract new video game players to purchase an initial system. As general computer technology advances, we expect video game technology to make similar advances.

*Next-Generation Systems Provide Multiple Capabilities Beyond Gaming.* Many next-generation hardware platforms, including Sony PlayStation 2 and Microsoft Xbox, utilize a DVD software format and have the potential to serve as multi-purpose entertainment centers by doubling as a player for DVD movies and compact discs. In addition, both Sony PlayStation 2 and Microsoft Xbox manufacture accessories which provide internet connectivity.

*Backward Compatibility.* Sony PlayStation 2 and Nintendo DS are both backward compatible, meaning that titles produced for the earlier version of the hardware platform may be used on the new hardware platform. We believe that backward compatibility may result in more stable industry growth because the decrease in consumer demand for products associated with existing hardware platforms that typically precedes the release of next-generation hardware platforms may be diminished.

*Introduction of Next-Generation Hardware Platforms Drives Software Demand.* Sales of video game software generally increase as next-generation platforms mature and gain wider acceptance. Historically, when a new platform is released, a limited number of compatible game titles are immediately available, but the selection grows rapidly as manufacturers and third-party publishers develop and release game titles for that new platform. For example, when Sony PlayStation 2 was released in October 2000, approximately 30 game titles were available for sale. By January 2003, over 450 game titles for the Sony PlayStation 2 platform were available for sale. Currently, there are over 850 game titles for the Sony PlayStation 2 platform available for sale.

*Broadening Demographic Appeal.* While the typical electronic game enthusiast is male between the ages of 14 and 35, the electronic game industry is broadening its appeal. More females are playing electronic video games, in part due to the development of video game products that appeal to them. According to ESA, approximately 39% of all electronic game players are female. More adults are also playing video games as a portion of the population that played video games in their childhood continues to play and advance to the next-generation video game products. In addition, the availability of used video game products for sale has enabled a lower-economic demographic, that may not have been able to afford the considerably more expensive new video game products, to participate in the video game industry.

*Used Video Game Market.* As the installed base of video game hardware platforms has increased and new hardware platforms are introduced, a growing used video game market has evolved in the United States. Based on reports published by NPD, we believe that, as of December 2004, the installed base of video game hardware systems in the United States, based on original sales, totaled over 185 million units, including approximately 27 million Sony PlayStation 2 units, 12 million Microsoft Xbox units, 9 million Nintendo GameCube units, 27 million Nintendo Game Boy Advance and Game Boy Advance SP units, 29 million Sony PlayStation units and over 80 million units of older hardware platforms such as Sega Dreamcast, Nintendo 64, Nintendo Game Boy and Game Boy Color, Sega Genesis and Super Nintendo systems. Hardware manufacturers and third-party software publishers have produced a wide variety of software titles for each of these hardware platforms. Based on internal company estimates, we believe that the installed base of video game software units in the United States exceeds 700 million units.

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

**Business Strategy**

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

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

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

*Offering the Largest Selection of Used Video Game Products.* We are the nation s leading provider and carry the broadest selection of used video game products for both current and previous generation platforms. We are one of the only retailers that provide video game software for previous generation platforms, giving us a unique advantage in the video game retail industry. The opportunity to trade in and purchase used video game products offers our customers a unique value proposition unavailable at mass merchants, toy stores and consumer electronics retailers. We obtain most of our used video game products from trade-ins made in our stores by our customers. Used video game products generate significantly higher gross margins than new video game products.

*Building the GameStop Brand.* We currently operate most of our stores under the GameStop name and have substantially completed the rebranding of our stores to 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 loyalty card and our web site. The GameStop loyalty card, which is obtained as a bonus with a paid subscription to our *Game Informer* magazine, offers customers discounts on selected merchandise in our stores. Our web site allows our customers to buy games on-line and to learn about the latest video game products and PC entertainment software and their availability in our stores.

*Providing a First-to-Market Distribution Network.* We employ a variety of rapid-response distribution methods in our efforts to be the first-to-market for new video game products and PC entertainment software. We strive to deliver popular new releases to selected stores within hours of release and to all of our stores by the next morning. This highly efficient distribution network is essential, as a significant portion of a new title s sales will be generated in the first few days and weeks following its release. As the largest specialty retailer of video game products and PC entertainment software in the United States, with a proven capability to distribute new releases to our customers quickly, we believe that we regularly receive a disproportionately 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 assure our customers immediate access to new releases, we offer our customers the opportunity to pre-order products in our stores or through our web site prior to their release.

*Investing in our Information Systems and Distribution Capabilities.* We employ sophisticated and fully-integrated inventory management, store-level point of sale and financial systems and a centralized state-of-the-art distribution facility. These systems enable us to maximize the efficiency of the flow of over 5,000 SKUs, improve store efficiency, optimize store in-stock positions and carry a broad selection of inventory. Our

proprietary inventory management system enables us to maximize sales of new release titles and avoid markdowns as titles mature and utilizes electronic point-of-sale equipment that provides corporate headquarters with daily information regarding store-level sales and available inventory levels to automatically generate replenishment shipments to each store at least twice a week. In addition, our highly-customized inventory management system allows us to actively manage the pricing and product availability of our used video game products across our store base and to reallocate our inventory as necessary. Our systems enable each store to carry a merchandise assortment uniquely tailored to its own sales mix and customer needs. Our ability to react quickly to consumer purchasing trends has resulted in a target mix of inventory, reduced shipping and handling costs for overstocks and reduced our need to discount products.

**Growth Strategy**

*New Store Expansion.* We intend to continue to open new strip center stores in our targeted markets and new mall stores in selected mall locations. We opened 300 new stores in fiscal 2003 and 338 new stores in fiscal 2004. We plan on opening approximately 370 to 400 new stores in fiscal 2005. Our primary growth vehicle will be the expansion of our strip center store base, which we believe could grow to over 3,000 stores in the United States. Our strategy is to open strip center stores in targeted major metropolitan markets and in regional shopping centers in tertiary markets. 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.

In addition, we began to expand in Europe in June 2003 by acquiring a majority interest in Gamesworld Group Limited ( Gamesworld ), an Ireland-based video game retailer with 10 stores throughout Ireland. Since our acquisition of Gamesworld, we have opened an additional 15 stores, including three in Northern Ireland. We plan to continue to expand in Europe.

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

*Capitalize on Growth in Demand.* Our sales of new and used video game software grew by approximately 26% in fiscal 2003 and by an additional 22% in fiscal 2004. In fiscal 2003 and fiscal 2004, our comparable store sales increased 0.8% and 1.7%, respectively, driven in large measure by the success of Sony PlayStation 2, Microsoft Xbox, Nintendo GameCube and Nintendo DS, which was launched in November 2004. Comparable store sales increased a modest 1.7% in fiscal 2004, as declining video game hardware price points and hardware shortages offset the increase in video game software sales, which was fueled by the success of Grand Theft Auto: San Andreas, from Take-Two Interactive Software, Inc. and Halo 2 from Microsoft Corp. During fiscal 2003 and fiscal 2004, we capitalized on the growth in demand for video game software and accessories that followed the increases in the installed hardware base of these four video game platforms. Over the next few years, we expect to continue to capitalize on the increasing installed base for these platforms, the release in March 2005 of the Sony PSP, the anticipated release in late 2005 of the Microsoft Xbox 2, the anticipated release in 2006 of the Sony PlayStation 3 and the related growth in video game software and accessories sales.

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

*Increase GameStop Brand Awareness.* We intend to increase customer awareness of the benefits of shopping in our stores. In connection with our brand-building efforts, in each of the last three fiscal years, we increased the amount of media advertising in targeted markets. In fiscal 2005, we plan to continue to increase media advertising, to expand our GameStop loyalty card program, to aggressively

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promote trade-ins of used video game products in our stores and to leverage our web site at www.gamestop.com.

**Merchandise**

Substantially all of our revenues are derived from the sale of tangible products. Our product offerings consist of new and used video game products, PC entertainment software, and related products, such as action figures, trading cards and strategy guides. Our in-store inventory generally consists of a constantly changing selection of over 5,000 SKUs. We have a central buying group that negotiates terms, discounts and cooperative advertising allowances for all of our stores. 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. We also carefully manage product pricing utilizing a tiered-pricing strategy that enables us to tailor pricing at our stores based on each store s competitive environment.

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

*Used Video Game Products.* We are the largest retailer of used video games in the United States. 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, including new merchandise. We have the largest selection (over 4,000 SKUs) of used video game titles which have an average price of $13 as compared to $35 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 unavailable at mass merchants, toy stores and consumer electronics retailers. This program provides us with an inventory of used video game products which we resell to our more value-oriented customers. In addition, our highly-customized inventory management system allows us to actively manage the pricing and product availability of our used video game products across our store base and to reallocate our inventory as necessary. Our trade-in program also allows us to be one of the only suppliers of previous generation platforms and related video games. We also operate a refurbishment center where defective video game products can be tested, repaired, relabeled, repackaged and redistributed back to our stores.

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

*PC Entertainment and Other Software.* We purchase PC entertainment software from over 35 publishers, including Electronic Arts, Microsoft and Vivendi Universal. We offer PC entertainment software across a variety of genres, including Sports, Action, Strategy, Adventure/ Role Playing and Simulation.

*Accessories and Other Products.* Video game accessories consist primarily of controllers, memory cards and other add-ons. PC entertainment accessories consist primarily of video cards, joysticks and mice. We also carry strategy guides and magazines, as well as character-related merchandise, including action figures and trading cards. We carry over 750 SKUs of accessories and other products. In general, this category has higher margins than new video game and PC entertainment products.

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## Store Operations

As of January 29, 2005, we operated 1,826 stores, primarily under the GameStop name. Each of our stores typically carries over 5,000 SKUs. We design our stores to provide an electronic gaming atmosphere with an engaging and visually-captivating layout. Our stores are equipped with several video game sampling areas, which provide our customers the opportunity to play games before purchase, as well as equipment to play video game clips. We use store configuration, in-store signage and product demonstrations to produce marketing opportunities both for our vendors and for us.

### *Store Formats*

*Strip Center Stores.* Our strip center stores, which average approximately 1,600 square feet, carry a balanced mix of new and used video game products and PC entertainment software. As of January 29, 2005, we operated 1,310 strip center stores in the United States, Ireland, Northern Ireland and Puerto Rico. Our strip center stores are located in both high traffic power strip centers and local neighborhood strip centers, primarily in major metropolitan areas. These locations provide visibility, easy access and high frequency of visits. We target strip centers that are conveniently located, have a mass merchant or supermarket anchor tenant and have a high volume of customers.

*Mall-Based Stores.* Our mall-based stores, which average approximately 1,200 square feet, carry primarily new video game products and PC entertainment software, as well as used video game products. As of January 29, 2005, we operated 516 mall stores in high traffic shopping malls in targeted locations throughout the United States, Puerto Rico and Guam.

## Site Selection and Locations

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

*Locations.* The table below sets forth the number of our stores located in each state, the District of Columbia, Ireland, Northern Ireland, Puerto Rico and Guam as of January 29, 2005:

| State | Number of Stores |
|---|---|
| Alabama | 27 |
| Alaska | 3 |
| Arizona | 34 |
| Arkansas | 11 |
| California | 206 |
| Colorado | 28 |
| Connecticut | 21 |
| Delaware | 8 |
| District of Columbia | 1 |
| Florida | 79 |
| Georgia | 45 |
| Guam | 2 |
| Hawaii | 13 |
| Idaho | 3 |
| Illinois | 94 |
| Indiana | 25 |

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| State | Number of Stores |
|---|---|
| Iowa | 20 |
| Kansas | 14 |
| Kentucky | 18 |
| Louisiana | 25 |
| Maine | 3 |
| Maryland | 46 |
| Massachusetts | 31 |
| Michigan | 66 |
| Minnesota | 32 |
| Mississippi | 17 |
| Missouri | 34 |
| Montana | 6 |
| Nebraska | 7 |
| Nevada | 18 |
| New Hampshire | 10 |
| New Jersey | 75 |
| New Mexico | 15 |
| New York | 89 |
| North Carolina | 39 |
| North Dakota | 6 |
| Ohio | 83 |
| Oklahoma | 23 |
| Oregon | 15 |
| Pennsylvania | 84 |
| Puerto Rico | 15 |
| Rhode Island | 5 |
| South Carolina | 20 |
| South Dakota | 3 |
| Tennessee | 30 |
| Texas | 204 |
| Utah | 21 |
| Vermont | 1 |
| Virginia | 50 |
| Washington | 43 |
| West Virginia | 11 |
| Wisconsin | 21 |
| Wyoming | 1 |
| | 1,801 |
| Ireland | 22 |
| Northern Ireland | 3 |
| | 1,826 |

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**Game Informer**

We publish *Game Informer*, a monthly video game magazine featuring reviews of new title releases, tips and secrets about existing games and news regarding current developments in the electronic game industry. The magazine is sold through subscription and through displays in our stores. For its February 2005 issue, the magazine had more than 2,000,000 paid subscriptions. According to Advertising Age magazine, *Game Informer* is the 26$^{th}$ largest consumer publication in the U.S. and had the third largest increase in paid circulation among U.S. consumer magazines in 2004, with an increase in excess of 43%. Also, according to Advertising Age magazine, *Game Informer* had the largest increase in paid circulation in 2003, with an increase in excess of 45%. *Game Informer* revenues are also generated through the sale of advertising space. In addition, we offer the GameStop loyalty card as a bonus with each paid subscription, providing our subscribers with a discount on selected merchandise.

**E-Commerce**

We operate an electronic commerce web site at www.gamestop.com that allows our customers to buy video game products and other merchandise on-line. The site also offers customers information and content about available games, release dates for upcoming games, and access to store information, such as location and product availability. In 2003, we entered into an arrangement with Amazon.com, Inc. under which we are the exclusive specialty video game retailer listed on Amazon.com.

**Advertising**

Our stores are primarily located in high traffic, high visibility areas of regional shopping malls and strip centers. Given the high foot traffic drawn past the stores themselves, we use in-store marketing efforts such as window displays and coming soon signs to attract customers, as well as to promote used video game products and subscriptions to our *Game Informer* magazine. Inside the stores, we feature selected products through the use of vendor displays, coming soon or preview videos, signs, catalogs, point-of-purchase materials and end-cap displays. These advertising efforts are designed to increase the initial sales of new titles upon their release. We receive cooperative advertising and market development funds from manufacturers, distributors, software publishers and accessory suppliers to promote their respective products. Generally, vendors agree to purchase advertising space in one of our advertising vehicles. Once we run the advertising, the vendor pays to us an agreed amount.

As part of our brand-building efforts and targeted growth strategies, in the last three years, we expanded our newspaper advertising in certain targeted markets at certain key times of the year. In addition, we expanded our use of radio advertising in certain markets to promote store openings. We plan to continue these efforts in fiscal 2005.

**Information Management**

Our operating strategy involves providing a broad merchandise selection to our customers as quickly and as cost-effectively as possible. We use our inventory management systems to maximize the efficiency of the flow of products to our stores, enhance store efficiency and optimize store in-stock and overall investment in inventory.

*Distribution.* We operate a 210,000 square foot state-of-the-art distribution center in Grapevine, Texas. By operating with a centralized distribution facility, we effectively control and minimize inventory levels. A technologically-advanced conveyor system and flow-through racks control costs and improve speed of fulfillment. The technology used in the distribution center allows for high-volume receiving, distributions to stores and returns to vendors. Inventory is shipped to each store at least twice a week, or daily, if necessary, in order to keep stores in supply of products. In order to support our first-to-market distribution network, we utilize the services of nine off-site, third-party operated distribution centers that pick up products from our suppliers, repackage the products for each of our stores and ship those products to our stores by package carriers. Our ability to rapidly process incoming shipments of new release titles and deliver them to all of our stores, either that day or by the next morning, enables us to meet peak demand and replenish stores at least twice a week. We purchased a new 420,000 square foot headquarters and distribution center in Grapevine, Texas in 2004 and relocated certain of our distribution center operations to this facility. We intend to move our remaining distribution center operations to that facility in the second quarter of fiscal 2005.

*Management Information Systems.* Our proprietary inventory management system and point-of-sale technology show daily sales and in-store stock by title by store. Systems in place use this data to automatically generate replenishment shipments to each store from our distribution center in Grapevine, Texas, enabling each store to carry a merchandise assortment uniquely tailored to its own sales mix and rate of sale. Our call lists and reservation system also provide our centralized buying staff with information to determine order size and inventory management for store-by-store inventory allocation. We constantly review and edit our merchandise categories with the objective of ensuring that inventory is up-to-date and meets customer needs. We use a centralized PC network-based information system based in our corporate offices, in order to minimize initial outlay of capital while allowing for flexibility and growth as operations expand.

Our in-store point-of-sale system enables us to efficiently manage in-store transactions. This proprietary point-of-sale system has been enhanced to facilitate trade-in transactions, including automatic look-up of trade-in prices and printing of machine-readable bar codes to facilitate in-store restocking of used video games. In addition, our central database of all used video game products allows us to actively manage the pricing and product availability of our used video game products across our store base and re-allocate our used video game products as necessary.

**Field Management and Staff**

Our United States, Puerto Rico and Guam store operations are managed by a centrally located vice president of stores, four divisional vice presidents and 14 regional store operations directors. The regions are divided into approximately 140 districts, each with a district manager covering an average of 13 stores. Our stores in Ireland and Northern Ireland are managed by the founders of Gamesworld. Each store employs, on average, one manager, one assistant manager and between two and ten sales associates, many of whom are part-time employees. We have cultivated a work environment that attracts employees who are actively interested in electronic games. We seek to hire and retain employees who know and enjoy working with our products so that they are better able to assist customers. To encourage them to sell the full range of our products, we provide our employees with targeted incentive programs to drive sales. We also provide our employees with the opportunity to take home and try new video games, which enables them to better discuss those games with our customers. In addition, employees are casually dressed to encourage customer access and increase the game-oriented focus of the stores. We also employ 14 regional loss prevention managers who assist the field in implementing security to prevent theft of our products.

Our stores communicate with our corporate offices via daily e-mail. This e-mail allows for better tracking of trends in upcoming titles, competitor strategies and in-stock inventory positions. In addition, this communication allows title selection in each store to be continuously updated and tailored to reflect the tastes and buying patterns of the store s local market. These communications also give field management access to relevant inventory levels and loss prevention information. We also sponsor an annual store managers conference, which we invite all video game software publishers to attend, and operate an intense educational training program to provide our employees with information about the video game products that will be released by those publishers in the holiday season.

**Customer Service**

Our store personnel provide value-added services to each customer, such as maintaining lists of regular customers, notifying each customer by phone when new titles are available, and reserving new releases for customers with a down payment to ensure product availability. In addition, our store personnel readily provide product reviews to ensure customers are making informed purchasing decisions and offer help-line numbers to increase a customer s enjoyment of the product upon purchase.

**Vendors**

We purchase substantially all of our new products from approximately 85 manufacturers and software publishers and approximately five distributors. Purchases from the top ten vendors accounted for approximately 71% of our new product purchases in fiscal 2004. Only Electronic Arts, Nintendo and Microsoft (which accounted for 14%, 13% and 12%, respectively) individually accounted for more than 10% of our new product purchases during fiscal 2004. We have established price protections and return privileges with our primary vendors in order to reduce the risk of inventory obsolescence. In addition, we have no purchase contracts with trade vendors and conduct business on an order-by-order basis, a practice that is typical throughout the industry. We believe that maintaining and strengthening our long-term relationships with our vendors is essential to our operations and continued expansion. We believe that we have very good relations with our vendors.

**Competition**

The electronic game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. We compete with mass merchants and regional chains, including Wal-Mart and Target; other video game and PC software specialty stores located in malls and other locations, including Electronics Boutique; toy retail chains, including Toys R Us; mail-order businesses; catalogs; direct sales by software publishers; online retailers; and computer product and consumer electronics stores, including Best Buy and Circuit City. In addition, video games are available for rental from many video stores, some of whom, like Hollywood Entertainment and Blockbuster, have increased the availability of video game products for sale. Video game products may also be distributed through other methods which may emerge in the future. We also compete with sellers of used video game products. Additionally, we compete with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers.

**Seasonality**

Our business, like that of many specialty retailers, is seasonal, with the major portion of our sales and operating profit realized during the fourth fiscal quarter, which includes the holiday selling season. During fiscal 2004, we generated approximately 38% of our sales and approximately 56% of our operating earnings during the fourth quarter. Any adverse trend in sales during the holiday selling season could lower our results of operations for the fourth quarter and the entire year.

**Trademarks**

We have a number of trademarks and servicemarks, including GameStop, Game Informer, Babbage s and FuncoLand, all of which have been registered by us with the United States Patent and Trademark Office. We maintain a policy of pursuing registration of our principal marks and opposing any infringement of our marks.

**Employees**

We have approximately 2,500 full-time salaried, 2,300 full-time hourly and between 12,000 and 18,000 part-time hourly employees depending on the time of year. Fluctuation in the number of part-time hourly employees is due to the seasonality of the electronic game industry. We believe that our relationship with our employees is excellent. None of our employees is represented by a labor union or is a member of a collective bargaining unit.

**Available Information**

We make available on our website (http://www.gamestop.com), under Investor Relations SEC Filings, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such material with the SEC. In addition, the Company s Code of Standards, Ethics and Conduct is

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available on our website under Investor Relations Corporate Governance and is available to our stockholders in print, free of charge, upon written request to the Company s Investor Relations Department at GameStop Corp., 2250 William D. Tate Avenue, Grapevine, Texas 76051.

**Item 2.** ***Properties***

All of our stores are leased. Store leases typically provide for an initial lease term of three to ten years, plus renewal options. This arrangement gives us the flexibility to pursue extension or relocation opportunities that arise from changing market conditions. We believe that, as current leases expire, we will be able to obtain either renewals at present locations or leases for equivalent locations in the same area.

The terms of the store leases for the 1,826 leased stores open as of January 29, 2005 expire as follows:

| Lease Terms to Expire During (12 Months Ending on or About January 31) | Number of Stores |
|---|---|
| Expired and in negotiations | 139 |
| 2006 | 186 |
| 2007 | 174 |
| 2008 | 132 |
| 2009 | 169 |
| 2010 and later | 1,026 |
| | 1,826 |

In addition to our stores, we lease a 250,000 square foot headquarters and distribution center in Grapevine, Texas. This lease expires on January 31, 2006.

In March 2004, we purchased a 420,000 square foot facility in Grapevine, Texas. We relocated certain of our distribution operations to this facility in fiscal 2004 and will be relocating our headquarters and remaining distribution center operations to this facility in the second quarter of fiscal 2005. Management believes this facility will support our long-term growth.

We lease a 7,300 square foot office facility in Minneapolis, Minnesota which houses the operations of *Game Informer* magazine. This lease expires in February 2007.

We lease a 15,000 square foot facility in Dublin, Ireland, which houses the corporate and distribution operations for the Company s operations in Ireland and Northern Ireland. This lease expires in January 2013.

**Item 3.** ***Legal Proceedings***

On May 29, 2003, former Store Manager Carlos Moreira ( Moreira ) filed a class action lawsuit against the Company and its wholly-owned subsidiary Gamestop, Inc. (collectively GameStop ) in Los Angeles County Superior Court alleging that GameStop s salaried retail managers were misclassified as exempt and should have been paid overtime. Moreira was seeking to represent a class of current and former salaried retail managers who were employed by GameStop in California at any time between May 29, 1999 and September 30, 2004. Moreira alleged claims for violation of California Labor Code sections 203, 226 and 1194 and California Business and Professions Code section 17200. Moreira was seeking recovery of unpaid overtime, interest, penalties, attorneys fees and costs. During court-ordered mediation in March 2004, the parties reached a settlement which defined the class of current and former salaried retail managers and will result in a cost to the Company of approximately $2,750,000. On January 28, 2005, the court granted approval of the settlement. The matter is now in the claims administration process. A provision for this proposed settlement was recorded in the 13 weeks ended May 1, 2004. Management expects that the final settlement and resolution of this case will take place in the second quarter of fiscal 2005.

On October 20, 2004, former Store Manager John P. Kurtz ( Kurtz ) filed a collective action lawsuit against the Company in U.S. District Court, Western District of Louisiana, Lafayette/ Opelousas Division,

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alleging that GameStop s salaried retail managers were misclassified as exempt and should have been paid overtime, in violation of the Fair Labor Standards Act. Kurtz is seeking to represent all current and former salaried retail managers who were employed by GameStop for the three years before October 20, 2004. Kurtz is seeking recovery of unpaid overtime, interest, penalties, attorneys fees and costs. On January 12, 2005, GameStop filed an answer to the complaint and a motion to transfer the action to the Northern District of Texas, Fort Worth Division. GameStop is awaiting the court s decision on the motion. Management intends to vigorously defend this action and does not believe there is sufficient information to estimate the amount of the possible loss, if any, resulting from the lawsuit.

On February 14, 2005, Steve Strickland, as personal representative of the Estate of Arnold Strickland, deceased, and Henry Mealer, as personal representative of the Estate of Ace Mealer, deceased, filed a wrongful death lawsuit against GameStop, Sony, Take-Two Interactive and Wal-Mart (collectively, the Defendants ) and Devin Moore in the Circuit Court of Fayette County, Alabama, 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 and Ace Mealer. Plaintiffs are seeking damages in excess of $600 million under the Alabama wrongful death statute. GameStop and the other defendants are in the process of preparing an initial response and intend to vigorously defend this action.

In the ordinary course of our business, we are from time to time subject to various other legal proceedings. We do not believe that any such other legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations or financial condition.

### Item 4. *Submission of Matters to a Vote of Security Holders*

There were no matters submitted to a vote of security holders during the 13 weeks ended January 29, 2005.

## PART II

### Item 5. *Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

**Price Range of Common Stock**

The Company s Class A common stock is traded on the New York Stock Exchange ( NYSE ) under the symbol GME . The Company s Class B common stock began trading on the New York Stock Exchange ( NYSE ) under the symbol GME.B on November 12, 2004. As such, there was no public trading market for the Company s Class B common stock prior to that time.

The following table sets forth, for the periods indicated, the high and low sales prices of the Class A common stock on the NYSE Composite Tape.

| | Fiscal 2004 | |
|---|---|---|
| | **High** | **Low** |
| Fourth Quarter | $ 23.50 | $ 18.68 |
| Third Quarter | $ 20.23 | $ 14.87 |
| Second Quarter | $ 18.18 | $ 14.54 |
| First Quarter | $ 18.65 | $ 16.29 |

| | Fiscal 2003 | |
|---|---|---|
| | **High** | **Low** |
| Fourth Quarter | $ 18.57 | $ 14.30 |
| Third Quarter | $ 18.92 | $ 12.66 |
| Second Quarter | $ 14.85 | $ 11.55 |

| | | |
|---|---|---|
| First Quarter | $ 13.00 | $ 7.59 |

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The following table sets forth, for the periods indicated, the high and low sales prices of the Class B common stock on the NYSE Composite Tape.

| | Fiscal 2004 | |
|---|---|---|
| | High | Low |
| Fourth Quarter (from November 12, 2004) | $ 24.00 | $ 18.75 |

**Approximate Number of Holders of Common Equity**

As of February 23, 2005, there were approximately 8,500 record holders of the Company s $.001 par value per share Class A common stock and approximately 31,000 record holders of the Company s $.001 par value per share Class B common stock.

**Dividends**

The Company has never declared or paid any dividends on its common stock. We may consider in the future the advisability of paying dividends. However, our payment of dividends is and will continue to be restricted by or subject to, among other limitations, applicable provisions of federal and state laws, our earnings and various business considerations, including our financial condition, results of operations, cash flow, the level of our capital expenditures, our future business prospects, our status as a holding company and such other matters that our board of directors deems relevant. In addition, the terms of the revolving credit facility we entered into in June 2004 restricts our ability to pay dividends if the availability under the credit facility is less than $20,000,000. See Liquidity and Capital Resources included in Management s Discussion and Analysis of Financial Condition and Results of Operations.

**Securities Authorized for Issuance under Equity Compensation Plans**

Information for our equity compensation plans in effect as of January 29, 2005, is as follows:

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 11,406,000 | $ 10.86 | 5,168,000 |
| Equity compensation plans not approved by security holders | 0 | not applicable | 0 |
| Total | 11,406,000 | $ 10.86 | 5,168,000 |

On March 11, 2005, an additional 2,102,000 options to purchase our Class A common stock were granted under our Amended and Restated 2001 Incentive Plan at an exercise price of $20.25 per share. These options vest in equal increments over three years and expire on March 10, 2015.

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

There were no repurchases of the Company s equity securities during the fourth quarter of fiscal 2004. As of January 29, 2005, the Company had no amount remaining available for purchases under any repurchase program.

**Item 6.** ***Selected Consolidated Financial Data***

The following table sets forth our selected consolidated financial and operating data for the periods and at the dates indicated. Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January

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31. The fiscal years ended January 29, 2005, January 31, 2004, February 1, 2003 and February 2, 2002 consisted of 52 weeks and the fiscal year ended February 3, 2001 consisted of 53 weeks. The Statement of Operations Data for the fiscal years 2004, 2003 and 2002 and the Balance Sheet Data as of January 29, 2005 and January 31, 2004 are derived from, and are qualified by reference to, our audited financial statements which are included elsewhere in this Form 10-K/A. The Statement of Operations Data for fiscal years ended February 2, 2002 and February 3, 2001 and the Balance Sheet Data as of February 1, 2003, February 2, 2002 and February 3, 2001 are derived from our audited financial statements which are not included elsewhere in this Form 10-K/A.

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Our selected financial data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this Form 10-K/A.

| | Fiscal Year Ended January 29, 2005 | Fiscal Year Ended January 31, 2004 | Fiscal Year Ended February 1, 2003 | Fiscal Year Ended February 2, 2002 | Fiscal Year Ended February 3, 2001 |
|---|---|---|---|---|---|
| | In Thousands, except per share data and statistical data | | | | |
| **Statement of Operations Data:** | | | | | |
| Sales | $ 1,842,806 | $ 1,578,838 | $ 1,352,791 | $ 1,121,138 | $ 756,697 |
| Cost of sales | 1,333,506 | 1,145,893 | 1,012,145 | 855,386 | 570,995 |
| Gross profit | 509,300 | 432,945 | 340,646 | 265,752 | 185,702 |
| Selling, general and administrative expenses(1)(2) | 373,364 | 299,193 | 230,461 | 200,698 | 157,242 |
| Depreciation and amortization(1)(2) | 36,789 | 29,368 | 23,114 | 19,842 | 13,623 |
| Amortization of goodwill | | | | 11,125 | 9,223 |
| Operating earnings | 99,147 | 104,384 | 87,071 | 34,087 | 5,614 |
| Interest expense (income), net | 236 | (804) | (630) | 19,452 | 23,411 |
| Earnings (loss) before income taxes | 98,911 | 105,188 | 87,701 | 14,635 | (17,797) |
| Income tax expense (benefit) | 37,985 | 41,721 | 35,297 | 7,675 | (5,836) |
| Net earnings (loss) | $ 60,926 | $ 63,467 | $ 52,404 | $ 6,960 | $ (11,961) |
| Net earnings (loss) per Class A and Class B common share basic | $ 1.11 | $ 1.13 | $ 0.93 | $ 0.19 | $ (0.33) |
| Weighted average shares outstanding basic | 54,662 | 56,330 | 56,289 | 36,009 | 36,009 |
| Net earnings (loss) per Class A and Class B common share diluted | $ 1.05 | $ 1.06 | $ 0.87 | $ 0.18 | $ (0.33) |
| Weighted average shares outstanding diluted | 57,796 | 59,764 | 60,419 | 39,397 | 36,009 |
| **Other Financial Data:** | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net earnings (loss) excluding the after-tax effect of goodwill amortization(3) | $ | 60,926 | $ | 63,467 | $ | 52,404 | $ | 15,373 | $ | (5,212) |
| Net earnings (loss) per share excluding the after-tax effect of goodwill amortization diluted(3) | $ | 1.05 | $ | 1.06 | $ | 0.87 | $ | 0.39 | $ | (0.14) |
| **Store Operating Data:** | | | | | | | | | | |
| Stores open at the end of period | | 1,826 | | 1,514 | | 1,231 | | 1,038 | | 978 |
| Comparable store sales increase (decrease)(4) | | 1.7% | | 0.8% | | 11.4% | | 32.0% | | (6.7)% |
| Inventory turnover | | 5.4 | | 4.9 | | 4.9 | | 5.2 | | 4.6 |
| **Balance Sheet Data:** | | | | | | | | | | |
| Working capital (deficit) | $ | 110,093 | $ | 188,378 | $ | 174,482 | $ | 31,107 | $ | (1,726) |
| Total assets(1)(2) | | 914,983 | | 902,189 | | 806,237 | | 608,674 | | 511,504 |
| Total debt | | 36,520 | | | | | | 399,623 | | 385,148 |
| Total liabilities(1)(2) | | 371,972 | | 308,156 | | 257,562 | | 612,659 | | 532,114 |
| Stockholders equity (deficit) | | 543,011 | | 594,033 | | 548,675 | | (3,985) | | (20,610) |

(1) In 2004, we revised our method of accounting for rent expense to conform to GAAP, as recently clarified by the Chief Accountant of the SEC in a February 7, 2005 letter to the American Institute of Certified Public Accountants. A non-cash, after-tax adjustment of $3,312 was made in the fourth quarter of fiscal 2004 to correct the method of accounting for rent expense (and related deferred rent liability) to include the impact of escalating rents for periods in which we are reasonably assured of exercising lease options and to include any rent holiday period (a period during which the Company is not obligated to pay

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rent) the lease allows while the store is being constructed. We also corrected our calculation of depreciation expense for leasehold improvements for those leases which do not include an option period. The impact of these corrections on periods prior to fiscal 2004 was not material and the adjustment does not affect historical or future cash flows or the timing of payments under related leases. See Note 1 of Notes to Consolidated Financial Statements of the Company for additional information concerning lease accounting.

(2) In 2004, the Company changed its classification of tenant improvement allowances on the balance sheets, statement of operations and statements of cash flows. The Company historically classified tenant improvement allowances as reductions of property and equipment on the Company s balance sheets and as reductions in depreciation and amortization in the Company s statements of operations. In order to comply with the provisions of FASB Technical Bulletin No. 88-1, Issues Relating to Accounting for Leases ( FTB 88-1 ), however, the Company has reclassified tenant improvement allowances as deferred rent liabilities (in other long-term liabilities) on the Company s balance sheets and as a reduction of rent expense (in selling, general and administrative expenses) in the statements of operations. The effect of this reclassification increased total assets and total liabilities on the Company s balance sheets by $4,671 as of January 29, 2005, $3,265 as of January 31, 2004, $2,328 as of February 1, 2003, $1,831 as of February 2, 2002 and $1,747 as of February 3, 2001 and decreased selling, general and administrative expense and increased depreciation expense in the Company s statements of operations by $671, $540, $601, $678 and $649 in fiscal 2004, 2003, 2002, 2001 and 2000, respectively. Note 1 of Notes to Consolidated Financial Statements of the Company provides additional information concerning lease accounting.

(3) Net earnings (loss) excluding the after-tax effect of goodwill amortization is presented here to provide additional information about our operations. These items should be considered in addition to, but not as a substitute for or superior to, operating earnings, net earnings, cash flow and other measures of financial performance prepared in accordance with GAAP.

(4) Stores are included in our comparable store sales base beginning in the 13th month of operation. Comparable store sales for the fiscal year ended February 3, 2001 were computed using the first 52 weeks of the 53 week fiscal year.

**Item 7.** ***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 elsewhere in this Form 10-K/A, including the factors disclosed under Business Risk Factors.*

**General**

We are the largest specialty retailer of video game products and PC entertainment software in the United States, based on the number of U.S. retail stores we operate and our total U.S. revenues. 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 January 29, 2005, we operated 1,826 stores, in 50 states, the District of Columbia, Ireland, Northern Ireland, Puerto Rico and Guam, primarily under the name GameStop. We also operate an electronic commerce web site under the name gamestop.com and publish *Game Informer*, the industry s largest circulation multi-platform video game magazine in the United States.

Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January 31. The fiscal years ended January 29, 2005, or fiscal 2004, January 31, 2004, or fiscal 2003, and February 1, 2003, or fiscal 2002, consisted of 52 weeks.

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Our wholly-owned subsidiary Babbage s began operations in November 1996. In October 1999, Babbage s was acquired by, and became a wholly-owned subsidiary of, Barnes & Noble. In June 2000, Barnes & Noble acquired Funco and thereafter, Babbage s became a wholly-owned subsidiary of Funco. In December 2000, Funco changed its name to GameStop, Inc.

Growth in the video game industry is driven by the introduction of new technology. In October 2000, Sony introduced PlayStation 2 and, in November 2001, Microsoft introduced Xbox and Nintendo introduced GameCube. Nintendo introduced the Game Boy Advance SP in March 2003 and the DS in November 2004. As is typical following the introduction of new video game platforms, sales of new video game hardware generally increase as a percentage of 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 second and third 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 second and third years. Unit sales of maturing video game platforms are typically also driven by manufacturer-funded retail price decreases, further driving sales of related software and accessories. The retail prices for the PlayStation 2, the Xbox and the GameCube were reduced in May 2002 and May 2003, resulting in an increase in unit sales and sales of the related software and accessories. In September 2003, Nintendo reduced the retail price of the GameCube, which resulted in a significant increase in unit sales and sales of the related software and accessories during the fourth quarter of 2003. In March 2004, Microsoft reduced the retail price of the Xbox and, in May 2004, Sony reduced the retail price of the PlayStation2. We expect that the installed base of these hardware platforms and sales of related software and accessories will increase in the future. Sony launched the PSP in March 2005 and the Company anticipates that Microsoft will launch the Xbox 2 in November 2005. Because of these anticipated launches, we expect that our gross margin will decline from fiscal 2004 to fiscal 2005.

**Critical Accounting Policies**

The Company believes that the following are its most significant accounting policies which are important in determining the reporting of transactions and events.

*Use of Estimates.* 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.

*Revenue Recognition.* Revenue from the sales of the Company s products is recognized at the time of sale. The sales of used video game products are recorded at the retail price charged to the customer. Sales returns (which are not significant) are recognized at the time returns are made. Subscription and advertising revenues are recorded upon release of magazines for sale to consumers and are stated net of sales discounts. Magazine subscription revenue is recognized on a straight-line basis over the subscription period.

*Merchandise Inventories.* Our merchandise inventories are carried at the lower of cost or market using the average cost method. Used video game products traded in by customers are recorded as inventory at the amount of the store credit given to the customer. In valuing inventory, management is required to make assumptions regarding the necessity of reserves required to value potentially obsolete or over-valued items at the lower of cost or market. Management considers quantities on hand, recent sales, potential price protections and returns to vendors, among other factors, when making these assumptions.

*Property and Equipment.* Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is computed using the straight-line method over estimated useful lives (ranging from two to eight years). Maintenance and repairs are expensed as incurred, while betterments and major remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases,

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including renewal options in which the exercise of the option is reasonably assured (generally ranging from three to ten years). Capitalized lease acquisition costs are being amortized over the average lease terms of the underlying leases. Costs incurred in purchasing management information systems are capitalized and included in property and equipment. These costs are amortized over their estimated useful lives from the date the systems become operational. The Company periodically reviews its property and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. The Company assesses recoverability based on several factors, including management s intention with respect to its stores and those stores projected undiscounted cash flows. An impairment loss would be recognized for the amount by which the carrying amount of the assets exceeds the present value of their projected cash flows. No write-downs have been necessary by the Company through January 29, 2005.

*Goodwill.* Goodwill, aggregating $340.0 million, was recorded in the acquisition of Funco and through the application of push-down accounting in accordance with SAB 54 in connection with the acquisition of Babbage s by a subsidiary of Barnes & Noble. Goodwill in the amount of $2.9 million was recorded in connection with the acquisition of Gamesworld Group Limited in June 2003. Goodwill represents the excess purchase price over tangible net assets and identifiable intangible assets acquired. Effective February 3, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ). SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead evaluate goodwill for impairment on at least an annual basis. Prior to the adoption of the provisions of SFAS 142, the Company s goodwill was amortized on a straight-line basis over a 30-year period. At February 2, 2002, accumulated amortization was $22.0 million. In accordance with the requirements of SFAS 142, the Company completed the initial impairment test of the goodwill attributable to its reporting unit as of February 3, 2002, and concluded that none of its goodwill was impaired. As part of this analysis, the Company determined that it has one reporting unit based upon the similar economic characteristics of its operations. Fair value of this reporting unit was estimated using market capitalization methodologies. Subsequent to the acquisition of Gamesworld Group Limited, the Company determined that it still has one reporting unit based upon the similar economic characteristics of its operations. The Company also evaluates the goodwill of its reporting unit for impairment at least annually. The Company elected to perform its annual impairment test during the fourth quarter of both fiscal 2003 and fiscal 2004 and concluded that none of its goodwill was impaired. Note 7 of Notes to Consolidated Financial Statements of the Company provides additional information concerning goodwill.

*Cash Consideration Received from Vendors.* The Company and its vendors participate in cooperative advertising programs and other vendor marketing programs in which the vendors provide the Company with cash consideration in exchange for marketing and advertising the vendors products. Our accounting for cooperative advertising arrangements and other vendor marketing programs, in accordance with FASB Emerging Issues Task Force Issue 02-16 or EITF 02-16, results in a portion of the consideration received from our vendors reducing the product costs in inventory rather than as an offset to our marketing and advertising costs as in years prior to fiscal 2003. The consideration serving as a reduction in inventory is recognized in cost of sales as inventory is sold. The amount of vendor allowances recorded as a reduction of inventory is determined by calculating the ratio of vendor allowances in excess of specific, incremental and identifiable advertising and promotional costs to merchandise purchases. The Company then applies this ratio to the value of inventory in determining the amount of vendor reimbursements recorded as a reduction to inventory reflected on the balance sheet. Because of the variability in the timing of our advertising and marketing programs throughout the year, the Company uses significant estimates in determining the amount of vendor allowances recorded as a reduction of inventory in interim periods, including estimates of full year vendor allowances, specific, incremental and identifiable advertising and promotional costs, merchandise purchases and value of inventory. Estimates of full year vendor allowances and the value of inventory are dependent upon estimates of full year merchandise purchases. Determining the amount of vendor allowances recorded as a reduction of inventory at the end of the fiscal year no longer requires the use of estimates as all vendor allowances, specific, incremental and identifiable advertising and promotional costs, merchandise purchases and value of inventory are known.

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Although management considers its advertising and marketing programs to be effective, we do not believe that we would be able to incur the same level of advertising expenditures if the vendors decreased or discontinued their allowances. In addition, management believes that the Company s revenues would be adversely affected if its vendors decreased or discontinued their allowances, but management is unable to quantify the impact.

*Lease Accounting.* The Company, similar to many other retailers, has revised its method of accounting for rent expense (and related deferred rent liability) and leasehold improvements funded by landlord incentives for allowances under operating leases (tenant improvement allowances) to conform to GAAP, as recently clarified by the Chief Accountant of the SEC in a February 7, 2005 letter to the American Institute of Certified Public Accountants. For all stores opened since the beginning of fiscal 2002, the Company had calculated straight-line rent expense using the initial lease term, but was generally depreciating leasehold improvements over the shorter of their estimated useful lives or the initial lease term plus the option periods. The Company corrected its calculation of straight-line rent expense to include the impact of escalating rents for periods in which it is reasonably assured of exercising lease options and to include in the lease term any period during which the Company is not obligated to pay rent while the store is being constructed ( rent holiday ). The Company also corrected its calculation of depreciation expense for leasehold improvements for those leases which do not include an option period. Because the effects of the correction were not material to any previous years, a non-cash, after-tax adjustment of $3.3 million was made in the fourth quarter of fiscal 2004 to correct the method of accounting for rent expense (and related deferred rent liability). Of the $3.3 million after-tax adjustment, $1.8 million pertained to the accounting for rent holidays, $1.4 million pertained to the calculation of straight-line rent expense to include the impact of escalating rents for periods in which the Company is reasonably assured of exercising lease options and $0.1 million pertained to the calculation of depreciation expense for leasehold improvements for the small portion of leases which do not include an option period. The aggregate effect of these corrections relating to prior years was $1.9 million ($0.9 million for fiscal 2003, $0.4 million for fiscal 2002 and $0.6 million for years prior to fiscal 2002). The correction does not affect historical or future cash flows or the timing of payments under related leases.

In addition, the Company has changed its classification of tenant improvement allowances on its balance sheets and statements of cash flows. Like many other retailers, the Company had historically classified tenant improvement allowances as reductions of property and equipment on the Company s balance sheets, as reductions in depreciation and amortization in the Company s statements of operations and as reductions in capital expenditures, an investing activity, on the Company s statements of cash flows. In order to comply with the provisions of FTB 88-1, however, the Company has reclassified tenant improvement allowances as deferred rent liabilities (in long-term liabilities) on the Company s balance sheets, as a reduction of rent expense (in selling, general and administrative expenses) in the statements of operations and as an operating activity on the statements of cash flows. The effect of this reclassification increased property and equipment and deferred rent and other long-term liabilities on the Company s balance sheets by $4.7 million as of January 29, 2005 and $3.3 million as of January 31, 2004, decreased selling, general and administrative expense and increased depreciation expense in the Company s statements of operations by $0.7 million, $0.5 million and $0.6 million in fiscal 2004, 2003 and 2002, respectively, and increased net cash flows provided by operating activities and increased net cash flows used in investing activities in the Company s statements of cash flows by $2.3 million, $1.5 million and $1.1 million in fiscal 2004, 2003 and 2002, respectively.

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**Results of Operations**

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

| | Fiscal Year Ended January 29, 2005 | Fiscal Year Ended January 31, 2004 | Fiscal Year Ended February 1, 2003 |
|---|---|---|---|
| **Statement of Operations Data:** | | | |
| Sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 72.4 | 72.6 | 74.8 |
| Gross profit | 27.6 | 27.4 | 25.2 |
| Selling, general and administrative expenses | 20.2 | 19.0 | 17.1 |
| Depreciation and amortization | 2.0 | 1.8 | 1.7 |
| Operating earnings | 5.4 | 6.6 | 6.4 |
| Interest expense (income), net | 0.0 | 0.0 | (0.1) |
| Earnings before income taxes | 5.4 | 6.6 | 6.5 |
| Income tax expense | 2.1 | 2.6 | 2.6 |
| Net earnings | 3.3% | 4.0% | 3.9% |

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 fiscal years ended January 29, 2005, January 31, 2004 and February 1, 2003 these purchasing, receiving and distribution costs amounted to $9.2 million, $9.5 million and $10.1 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 fiscal years ended January 29, 2005, January 31, 2004 and February 1, 2003 these processing fees amounted to $12.0 million, $10.7 million and $10.7 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 net effect of the Company s classifications is that its cost of sales as a percentage of sales is higher than, and its selling, general and administrative expenses as a percentage of sales are lower than, they would have been had the Company s treatment conformed with 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, by 0.2% and 0.1% for the fiscal years ended January 29, 2005 and January 31, 2004, respectively. The effect of these classifications on the fiscal year ended February 1, 2003 was not material.

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

| | Fiscal Year Ended January 29, 2005 | | Fiscal Year Ended January 31, 2004 | | Fiscal Year Ended February 1, 2003 | |
|---|---|---|---|---|---|---|
| | Sales | Percent of Total | Sales | Percent of Total | Sales | Percent of Total |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Sales:** | | | | | | | | |
| New video game hardware | $ | 209.2 | 11.4% | $ | 198.1 | 12.6% | $ | 216.8 | 16.0% |
| New video game software | | 776.7 | 42.1% | | 647.9 | 41.0% | | 524.7 | 38.8% |
| Used video game products | | 511.8 | 27.8% | | 403.3 | 25.5% | | 296.4 | 21.9% |
| Other | | 345.1 | 18.7% | | 329.5 | 20.9% | | 314.9 | 23.3% |
| Total | $ | 1,842.8 | 100.0% | $ | 1,578.8 | 100.0% | $ | 1,352.8 | 100.0% |

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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:

| | Fiscal Year Ended January 29, 2005 | | Fiscal Year Ended January 31, 2004 | | Fiscal Year Ended February 1, 2003 | |
|---|---|---|---|---|---|---|
| | Gross Profit | Gross Profit Percent | Gross Profit | Gross Profit Percent | Gross Profit | Gross Profit Percent |
| **Gross Profit:** | | | | | | |
| New video game hardware | $ 8.5 | 4.1% | $ 10.6 | 5.3% | $ 4.4 | 2.0% |
| New video game software | 151.9 | 19.6% | 128.6 | 19.9% | 93.7 | 17.9% |
| Used video game products | 231.6 | 45.3% | 179.3 | 44.5% | 142.8 | 48.2% |
| Other | 117.3 | 34.0% | 114.4 | 34.7% | 99.7 | 31.7% |
| Total | $ 509.3 | 27.6% | $ 432.9 | 27.4% | $ 340.6 | 25.2% |

***Fiscal 2004 Compared to Fiscal 2003***

Sales increased by $264.0 million, or 16.7%, from $1,578.8 million in fiscal 2003 to $1,842.8 million in fiscal 2004. The increase in sales was attributable to the $139.0 million in sales resulting from 338 new stores opened since January 31, 2004 and the $94.2 million in additional sales from having a full year of sales in fiscal 2004 from stores that opened in fiscal 2003, compared to a partial year in 2003. Comparable store sales increased a modest 1.7% as increases in video game software sales driven by strong new game releases were offset by declining hardware price points and hardware shortages caused by insufficient quantities manufactured by hardware vendors. Management does not expect these hardware shortages to continue throughout fiscal 2005. Stores are included in our comparable store sales base beginning in the thirteenth month of operation.

The strong new game releases in fiscal 2004 led to an increase in new video game software sales of $128.8 million, or 19.9%, from fiscal 2003 and an increase in new software sales as a percentage of total sales from 41.0% in fiscal 2003 to 42.1% in fiscal 2004. The declining price points and hardware shortages described above curtailed the expected growth in new hardware, resulting in a modest 5.6%, or $11.1 million, increase in sales and a decline in hardware sales as a percentage of total sales from 12.6% in fiscal 2003 to 11.4% in fiscal 2004. Used video game products continued to show strong growth, with an increase in sales of $108.5 million, or 26.9%, from fiscal 2003 to fiscal 2004 and an increase as a percentage of total sales from 25.5% in fiscal 2003 to 27.8% in fiscal 2004. This growth was due to our store growth in strip centers and the availability of used products for sale caused by trade-ins of used video game products in response to the strong new game releases. Sales of other product categories, including PC entertainment and other software and accessories, magazines and character-related merchandise, grew only 4.7%, or $15.6 million, from fiscal 2003 to fiscal 2004, as was expected due to a lack of strong new PC accessories and trading cards.

Cost of sales increased by $187.6 million, or 16.4%, from $1,145.9 million in fiscal 2003 to $1,333.5 million in fiscal 2004 as a result of the changes in gross profit discussed below.

Gross profit increased by $76.4 million, or 17.6%, from $432.9 million in fiscal 2003 to $509.3 million in fiscal 2004. Gross profit as a percentage of sales increased from 27.4% in fiscal 2003 to 27.6% in fiscal 2004. This increase was primarily the result of the shift in sales mix from lower margin new video game hardware to higher margin new video game software and used video game products, as discussed above. Gross profit as a percentage of sales on new hardware declined from 5.3% in fiscal 2003 to 4.1% in fiscal 2004 due to the expedited freight costs incurred in shipping hardware, which was in short supply, into our stores. The expected continued downward pressure in margin rates on new release titles caused a decline in gross profit as a percentage of sales on new software from 19.9% in fiscal 2003 to 19.6% in fiscal 2004. Gross profit as a percentage of sales on used video game products increased from 44.5% in fiscal 2003 to 45.3% in fiscal 2004 due to increased efforts to monitor margin rates. Gross profit as a percentage of sales on other products remained comparable from fiscal 2003 to fiscal 2004.

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The Company expects the overall gross profit as a percentage of sales to decrease in fiscal 2005 due to the anticipated launch of two new hardware platforms.

Selling, general and administrative expenses increased by $74.2 million, or 24.8%, from $299.2 million in fiscal 2003 to $373.4 million in fiscal 2004. These increases were primarily attributable to the increase in the number of stores in operation, and the related increases in store, distribution, and corporate office operating expenses, the $2.8 million provision for the proposed California labor litigation settlement, the $2.8 million charge attributable to the professional fees related to the spin-off of our Class B common shares previously owned by Barnes & Noble and $5.1 million attributable to correcting our method of accounting for rent expense. Selling, general and administrative expenses as a percentage of sales increased from 19.0% in fiscal 2003 to 20.2% in fiscal 2004. The increase in selling, general and administrative expenses as a percentage of sales was primarily due to the costs associated with the continued rollout of new stores and the effect these stores have on leveraging of selling, general and administrative expenses and investments in our international infrastructure (a combined impact of 0.6% of sales), the provision for the proposed California labor litigation settlement (0.2% of sales), the charge attributable to the professional fees related to the spin-off of our Class B common shares (0.2% of sales) and correcting our method of accounting for rent expense (0.3% of sales). Management anticipates that the new method of accounting for rent expense will impact selling, general and administrative expenses in fiscal 2005 by approximately $2.8 million.

Depreciation and amortization expense increased from $29.4 million in fiscal 2003 to $36.8 million in fiscal 2004. This increase of $7.4 million was due to the capital expenditures for new stores and management information systems during the fiscal year. Depreciation and amortization expense will increase from fiscal 2004 to fiscal 2005 due to continued capital expenditures for new stores and management information systems and due to the commencement of full operations in the Company s new distribution facility.

Interest income resulting from the investment of excess cash balances increased from $1.5 million in fiscal 2003 to $1.9 million in fiscal 2004 due to an increase in the level of investments and the average yield on the investments. Interest expense increased by $1.5 million, from $0.7 million in fiscal 2003 to $2.2 million in fiscal 2004. This increase in interest expense was due to the interest incurred on the note payable to Barnes & Noble in connection with the repurchase of the Company s Class B common stock. Interest expense on this note payable is expected to be approximately $2.0 million in fiscal 2005.

Income tax expense decreased by $3.7 million, from $41.7 million in fiscal 2003 to $38.0 million in fiscal 2004. The Company s effective tax rate decreased from 39.7% in fiscal 2003 to 38.4% in fiscal 2004 due to corporate restructuring. The effective tax rate resulting from the corporate restructuring is expected to recur. See Note 12 of Notes to Consolidated Financial Statements of the Company for additional information regarding income taxes.

The factors described above led to a decrease in operating earnings of $5.3 million, from $104.4 million in fiscal 2003 to $99.1 million in fiscal 2004 and a decrease in net earnings of $2.6 million, or 4.0%, from $63.5 million in fiscal 2003 to $60.9 million in fiscal 2004.

***Fiscal 2003 Compared to Fiscal 2002***

Sales increased by $226.0 million, or 16.7%, from $1,352.8 million in fiscal 2002 to $1,578.8 million in fiscal 2003. The increase in sales was attributable to the $126.3 million in sales resulting from 300 new stores opened since February 1, 2003 and the $78.1 million in additional sales from having a full year of sales in fiscal 2003 from stores that opened in fiscal 2002, compared to a partial year in 2002. Comparable store sales increased a modest 0.8% as declining video game hardware price points offset a significant increase in video game software sales. Stores are included in our comparable store sales base beginning in the thirteenth month of operation.

The declining price points described above led to a decline in hardware sales of $18.7 million, or 8.6%, and a decline in hardware sales as a percentage of total sales from 16.0% in fiscal 2002 to 12.6% in fiscal 2003. Growth in our store count led to an increase in new video game software sales of $123.2 million, or 23.5%, from fiscal 2002 to fiscal 2003. The shift in sales from hardware led to an increase in new software sales as a percentage of total sales from 38.8% in fiscal 2002 to 41.0% in fiscal 2003. Used video game products continued to grow due to our store growth in strip centers and efforts to increase the consumers awareness of the benefits of trading in and buying used video game products. Sales of used video game products increased by $106.9 million, or 36.1%, from fiscal 2002 to fiscal 2003 and increased as a percentage of total sales from 21.9% in fiscal 2002 to 25.5% in fiscal 2003. Sales of other product categories grew only 4.6%, or $14.6 million, from fiscal 2002 to fiscal 2003, as was expected due to a lack of strong new PC titles.

Cost of sales increased by $133.8 million, or 13.2%, from $1,012.1 million in fiscal 2002 to $1,145.9 million in fiscal 2003 as a result of the changes in gross profit discussed below.

Gross profit increased by $92.3 million, or 27.1%, from $340.6 million in fiscal 2003 to $432.9 million in fiscal 2003. Gross profit as a percentage of sales increased from 25.2% in fiscal 2002 to 27.4% in fiscal 2003. This increase was primarily the result of the implementation of EITF 02-16 (see footnote 2 to the Consolidated Financial Statements), requiring certain vendor allowances to be deducted from cost of sales, and the shift in sales mix from lower margin video game hardware to higher margin PlayStation 2, Game Boy Advance, Xbox and GameCube video game software and used video game products. The implementation of EITF 02-16 led to a decrease in cost of sales and a corresponding increase in gross profit of $21.6 million, or 1.4% of sales, and led to the increases in gross profit as a percentage of sales on new hardware, new software and other products. Gross profit as a percentage of sales declined on used video game products from 48.2% in fiscal 2002 to 44.5% in fiscal 2003 due to increased competition from other retailers expanding their presence in the used video game business.

Selling, general and administrative expenses increased by $68.7 million, or 29.8%, from $230.5 million in fiscal 2002 to $299.2 million in fiscal 2003. The 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. In addition, implementing EITF 02-16 caused an increase of $26.8 million in selling, general and administrative expenses. Selling, general and administrative expenses as a percentage of sales increased from 17.1% in fiscal 2002 to 19.0% in fiscal 2003. The increase in selling, general and administrative expenses as a percentage of sales was primarily due to the effect of implementing EITF 02-16.

Depreciation and amortization expense increased from $23.1 million in fiscal 2002 to $29.4 million in fiscal 2003. This increase of $6.3 million was due to the capital expenditures for new stores, management information systems and distribution center enhancements during the fiscal year.

Interest income resulting from the investment of excess cash balances decreased from $2.0 million in fiscal 2002 to $1.5 million in fiscal 2003 due to a decrease in the level of investments and the average yield on the investments. Interest expense decreased by $0.7 million, from $1.4 million in fiscal 2002 to $0.7 million in fiscal 2003. The decrease was attributable to the repayment of $250.0 million in debt in February 2002 using the proceeds of the Company s February 2002 public offering and the contribution of the remaining $150.0 million in debt to paid-in-capital by Barnes & Noble.

Income tax expense increased by $6.4 million, from $35.3 million in fiscal 2002 to $41.7 million in fiscal 2003. The Company s effective tax rate decreased from 40.2% in fiscal 2002 to 39.7% in fiscal 2003 due primarily to tax-exempt interest income and state income tax credits, which are expected to recur. See Note 12 of Notes to Consolidated Financial Statements of the Company for additional information regarding income taxes.

The factors described above led to an increase in operating earnings of $17.3 million, or 19.9%, from $87.1 million in fiscal 2002 to $104.4 million in fiscal 2003 and an increase in net earnings of $11.1 million, or 21.2%, from $52.4 million in fiscal 2002 to $63.5 million in fiscal 2003.

**Liquidity and Capital Resources**

Subsequent to our acquisition by Barnes & Noble in October 1999, and prior to our initial public offering on February 12, 2002, our operations were funded by cash flows from operations and advances from Barnes & Noble. Those advances were treated as an intercompany loan owed to Barnes & Noble by us. As of February 2, 2002, we were indebted to Barnes & Noble in the amount of $399.6 million.

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On February 12, 2002, we registered and sold an aggregate of 20,763,888 shares of our Class A common stock at a price of $18.00 per share. The aggregate price of the offering amount registered and sold was approximately $373.7 million. The net proceeds from the initial public offering were $347.3 million. A portion of the proceeds was used to repay $250.0 million of our indebtedness to Barnes & Noble. Upon closing the initial public offering, Barnes & Noble contributed the difference between the aggregate amount of the intercompany loans and $250.0 million as additional paid-in-capital. The amount of the capital contribution was $150.0 million. Of the balance of the proceeds (approximately $97.3 million), approximately $33.8 million was used for capital expenditures and the remainder was used for working capital and general corporate purposes.

During fiscal 2004, cash provided by operations was $146.0 million, compared to cash provided by operations of $71.3 million in fiscal 2003. In fiscal 2004, cash provided by operations was primarily due to net income of $60.9 million, depreciation and amortization of $37.0 million, provisions for inventory reserves of $17.8 million, a decrease in prepaid taxes of $9.7 million and an increase in accounts payable and accrued liabilities of $17.9 million, offset in part by an increase in merchandise inventory of $10.6 million. The increase in merchandise inventories was less than increases in fiscal 2003 and fiscal 2002 because of video game hardware shortages, which are expected to be temporary. In fiscal 2003, cash provided by operations was primarily due to net income of $63.5 million, depreciation and amortization of $29.5 million, provisions for inventory reserves of $12.9 million and an increase in accounts payable of $40.0 million, which were offset partially by an increase in merchandise inventories of $72.7 million. The increase in merchandise inventories in fiscal 2003 was due to the Company s investment in merchandise inventories to support the overall growth of the Company and the anticipated store openings in early fiscal 2004.

Cash used in investing activities was $99.2 million and $68.0 million during fiscal 2004 and fiscal 2003, respectively. During fiscal 2004, our capital expenditures included approximately $27.7 million to acquire and build-out a new corporate headquarters and distribution center facility in Grapevine, Texas. The remaining $70.6 million in capital expenditures was used to open new stores, remodel existing stores and invest in information systems. During fiscal 2003, we had capital expenditures of $64.5 million to open new stores, remodel existing stores and invest in distribution and information systems.

Our future capital requirements will depend on the number of new stores we open and the timing of those openings within a given fiscal year. We opened 338 stores in fiscal 2004 and expect to open between 370 and 400 stores in fiscal 2005. Projected capital expenditures for fiscal 2005 are approximately $80 million, to be used primarily to fund new store openings, equip and improve the Company s new headquarters and distribution center and invest in distribution and information systems.

The projected capital expenditures for fiscal 2005 include approximately $6 million to complete the improvements to and equip the 420,000 square foot headquarters and distribution center facility in Grapevine, Texas which the Company acquired in March 2004. We expect that the total cost to purchase, improve and equip this facility will be approximately $34 million. The distribution systems in this facility are expected to be ready for testing in early fiscal 2005 and the facility is expected to be fully-operational in the second quarter of fiscal 2005, at which time all headquarters and remaining distribution functions will be relocated. Depreciation on certain leasehold improvements to the Company s existing facility has been adjusted to reflect the shorter life of these assets, which will be abandoned after the relocation is complete.

In June 2004, the Company amended and restated its $75.0 million senior secured revolving credit facility, which now expires in June 2009. The revolving credit facility is governed by an eligible inventory borrowing base agreement, defined as 55% of non-defective inventory, net of certain reserves. Loans incurred under the credit facility will be maintained from time to time, at the Company s option, as: (1) Prime Rate loans which bear interest at the prime rate (defined in the credit facility as the higher of (a) the administrative agent s announced prime rate, or (b) 1/2 of 1% in excess of the federal funds effective rate, each as in effect from time to time); or (2) LIBO Rate loans bearing interest at the LIBO Rate for the applicable interest period, in each case plus an applicable interest margin. In addition, the Company is required to pay a commitment fee, currently 0.375%, for any unused amounts of the revolving credit facility. Any borrowings under the revolving credit facility are secured by the assets of the Company. If availability under the revolving

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credit facility is less than $20.0 million, the revolving credit facility restricts our ability to pay dividends. There have been no borrowings under the revolving credit facility.

In March 2003, the Board of Directors authorized a common stock repurchase program for the purchase of up to $50.0 million of the Company s Class A common shares. The Company had the right to repurchase shares from time to time in the open market or through privately negotiated transactions, depending on prevailing market conditions and other factors. During the 52 weeks ended January 29, 2005, the Company repurchased 959,000 shares at an average share price of $15.64. During the 52 weeks ended January 30, 2004, the Company repurchased 2,304,000 shares at an average share price of $15.19. From the inception of this repurchase program through January 29, 2005, the Company repurchased 3,263,000 shares at an average share price of $15.32, totaling $50.0 million, and, as of January 29, 2005, had no amount remaining available for purchases under this repurchase program. The repurchased shares will be held in treasury.

In October 2004, the Board of Directors authorized a repurchase of Class B common stock held by Barnes & Noble. The Company repurchased 6,107,000 shares of Class B common stock at a price equal to $18.26 per share for aggregate consideration of $111.5 million. The Company paid $37.5 million in cash and issued a promissory note in the principal amount of $74.0 million. A payment of $37.5 million was made on January 15, 2005, as defined in the promissory note, which also requires three payments of $12.2 million due on October 15, 2005, October 15, 2006 and October 15, 2007. The note is unsecured and bears interest at 5.5% per annum, payable when principal installments are due. The repurchased shares were immediately retired.

Based on our current operating plans, we believe that available cash balances and cash generated from our operating activities will be sufficient to fund our operations, required payments on our note payable, store expansion and remodeling activities and corporate capital expenditure programs for at least the next 12 months.

**Contractual Obligations**

The following table sets forth our contractual obligations as of January 29, 2005:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less Than 1 Year** | **1-3 Years** | **3-5 Years** | **More Than 5 Years** |
| | | | **In millions** | | |
| Long-Term Debt(1) | $ 36.5 | $ 12.2 | $ 24.3 | $ | $ |
| Operating Leases | $ 444.4 | $ 70.0 | $ 120.9 | $ 98.9 | $ 154.6 |
| Purchase Obligations(2) | $ 176.2 | $ 176.2 | $ | $ | $ |
| Total | $ 657.1 | $ 258.4 | $ 145.2 | $ 98.9 | $ 154.6 |

(1) The long-term debt bears interest at 5.5%, which will result in additional obligations of approximately $2.0 million in less than one year and $2.0 million in one to three years.

(2) Purchase obligations represent outstanding purchase orders for merchandise from vendors. These purchase orders are generally cancelable until shipment of the products.

In addition to minimum rentals, the operating leases generally require the Company to pay all insurance, taxes and other maintenance costs and may provide for percentage rentals. Percentage rentals are based on sales performance in excess of specified minimums at various stores. Leases with step rent provisions, escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term, including renewal options for those leases in which it is reasonably assured that the Company will exercise the renewal option. The Company does not have leases with capital improvement funding or leases with payments dependent upon indexes or rates.

As of January 29, 2005, we had no other commercial commitments such as standby letters of credit, guarantees, or standby repurchase obligations outstanding.

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### Off-Balance Sheet Arrangements

As of January 29, 2005, the Company had no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

### Impact of Inflation

We do not believe that inflation has had a material effect on our net sales or results of operations.

### Certain Relationships and Related Transactions

The Company operates departments within ten bookstores operated by Barnes & Noble. The Company pays a license fee to Barnes & Noble in amounts equal to 7.0% of 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 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003, these charges amounted to $0.9 million, $1.0 million and $1.1 million, respectively.

The Company participates in Barnes & Noble s worker s compensation, property and general liability insurance programs. The costs incurred by Barnes & Noble under these programs are allocated to the Company based upon the Company s total payroll expense, property and equipment, and insurance claim history. Management deems the allocation methodology to be reasonable. During the 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003, these allocated charges amounted to $2.7 million, $2.4 million and $1.7 million, respectively. The Company s participation in Barnes & Noble s insurance programs will expire in fiscal 2005 and the Company will secure new insurance coverage.

In July 2003, the Company purchased an airplane from a company controlled by a member of the Board of Directors. The purchase price was $9.5 million and was negotiated through an independent third party following an independent appraisal.

In October 2004, the Board of Directors authorized a repurchase of Class B common stock held by Barnes & Noble. The Company repurchased 6,107,000 shares of Class B common stock at a price equal to $18.26 per share for aggregate consideration of $111.5 million. The repurchase price per share was determined by using a discount of 3.5% on the last reported trade of the Company s Class A common stock on the New York Stock Exchange prior to the time of the transaction. The Company paid $37.5 million in cash and issued a promissory note in the principal amount of $74.0 million, which is payable in installments over the next three years and bears interest at 5.5% per annum, payable when principal installments are due. The Company made a principal payment of $37.5 million on the promissory note in January 2005. Interest expense on the promissory note for the 52 weeks ended January 29, 2005 totaled $1.3 million.

### Recent Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123 (Revised 2004), *Share-Based Payment*, ( FAS 123(R) ). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees. Currently, companies are required to calculate the estimated fair value of these share-based payments and can elect to either include the estimated cost in earnings or disclose the pro forma effect in the footnotes to their financial statements. We have chosen to disclose the pro forma effect. The fair value concepts were not changed significantly in FAS 123(R), however, in adopting this Standard, companies must choose among alternative valuation models and amortization assumptions. The valuation model and amortization assumption we have used continue to be available, but we have not yet completed our assessment of the alternatives. FAS 123(R) will be effective for the Company beginning with the third quarter of 2005. Transition options allow companies to choose whether to adopt prospectively, restate results to the beginning of the year, or to restate prior periods with the amounts on a basis consistent with pro forma amounts that have been included in their footnotes. We have not yet concluded which transition option we will select. For the pro forma effect of a full year application, using our existing valuation and amortization assumptions, see Note 1 of Notes to Consolidated Financial Statements included in Item 15 of this Report on Form 10-K/A.

**Seasonality**

Our business, like that of many retailers, is seasonal, with the major portion of sales and operating profit realized during the fourth quarter which includes the holiday selling season. Results for any quarter are not necessarily indicative of the results that may be achieved for a full fiscal year. Quarterly results may fluctuate materially depending upon, among other factors, the timing of new product introductions and new store openings, sales contributed by new stores, increases or decreases in comparable store sales, adverse weather conditions, shifts in the timing of certain holidays or promotions and changes in our merchandise mix.

**Item 7A.** ***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 an original maturity of three months or less. We do not expect any material losses from our invested cash balances, and we believe that our interest rate exposure is modest.

**Foreign Exchange Exposure**

We do not believe we have material foreign currency exposure, because only a very immaterial portion of our business is transacted in other than United States currency. The Company historically has not entered into hedging transactions with respect to its foreign currency, but may do so in the future.

**Item 8.** ***Financial Statements and Supplementary Data***

See Item 15(a)(1) and (2) of this Form 10-K/A.

**Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

**Item 9A.** ***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) Management s Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of January 29, 2005. Our management s assessment of the effectiveness of our internal control over financial reporting as of January 29, 2005 has been audited by BDO Seidman, LLP, an independent registered public accounting firm, as stated in their report which is included herein.

March 22, 2005

(c) Changes in Internal Controls 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.

## PART III

### Item 10. *Directors and Executive Officers of the Registrant*

**Directors**

The following table sets forth the names and ages of our directors, the year they first became a director and the positions they hold with the Company:

| Name | Age | Director Since | Position with the Company |
|---|---|---|---|
| R. Richard Fontaine | 63 | 2001 | Chairman of the Board, Chief Executive Officer and Director |
| Daniel A. DeMatteo | 57 | 2002 | Vice Chairman, Chief Operating Officer and Director |
| Michael N. Rosen | 64 | 2001 | Secretary and Director |
| Leonard Riggio(1) | 64 | 2001 | Director |
| Stephanie M. Shern(2) | 57 | 2002 | Director |
| Gerald R. Szczepanski(3) | 57 | 2002 | Director |
| Edward A. Volkwein(3) | 64 | 2002 | Director |

(1) Member of Nominating and Corporate Governance Committee

(2) Chairperson of Audit Committee

(3) Member of Compensation Committee, Audit Committee and Nominating and Corporate Governance Committee

Our board of directors currently consists of seven directors. Our certificate of incorporation divides our board of directors into three classes: Class I, whose terms will expire at the annual meeting of stockholders to be held in 2006, Class II, whose terms will expire at the annual meeting of stockholders to be held in 2007, and Class III, whose terms will expire at the annual meeting of stockholders in 2005. Michael N. Rosen and Edward A. Volkwein are in Class I; R. Richard Fontaine and Stephanie M. Shern are in Class II; and Daniel A. DeMatteo, Leonard Riggio and Gerald R. Szczepanski are in Class III. At each annual meeting of stockholders, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election.

*R. Richard Fontaine* has been our Chairman of the Board and Chief Executive Officer since our initial public offering in February 2002. Mr. Fontaine has served as the Chief Executive Officer of our predecessor companies since November 1996. He has been an executive officer or director in the video game industry since 1988.

*Daniel A. DeMatteo* has been our Vice Chairman and Chief Operating Officer since March 2005. Prior to March 2005, Mr. DeMatteo served as President and Chief Operating Officer of the Company or our predecessor companies since November 1996. He has served on our board since 2002 and has been an executive officer in the video game industry since 1988.

*Michael N. Rosen* is our Secretary and a director. Mr. Rosen has served in the same capacities for us or our predecessor companies since October 1999. Mr. Rosen has been a partner at Bryan Cave LLP, counsel to

us, since their July 2002 combination with Robinson Silverman. Prior to that, Mr. Rosen was Chairman of Robinson Silverman for more than the past five years. Mr. Rosen is also a director of Barnes & Noble.

*Leonard Riggio* is a director and a member of the Nominating and Corporate Governance Committee. Mr. Riggio was the Chairman of the Board of the Company or its predecessor companies from November 1996 until our initial public offering in February 2002. He has served as an executive officer or director in the video game industry since 1987. Mr. Riggio has been Chairman of the Board and a principal stockholder of Barnes & Noble since its inception in 1986 and served as Chief Executive Officer from its inception in 1986 until February 2002. Since 1965, Mr. Riggio has been Chairman of the Board, Chief Executive Officer and the principal stockholder of Barnes & Noble College Booksellers, Inc., one of the largest operators of college bookstores in the country. Since 1985, Mr. Riggio has been Chairman of the Board and a principal beneficial owner of MBS Textbook Exchange, Inc., one of the nation s largest wholesalers of college textbooks.

*Stephanie M. Shern* is a director and Chair of the Audit Committee. Mrs. Shern formed Shern Associates LLC in February 2002 to provide business advisory and board services, primarily to publicly-held companies. From May 2001 until February 2002, Mrs. Shern served as Senior Vice President and Global Managing Director of Retail and Consumer Products for Kurt Salmon Associates. From 1995 until April 2001, Mrs. Shern was the Vice Chair and Global Director of Retail and Consumer Products for Ernst & Young LLP and a member of Ernst & Young s Management Committee. Mrs. Shern is currently a director and Chair of the Audit Committee of The Scotts/ Miracle Gro Company, a director and Chair of the Audit Committee and member of the Governance Committee of Nextel Communications, Inc., a director and member of the Audit Committee of Royal Ahold, and a director and Chair of the Audit Committee of the Vitamin Shoppe, Inc.

*Gerald R. Szczepanski* is a director and Chair of the Compensation Committee and a member of the Audit Committee and the Nominating and Corporate Governance Committee. Mr. Szczepanski is currently retired. Mr. Szczepanski was the co-founder, and, from 1994 to 2005, the Chairman and Chief Executive Officer of Gadzooks, Inc., a publicly traded, specialty retailer of casual clothing and accessories for teenagers. On February 3, 2004, Gadzooks, Inc. filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Northern District of Texas, Dallas Division (Case No. 04-31486-11).

*Edward A. Volkwein* is a director and a member of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Mr. Volkwein is President and Chief Operating Officer of Hydro-Photon, Inc., a water purification technology company. Prior to joining Hydro-Photon, Mr. Volkwein had a broad marketing career beginning in brand management for General Foods and Chesebrough-Ponds, Inc. He served as Senior Vice President Global Advertising and Promotion for Philips Consumer Electronics and as Senior Vice President Marketing for Sega of America, where he was instrumental in developing Sega into a major video game brand. Mr. Volkwein has also held senior executive positions with Funk & Wagnalls and Prince Manufacturing.

**Committees of the Board**

The Board of Directors has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

*Audit Committee.* The Audit Committee has the principal function of, among other things, reviewing the adequacy of the Company s internal system of accounting controls, the appointment, compensation, retention and oversight of the independent certified public accountants, conferring with the independent public accounting firm concerning the scope of their examination of the books and records of the Company, reviewing and approving related party transactions and considering other appropriate matters regarding the financial affairs of the Company. In addition, the Audit Committee has established procedures for the receipt, retention and treatment of confidential and anonymous complaints regarding the Company s accounting, internal accounting controls and auditing matters. The board of directors has adopted a written charter setting out the functions of the Audit Committee, a copy of which is available on the Company s website at www.gamestop.com and is available in print to any stockholder who requests it, in writing to the Company s

Secretary, GameStop Corp., 625 Westport Parkway, Grapevine, Texas 76051. As required by the charter, the Audit Committee will continue to review and reassess the adequacy of the charter annually and recommend any changes to the board of directors for approval. The current members of the Audit Committee are Stephanie M. Shern (Chair), Edward A. Volkwein and Gerald R. Szczepanski, all of whom are independent directors under the listing standards of the NYSE. In addition to meeting the independence standards of the NYSE, each member of the Audit Committee is financially literate and meets the independence standards established by the Securities and Exchange Commission (the SEC ). The board of directors has also determined that Mrs. Shern has the requisite attributes of an audit committee financial expert as defined by regulations promulgated by the SEC and that such attributes were acquired through relevant education and/or experience. The Audit Committee met ten times during fiscal 2004.

*Compensation Committee.* The principal function of the Compensation Committee is to, among other things, make recommendations to the board of directors with respect to matters regarding the approval of employment agreements, management and consultant hiring and executive compensation. The Compensation Committee is also responsible for administering our Amended and Restated 2001 Incentive Plan and our Supplemental Compensation Plan (the Supplemental Compensation Plan ). The current members of the Compensation Committee are Gerald R. Szczepanski (Chair) and Edward A. Volkwein, both of whom meet the independence standards of the NYSE.

*Nominating and Corporate Governance Committee.* We were a controlled company under the rules of the NYSE until all of the outstanding shares of our Class B Common Stock were distributed by Barnes & Noble to its stockholders on November 12, 2004. Subsequent to this distribution, our board of directors formed the Nominating and Corporate Governance Committee. The current members of the Nominating and Corporate Governance Committee are Leonard Riggio, Gerald R. Szczepanski and Edward A. Volkwein, all of whom meet the independence standards of the NYSE. Our board of directors has adopted a written charter setting out the functions of the Nominating and Corporate Governance Committee, a copy of which can be found on our website at www.gamestop.com.

**Executive Officers**

The following table sets forth the names and ages of our executive officers and the positions they hold:

| **Name** | **Age** | **Position** |
|---|---|---|
| R. Richard Fontaine | 63 | Chairman of the Board and Chief Executive Officer |
| Daniel A. DeMatteo | 57 | Vice Chairman and Chief Operating Officer |
| Joseph DePinto | 42 | President |
| David W. Carlson | 42 | Executive Vice President and Chief Financial Officer |
| Ronald Freeman | 57 | Executive Vice President of Distribution |

Information with respect to executive officers of the Company who also are directors is set forth in Information Concerning the Directors above.

*Joseph DePinto* has been our President since March 2005. Prior to joining GameStop, Mr. DePinto was Vice President of Operations of 7-Eleven, Inc. since March 2002. Prior to March 2002, Mr. DePinto was Senior Vice President and Chief Operating Officer for Thornton Quick Café & Market. Prior to joining Thornton Quick Café & Market, Mr. DePinto held various positions with PepsiCo, Inc.

*David W. Carlson* has been Executive Vice President and Chief Financial Officer of GameStop or our predecessor companies since November 1996. From 1989 to November 1996, Mr. Carlson held various positions with Barnes & Noble, including Director of Finance, Director of Accounting and Manager of Financial Reporting. Prior to 1989, Mr. Carlson held various positions with the public accounting firm of KPMG Peat Marwick.

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*Ronald Freeman* has been our Executive Vice President of Distribution since January 2004. From March 2000 to January 2004, Mr. Freeman was our Vice President of Distribution and Logistics. Mr. Freeman was Vice President of Distribution/ Configuration for CompUSA from July 1997 until March 2000. Mr. Freeman was Vice President of Distribution and Logistics of Babbage s, a predecessor company of ours, from November 1996 until July 1997.

Our executive officers are elected by our board of directors on an annual basis and serve until the next annual meeting of our board of directors or until their successors have been duly elected and qualified.

**Code of Ethics**

The Company has adopted a Code of Ethics that is applicable to the Company s Chairman of the Board and Chief Executive Officer, Vice Chairman and Chief Operating Officer, President, Chief Financial Officer, Vice President-Finance and any Executive Vice President of the Company. This Code of Ethics is attached as Exhibit 14.1 to the Company s Form 10-K for fiscal year ended January 31, 2004. In accordance with SEC rules, the Company intends to disclose any amendment (other than any technical, administrative, or other non-substantive amendment) to, or any waiver from, a provision of the Code of Ethics on the Company s website at www.gamestop.com within five business days following such amendment or waiver.

**Compliance with Section 16(a) of the Exchange Act**

*Section 16(a) Beneficial Ownership Reporting Compliance.* Section 16(a) of the Exchange Act requires the Company s executive officers and directors, and persons who own more than ten percent of a registered class of the Company s equity securities, to file initial statements of beneficial ownership (Form 3) and statements of changes in beneficial ownership (Forms 4 and 5) of common stock of the Company with the SEC. Executive officers, directors and greater than ten-percent stockholders are required to furnish the Company with copies of all such forms they file.

To the Company s knowledge, based solely on its review of the copies of such forms received by it, or written representations from certain reporting persons that no additional forms were required, all filing requirements applicable to the Company s executive officers, directors and greater than ten-percent stockholders were complied with.

**Certifications**

For fiscal 2003, we filed with the NYSE the Annual CEO Certification regarding the Company s compliance with the NYSE s Corporate Governance listing standards as required by Section 303A-12(a) of the NYSE Listed Company Manual. In addition, the Company has filed as exhibits to this Annual Report on Form 10-K/A for the year ended January 29, 2005, the applicable certifications of its Chief Executive Officer and its Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of the Company s public disclosures.

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**Item 11.** ***Executive Compensation***

The following table sets forth the compensation earned during the years indicated by our chief executive officer and our other executive officers.

| Name and Principal Position | Fiscal Year | Annual Compensation(1) Salary($) | Annual Compensation(1) Bonus($) | Long-Term Compensation Awards Securities Underlying GameStop Options (Shs.) | All Other Compensation($)(2) |
|---|---|---|---|---|---|
| R. Richard Fontaine | 2004 | $ 566,153 | $ 598,500 | 150,000(4) | $ 13,031 |
| Chairman of the Board and | 2003 | 518,462 | 650,000 | 141,000(5) | 10,600 |
| Chief Executive Officer | 2002 | 493,873 | 468,750 | 63,000(6) | 10,271 |
| Daniel A. DeMatteo | 2004 | 466,646 | 493,500 | 150,000(4) | 9,065 |
| Vice Chairman and Chief | 2003 | 425,138 | 533,000 | 141,000(5) | 7,126 |
| Operating Officer | 2002 | 405,150 | 384,375 | 63,000(6) | 6,995 |
| David W. Carlson | 2004 | 273,077 | 144,375 | 75,000(4) | 9,539 |
| Executive Vice President | 2003 | 248,077 | 175,000 | 75,000(5) | 8,173 |
| Chief Financial Officer | 2002 | 223,077 | 118,125 | 45,000(6) | 7,514 |
| and Assistant Secretary | | | | | |
| Ronald Freeman(3) | 2004 | 249,039 | 93,750 | 66,000(4) | 8,973 |
| Executive Vice President | 2003 | 198,077 | 80,000 | 66,000(5) | 7,491 |
| of Distribution | 2002 | 174,038 | 39,375 | 9,000(6) | 6,421 |

(1) None of the perquisites or other benefits paid to each named executive officer exceeded the lesser of $50,000 or 10% of the total annual salary and bonus received by each named executive officer.

(2) Consists of contributions under our 401(k) plan.

(3) Mr. Freeman was appointed as Executive Vice President in January 2004. The amounts presented above for periods prior to 2004 reflect compensation while he served as the Company s Vice President of Distribution and Logistics.

(4) Reflects options granted on March 11, 2005, based on performance for the fiscal year ended January 29, 2005.

(5) Reflects options granted on March 2, 2004, based on performance for the fiscal year ended January 31, 2004.

(6) Reflects options granted on March 26, 2003, based on performance for the fiscal year ended February 1, 2003.

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### Grants of Stock Options in Last Fiscal Year

The following table shows all grants of options to acquire shares of our Class A Common Stock granted to the executive officers named in the summary compensation table in the Executive Compensation section of this Proxy Statement for the year ended January 29, 2005. The options for executive officers to acquire shares of our Class A Common Stock were granted on March 11, 2005, based on performance for the year ended January 29, 2005. The potential realizable value is calculated based on the term of the option at its date of grant. It is calculated assuming that the fair market value of our Class A Common Stock on the date of grant appreciates at the indicated annual rates compounded annually for the entire term of the option and that the option is exercised and sold on the last day of its term for the appreciated stock. These numbers are calculated based on the requirements of the SEC and do not reflect our estimate of future stock price growth.

**Option/ SAR Grants In Last Fiscal Year**

| | Individual Grants | | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term | |
|---|---|---|---|---|---|---|---|
| | Number of Securities Underlying Options Granted | % of Total Options Granted in Fiscal Year | Exercise or Base Price ($/Shs.) | Market Price on Date of Grant | Expiration Date | 5%($) | 10%($) |
| R. Richard Fontaine GameStop Class A Common Stock | 150,000 | 7.1% | $ 20.25 | $ 20.25 | 3/10/15 | $ 1,910,000 | $ 4,841,000 |
| Daniel A. DeMatteo GameStop Class A Common Stock | 150,000 | 7.1% | $ 20.25 | $ 20.25 | 3/10/15 | $ 1,910,000 | $ 4,841,000 |
| David W. Carlson GameStop Class A Common Stock | 75,000 | 3.6% | $ 20.25 | $ 20.25 | 3/10/15 | $ 955,000 | $ 2,420,000 |
| Ronald Freeman GameStop Class A Common Stock | 66,000 | 3.1% | $ 20.25 | $ 20.25 | 3/10/15 | $ 841,000 | $ 2,130,000 |

### Fiscal Year End Option Value

The following table provides information for the executive officers named in the summary compensation table in the Executive Compensation section of this Proxy Statement regarding exercises of options to purchase shares of our Class A Common Stock during the year ended January 29, 2005 and our options held as of January 29, 2005 by any of our named executive officers. The values realized upon exercise in the table have been calculated using the stock price at the times of exercise. The year-end values in the table for our Class A Common Stock have been calculated based on the $18.80 per share closing price of our Class A

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Common Stock on January 28, 2005 (the last trading date of the fiscal year), less the applicable exercise price.

**Aggregated Option/SAR Exercises In Last Fiscal Year and Fiscal Year End Option/SAR Values**

| | Shares Acquired on Exercise | Value Realized | Number of Securities Underlying Unexercised Options at Fiscal Year End (Shs.) | | Value of Unexercised In-the-Money Options at Fiscal Year End ($) | |
|---|---|---|---|---|---|---|
| | | | Exercisable | Unexercisable | Exercisable | Unexercisable |
| R. Richard Fontaine GameStop Class A Common Stock | | | 673,500 | 403,000 | 3,744,500 | 502,500 |
| Daniel A. DeMatteo GameStop Class A Common Stock | | | 673,500 | 403,000 | 3,744,500 | 502,500 |
| David W. Carlson GameStop Class A Common Stock | | | 449,000 | 222,000 | 3,347,000 | 321,000 |
| Ronald Freeman GameStop Class A Common Stock | 59,250 | 881,105 | 34,000 | 89,000 | 27,200 | 70,750 |

For information on our equity compensation plans, please see Item 5 of this Annual Report on 10-K/ A.

**Employment Agreements**

GameStop has entered into employment agreements with R. Richard Fontaine and Daniel A. DeMatteo. The term of each employment agreement commenced on April 11, 2005 and continues for a period of three years thereafter, with automatic annual renewals thereafter unless either party gives notice of non-renewal at least six months prior to automatic renewal.

Mr. Fontaine s minimum annual salary during the term of his employment under the employment agreement shall be no less than $650,000. Mr. DeMatteo s minimum annual salary during the term of his employment under the employment agreement shall be no less than $535,000. Annual bonus compensation will be based on the formula and targets established under and in accordance with GameStop s Supplemental Compensation Plan.

Each executive shall be entitled to all benefits afforded to key management personnel or as determined by the board of directors of GameStop, including, but not limited to, stock and stock option benefits, insurance programs, pension plans, vacation, sick leave, expense accounts and retirement benefits.

Each executive s employment may be terminated upon death, disability, by GameStop with or without cause or by the executive within twelve months of a good reason event. A good reason event is defined as a change of control, a reduction in compensation or a material reduction in benefits or responsibilities, or a relocation of at least 50 miles. Among other things, the employment agreement includes a severance arrangement if the executive is terminated by GameStop without cause or by the executive for good reason which provides each executive with his base salary through the term of the agreement, plus the average of the last three annual bonuses, with a one year minimum, plus the continuation of medical benefits for 18 months and the release of all stock option restrictions.

Each executive is also restricted from competing with GameStop for the later of the expiration of the term of the agreement or one year after termination of employment, unless the contract is terminated by GameStop without cause or the executive for good reason.

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**Compensation of Directors**

Directors who are not employees of our Company will receive compensation of $30,000 per annum and $1,000 per in-person Board or Committee meeting. In June 2004, each of the directors who are not employees of our Company or Barnes & Noble (Stephanie M. Shern, Edward A. Volkwein, Gerald R. Szczepanski and Michael N. Rosen) were granted options to acquire 21,000 shares of our Class A Common Stock. Each of these options were granted at an exercise price equal to the market price of the Class A Common Stock on the grant date ($15.10) and each option vests in equal increments over a three-year period and expires ten years from the grant date. In addition, we reimburse our directors for expenses in connection with attendance at board and committee meetings. Other than with respect to reimbursement of expenses, directors who are our employees do not receive additional compensation for their services as directors

**Compensation Committee Interlocks and Insider Participation**

In September 2002, our board of directors established a Compensation Committee, which currently consists of Gerald R. Szczepanski and Edward A. Volkwein. None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or Compensation Committee.

**Item 12.** ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The following table sets forth the number of shares of our Class A Common Stock and our Class B Common Stock and exercisable options to purchase such stock beneficially owned on May 1, 2005 by each director and each of the executive officers named in the summary compensation table in the Executive Compensation section, each holder of 5% or more of our Class A Common Stock or our Class B Common Stock and all of our directors and executive officers as a group. Except as otherwise noted, the individual director or executive officer or his or her family members had sole voting and investment power with respect to the identified securities. The total number of shares of our Class A Common Stock and Class B Common Stock outstanding as of May 1, 2005 was 21,431,798 and 29,901,662, respectively.

| | Shares Beneficially Owned | | | |
|---|---|---|---|---|
| | Class A Common Stock (1) | | Class B Common Stock | |
| **Name** | **Shares** | **%** | **Shares** | **%** |
| Wellington Management Company, LLP, 75 State St., Boston, MA 02109 | 2,907,800(2) | 13.6 | | |
| FMR Corp., 82 Devonshire Street, Boston MA 02109 | 2,475,107(2) | 11.5 | | |
| Franklin Resources, Inc., One Franklin Parkway, San Mateo, CA 94403 | 1,718,370(2) | 8.0 | | |
| LSV Asset Management, 1 N. Wacker Drive, Suite 4000, Chicago, Il 60606 | | | 1,586,626(2) | 5.3 |
| R. Richard Fontaine | 961,600(3) | 4.3 | | |
| Daniel A. DeMatteo | 961,500(4) | 4.3 | | |
| Joseph DePinto | | | | |
| David W. Carlson | 606,000(4) | 2.8 | | |
| Ronald Freeman | 25,000(4) | * | | |
| Michael N. Rosen | 10,000(4) | * | 4,248(5) | * |
| Leonard Riggio | 4,500,000(4) | 17.4 | 5,559,648(6) | 18.6 |
| Stephanie Shern | 16,000(7) | * | | |

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| | Shares Beneficially Owned | | | |
|---|---|---|---|---|
| | Class A Common Stock (1) | | Class B Common Stock | |
| Name | Shares | % | Shares | % |
| Gerald R. Szczepanski | 20,000(8) | * | | |
| Edward A. Volkwein | 16,000(9) | * | | |
| All directors and executive officers as a group (10 persons) | 7,116,100(10) | 24.9 | 5,563,896 | 18.6 |

* Less than 1.0%

(1) Shares of Class A Common Stock that an individual or group has a right to acquire within 60 days after May 1, 2005 pursuant to the exercise of options, warrants or other rights are deemed to be outstanding for the purpose of computing the beneficial ownership of shares and percentage of such individual or group, but are not deemed to be outstanding for the purpose of computing the beneficial ownership of shares and percentage of any other person or group shown in the table.

(2) Information compiled from Schedule 13G filings.

(3) Of these shares, 961,500 are issuable upon exercise of stock options.

(4) All of these shares are issuable upon exercise of stock options.

(5) These shares are owned by Mr. Rosen s wife.

(6) Of these shares, Mr. Riggio is the direct beneficial owner of 3,475,077 shares of Class B Common Stock. Mr. Riggio is the indirect beneficial owner of 1,126,913 shares of Class B Common Stock owned by Barnes & Noble College Booksellers, Inc., a New York corporation, of which Mr. Riggio owns all of the currently outstanding voting securities. As co-trustee of The Riggio Foundation, a charitable trust, Mr. Riggio is the indirect beneficial owner of 654,946 shares of Class B Common Stock owned by The Riggio Foundation. Excluded from these shares are 302,712 shares of Class B Common Stock held in a rabbi trust established by Barnes & Noble for the benefit of Mr. Riggio pursuant to a deferred compensation arrangement, but over which Mr. Riggio has no voting power.

(7) Of these shares, 15,000 are issuable upon exercise of stock options.

(8) Of these shares, 10,000 are issuable upon exercise of stock options.

(9) Of these shares, 15,000 are issuable upon exercise of stock options. Of the remaining 1,000 shares, 500 shares are owned by Mr. Volkwein s wife, and 250 shares each are owned by Mr. Volkwein s two children.

(10) Of these shares, 7,104,000 are issuable upon exercise of stock options.

**Equity Compensation Plan Information**

**Number of**

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights | | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights | Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (A)) |
|---|---|---|---|---|
| | (a) | | (b) | (c) |
| **Equity compensation plans approved by security holders** | 11,406,000 | $ | 10.86 | 5,168,000 |
| **Equity compensation plans not approved by security holders** | 0 | | not applicable | 0 |
| **Total** | 11,406,000 | $ | 10.86 | 5,168,000 |

**Item 13.** ***Certain Relationships and Related Transactions***

**Agreements With Barnes & Noble**

In connection with the consummation of our initial public offering in February 2002, we entered into various agreements with Barnes & Noble relating to our relationship with Barnes & Noble following the completion of our initial public offering.

***Separation Agreement***

We entered into a separation agreement with Barnes & Noble, which governs our respective rights and duties with respect to our initial public offering and the distribution to Barnes & Noble stockholders of its shares of our capital stock (which is referred to as the spin-off ), and contains covenants designed to facilitate the spin-off and to protect its intended tax-free nature.

Under the separation agreement, we agreed not to take certain actions without the approval of Barnes & Noble or the satisfaction of certain procedures. These actions include:

- until two years after the spin-off, entering into or permitting any transaction or series of transactions which would result in a person or persons acquiring or having the right to acquire shares of our capital stock that would comprise 50% or more of either the value of all outstanding shares of our capital stock or the total combined voting power of our outstanding voting stock; and

- until two years after the spin-off, liquidating, disposing of, or otherwise discontinuing the conduct of any portion of our active trade or business.

We have generally agreed to indemnify Barnes & Noble and its affiliates against any and all tax-related losses incurred by Barnes & Noble in connection with any proposed tax assessment or tax controversy with respect to the spin-off to the extent caused by any breach by us of any of our representations, warranties or covenants made in the separation agreement. This indemnification does not apply if Barnes & Noble permits us to take certain actions or if we otherwise comply with the terms of the separation agreement.

***Insurance Agreement***

We entered into an insurance agreement with Barnes & Noble, pursuant to which Barnes & Noble allowed us to participate in Barnes & Noble s worker s compensation, property and general liability and directors and officers liability insurance programs. We shall reimburse Barnes & Noble for our pro rata share of the cost of providing these insurance programs. In fiscal 2004, Barnes & Noble charged us approximately $2,662,000 for our insurance program.

The insurance agreement terminated in part on May 1, 2005 and will terminate in full on June 1, 2005, at which time we will procure our own insurance.

***Operating Agreement***

We entered into an operating agreement with Barnes & Noble, pursuant to which we operate the existing video game departments in ten Barnes & Noble stores. We pay Barnes & Noble a licensing fee equal to 7.0% of the aggregate gross sales of each such department. In fiscal 2004, Barnes & Noble charged us approximately $859,000 in connection with our operation of such departments in Barnes & Noble stores.

The operating agreement will remain in force unless terminated:

- by mutual agreement of us and Barnes & Noble;

- automatically, in the event that we no longer operate any department within Barnes & Noble s stores;

- by us or Barnes & Noble, with respect to any department, upon not less than 30 days prior notice;

- by Barnes & Noble because of an uncured default by us;

automatically, with respect to any department, if the applicable store lease in which we operate that department expires or is terminated prior to its expiration date; or

automatically, in the event of the bankruptcy or a change in control of either us or Barnes & Noble.

***Tax Disaffiliation Agreement***

We entered into a tax disaffiliation agreement with Barnes & Noble which governs the allocation of federal, state, local and foreign tax liabilities and contains agreements with respect to other tax matters arising prior to and after the date of our initial public offering. The tax disaffiliation agreement became effective at the time of our initial public offering and, among other things, sets forth the procedures for amending returns filed prior to the date of our initial public offering, tax audits and contests and record retention. In general, we are responsible for filing and paying our separate taxes for periods after our initial public offering and Barnes & Noble is responsible for filing and paying its separate taxes for periods after our initial public offering. In general, with respect to consolidated or combined returns that include Barnes & Noble and us prior to our initial public offering, Barnes & Noble is responsible for filing and paying the related tax liabilities and will retain any related tax refunds.

Under the tax disaffiliation agreement, without the prior written consent of Barnes & Noble, we may not amend any tax return for a period in which we were a member of Barnes & Noble s consolidated tax group. Barnes & Noble has the sole right to represent the interests of its consolidated tax group, including us, in any tax audits, litigation or appeals that involve, directly or indirectly, periods prior to the time that we ceased to be a member of their consolidated tax group (the date of the offering), unless we are solely liable for the taxes at issue and any redetermination of taxes would not result in any additional tax liability or detriment to any member of Barnes & Noble s consolidated tax group. In addition, we and Barnes & Noble have agreed to provide each other with the cooperation and information reasonably requested by the other in connection with the preparation or filing of any amendment to any tax return, the determination and payment of any amounts owed relating to periods prior to the date of the offering and in the conduct of any tax audits, litigation or appeals.

We and Barnes & Noble have agreed to indemnify each other for tax or other liabilities resulting from the failure to pay any taxes required to be paid under the tax disaffiliation agreement, tax or other liabilities resulting from negligence in supplying inaccurate or incomplete information or the failure to cooperate with the preparation of any tax return or the conduct of any tax audits, litigation or appeals. The tax disaffiliation agreement requires us to retain records, documents and other information necessary for the audit of tax returns relating to periods prior to the date we ceased to be a member of Barnes & Noble s consolidated tax group and to provide reasonable access to Barnes & Noble with respect to such records, documents and information.

**Other Transactions and Relationships**

We have agreed to pay the legal fees and expenses of one of our directors, Leonard Riggio, in connection with the transactions contemplated under the Agreement and Plan of Merger, dated as of April 17, 2005, by and among GameStop Corp., GameStop, Inc., GSC Holdings Corp., Eagle Subsidiary LLC, Cowboy Subsidiary LLC and Electronics Boutique Holdings Corp., including Mr. Riggio s legal fees and expenses incurred in connection with the preparation and filing of Mr. Riggio s notification and report form under the Hart-Scott Rodino Antitrust Improvements Act of 1976 (the HSR Act ) (including the filing fee) and in connection with the negotiation of the voting agreement entered into by Mr. Riggio and his affiliates. We estimate that the legal fees and expenses in connection with the preparation and filing of Mr. Riggio s notification and report form under the HSR Act and in connection with the negotiation of the voting agreement will be approximately $150,000.

In October 2004, our Board of Directors authorized a repurchase of Class B Common Stock held by Barnes & Noble. The Company repurchased 6,107,000 shares of its Class B Common Stock at a price equal to $18.26 per share for aggregate consideration of $111.5 million. The repurchase price per share was determined by using a discount of 3.5% on the last reported trade of the Company s Class A Common Stock on the New York Stock Exchange prior to the time of the transaction. The Company paid $37.5 million in cash and issued

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a promissory note in the principal amount of $74.0 million, which is payable in installments over the next three years and bears interest at 5.5% per annum, payable when principal installments are due. The Company made a principal payment of $37.5 million on the promissory note in January 2005. Interest expense on the promissory note for the 52 weeks ended January 29, 2005 totaled $1.3 million.

In July 2003, the Company purchased an airplane from a company controlled by a member of the Board of Directors. The purchase price was $9.5 million and was negotiated through an independent third party following an independent appraisal.

Michael N. Rosen, our Secretary and one of our directors, is a partner of Bryan Cave LLP, which is counsel to us.

## Item 14. *Principal Accountant Fees and Services*

**Registered Independent Public Accounting Firm**

The firm of BDO Seidman, LLP ( BDO Seidman ) has been selected as the registered independent public accounting firm for the Company.

The independent accountants examine annual financial statements and provide other permissible non-audit and tax-related services for the Company. The Company and the Audit Committee have considered whether the non-audit services provided by BDO Seidman are compatible with maintaining the independence of BDO Seidman in its audit of the Company and are not considered prohibited services under the Sarbanes-Oxley Act of 2002.

*Audit Fees.* In fiscal 2004, the professional services of BDO Seidman totaled $575,907 for the Company s audit of the annual financial statements, for reviews of the Company s financial statements included in the Company s quarterly reports on Form 10-Q filed with the SEC and for the audit of the Company s internal controls over financial reporting. For fiscal 2003, the Company paid BDO Seidman $258,253 for professional services rendered for the Company s audit of the annual financial statements and for reviews of the Company s financial statements included in the Company s quarterly reports on Form 10-Q filed with the SEC.

*Audit-Related Fees.* In fiscal 2004, the Company paid BDO Seidman $122,465 for services in respect of employee benefit plan audits ($9,000) and consultation concerning financial accounting and reporting standards ($113,465). In fiscal 2003, the Company paid BDO Seidman $13,450 for services in respect of employee benefit plan audits ($11,000) and consultation concerning financial accounting and reporting standards ($2,450).

*Tax Fees.* In fiscal 2004, the Company paid BDO Seidman $355,285 for tax-related services. In fiscal 2003, the Company paid BDO Seidman $59,390 for tax-related services. Tax-related services included professional services rendered for tax compliance, tax advice and tax planning.

*All Other Fees.* The Company did not pay BDO Seidman any other fees in fiscal 2004 or fiscal 2003.

*Pre-approval Policies and Procedures.* The Audit Committee Charter adopted by the board of directors of the Company requires that, among other things, the Audit Committee pre-approve the rendering by the Company s independent auditor of all audit and permissible non-audit services. Accordingly, as part of its policies and procedures, the Audit Committee considers and pre-approves any such audit and permissible non-audit services on a case-by-case basis. Since its formation in September 2002, the Audit Committee has approved the services provided by BDO Seidman referred to above.

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## PART IV

**Item 15.** ***Exhibits and Financial Statement Schedules***

(a) The following documents are filed as a part of this Form 10-K/ A:

(1) *Index and Consolidated Financial Statements*

The list of consolidated financial statements set forth in the accompanying Index to Consolidated Financial Statements at page F-1 herein is incorporated herein by reference. Such consolidated financial statements are filed as part of this report on Form 10-K/ A.

(2) *Financial Statement Schedules required to be filed by Item 8 of this form:*

The following financial statement schedule for the 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003 is filed as part of this report on Form 10-K/ A and should be read in conjunction with our Consolidated Financial Statements appearing elsewhere in this Form 10-K/ A:

**Schedule II Valuation and Qualifying Accounts**

For the 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003:

| | Balance at Beginning of Period | Charged to Costs and Expenses | Charged to Other Accounts- Accounts Payable | Write-Offs Net of Recoveries | Balance at End of Period |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Inventory Reserve, deducted from asset accounts | | | | | |
| 52 Weeks Ended January 29, 2005 | $ 12,274 | $ 17,808 | $ 9,856 | $ 25,134 | $ 14,804 |
| 52 Weeks Ended January 31, 2004 | 11,797 | 12,901 | 10,899 | 23,323 | 12,274 |
| 52 Weeks Ended February 1, 2003 | 10,400 | 14,071 | 10,214 | 22,888 | 11,797 |

The Company does not maintain a reserve for estimated sales returns and allowances as amounts are considered to be immaterial. All other schedules are omitted because they are not applicable.

(b) *Exhibits*

The following exhibits are filed as part of this Form 10-K/A:

| Exhibit Number | Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation.(1) |
| 3.2 | Bylaws.(1) |
| 3.3 | Certificate of Designation of Preferences and Rights of Preferred Stock, Series A of the Company.(2) |
| 4.1 | Rights Agreement, dated October 25, 2004, between the Company and The Bank of New York, as Rights Agent.(2) |

| | |
|---|---|
| 10.1 | Separation Agreement, dated as of January 1, 2002, between Barnes & Noble and GameStop Corp.(3) |
| 10.2 | Tax Disaffiliation Agreement, dated as of January 1, 2002, between Barnes & Noble and GameStop Corp.(1) |
| 10.3 | Insurance Agreement, dated as of January 1, 2002, between Barnes & Noble and GameStop Corp.(1) |
| 10.4 | Operating Agreement, dated as of January 1, 2002, between Barnes & Noble and GameStop Corp.(1) |
| 10.5 | Amended and Restated 2001 Incentive Plan.(7) |
| 10.6 | Supplemental Compensation Plan.(7) |
| 10.7 | Form of Option Agreement.(7) |

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| Exhibit Number | Description |
|---|---|
| 10.8 | Lease, dated as of March 6, 1997, between RREEF Mid-Cities Industrial L.P. and Babbage s Etc. LLC.(1) |
| 10.9 | First Amendment to Lease, dated as of December 30, 1999, between RREEF Mid-Cities Industrial L.P. and Babbage s Etc. LLC.(1) |
| 10.10 | Amended and Restated Credit Agreement, dated as of June 21, 2004.(4) |
| 10.11 | Amended and Restated Security Agreement, dated as of June 21, 2004.(4) |
| 10.12 | Amended and Restated Securities Collateral Pledge Agreement, dated as of June 21, 2004, between GameStop Corp. and Fleet Retail Group, Inc., as Administrative Agent.(4) |
| 10.13 | Amended and Restated Securities Collateral Pledge Agreement, dated as of June 21, 2004, between GameStop, Inc. and Fleet Retail Group, Inc., as Administrative Agent.(4) |
| 10.14 | Securities Collateral Pledge Agreement, dated as of June 21, 2004, between GameStop of Texas (GP), LLC and Fleet Retail Group, Inc., as Administrative Agent.(4) |
| 10.15 | Securities Collateral Pledge Agreement, dated as of June 21, 2004, between GameStop (LP), LLC and Fleet Retail Group, Inc., as Administrative Agent.(4) |
| 10.16 | Amended and Restated Patent and Trademark Securities Agreement, dated as of June 21, 2004.(4) |
| 10.17 | Stock Purchase Agreement, dated as of October 1, 2004, by and among the Company, B&N Gamestop Holding Corp. and Barnes & Noble.(5) |
| 10.18 | Promissory Note, dated as of October 1, 2004, made by the Company in favor of B&N GameStop Holding Corp.(5) |
| 14.1 | Code of Ethics for Senior Financial Officers.(6) |
| 21.1 | Subsidiaries.(7) |
| 23.1 | Consent of BDO Seidman, LLP. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-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)/15(d)-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 the Registrant s Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on January 24, 2002 (No. 333-68294).

(2) Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on October 28, 2004.

(3) Incorporated by reference to the Registrant s Amendment No. 4 to Form S-1 filed with the Securities and Exchange Commission on February 5, 2002 (No. 333-68294).

(4) Incorporated by reference to the Registrant s Form 10-Q for the fiscal quarter ended July 31, 2004 filed with the Securities and Exchange Commission on September 7, 2004.

(5) Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on October 5, 2004.

(6) Incorporated by reference to the Registrant s Form 10-K for the fiscal year ended January 31, 2004 filed with the Securities and Exchange Commission on April 14, 2004.

(7) Incorporated by reference to the Registrant s Form 10-K for the fiscal year ended January 29, 2005 filed with the Securities and Exchange Commission on April 11, 2005.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized.

GAMESTOP CORP.

By: /s/ R. Richard Fontaine

R. Richard Fontaine
*Chairman of the Board and*
*Chief Executive Officer*

Date: September 2, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this Form 10-K/A has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

| Name | Capacity | Date |
|---|---|---|
| /s/ R. Richard Fontaine<br>R. Richard Fontaine | Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer) | September 2, 2005 |
| /s/ David W. Carlson<br>David W. Carlson | Executive Vice President, Chief Financial Officer and Assistant Secretary (Principal Accounting and Financial Officer) | September 2, 2005 |
| /s/ Daniel A. DeMatteo<br>Daniel A. DeMatteo | Vice Chairman and Chief Operating Officer and Director | September 2, 2005 |
| /s/ Michael N. Rosen<br>Michael N. Rosen | Secretary and Director | September 2, 2005 |
| /s/ Leonard Riggio<br>Leonard Riggio | Director | September 2, 2005 |
| /s/ Stephanie M. Shern<br>Stephanie M. Shern | Director | September 2, 2005 |
| /s/ Edward A. Volkwein<br>Edward A. Volkwein | Director | September 2, 2005 |
| /s/ Gerald R. Szczepanski<br>Gerald R. Szczepanski | Director | September 2, 2005 |

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## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
GameStop Corp.
Grapevine, Texas

We have audited the accompanying consolidated balance sheets of GameStop Corp. as of January 29, 2005 and January 31, 2004 and the related consolidated statements of operations, stockholders equity, and cash flows for the 52 week periods ended January 29, 2005, January 31, 2004 and February 1, 2003. We have also audited the schedule listed in Item 15(a)(2) of this Form 10-K. These financial statements and the schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and the schedule are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement and schedule. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of GameStop Corp. at January 29, 2005 and January 31, 2004 and the results of its operations and its cash flows for each of the 52 week periods ended January 29, 2005, January 31, 2004 and February 1, 2003, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedule presents fairly, in all material respects, the information set forth herein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of GameStop Corp. s internal control over financial reporting as of January 29, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 30, 2005 expressed an unqualified opinion thereon.

/s/ BDO SEIDMAN, LLP

BDO Seidman, LLP

Dallas, Texas
March 30, 2005
(except for Note 16, which
is as of August 24, 2005)

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## Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
GameStop Corp.
Grapevine, Texas

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control over Financial Reporting appearing under Item 9, that GameStop Corp. maintained effective internal control over financial reporting as of January 29, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management of GameStop Corp. is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the internal control over financial reporting of GameStop Corp. based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that GameStop Corp. maintained effective internal control over financial reporting as of January 29, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. Also, in our opinion, GameStop Corp. maintained, in all material respects, effective internal control over financial reporting as of January 29, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the COSO.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of GameStop Corp. as of January 29, 2005 and January 31, 2004 and the related consolidated statements of operations, stockholders equity, and cash flows for the 52 week periods ended January 29, 2005, January 31, 2004 and February 1, 2003. We have also audited the schedule listed in Item 15(a)(2) for this Form 10-K. Our report dated March 30, 2005 (except for Note 16 which is dated August 24, 2005) expressed an unqualified opinion on those consolidated financial statements and schedule.

/s/ BDO SEIDMAN, LLP

BDO Seidman, LLP

Dallas, Texas
March 30, 2005

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## GAMESTOP CORP.
## CONSOLIDATED BALANCE SHEETS

| | January 29, 2005 | January 31, 2004 |
|---|---|---|
| | (In thousands) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 170,992 | $ 204,905 |
| Receivables, net | 9,812 | 9,545 |
| Merchandise inventories | 216,296 | 223,526 |
| Prepaid expenses and other current assets | 18,400 | 14,340 |
| Prepaid taxes | 3,053 | 12,775 |
| Deferred taxes | 5,435 | 7,661 |
| Total current assets | 423,988 | 472,752 |
| Property and equipment: | | |
| Land | 2,000 | |
| Leasehold improvements | 106,428 | 64,227 |
| Fixtures and equipment | 184,536 | 131,556 |
| | 292,964 | 195,783 |
| Less accumulated depreciation and amortization | 124,565 | 88,487 |
| Net property and equipment | 168,399 | 107,296 |
| Goodwill, net | 320,888 | 320,826 |
| Other noncurrent assets | 1,708 | 1,315 |
| Total other assets | 322,596 | 322,141 |
| Total assets | $ 914,983 | $ 902,189 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 206,739 | $ 204,011 |
| Accrued liabilities | 94,983 | 79,839 |
| Note payable, current portion | 12,173 | |
| Total current liabilities | 313,895 | 283,850 |
| Deferred taxes | 20,257 | 17,731 |
| Note payable, long-term portion | 24,347 | |
| Deferred rent and other long-term liabilities | 13,473 | 6,575 |
| | 58,077 | 24,306 |

| | | |
|---|---|---|
| Total liabilities | 371,972 | 308,156 |
| Stockholders equity: | | |
| Preferred stock authorized 5,000 shares; no shares issued or outstanding | | |
| Class A common stock $.001 par value; authorized 300,000 shares; 24,189 and 22,993 shares issued, respectively | 24 | 23 |
| Class B common stock $.001 par value; authorized 100,000 shares; 29,902 and 36,009 shares issued and outstanding | 30 | 36 |
| Additional paid-in-capital | 500,769 | 510,597 |
| Accumulated other comprehensive income | 567 | 296 |
| Retained earnings | 91,621 | 118,087 |
| Treasury stock, at cost, 3,263 and 2,304 shares, respectively | (50,000) | (35,006) |
| Total stockholders equity | 543,011 | 594,033 |
| Total liabilities and stockholders equity | $ 914,983 | $ 902,189 |

See accompanying notes to consolidated financial statements.

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## GAMESTOP CORP.
## CONSOLIDATED STATEMENTS OF OPERATIONS

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| | (In thousands, except per share data) | | |
| Sales | $ 1,842,806 | $ 1,578,838 | $ 1,352,791 |
| Cost of sales | 1,333,506 | 1,145,893 | 1,012,145 |
| Gross profit | 509,300 | 432,945 | 340,646 |
| Selling, general and administrative expenses | 373,364 | 299,193 | 230,461 |
| Depreciation and amortization | 36,789 | 29,368 | 23,114 |
| Operating earnings | 99,147 | 104,384 | 87,071 |
| Interest income | (1,919) | (1,467) | (1,998) |
| Interest expense | 2,155 | 663 | 1,368 |
| Earnings before income tax expense | 98,911 | 105,188 | 87,701 |
| Income tax expense | 37,985 | 41,721 | 35,297 |
| Net earnings | $ 60,926 | $ 63,467 | $ 52,404 |
| Net earnings per Class A and Class B common share basic | $ 1.11 | $ 1.13 | $ 0.93 |
| Weighted average shares of common stock basic | 54,662 | 56,330 | 56,289 |
| Net earnings per Class A and Class B common share diluted | $ 1.05 | $ 1.06 | $ 0.87 |
| Weighted average shares of common stock diluted | 57,796 | 59,764 | 60,419 |

See accompanying notes to consolidated financial statements.

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## GAMESTOP CORP.
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

| | Common Stock Shares | Class A | Shares | Class B | Additional Paid in Capital | Accumulated Other Comprehensive Income | Retained Earnings | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | (In thousands) | | | | |
| Balance at February 2, 2002 | | $ | 36,009 | $ 36 | $ (6,237) | $ | $ 2,216 | $ | $ (3,985) |
| Shares issued in public offering | 20,764 | 21 | | | 347,318 | | | | 347,339 |
| Exercise of employee stock options (including tax benefit of $1,906) | 286 | | | | 2,917 | | | | 2,917 |
| Capital contribution from Barnes & Noble, Inc. | | | | | 150,000 | | | | 150,000 |
| Net earnings for the 52 weeks ended February 1, 2003 | | | | | | | 52,404 | | 52,404 |
| Balance at February 1, 2003 | 21,050 | 21 | 36,009 | 36 | 493,998 | | 54,620 | | 548,675 |
| Comprehensive income: | | | | | | | | | |
| Net earnings for the 52 weeks ended January 31, 2004 | | | | | | | 63,467 | | |
| Foreign currency translation | | | | | | 296 | | | |
| Total comprehensive income | | | | | | | | | 63,763 |
| Exercise of employee stock options (including tax benefit of $9,702) | 1,943 | 2 | | | 16,599 | | | | 16,601 |
| Treasury stock acquired, 2,304 shares | | | | | | | | (35,006) | (35,006) |
| Balance at January 31, 2004 | 22,993 | 23 | 36,009 | 36 | 510,597 | 296 | 118,087 | (35,006) | 594,033 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Comprehensive income: | | | | | | | | | |
| Net earnings for the 52 weeks ended January 29, 2005 | | | | | | | 60,926 | | |
| Foreign currency translation | | | | | | 271 | | | |
| Total comprehensive income | | | | | | | | | 61,197 |
| Exercise of employee stock options (including tax benefit of $5,082) | 1,196 | 1 | | | 14,555 | | | | 14,556 |
| Repurchase and retirement of Class B common stock | | | (6,107) | (6) | (24,383) | | (87,392) | | (111,781) |
| Treasury stock acquired, 959 shares | | | | | | | | (14,994) | (14,994) |
| Balance at January 29, 2005 | 24,189 | $ 24 | 29,902 | $ 30 | $ 500,769 | $ 567 | $ 91,621 | $ (50,000) | $ 543,011 |

See accompanying notes to consolidated financial statements.

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## GAMESTOP CORP.
## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| | | (In thousands) | |
| Cash flows from operating activities: | | | |
| Net earnings | $ 60,926 | $ 63,467 | $ 52,404 |
| Adjustments to reconcile net earnings to net cash flows provided by operating activities: | | | |
| Depreciation and amortization (including amounts in cost of sales) | 37,019 | 29,487 | 23,154 |
| Provision for inventory reserves | 17,808 | 12,901 | 14,071 |
| Amortization of loan cost | 432 | 313 | 242 |
| Deferred taxes | 4,752 | 5,713 | 4,710 |
| Tax benefit realized from exercise of stock options by employees | 5,082 | 9,702 | 1,906 |
| Loss on disposal of property and equipment | 382 | 213 | 205 |
| Increase in deferred rent and other long-term liabilities for scheduled rent increases in long-term leases | 5,349 | 338 | 329 |
| Increase in liability to landlords for tenant allowances, net | 1,644 | 937 | 498 |
| Minority interest | (96) | (298) | |
| Changes in operating assets and liabilities, net | | | |
| Receivables, net | (267) | (1,954) | (963) |
| Merchandise inventories | (10,578) | (72,712) | (37,089) |
| Prepaid expenses and other current assets | (4,060) | (4,111) | (1,872) |
| Prepaid taxes | 9,722 | (12,775) | |
| Accounts payable, accrued liabilities and accrued income taxes payable | 17,872 | 40,056 | 36,374 |
| Net cash flows provided by operating activities | 145,987 | 71,277 | 93,969 |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment | (98,305) | (64,484) | (40,628) |
| Acquisition of controlling interest in Gamesworld Group Limited, net of cash received | (62) | (3,027) | |
| Net increase in other noncurrent assets | (825) | (522) | (788) |
| Net cash flows used in investing activities | (99,192) | (68,033) | (41,416) |
| Cash flows from financing activities: | | | |
| Issuance of 20,764 shares relating to the public offering, net of the related expenses | | | 347,339 |

| | | | |
|---|---|---|---|
| Issuance of shares relating to employee stock options | 9,474 | 6,899 | 1,011 |
| Repayment of debt due to Barnes & Noble, Inc. | | | (250,000) |
| Repayment of debt of Gamesworld Group Limited | | (2,296) | |
| Purchase of treasury shares through repurchase program | (14,994) | (35,006) | |
| Repurchase of Class B shares | (111,781) | | |
| Issuance of debt relating to the Class B share repurchase | 74,020 | | |
| Repayment of debt relating to the Class B shares | (37,500) | | |
| Net increase in other payable to Barnes & Noble, Inc. | | | 377 |
| Net cash flows (used in) provided by financing activities | (80,781) | (30,403) | 98,727 |
| Exchange rate effect on cash and cash equivalents | 73 | 34 | |
| Net increase (decrease) in cash and cash equivalents | (33,913) | (27,125) | 151,280 |
| Cash and cash equivalents at beginning of period | 204,905 | 232,030 | 80,750 |
| Cash and cash equivalents at end of period | $ 170,992 | $ 204,905 | $ 232,030 |

See accompanying notes to consolidated financial statements.

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## GAMESTOP CORP.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

***Background and Basis of Presentation***

GameStop Corp. ( GameStop or the Company ) was incorporated under the laws of the State of Delaware in August 2001 as a holding company for GameStop, Inc. GameStop is a publicly held company. Until November 12, 2004, GameStop was a majority-owned subsidiary of Barnes & Noble, Inc. ( Barnes & Noble ).

The Company s wholly-owned subsidiary Babbage s Etc. LLC ( Babbage s ) began operations in November 1996. In October 1999, Babbage s was acquired by, and became a wholly-owned subsidiary of, Barnes & Noble. In June 2000, Barnes & Noble acquired Funco, Inc. ( Funco ) and thereafter, Babbage s became a wholly-owned subsidiary of Funco. In December 2000, Funco changed its name to GameStop, Inc.

GameStop is principally engaged in the sale of new and used video game systems and software, personal computer entertainment software and related accessories primarily through its GameStop trade name, a web site (gamestop.com) and *Game Informer* magazine. The Company operates its business as a single segment. The Company s stores, which totaled 1,826 at January 29, 2005, are located in major regional shopping malls and strip centers in 50 states, the District of Columbia, Ireland, Northern Ireland, Puerto Rico and Guam.

In February 2002, the Company completed a public offering of 20,764 shares of Class A common stock at $18.00 per share (the Offering ). The net proceeds of the Offering, after deducting applicable issuance costs and expenses, were $347,339. A portion of the net proceeds was used to repay $250,000 of intercompany debt owed to Barnes & Noble. Additionally, upon the effective date of the Offering, Barnes & Noble made a capital contribution of $150,000 for the remaining balance of the intercompany debt.

Upon the effective date of the Offering, the Company s Board of Directors approved the authorization of 5,000 shares of preferred stock, 300,000 shares of Class A common stock and 100,000 shares of Class B common stock. At the same time, the Company s common stock outstanding was converted to 36,009 shares of Class B common stock.

Until October 2004, all of the 36,009 shares of Class B common stock outstanding were held by Barnes & Noble. In October 2004, the Board of Directors authorized a repurchase of 6,107 shares of Class B common stock held by Barnes & Noble. The Company repurchased the shares at a price equal to $18.26 per share for aggregate consideration of $111,520 before costs of $261. The repurchased shares were immediately retired.

On November 12, 2004, Barnes & Noble distributed to its stockholders its remaining 29,902 shares of the Company s Class B common stock in a tax-free dividend. The Class B shares retained their super voting power of ten votes per share and are separately listed on the New York Stock Exchange under the symbol GME.B.

***Consolidation***

The consolidated financial statements include the accounts of GameStop, its wholly-owned subsidiaries and its majority-owned subsidiary, Gamesworld Group Limited ( Gamesworld ). 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 unless otherwise indicated.

***Year-End***

The Company s fiscal year is composed of the 52 or 53 weeks ending on the Saturday closest to the last day of January. Fiscal 2004 consisted of the 52 weeks ending on January 29, 2005. Fiscal 2003 consisted of the 52 weeks ending on January 31, 2004. Fiscal 2002 consisted of the 52 weeks ending on February 1, 2003.

## GAMESTOP CORP.
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

***Cash and Cash Equivalents***

The Company considers all short-term, highly-liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company s cash and cash equivalents are carried at cost, which approximates market value, and consist primarily of time deposits and money market investment accounts.

***Merchandise Inventories***

Our merchandise inventories are carried at the lower of cost or market using the average cost method. Used video game products traded in by customers are recorded as inventory at the amount of the store credit given to the customer. In valuing inventory, management is required to make assumptions regarding the necessity of reserves required to value potentially obsolete or over-valued items at the lower of cost or market. Management considers quantities on hand, recent sales, potential price protections and returns to vendors, among other factors, when making these assumptions. Inventory reserves as of January 29, 2005 and January 31, 2004 were $14,804 and $12,274, respectively.

***Property and Equipment***

Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is computed using the straight-line method over estimated useful lives (ranging from two to eight years). Maintenance and repairs are expensed as incurred, while betterments and major remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases, including option periods in which the exercise of the option is reasonably assured, (generally ranging from three to ten years). Capitalized lease acquisition costs are being amortized over the average lease terms of the underlying leases. Costs incurred in purchasing management information systems are capitalized and included in property and equipment; these costs are amortized over their estimated useful lives from the date the systems become operational.

The Company periodically reviews its property and equipment when events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. The Company assesses recoverability based on several factors, including management s intention with respect to its stores and those stores projected undiscounted cash flows. An impairment loss would be recognized for the amount by which the carrying amount of the assets exceeds the present value of their projected cash flows. No write-downs have been necessary by the Company through January 29, 2005.

***Goodwill***

Goodwill, aggregating $339,991, was recorded in the acquisition of Funco and through the application of push-down accounting in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 54 ( SAB 54 ) in connection with the acquisition of Babbage s by a subsidiary of Barnes & Noble. Goodwill in the amount of $2,931 was recorded in connection with the acquisition of Gamesworld in June 2003. Goodwill represents the excess purchase price over tangible net assets and identifiable intangible assets acquired.

Effective February 3, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ). SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead evaluate goodwill for impairment on at least an annual basis. Prior to the adoption of the provisions of SFAS 142, the Company s goodwill was amortized on a straight-line basis over a 30-year period. At February 2, 2002, accumulated amortization was $22,034.

In accordance with the requirements of SFAS 142, the Company completed the initial impairment test of the goodwill attributable to its reporting unit as of February 3, 2002, and concluded that none of its goodwill

**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

was impaired. As part of this analysis, the Company determined that it has one reporting unit based upon the similar economic characteristics of its operations. Fair value of this reporting unit was estimated using market capitalization methodologies. Subsequent to the acquisition of Gamesworld, the Company determined that it still has one reporting unit based upon the similar economic characteristics of its operations. The Company also evaluates the goodwill of its reporting unit for impairment at least annually, which the Company has elected to perform during the fourth quarter of each fiscal year. For fiscal 2004 and 2003, the Company determined that none of its goodwill was impaired. Note 7 provides additional information concerning goodwill.

***Revenue Recognition***

Revenue from the sales of the Company s products is recognized at the time of sale. The sales of used video game products are recorded at the retail price charged to the customer. Sales returns (which are not significant) are recognized at the time returns are made.

Subscription and advertising revenues are recorded upon release of magazines for sale to consumers and are stated net of sales discounts. Magazine subscription revenue is recognized on a straight-line basis over the subscription period.

***Customer Liabilities***

The Company establishes a liability upon the issuance of merchandise credits and the sale of gift cards. Revenue is subsequently recognized when the credits and gift cards are redeemed. In addition, income ( breakage ) is recognized quarterly on unused customer liabilities older than three years to the extent that the Company believes the likelihood of redemption by the customer is remote, based on historical redemption patterns. Breakage has historically been immaterial. To the extent that future redemption patterns differ from those historically experienced, there will be variations in the recorded breakage.

***Pre-Opening Expenses***

All costs associated with the opening of new stores are expensed as incurred. Pre-opening expenses are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

***Closed Store Expenses***

Upon a formal decision to close or relocate a store, the Company charges unrecoverable costs to expense. Such costs include the net book value of abandoned fixtures and leasehold improvements and a provision for future lease obligations, net of expected sublease recoveries. Costs associated with store closings are included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

***Advertising Expenses***

The Company expenses advertising costs for newspapers and other media when the advertising takes place. Advertising expenses for newspapers and other media during the 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003, were $8,881, $7,044 and $4,258, respectively.

***Income Taxes***

For the periods prior to the Offering, GameStop was included in the consolidated federal tax return of Barnes & Noble. Following the closing of the Offering, Barnes & Noble owned less than 80% of GameStop and, accordingly, was no longer permitted to consolidate GameStop s operations for income tax purposes. Since the close of the Offering, GameStop has filed income tax returns as a C corporation on a stand-alone

**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

basis. Accordingly, the financial statements reflect income tax expense as if GameStop had filed separate income tax returns as a C corporation on a stand-alone basis. The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes ( SFAS 109 ). SFAS 109 utilizes an asset and liability approach, and deferred taxes are determined based on the estimated future tax effect of differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates.

***Lease Accounting***

The Company, similar to many other retailers, has revised its method of accounting for rent expense (and related deferred rent liability) and leasehold improvements funded by landlord incentives for allowances under operating leases (tenant improvement allowances) to conform to generally accepted accounting principles ( GAAP ), as recently clarified by the Chief Accountant of the SEC in a February 7, 2005 letter to the American Institute of Certified Public Accountants. For all stores opened since the beginning of fiscal 2002, the Company had calculated straight-line rent expense using the initial lease term, but was generally depreciating leasehold improvements over the shorter of their estimated useful lives or the initial lease term plus the option periods. The Company corrected its calculation of straight-line rent expense to include the impact of escalating rents for periods in which it is reasonably assured of exercising lease options and to include in the lease term any period during which the Company is not obligated to pay rent while the store is being constructed ( rent holiday ). The Company also corrected its calculation of depreciation expense for leasehold improvements for those leases which do not include an option period. Because the effects of the correction were not material to any previous years, a non-cash, after-tax adjustment of $3,312 was made in the fourth quarter of fiscal 2004 to correct the method of accounting for rent expense (and related deferred rent liability). Of the $3,312 after-tax adjustment, $1,761 pertained to the accounting for rent holidays, $1,404 pertained to the calculation of straight-line rent expense to include the impact of escalating rents for periods in which the Company is reasonably assured of exercising lease options and $147 pertained to the calculation of depreciation expense for leasehold improvements for the small portion of leases which do not include an option period. The aggregate effect of these corrections relating to prior years was $1,929 ($948 for fiscal 2003, $397 for fiscal 2002 and $584 for years prior to fiscal 2002). The correction does not affect historical or future cash flows or the timing of payments under related leases.

In addition, the Company has changed its classification of tenant improvement allowances on its balance sheets and statements of cash flows. Like many other retailers, the Company had historically classified tenant improvement allowances as reductions of property and equipment on the Company s balance sheets, as reductions in depreciation and amortization in the Company s statements of operations and as reductions in capital expenditures, an investing activity, on the Company s statements of cash flows. In order to comply with the provisions of FASB Technical Bulletin No. 88-1, Issues Relating to Accounting for Leases ( FTB 88-1 ), however, the Company has reclassified tenant improvement allowances as deferred rent liabilities (in long-term liabilities) on the Company s balance sheets, as a reduction of rent expense (in selling, general and administrative expenses) in the statements of operations and as an operating activity on the statements of cash flows. The effect of this reclassification increased property and equipment and deferred rent and other long-term liabilities on the Company s balance sheets by $4,671 as of January 29, 2005 and $3,265 as of January 31, 2004, decreased selling, general and administrative expense and increased depreciation expense in the Company s statements of operations by $671, $540 and $601 in fiscal 2004, 2003 and 2002, respectively, and increased net cash flows provided by operating activities and increased net cash flows used in investing activities in the Company s statements of cash flows by $2,315, $1,477 and $1,099 in fiscal 2004, 2003 and 2002, respectively.

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**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Foreign Currency Translation***

Gamestop has determined that the functional currency of its foreign subsidiary is the subsidiary s local currency (the EURO). The assets and liabilities of the subsidiary are translated at the applicable exchange rate as of the end of the balance sheet date and revenue and expenses are translated at an average rate over the period. Currency translation adjustments are recorded as a component of other comprehensive income.

***Net Earnings Per Common Share***

Net earnings per Class A and Class B common share is presented in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share ( SFAS 128 ). Basic earnings per Class A and Class B common share is computed using the weighted average number of common shares outstanding during the period and excludes any dilutive effects of the Company s outstanding options.

Diluted earnings per Class A and Class B common share is computed using the weighted average number of common and dilutive common shares outstanding during the period. Note 4 provides additional information regarding net earnings per common share.

***Stock Options***

Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation, ( SFAS 123 ) encourages but does not require companies to record compensation cost for stock based employee compensation plans at fair value. As permitted under Statement of Financial Accounting Standards No. 148, Accounting for Stock Based Compensation Transition and Disclosure, ( SFAS 148 ) which amended SFAS 123, the Company has elected to continue to account for stock based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company s stock at the date of the grant over the amount an employee must pay to acquire the stock. Note 13 provides additional information regarding the Company s stock option plan.

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**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table illustrates the effect on net earnings and net earnings per Class A and Class B common share if the Company had applied the fair value recognition provisions of SFAS 123 to stock based employee compensation for the options granted under its plans:

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| | (In thousands, except per share data) | | |
| Net earnings, as reported | $ 60,926 | $ 63,467 | $ 52,404 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | 9,405 | 7,888 | 8,287 |
| Pro forma net earnings | $ 51,521 | $ 55,579 | $ 44,117 |
| Net earnings per Class A and Class B common share basic, as reported | $ 1.11 | $ 1.13 | $ 0.93 |
| Net earnings per Class A and Class B common share basic, pro forma | $ 0.94 | $ 0.99 | $ 0.78 |
| Net earnings per Class A and Class B common share diluted, as reported | $ 1.05 | $ 1.06 | $ 0.87 |
| Net earnings per Class A and Class B common share diluted, pro forma | $ 0.89 | $ 0.93 | $ 0.73 |

The weighted-average fair value of the options granted during the 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003 were estimated at $7.86, $5.30 and $8.08, respectively, using the Black-Scholes option pricing model with the following assumptions:

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| Volatility | 60.1% | 61.6% | 61.9% |
| Risk-free interest rate | 3.3% | 3.2% | 4.6% |
| Expected life (years) | 6.0 | 6.0 | 6.0 |
| Expected dividend yield | 0% | 0% | 0% |

In December 2004, the FASB issued Statement of Financial Accounting Standard No. 123 (Revised 2004), *Share-Based Payment*, ( FAS 123(R) ). This Statement requires companies to expense the estimated fair value of stock options and similar equity instruments issued to employees. The fair value concepts were not changed significantly in

FAS 123(R), however, in adopting this Standard, companies must choose among alternative valuation models and amortization assumptions. The valuation model and amortization assumption the Company has used above continue to be available, but the Company has not yet completed its assessment of the alternatives. FAS 123(R) will be effective for the Company beginning with the third quarter of 2005. Transition options allow companies to choose whether to adopt prospectively, restate results to the beginning of the year, or to restate prior periods with the amounts on a basis consistent with pro forma amounts that have been included in the footnotes. The Company has not yet concluded which transition option it will select.

**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Use of Estimates***

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.

***Fair Values of Financial Instruments***

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and the note payable reported in the accompanying consolidated balance sheets approximate fair value due to the short-term maturities of these assets.

***Vendor Concentration***

The Company s largest vendors are Electronic Arts, Inc., Nintendo of America, Inc. and Microsoft Corp., which accounted for 14%, 13% and 12%, respectively, of the Company s new product purchases in fiscal 2004.

***Classifications***

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 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003 these purchasing, receiving and distribution costs amounted to $9,203, $9,480 and $10,123, 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 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003 these processing fees amounted to $12,014, $10,703 and $10,705, respectively.

***Reclassifications***

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

## 2. Vendor Arrangements

The Company and approximately 75 of its vendors participate in cooperative advertising programs and other vendor marketing programs in which the vendors provide the Company with cash consideration in exchange for marketing and advertising the vendors products. Our accounting for cooperative advertising arrangements and other vendor marketing programs, in accordance with FASB Emerging Issues Task Force Issue 02-16 or EITF 02-16, results in a portion of the consideration received from our vendors reducing the product costs in inventory rather than as an offset to our marketing and advertising costs as in years prior to fiscal 2003. The consideration serving as a reduction in inventory is recognized in cost of sales as inventory is sold. The amount of vendor allowances to be recorded as a reduction of inventory was determined by calculating the ratio of vendor allowances in excess of specific, incremental and identifiable advertising and promotional costs to merchandise purchases. The Company then applied this ratio to the value of inventory in determining the amount of vendor reimbursements to be recorded as a reduction to inventory reflected on the balance sheet.

**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The cooperate advertising programs and other vendor marketing programs generally cover a period from a few days up to a few weeks and include items such as product catalog advertising, in-store display promotions, internet advertising, co-op print advertising, product training and promotion at the Company s annual store managers conference. The allowance for each event is negotiated with the vendor and requires specific performance by the Company to be earned.

Vendor allowances received in the amount of $21,913 and $20,035 were netted against advertising expenses in the 52 weeks ended January 29, 2005 and January 31, 2004, respectively. Vendor allowances received in excess of advertising expenses were recorded as a reduction of cost of sales of $29,917 and $26,779 for the 52 weeks ended January 29, 2005 and January 31, 2004, respectively, less $66 and $5,210, respectively, for the effect of the amounts deferred as a reduction in inventory.

Because prior periods have not been restated, the following table presents the 52 weeks ended January 31, 2004 and February 1, 2003 on a pro forma basis as if EITF 02-16 had been implemented prior to the beginning of fiscal 2002:

| | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|
| | (In thousands, except per share data) | |
| Sales | $ 1,578,838 | $ 1,352,791 |
| Cost of sales | 1,142,225 | 987,184 |
| Gross profit | 436,613 | 365,607 |
| Selling, general and administrative expenses | 299,193 | 255,757 |
| Depreciation and amortization | 29,368 | 23,114 |
| Operating earnings | 108,052 | 86,736 |
| Interest income | (1,467) | (1,998) |
| Interest expense | 663 | 1,368 |
| Earnings before income tax expense | 108,856 | 87,366 |
| Income tax expense | 43,108 | 35,160 |
| Net earnings | $ 65,748 | $ 52,206 |
| Net earnings per Class A and Class B common share basic | $ 1.17 | $ 0.93 |
| Weighted average shares of common stock basic | 56,330 | 56,289 |
| Net earnings per Class A and Class B common share diluted | $ 1.10 | $ 0.86 |
| Weighted average shares of common stock diluted | 59,764 | 60,419 |

**3. Acquisitions**

On June 23, 2003, the Company acquired a controlling interest in Gamesworld, an Ireland-based electronic games retailer, for approximately $3,340. The acquisition was accounted for using the purchase method of accounting and, accordingly, the results of operations for the period subsequent to the acquisition are included in the consolidated financial statements. The excess of purchase price over the net assets acquired, in the amount of approximately $2,931, has been recorded as goodwill. The pro forma effect assuming the acquisition of Gamesworld at the beginning of fiscal 2002 and fiscal 2003 is not material.

**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

The Company has two classes of common stock and computes earnings per share using the two-class method in accordance with Financial Accounting Standard No. 128 *Earnings per Share.* As discussed in Note 19, the holders of the Company s Class A and Class B common stock have identical rights to dividends or to distributions in the event of a liquidation, dissolution or winding up of the Company. Accordingly, the earnings per common share for the two classes of common stock are the same. A reconciliation of shares used in calculating basic and diluted net earnings per common share follows:

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| | (In thousands, except per share data) | | |
| Net earnings | $ 60,926 | $ 63,467 | $ 52,404 |
| Weighted average common shares outstanding | | | |
| Class A | 20,683 | 20,321 | 20,280 |
| Class B | 33,979 | 36,009 | 36,009 |
| Weighted common shares outstanding | 54,662 | 56,330 | 56,289 |
| Dilutive effect of options and warrants on Class A common stock | 3,134 | 3,434 | 4,130 |
| Common shares and dilutive potential common shares | 57,796 | 59,764 | 60,419 |
| Net earnings per Class A and Class B common share: | | | |
| Basic | $ 1.11 | $ 1.13 | $ 0.93 |
| Diluted | $ 1.05 | $ 1.06 | $ 0.87 |

The following table contains information on 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 Shares | Range of Exercise Prices | Expiration Dates |
|---|---|---|---|
| | (In thousands, except per share data) | | |
| 52 Weeks Ended January 29, 2005 | 30 | $21.25 | 2012 |
| 52 Weeks Ended January 31, 2004 | 3,831 | $18.00-$21.25 | Through 2013 |
| 52 Weeks Ended February 1, 2003 | 4,372 | $16.48-$21.25 | Through 2012 |

### 5. Receivables, Net

Receivables represent primarily bankcard and other receivables as follows:

| | January 29, 2005 | January 31, 2004 |
|---|---|---|
| | (In thousands) | |
| Bankcard receivables | $ 5,946 | $ 5,147 |
| Other receivables | 4,259 | 4,787 |
| Allowance for doubtful accounts | (393) | (389) |
| Total receivables, net | $ 9,812 | $ 9,545 |

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**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Accrued Liabilities**

Accrued liabilities consist of the following:

| | January 29, 2005 | January 31, 2004 |
|---|---|---|
| | (In thousands) | |
| Customer liabilities | $ 35,213 | $ 26,797 |
| Deferred revenue | 9,484 | 7,255 |
| Accrued rent | 6,090 | 7,378 |
| Employee compensation and related taxes | 5,750 | 6,525 |
| Other taxes | 5,129 | 5,033 |
| Other accrued liabilities | 33,317 | 26,851 |
| Total accrued liabilities | $ 94,983 | $ 79,839 |

**7. Goodwill**

The Company adopted the transitional disclosures of SFAS 142 effective February 3, 2002 (see Note 1). The changes in the carrying amount of goodwill for the Company s business segment for the 52 weeks ended January 29, 2005 and January 31, 2004 were as follows:

| | Goodwill |
|---|---|
| | (In thousands) |
| Balance at February 1, 2003 | $ 317,957 |
| Addition for the acquisition of Gamesworld Group Limited | 2,869 |
| Impairment for the 52 weeks ended January 31, 2004 | |
| Balance at January 31, 2004 | 320,826 |
| Additional cost relating to the acquisition of Gamesworld Group Limited | 62 |
| Impairment for the 52 weeks ended January 29, 2005 | |
| Balance at January 29, 2005 | $ 320,888 |

**8. Debt**

In June 2004, the Company amended and restated its $75,000 senior secured revolving credit facility, which now expires in June 2009. The revolving credit facility is governed by an eligible inventory borrowing base agreement, defined as 55% of non-defective inventory, net of certain reserves. Loans incurred under the credit facility will be maintained from time to time, at the Company s option, as: (1) Prime Rate loans which bear interest at the prime rate (defined in the credit facility as the higher of (a) the administrative agent s announced prime rate, or (b)1/2 of 1% in excess of the federal funds effective rate, each as in effect from time to time); or (2) LIBO Rate loans bearing interest at the LIBO Rate for the applicable interest period, in each case plus an applicable interest margin. In addition, the Company is required to pay a commitment fee, currently 0.375%, for any unused amounts of the revolving credit facility. Any borrowings under the revolving credit facility are secured by the assets of the Company. If availability under the revolving credit facility is less than $20,000, the revolving credit facility restricts the Company s ability to pay dividends. There have been no borrowings under the revolving credit facility.

In October 2004, the Company issued a promissory note in favor of Barnes & Noble in the principal amount of $74,020 in connection with the repurchase of Class B common shares held by Barnes & Noble. A payment of $37,500 was made on January 15, 2005, as required by the promissory note, which also requires

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**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

payments of $12,173 due on October 15, 2005, October 15, 2006 and October 15, 2007. The note is unsecured and bears interest at 5.5% per annum, payable when principal installments are due.

## 9. Comprehensive Income

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

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| | | (In thousands) | |
| Net earnings | $ 60,926 | $ 63,467 | $ 52,404 |
| Other comprehensive income: | | | |
| Foreign currency translation adjustments | 271 | 296 | |
| Total comprehensive income | $ 61,197 | $ 63,763 | $ 52,404 |

## 10. Leases

The Company leases retail stores, warehouse facilities, office space and equipment. These are generally leased under noncancelable agreements that expire at various dates through 2034 with various renewal options for additional periods. The agreements, which have been classified as operating leases, generally provide for both minimum and percentage rentals and require the Company to pay all insurance, taxes and other maintenance costs. Leases with step rent provisions, escalation clauses or other lease concessions are accounted for on a straight-line basis over the lease term, which includes renewal option periods when the Company is reasonably assured of exercising the renewal options and includes rent holidays (periods in which the Company is not obligated to pay rent). The Company does not have leases with capital improvement funding or leases with payments dependent upon indexes or rates. Percentage rentals are based on sales performance in excess of specified minimums at various stores.

Approximate rental expenses under operating leases are as follows:

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| | | (In thousands) | |
| Minimum | $ 77,058 | $ 58,016 | $ 47,316 |
| Percentage rentals | 4,471 | 7,418 | 10,704 |
| | $ 81,529 | $ 65,434 | $ 58,020 |

**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Future minimum annual rentals, excluding percentage rentals, required under leases that had initial, noncancelable lease terms greater than one year, as of January 29, 2005 are approximately:

| Year Ended | Amount (In thousands) |
|---|---|
| January 2006 | $ 70,045 |
| January 2007 | 63,084 |
| January 2008 | 57,756 |
| January 2009 | 53,162 |
| January 2010 | 45,689 |
| Thereafter | 154,646 |
| | $ 444,382 |

**11. Litigation**

On May 29, 2003, former Store Manager Carlos Moreira ( Moreira ) filed a class action lawsuit against the Company and its wholly-owned subsidiary Gamestop, Inc. (collectively GameStop ) in Los Angeles County Superior Court alleging that GameStop s salaried retail managers were misclassified as exempt and should have been paid overtime. Moreira was seeking to represent a class of current and former salaried retail managers who were employed by GameStop in California at any time between May 29, 1999 and September 30, 2004. Moreira alleged claims for violation of California Labor Code sections 203, 226 and 1194 and California Business and Professions Code section 17200. Moreira was seeking recovery of unpaid overtime, interest, penalties, attorneys fees and costs. During court-ordered mediation in March 2004, the parties reached a settlement which defined the class of current and former salaried retail managers and will result in a cost to the Company of approximately $2,750. On January 28, 2005, the court granted approval of the settlement. The matter is now in the claims administration process. A provision for this proposed settlement was recorded in the 13 weeks ended May 1, 2004. Management expects that the final settlement and resolution of this case will take place in the second quarter of fiscal 2005.

On October 20, 2004, former Store Manager John P. Kurtz ( Kurtz ) filed a collective action lawsuit against the Company in U.S. District Court, Western District of Louisiana, Lafayette/ Opelousas Division, alleging that GameStop s salaried retail managers were misclassified as exempt and should have been paid overtime, in violation of the Fair Labor Standards Act. Kurtz is seeking to represent all current and former salaried retail managers who were employed by GameStop for the three years before October 20, 2004. Kurtz is seeking recovery of unpaid overtime, interest, penalties, attorneys fees and costs. On January 12, 2005, GameStop filed an answer to the complaint and a motion to transfer the action to the Northern District of Texas, Fort Worth Division. GameStop is awaiting the court s decision on the motion. Management intends to vigorously defend this action and does not believe there is sufficient information to estimate the amount of the possible loss, if any, resulting from the lawsuit.

On February 14, 2005, Steve Strickland, as personal representative of the Estate of Arnold Strickland, deceased, and Henry Mealer, as personal representative of the Estate of Ace Mealer, deceased, filed a wrongful death lawsuit against GameStop, Sony, Take-Two Interactive and Wal-Mart (collectively, the Defendants ) and Devin Moore in the Circuit Court of Fayette County, Alabama, 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 and Ace Mealer. Plaintiffs are seeking damages in excess of $600 million under the Alabama wrongful death statute. GameStop and the other defendants are in the process of preparing an initial response and intend to vigorously defend this action.

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**GAMESTOP CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In the ordinary course of our business, we are from time to time subject to various other legal proceedings. We do not believe that any such other legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations or financial condition.

## 12. Income Taxes

The provision for income tax consisted of the following:

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| | | (In thousands) | |
| Current tax expense (benefit): | | | |
| Federal | $ 24,330 | $ 21,671 | $ 22,945 |
| State | 4,455 | 4,733 | 5,736 |
| Foreign | (634) | (98) | |
| | 28,151 | 26,306 | 28,681 |
| Deferred tax expense: | | | |
| Federal | 4,578 | 4,690 | 3,768 |
| State | 6 | 1,023 | 942 |
| Foreign | 168 | | |
| | 4,752 | 5,713 | 4,710 |
| Charge in lieu of income taxes, relating to the tax effect of stock option tax deduction | 5,082 | 9,702 | 1,906 |
| Total income tax expense | $ 37,985 | $ 41,721 | $ 35,297 |

The difference in income tax provided and the amounts determined by applying the statutory rate to income before income taxes result from the following:

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| Federal statutory tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of federal effect | 3.5 | 4.6 | 5.2 |
| Foreign income taxes | 0.4 | (0.1) | 0.0 |
| Other (including permanent differences) | (0.5) | 0.2 | 0.0 |
| | 38.4% | 39.7% | 40.2% |

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**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Differences between financial accounting principles and tax laws cause differences between the bases of certain assets and liabilities for financial reporting purposes and tax purposes. The tax effects of these differences, to the extent they are temporary, are recorded as deferred tax assets and liabilities under SFAS 109 and consisted of the following components:

| | January 29, 2005 | January 31, 2004 |
|---|---|---|
| | (In thousands) | |
| Deferred tax asset: | | |
| Allowance for doubtful accounts | $ 59 | $ 62 |
| Inventory capitalization costs | 1,827 | 1,694 |
| Inventory obsolescence reserve | 3,640 | 4,200 |
| Organization costs | 32 | |
| Accrued liabilities | 1,511 | 273 |
| Gift certificate liability | 1,124 | 1,912 |
| Deferred rents | 3,438 | 1,353 |
| Accrued state taxes | (196) | (480) |
| Total deferred tax benefits | 11,435 | 9,014 |
| Deferred tax liabilities: | | |
| Goodwill | (20,131) | (15,814) |
| Prepaid expenses | (2,561) | |
| Translation adjustment | (368) | (200) |
| Fixed assets | (4,073) | (4,170) |
| Accrued state taxes | 876 | 1,100 |
| Total deferred tax liabilities | (26,257) | (19,084) |
| Net | $ (14,822) | $ (10,070) |
| Financial statements: | | |
| Current deferred tax assets | $ 5,435 | $ 7,661 |
| Non-current deferred tax liabilities | $ (20,257) | $ (17,731) |

## 13. Stock Option Plan

Effective August 2001, Barnes & Noble approved the 2001 Incentive Plan of GameStop Corp, which was amended by stockholder vote on July 2, 2003 (the Option Plan ).

The Option Plan provides a maximum aggregate amount of 20,000 shares of Class A common stock with respect to which options may be granted and provides for the granting of incentive stock options, non-qualified stock options, and restricted stock, which may include, without limitation, restrictions on the right to vote such shares and restrictions on the right to receive dividends on such shares. The options to purchase Class A common shares generally are issued at fair market value on the date of grant. Generally, the options vest and become exercisable ratably over a three-year period, commencing one year after the grant date, and expire ten years from issuance.

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**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the status of the Company s stock options is presented below:

| | Shares (Thousands of shares) | Weighted-Average Exercise Price |
|---|---|---|
| Balance, February 2, 2002 | 8,811 | $ 4.03 |
| Granted | 4,545 | $ 18.02 |
| Exercised | (287) | $ 3.53 |
| Forfeited | (309) | $ 12.10 |
| Balance, February 1, 2003 | 12,760 | $ 8.83 |
| Granted | 1,119 | $ 12.19 |
| Exercised | (1,943) | $ 3.55 |
| Forfeited | (629) | $ 16.55 |
| Balance, January 31, 2004 | 11,307 | $ 9.63 |
| Granted | 1,676 | $ 18.40 |
| Exercised | (1,196) | $ 7.93 |
| Forfeited | (381) | $ 16.81 |
| Balance, January 29, 2005 | 11,406 | $ 10.86 |

The options granted in fiscal 2002 included 4,500 options granted to employees on February 12, 2002, in connection with the Offering, at an exercise price of $18.00 per share (the per share offering price).

The following table summarizes information as of January 29, 2005 concerning outstanding and exercisable options:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Number Outstanding (000s) | Weighted-Average Remaining Life | Weighted-Average Contractual Price | Number Exercisable (000s) | Weighted-Average Exercise Price |
| $ 3.53 $ 4.51 | 5,643 | 6.26 | $ 4.31 | 5,643 | $ 4.31 |
| $11.80 $12.71 | 740 | 8.18 | $ 11.89 | 194 | $ 11.84 |
| $15.10 $16.48 | 199 | 8.98 | $ 15.28 | 43 | $ 15.53 |
| $18.00 $21.25 | 4,824 | 7.66 | $ 18.19 | 2,220 | $ 18.03 |
| $ 3.53 $21.25 | 11,406 | 7.03 | $ 10.86 | 8,100 | $ 8.31 |

**14. Employees Defined Contribution Plan**

The Company sponsors a defined contribution plan (the Savings Plan ) for the benefit of substantially all of its employees who meet certain eligibility requirements, primarily age and length of service. The Savings Plan allows employees to invest up to 15% of their current gross cash compensation invested on a pre-tax basis, at their option. The Company s optional contributions to the Savings Plan are generally in amounts based upon a certain percentage of the employees contributions. The Company s contributions to the Savings Plan during the 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003, were $992, $849 and $715, respectively.

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**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**15. Certain Relationships and Related Transactions**

The Company operates departments within ten bookstores operated by Barnes & Noble. The Company pays a license fee to Barnes & Noble in amounts equal to 7.0% of 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 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003, these charges amounted to $859, $974 and $1,103, respectively.

The Company participates in Barnes & Noble s worker s compensation, property and general liability insurance programs. The costs incurred by Barnes & Noble under these programs are allocated to the Company based upon the Company s total payroll expense, property and equipment, and insurance claim history. Management deems the allocation methodology to be reasonable. During the 52 weeks ended January 29, 2005, January 31, 2004 and February 1, 2003, these allocated charges amounted to $2,662, $2,363 and $1,726, respectively. The Company s participation in Barnes & Noble s insurance programs will expire in fiscal 2005 and the Company will secure new insurance coverage.

In July 2003, the Company purchased an airplane from a company controlled by a member of the Board of Directors. The purchase price was $9,500 and was negotiated through an independent third party following an independent appraisal.

In October 2004, the Board of Directors authorized a repurchase of Class B common stock held by Barnes & Noble. The Company repurchased 6,107 shares of Class B common stock at a price equal to $18.26 per share for aggregate consideration before expenses of $111,520. The repurchase price per share was determined by using a discount of 3.5% on the last reported trade of the Company s Class A common stock on the New York Stock Exchange prior to the time of the transaction. The Company paid $37,500 in cash and issued a promissory note in the principal amount of $74,020, which is payable in installments over the next three years and bears interest at 5.5% per annum, payable when principal installments are due. The Company made a principal payment of $37,500 on the promissory note in January 2005. Interest expense on the promissory note for the 52 weeks ended January 29, 2005 totaled $1,271.

**16. Significant Products**

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

| | 52 Weeks Ended January 29, 2005 | | 52 Weeks Ended January 31, 2004 | | 52 Weeks Ended February 1, 2003 | |
|---|---|---|---|---|---|---|
| | **Sales** | **Percent of Total** | **Sales** | **Percent of Total** | **Sales** | **Percent of Total** |
| **Sales:** | | | | | | |
| New video game hardware | $ 209.2 | 11.4% | $ 198.1 | 12.6% | $ 216.8 | 16.0% |
| New video game software | 776.7 | 42.1% | 647.9 | 41.0% | 524.7 | 38.8% |
| Used video game products | 511.8 | 27.8% | 403.3 | 25.5% | 296.4 | 21.9% |
| Other | 345.1 | 18.7% | 329.5 | 20.9% | 314.9 | 23.3% |
| Total | $ 1,842.8 | 100.0% | $ 1,578.8 | 100.0% | $ 1,352.8 | 100.0% |

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**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| | 52 Weeks Ended January 29, 2005 | | 52 Weeks Ended January 31, 2004 | | 52 Weeks Ended February 1, 2003 | |
|---|---|---|---|---|---|---|
| | Gross Profit | Gross Profit Percent | Gross Profit | Gross Profit Percent | Gross Profit | Gross Profit Percent |
| **Gross Profit:** | | | | | | |
| New video game hardware | $ 8.5 | 4.1% | $ 10.6 | 5.3% | $ 4.4 | 2.0% |
| New video game software | 151.9 | 19.6% | 128.6 | 19.9% | 93.7 | 17.9% |
| Used video game products | 231.6 | 45.3% | 179.3 | 44.5% | 142.8 | 48.2% |
| Other | 117.3 | 34.0% | 114.4 | 34.7% | 99.7 | 31.7% |
| Total | $ 509.3 | 27.6% | $ 432.9 | 27.4% | $ 340.6 | 25.2% |

## 17. Supplemental Cash Flow Information

| | 52 Weeks Ended January 29, 2005 | 52 Weeks Ended January 31, 2004 | 52 Weeks Ended February 1, 2003 |
|---|---|---|---|
| | | (In thousands) | |
| Cash paid during the period for: | | | |
| Interest | $ 1,447 | $ 308 | $ 47,236 |
| Income taxes | 19,903 | 56,555 | 14,641 |
| Subsidiaries acquired: | | | |
| Goodwill | 62 | 2,869 | |
| Cash received in acquisition | | 252 | |
| Net assets acquired (or liabilities assumed) | | 158 | |
| Cash paid | $ 62 | $ 3,279 | $ |
| Non-cash financing activity: | | | |
| Barnes & Noble capital contribution | $ | $ | $ 150,000 |

## 18. Repurchase of Equity Securities

In March 2003, the Board of Directors authorized a common stock repurchase program for the purchase of up to $50,000 of the Company s Class A common shares. The Company was authorized to repurchase shares from time to time in the open market or through privately negotiated transactions, depending on prevailing market conditions and other factors. During the 52 weeks ended January 29, 2005, the Company repurchased 959 shares at an average share price of $15.64. During the 52 weeks ended January 30, 2004, the Company repurchased 2,304 shares at an average share price of $15.19. From the inception of this repurchase program through January 29, 2005, the Company repurchased 3,263 shares at an average share price of $15.32, totaling $50,000, and, as of January 29, 2005, had no amount remaining available for purchases under this repurchase program. The repurchased shares will be held in treasury.

In October 2004, the Board of Directors authorized a repurchase of Class B common stock held by Barnes & Noble. The Company repurchased 6,107 shares of Class B common stock at a price equal to

**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

$18.26 per share for aggregate consideration before expenses of $111,520. The repurchased shares were immediately retired.

**19. Shareholders Equity**

The holders of Class A common stock and Class B common stock generally have identical rights except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to ten votes per share on all matters to be voted on by stockholders. Holders of Class A common stock and Class B common stock will share in an equal amount per share in any dividend declared by the board of directors, subject to any preferential rights of any outstanding preferred stock. In the event of our liquidation, dissolution or winding up, all holders of common stock, regardless of class, are entitled to share ratably in any assets available for distribution to holders of shares of common stock after payment in full of any amounts required to be paid to holders of preferred stock.

On October 25, 2004, the Board of Directors of the Company declared a dividend of one right (a Right ) for each outstanding share of the Company s Class A common stock and Class B common stock (together the Common Stock ). The distribution of the Rights was made on October 28, 2004 to stockholders of record on that date. Each Right entitles the holder to purchase from the Company one one-thousandth of a share of a new series of preferred stock, designated as Series A Junior Participating Preferred Stock (the Series A Preferred Stock ), at a price of $100.00 per one one-thousandth of a share. The Rights will be exercisable only if a person or group acquires 15% or more of the voting power of the Company s outstanding Common Stock or announces a tender offer or exchange offer, the consummation of which would result in such person or group owning 15% or more of the voting power of the Company s outstanding Common Stock.

If a person or group acquires 15% or more of the voting power of the Company s outstanding Common Stock, each Right will entitle a holder (other than such person or any member of such group) to purchase, at the Right s then current exercise price, a number of shares of Common Stock having a market value of twice the exercise price of the Right. In addition, if the Company is acquired in a merger or other business combination transaction or 50% or more of its consolidated assets or earning power are sold at any time after the Rights have become exercisable, each Right will entitle its holder to purchase, at the Right s then current exercise price, a number of the acquiring company s common shares having a market value at that time of twice the exercise price of the Right. Furthermore, at any time after a person or group acquires 15% or more of the voting power of the outstanding Common Stock of the Company but prior to the acquisition of 50% of such voting power, the Board of Directors may, at its option, exchange part or all of the Rights (other than Rights held by the acquiring person or group) at an exchange rate of one one-thousandth of a share of Series A Preferred Stock or one share of the Company s Common Stock for each Right.

The Company will be entitled to redeem the Rights at any time prior to the acquisition by a person or group of 15% or more of the voting power of the outstanding Common Stock of the Company, at a price of $.01 per Right. The Rights will expire on October 28, 2014.

The Company has 5,000 shares of $.001 par value preferred stock authorized for issuance, of which 500 shares have been designated by the Board of Directors as Series A Preferred Stock and reserved for issuance upon exercise of the Rights. Each such share of Series A Preferred Stock will be nonredeemable and junior to any other series of preferred stock the Company may issue (unless otherwise provided in the terms of such stock) and will be entitled to a preferred dividend equal to the greater of $1.00 or one thousand times any dividend declared on the Company s Common Stock. In the event of liquidation, the holders of Series A Preferred Stock will receive a preferred liquidation payment of $1,000.00 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon. Each share of Series A Preferred Stock will have ten thousand votes, voting together with the Company s Common Stock. However, in the event that dividends on the Series A Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, holders

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**GAMESTOP CORP.**
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of the Series A Preferred Stock shall have the right, voting as a class, to elect two of the Company s Directors. In the event of any merger, consolidation or other transaction in which the Company s Common Stock is exchanged, each share of Series A Preferred Stock will be entitled to receive one thousand times the amount and type of consideration received per share of the Company s Common Stock. At January 29, 2005 there were no shares of Series A Preferred Stock outstanding.

### 20. Unaudited Quarterly Financial Information

The following table sets forth certain unaudited quarterly consolidated statement of operations information for the fiscal years ended January 29, 2005 and January 31, 2004. The unaudited quarterly information includes all normal recurring adjustments that management considers necessary for a fair presentation of the information shown.

| | Fiscal Year Ended January 29, 2005 | | | | Fiscal Year Ended January 31, 2004 | | | |
|---|---|---|---|---|---|---|---|---|
| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
| | | | | (In thousands) | | | | |
| Sales | $ 371,736 | $ 345,593 | $ 416,737 | $ 708,740 | $ 321,741 | $ 305,674 | $ 326,042 | $ 625,381 |
| Gross profit | 104,642 | 106,286 | 118,959 | 179,413 | 84,640 | 88,032 | 97,783 | 162,490 |
| Operating earnings(1) | 10,770 | 12,545 | 19,852 | 55,980 | 10,689 | 10,849 | 17,891 | 64,955 |
| Net earnings(2) | 6,678 | 7,672 | 12,059 | 34,517 | 6,611 | 6,606 | 10,693 | 39,557 |
| Net earnings per Class A and Class B common share basic(3) | 0.12 | 0.14 | 0.22 | 0.68 | 0.12 | 0.12 | 0.19 | 0.71 |
| Net earnings per Class A and Class B common share diluted(3) | 0.11 | 0.13 | 0.21 | 0.64 | 0.11 | 0.11 | 0.18 | 0.67 |

(1) Includes the following pre-tax charges:

$2,750 in the first quarter of the fiscal year ended January 29, 2005 attributable to the California labor litigation settlement,

$2,800 in the third quarter of the fiscal year ended January 29, 2005 attributable to the professional fees related to the spin-off by Barnes & Noble of the Company s Class B common shares, and

$5,373 in the fourth quarter of the fiscal year ended January 29, 2005 attributable to correcting the Company s method of accounting for rent expense and depreciation expense on leasehold improvements for those leases that do not contain a renewal option.

(2) Includes the following after-tax charges:

$1,708 in the first quarter of the fiscal year ended January 29, 2005 attributable to the California labor litigation settlement,

$1,739 in the third quarter of the fiscal year ended January 29, 2005 attributable to the professional fees related to the spin-off by Barnes & Noble of the Company s Class B common shares, and

$3,312 in the fourth quarter of the fiscal year ended January 29, 2005 attributable to correcting the Company s method of accounting for rent expense and depreciation expense on leasehold improvements for those leases that do not contain a renewal option.

(3) Includes the following charges per basic and diluted share:

$0.03 per basic and diluted share in the first quarter of the fiscal year ended January 29, 2005 attributable to the California labor litigation settlement,

$0.03 per basic and diluted share in the third quarter of the fiscal year ended January 29, 2005 attributable to the professional fees related to the spin-off by Barnes & Noble of the Company s Class B common shares, and

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**GAMESTOP CORP.**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

$0.07 and $0.06 per basic and diluted share, respectively, in the fourth quarter of the fiscal year ended January 29, 2005 attributable to correcting the Company s method of accounting for rent expense and depreciation expense on leasehold improvements for those leases that do not contain a renewal option.

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## EXHIBIT INDEX

| Exhibit Number | Description |
|---|---|
| 3.1 | Amended and Restated Certificate of Incorporation.(1) |
| 3.2 | Bylaws.(1) |
| 3.3 | Certificate of Designation of Preferences and Rights of Preferred Stock, Series A of the Company.(2) |
| 4.1 | Rights Agreement, dated October 25, 2004, between the Company and The Bank of New York, as Rights Agent.(2) |
| 10.1 | Separation Agreement, dated as of January 1, 2002, between Barnes & Noble and GameStop Corp.(3) |
| 10.2 | Tax Disaffiliation Agreement, dated as of January 1, 2002, between Barnes & Noble and GameStop Corp.(1) |
| 10.3 | Insurance Agreement, dated as of January 1, 2002, between Barnes & Noble and GameStop Corp.(1) |
| 10.4 | Operating Agreement, dated as of January 1, 2002, between Barnes & Noble and GameStop Corp.(1) |
| 10.5 | Amended and Restated 2001 Incentive Plan.(7) |
| 10.6 | Supplemental Compensation Plan.(7) |
| 10.7 | Form of Option Agreement.(7) |
| 10.8 | Lease, dated as of March 6, 1997, between RREEF Mid-Cities Industrial L.P. and Babbage s Etc. LLC.(1) |
| 10.9 | First Amendment to Lease, dated as of December 30, 1999, between RREEF Mid-Cities Industrial L.P. and Babbage s Etc. LLC.(1) |
| 10.10 | Amended and Restated Credit Agreement, dated as of June 21, 2004.(4) |
| 10.11 | Amended and Restated Security Agreement, dated as of June 21, 2004.(4) |
| 10.12 | Amended and Restated Securities Collateral Pledge Agreement, dated as of June 21, 2004, between GameStop Corp. and Fleet Retail Group, Inc., as Administrative Agent.(4) |
| 10.13 | Amended and Restated Securities Collateral Pledge Agreement, dated as of June 21, 2004, between GameStop, Inc. and Fleet Retail Group, Inc., as Administrative Agent.(4) |

| | |
|---|---|
| 10.14 | Securities Collateral Pledge Agreement, dated as of June 21, 2004, between GameStop of Texas (GP), LLC and Fleet Retail Group, Inc., as Administrative Agent.(4) |
| 10.15 | Securities Collateral Pledge Agreement, dated as of June 21, 2004, between GameStop (LP), LLC and Fleet Retail Group, Inc., as Administrative Agent.(4) |
| 10.16 | Amended and Restated Patent and Trademark Securities Agreement, dated as of June 21, 2004.(4) |
| 10.17 | Stock Purchase Agreement, dated as of October 1, 2004, by and among the Company, B&N Gamestop Holding Corp. and Barnes & Noble.(5) |
| 10.18 | Promissory Note, dated as of October 1, 2004, made by the Company in favor of B&N GameStop Holding Corp.(5) |
| 14.1 | Code of Ethics for Senior Financial Officers.(6) |
| 21.1 | Subsidiaries.(7) |
| 23.1 | Consent of BDO Seidman, LLP. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15(d)-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)/15(d)-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |

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| Exhibit Number | Description |
| --- | --- |
| 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 the Registrant s Amendment No. 3 to Form S-1 filed with the Securities and Exchange Commission on January 24, 2002 (No. 333-68294).

(2) Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on October 28, 2004.

(3) Incorporated by reference to the Registrant s Amendment No. 4 to Form S-1 filed with the Securities and Exchange Commission on February 5, 2002 (No. 333-68294).

(4) Incorporated by reference to the Registrant s Form 10-Q for the fiscal quarter ended July 31, 2004 filed with the Securities and Exchange Commission on September 7, 2004.

(5) Incorporated by reference to the Registrant s Form 8-K filed with the Securities and Exchange Commission on October 5, 2004.

(6) Incorporated by reference to the Registrant s Form 10-K for the fiscal year ended January 31, 2004 filed with the Securities and Exchange Commission on April 14, 2004.

(7) Incorporated by reference to the Registrant s Form 10-K for the fiscal year ended January 29, 2005 filed with the Securities and Exchange Commission on April 11, 2005.